

## **SUMMARY OF MINUTES OF MEETING INVESTMENT COUNCIL (IC)**

### **MEETING XXI**

#### **“Economic Recovery post-COVID-19”**

**Tirana, 5 June 2020, 11:00 – 13:00**

The meeting was held in the form of a video conference and it was chaired by the Minister of Finance and Economy, Ms Anila Denaj (IC Chair). The meeting was attended by all seventeen members (full participation) and around 30 observers - representatives of local and foreign business associations, state institutions as well as representatives of Foreign Agencies in Albania.

#### **I. Opening of the Meeting by Chair of Investment Council, Minister Anila Denaj**

At the opening of the Meeting of the Investment Council, Minister Anila Denaj gave an overview of the general macroeconomic situation in Albania, but also within the regional and international context. To contribute to the economic recovery of the country post-Covid-19 phase, the Investment Council has been asked to support with proposals by businesses operating in various sectors of the economy, so that the Recovery Plan includes before its presentation some of these proposals.

Regarding economic development policies, Ms Denaj said that the incentives for business development are important, and they include not only those of fiscal nature but also those related to the economic development policies with a focus on SMEs. The Ministry of Finance and Economy has proposed policies that could promote “smart” investments in the future, in combination not only with guarantee schemes but also grants.

Minister Denaj also mentioned the employment policies to bring back to the labor market that part of the population that was faced with layoffs. In addition, the Minister considered as very important the formalization of the labor market with a new scheme, which would enable the reduction of informality.

#### **II. *Presentation by IC Secretariat of the Key Findings and Recommendations***

Ms Diana Leka, IC Secretariat, gave a short presentation on the main findings and recommendations prepared by the IC Secretariat. She informed about the meetings of the working groups in energy and digitalization, where she highlighted the cooperation with the Deputy Minister of MARD, the Deputy Minister of MIE as well as with the MFE Cabinet for the validation of the recommendations. Regarding the working group in the energy sector, work is still in progress and more information will be provided in the upcoming meetings.

#### **III. Summary of Main Comments**

Ms Ines Muçostepa, UCCLAI, expressed the need for dialogue in the frame of the third support package so that it provides the right solutions, but also to avoid delays with post amendments.

- The business has reported delays in the implementation of the sovereign guarantees.
- The opening of land borders is an initiative that will help the tourism sector. Regional cooperation with neighboring countries is suggested in the form of a common policy to make the best use of the moment.
- The tourism sector has proposed the postponement of loans from 1 to 2 years (instead of 3 months). A proper loan deferral strategy is needed, also to keep low non-performing loans.
- A good fiscal relief for the tourism sector is the one related to VAT. Many countries in the region have abolished VAT on tourism (as a temporary measure, by setting a limit). VAT for the tourism sector is quite low and it can be further reduced to 0%, or even for the restaurants operating in tourism a 50% reduction.
- A joint awareness campaign is needed to promote the consumption of Albanian products. The agricultural or agro-processing sector can be further assisted in technology through grants or subsidies for those sectors that can increase the value of “Made in Albania” products.

Mr Nikolin Jaka, CCI TR, said that the country continues to be in a state of emergency, raising the following main business issues, according to him:

- Lack of liquidity and fiscal burden. There is still no full package to provide liquidity and fiscal relieves to the business during these difficult times. Although some businesses have received the approval of their loan applications, their contracts were not finalized, as the banking system has raised some technicalities. For this reason, the administrator or the shareholder of a company cannot be the guarantee for a sovereign guarantee funding.
- There is no flexibility and speed in taking loans (with respect to the first package). More detailed information is expected for the second package, which has been announced to have an interest rate of 5.2 (at ceiling level).
- Regarding the tourism sector, cooperation should be established with Kosovo and Northern Macedonia for the opening of the passengers’ transport.
- Priority sectors have potentials but they are competed by all countries in the region.

Minister of Reconstruction, Mr Arben Ahmetaj should have been present in this meeting because although the business provides its comments, the packages seem not to be unconsulted. MFE must maintain a decisive role in the next package.

