

SUMMARY OF MINUTES OF MEETING
INVESTMENT COUNCIL (IC)
MEETING XXIV

“Consultation of the draft Business and Investment Promotion Strategy 2021-2027”

Tirana, 21 June 2021, 11:00 – 12:30

The meeting was held in hybrid form (physically and virtually), and it was chaired by the Minister of Finance and Economy, Ms Anila Denaj. The meeting was attended by the 17 IC Members (full participation) and around 30 observers - representatives of domestic and foreign business associations and state institutions in Albania. The meeting's agenda was the presentation and consultation of the new Business and Investments Development Strategy (BIDS) 2021-2027, prepared by the Ministry of Finance and Economy.

1. Opening of the Meeting by Minister Anila Denaj, IC Chair

In her speech, Minister Denaj said that the two main objectives of the strategy are: i) Recovery from the Covid-19 pandemic; ii) Regional integration and cooperation. The strategy's vision is for a competitive Albanian economy, driven by innovation and based on knowledge, which creates new quality jobs, taking advantage of the opportunities offered by the digital transition and the transformation of the international value chain.

The Minister launched **three specific objectives** for achieving this goal: *investment attraction and internationalization, development of small and medium companies, and human capital development*. Minister Denaj said that the main support would go to those sectors that contribute more to economic growth, employment growth and development of the country, pointing out the sectors of services, tourism and agriculture. Regarding the staff and human resource capacity development, the strategy includes several instruments directly related to the support provided to human capital through subsidies that the state budget will provide through subsidised training in some key sectors and mainly in those that add value towards digitalization and, in particular towards ICT.

Minister Denaj stressed that the value of funds and grants provided for small and medium business during this process would increase fivefold, and it is important that all instruments set in this strategy are properly discussed to see if they fit the objectives.

The new Business and Investments Development Strategy 2021-2027 is projected to have a cost of around ALL 9.6 billion or EUR 78.1 million, where circa 71% will be covered by the state budget. The strategy is expected to be implemented through several key instruments, which are:

- Increasing access to finance for businesses
- Support scheme for the development of cooperative human capital
- Attracting foreign investors
- Retaining existing investors

2. ***Presentation of the Draft Business and Investments Development Strategy, 2021-2027 by the Deputy Minister of Finance and Economy, Mr Besart Kadia***

During his speech, Mr Kadia briefly explained the content of the new draft strategy, including areas of intervention, action plan, implementation structures, and monitoring process. This draft strategy has been prepared through a collaborative process involving various stakeholders, such as business representatives, academia, and other inter-institutional groups across line ministries.¹

3. ***Presentation of the IC Secretariat's Suggestions on BIDS***

Ms Diana Leka, IC Secretariat, raised some suggestions of the Secretariat for the improvement of the BIDS to ensure long-term sustainability by improving inter-institutional coordination, increasing focus to SMEs corporate governance, better promoting the concepts of digital transformation and green economy to help SMEs reduce costs when investing in innovation, increasing harmonization with the fiscal policy and previous legal and regulatory actions, increasing focus to attracting serious investors, etc.

4. **Summary of the Main Comments during the Meeting**

Ms