Mr Enio Jaço, AmCham, said that IC recommendations are diverse, but a distinction must be made between those recommendations that are fundamental to improving the investment climate and those non-fundamental (specific) which should be submitted to the pertinent institutions. The time has come for IC recommendations to be more effective in terms of implementation and to-be-achieved impact.

According to AmCham, the fundamental recommendations (of high priority) are:

- a) The issue of monopoly and unfair competition;
- b) The fight against corruption;
- c) Improving Public Procurement Law (approximation with the EU legislation would reduce corruption);
- d) Taxes and investment incentives.

During recent years, in regards to the business climate, Albania has taken backward steps.

Mr Ardian Lekaj, the Diaspora Chamber of Commerce, suggested two short-term measures: i) for the agricultural sector: the purchase of stocks and agricultural products (applied in times of crisis in the Western countries), ii) for the tourism sector: the use of summer holiday vouchers for families in need. Work should be done in small but firm steps, whereas issues should be tackled until they are eventually addressed.

Ms Mimoza Emanuels, SAM Wear, underlined the need to support the garment sector with customized material and ready-made material by the government, as a strategic sector for the economy.

- Export payment guarantees are needed for the sector.
- To be considered the purchase of stocks created at the companies' warehouses by the state for the army or police for those items that can serve them.
- Enable the companies themselves to retain their employees – to date this has been done by the state directly with the employees.

Minister Anila Denaj, MFE, clarified that the discussion on the guarantee of exports has been discussed even earlier with representatives of the clothing sector, although not in the spirit of the recovery plan. MFE is well-informed about the sector's demands regarding this issue. The issue has also been discussed with foreign partners and it seems that the implementation of the scheme on the guarantee of exports requires institutions that are not currently in place. Work is underway to set up an independent institution, including the MFE, to oversee and implement it, including as well as a potential development bank. The existing budgetary and regulatory capacities need to be taken into account, together with the fact that some institutions are still missing while the legal frame has not yet been created. However, it is in focus to be addressed at the right time, through a medium-term process.

Ms Edlira Muka, Balfin Group, raised the following comments:

- To be considered preparation of a package on investment incentives, including incentives as per investment scales and focused on strategic sectors that have already been identified by the Government. Currently, there is a package on investment incentives which is not very attractive, if compared to the ones of the other developed countries in the region.
- Regarding the mining and processing sector, Albania has many natural resources that are exported unprocessed from Albania. One recommendation would be to create incentives to stimulate the processing of natural resources within the country, thus boosting employment and investments in this sector.
- The need for an Informality Strategy has been raised several times by the IC. If there were concrete efforts in this direction, they would be welcome in the long run, in terms of creating fair competition to do business.
- Publication (by AIDA or other digital channels) is needed to put light on the public investments strategy – i.e. a clear roadmap for public investments (roads, water, sewers, ports, airports) with deadlines on when they will be implemented by the state so that investors can come forward with concrete interests for investments in specific sectors.

Mr Artan Xbiani, Confindustria Albania, informed that Confindustria has already presented in written its comments to the IC, and some of them are well reflected in the material. He highlighted some concrete issues:

- A better and more efficient policy should be devised in regard to the use of public funds to stimulate sustainable employment in the medium and long term.
- Recovery policies should take into account the sectors that have been most affected by this pandemic, such as the tourism sector. Measures for this sector should aim at least the extension of the season, by presenting some incentivising packages such as reimbursement for each vacationer who enters the Republic of Albania at a reasonable fee, e.g.: 10 or 20 euros for day.
- Emergency measures should be taken to stimulate domestic consumption, and in this regard, it would be good to look at the possibility of issuing vouchers for some consumer categories for the purchase of some goods. They might be either Albanian products or not, this is another topic of discussion in the context of the protectionist measures that could be taken.
- Electronic services provided by the government platform should consider in the future also the use by foreign citizens (e.g. foreign administrators of companies in Albania).

Minister Anila Denaj, MFE, brought as an example of digitalization, the fiscalization process which is expected to start in September 2020, requiring optimization in the use of the digital signature. In a second phase, the digital signature will be required to be used in the banking sector as well, enabling a complete e-billing system and optimizing all other services, including banking ones.

Mr Spiro Brumbulli, Association of Banks, expressed appreciation for the postponement of the loan installment payments (initially with 3 months, and afterward with 6 months), providing 150 million euros of additional liquidity in the market and direct contribution to the borrowers.

- Making reference to the delays experienced during the implementation of both sovereign guarantees due to some unclarities, Mr. Brumbulli asked Minister Denaj to provide the experts more time to write the relevant acts (which cannot be done within 2-3 days).
- Digitalization is an area that is also being embraced by banks, through the possibility of paying service fees of the State Agency of Cadastre. However, there are some delays in regard and NAIS (National Agency for Information Society) must move faster. For example, The banking sector does not have the means available to verify the authenticity of certificates issued by e-Albania. It is required the preparation of a clear program with actions and deadlines on how digitalization can move forward, taking into account that no significant expenses or investments are required.
- Monetary policy and fiscal policy are very important and should go hand in hand. The recovery plan should include these elements and as many representatives from different sectors as possible to make appropriate and non-hasty changes. The aim is not to make patches in the fiscal policy but necessary interventions that have been required for 20 years. Reference was made to the Prime Minister's statement regarding the amendment to the fiscal policy as relates to the exemption from taxes for the small business until 2029.
- The banking sector is open for more investments in the agriculture sector and it is ready to collaborate in the organization of a meeting to discuss the financing of this sector.

Minister Anila Denaj, MFE, said that the fiscal policy is focused on the IMF recommendations. There are relieves that need to be further evaluated as they are not materialized in the expected output. MFE's technical work, done in record time, should not be understood as a lack of time made available for the implementation of the two bank guarantees. If needed, we can change the concept of "risk-sharing," but that does not mean that we should refer to it as a technical error.

Secondly, if the interest rate in the first sovereign guarantee as per our calculation had to be at 2.85%, and the government says we are subsidizing it - this is not a mistake either, so in both cases, it is the positive approach of the government to provide enough time to the technical experts for the optimization of guarantees. Banks should start thinking about diversifying the traditional way of financing, remove fear and adopt information technology to their risk policy plans, to be extended also in the agriculture sector with respective value chains, that should not remain unused for four years (a bank guarantee of 180 million euros, out of which only 40 million euros were used in four years), by making use of the guarantees at maximum level. Main problems are related to the institutions, policy approaches and their inter-connection.

Mr Agim Rrapaj, KASHI, stated that the material prepared by the Secretariat includes the proposals of the agricultural sector. Among other things, Mr Rrapaj proposed:

- Inclusion of “Legal Improvements” in the material prepared by the Secretariat, in addition to the three other elements already part of the material (Coordination and Cooperation, Digitalization, Financing);
- Remove “agro-processing” and add instead “food producing entities”, as agro-processing is part of it. It is time to look at the food chain as a whole because focusing on specific links has not given us the results we want. If legal improvement is added, the proposals presented in the material would constitute a very good package for food chain producing entities.
- The need to agree with other ministers involved in the recovery phase of the economy, for a proper discussion with all stakeholders, shortening thus the implementation deadlines.

Minister Anila Denaj, MFE, informed the participants on the EBRD’s Albania Agribusiness Support Facility (AASF), which has been implemented since 2016 in cooperation with the Albanian Government. Recently, with the technical assistance and resources of MFE, the financial product of this facility has been developed, called “Value Chain Finance Concept” which can create another synergy, not only pertinent to the guarantee, but also for other needs that the business has in the agro-industry.

In this context, Minister Denaj invited in a meeting the Association of Banks, EBRD, MARD: (1) to decide how this instrument can be optimized in function of the IC recommendations or other previous proposals, and (2) to discuss the need for the legal improvement mentioned. Minister Denaj undertook the commitment to organize this meeting with the MARD within the next week.

Dr. Constantin Von Ahvensleben, FLAA, raised some comments as follows:

- The need to strengthen the manufacturing sector through various measures, with the help of international partners, in particular EU investors, such as medium-sized enterprises from Germany, Austria, Italy, and other countries. Albania has an excellent location, competitive labor costs, much better environmental footprints than those produced in the Far East. So if the manufacturing sector can be strengthened here, foreign companies can be stimulated to invest here. This will help the country increase export revenues and help retain young people in the country.
- Education and training should be done within Albania so that the foreign investors can find already in place skilled labour force.
- Infrastructure is also very important, including rail transport. Regarding the Tirana-Durrës railway project, TIA has identified a problem with finding the exact location of the station inside the airport, but this can be discussed and a solution can be found. Other railway connections in Albania would be highly appreciated and would help a lot the foreign investors.



- The suspension of the cross-border tax (EUR 10 per passenger) would reduce the ticket price, thus promoting air transport and tourism.

Mr Archileas Canacaris, Vodafone Albania, stated that Albania needs to accelerate digitalization through two elements (i) monetary investments by the government in the infrastructure, and (2) the enactment of laws and regulations at 0 costs.

- It should be worked closely with MIE to support the accelerated improvement of the fixed telephony infrastructure. In mobile infrastructure, Albania is ahead, but the crisis has made it clear that the quality of the fixed telephony infrastructure is far from what it should be.
- Digitalization is happening and companies are virtualizing, changing the way they interact with their customers. Other economies are restarting, without returning to the old normalcy. They are restarting in a new way that allows them to be flexible in the event of a possible second wave of such a crisis. Much can be done for the SMEs' digitalization in relation to (1) knowledge and (2) technology equipment.
- Much can be done to simplify the country's digital ecosystem by simplifying long-established rules. As relates to the government's services provided through e-Albania, Vodafone Albania expresses its willingness to share its experiences to direct investments in the right place. There is still a debate about the law on the digital signature, but if this issue is resolved, transactions will become cheaper, faster, better and in the event of a second wave of crises we would not force our customers to visit stores to perform a transaction. The digital signature requires very little investment but makes a big difference.

Ms Stephanie Sieg, DIHA, stressed two points: 1) In the tourism sector the offer can be further expanded toward other areas, for example in the direction of the health sector, in the format of rehabilitation centers. The Albanian government may sign agreements with German ministries to develop the sector in this regard, 2) Albania can shorten supply chains for the Western European countries. Currently, Germany has a high demand for masks that are produced in Asia and it is currently looking for other channels closer to provide supply, and this is an opportunity that Albania can take advantage of.

Mr Mario Mariani, EU Delegation, commended the document prepared by the IC Secretariat, in particular in terms of 1) the efforts to formalize the economy, and 2) the emphasis on a stable and simple legal framework for businesses, more specifically the fiscal framework. Despite many proposals raised during this period, it is important not to go into fragmentation and different specific measures for certain sectors/businesses, could eventually break the system. It is necessary to invest in smart businesses, to analyze the environmental footprint of these initiatives, and to generate investments with a strategic approach. It is necessary to look at the longer perspective and at the impact of response measures, at measures that maintain a reform element and that are helping the systemic evolution of the country and its economy. There are some measures that the government can take in this regard for example when considering selective tax exemptions.

Ms Maryam Selim, World Bank, said that the material prepared by the Secretariat is well-structured and it brings forward interesting proposals, highlighting the proposal for the tourism sector to focus on expanding demand and incentivizing tourists. Moreover, e-commerce and the increase in the provision of online public services (e-signature, etc.) are a must to move forward.

Mr Matteo Colangeli, EBRD, focused on some key medium-term measures that could contribute to the economic recovery of the country.

- He stressed the importance of *leveraging on the country's strengths in employment-intensive sectors* that can trigger sustainable economic development like tourism and agribusiness (which are to some extent linked to each other) and where the country has evident competitive advantages. The main purpose would be to target quality and work to capture a higher spending segment of the market.
- *In tourism to attract higher-spending tourists*, efforts should be made in 3 directions: (i) targeted investments in infrastructure, particularly transport so that visitors can conveniently and independently move around the country; (ii) offer activities and tourist experiences, creating jobs and increasing average revenue earned per tourist; (iii) protect country's natural and cultural heritage beauties. Tourism could also play a strong promotional role for Albanian agribusiness products. Currently, EBRD and EU are working on a tourism support program, hoping that Albanian partners will be ready to prepare to start implementation soon.
- *In the manufacturing industry, the Covid-19 crisis brought with it a great opportunity for Albania*. Global production value chains are shortening as European manufacturers are looking to bring production closer to home, so there may be an opportunity in the next couple of years for Albania to enter into value chains of which it had never been part to date. A targeted investment attraction strategy and targeted promotion of the country to industry associations and relevant stakeholders in key European manufacturing countries would be a worthwhile effort, particularly now that there is real momentum on Albania's EU approximation.
- *Solar energy can be developed in Albania at very competitive prices* and that quality FDI can be attracted to Albania through transparent and competitive tender processes.

Minister Anila Denaj, MFE, thanked the development partners for coordinating their contribution towards vocational education schemes, mainly in the ICT area, and asked for support in terms of vocational training in the tourism sector through schools or vocational courses in support of the recovery of this sector.

#### **IV. Closing of the meeting**

In conclusion, Chair of the Investment Council, Minister Denaj highlighted three issues for follow up (1) submission of the IC recommendations to the national committee working on the recovery plan, (2) further discussion on issues that may need additional deliberations in regards to support packages, e.g. encouraging banks to make these packages as optimal as possible, (3) a meeting with stakeholders in the agricultural sector to discuss how value chains can be turned into a simple product to be absorbed by the businesses and financed by the banks.

## List of participants

### Government representatives

1. Ms Anila Denaj, IC Chair/Minister of Finance and Economy
2. Mr Aleko Proko, Chief of Staff, delegated by Mr Eduard Shalsi, Minister of State for Protection of Entrepreneurship
3. Ms Natasha Ahmetaj, Deputy Governor, Bank of Albania
4. Ms Mileva Meksi, Head of Investments Directorate, delegated by Mr Sokol Nano, CEO, AIDA
5. Ms Blerina Turdiu, CEO, Albanian Fund for the Development of Diaspora

### Business Representatives

1. Mr Nikolin Jaka, Chair of the Chamber of Commerce and Industry of Tirana
2. Dr. Constantin Von Alvensleben, President, FIAA
3. Ms Ines Muçostepa, Chair, Union of Chambers of Commerce and Industry (UCCIAL)
4. Mr Artan Xhiani, Founding Partner, Confindustria Albania, delegated by President of Confindustria Albania, Mr Sergio Fontana
5. Mr Enio Jaço, President, AmCham
6. Ms Stephanie Sieg-Farka, President of German Chamber of Commerce and Industry (DIHA)
7. Mr Ardian Lekaj, Legal Representative, Albanian Chamber of Diapora Business
8. Mr Archileas Canacaris, CEO, Vodafone Albania (*ad-hoc*)
9. Ms Mimoza Emanuels, CEO, Samwear (*ad-hoc*)

### Development Partners

1. Mr Matteo Colangeli, Head of EBRD RO in Albania
2. Mr Mario Mariani, Head of Coordination, EU Delegation in Albania
3. Ms Maryam Selim, Country Manager, World Bank in Albania
4. Ms Laura Qorlaze, Country Representative, IFC Office in Albania

### **Special invitees:**

1. Ms Belinda Ikonimi, Deputy/Minister of Finance and Economy
2. Ms Ermira Gjeçi, Deputy/Minister of Agriculture and Rural Development
3. Mr Patrik Meier, Deputy Head of Mission, Swiss Embassy in Albania
4. Mr Simone Ungersboeck, Head of Office, Coordination Office for Technical Cooperation, Austrian Embassy in Albania
5. Mr Brian Williams, UN Resident Coordinator, UN in Albania
6. Ms Judith Hoffmann, Head of Development Cooperation Office, German Embassy
7. Mr Andrew Maybrook, Senior Technical Specialist, USAID/Albania
8. Ms Jelena McCoy, Head of Programme Co-ordination, OSCE Presence in Albania
9. Ms Sonja Kurz, Country Director, GIZ Albania
10. Ms Edlira Muedini, Project Manager, RisiAlbania
11. Ms Edlira Muka, CEO, Balfin Group (*former business member of Investment Council*)
12. Ms Linda Legisi, CEO, OMEGA sh.p.k. (*former business member of Investment Council*)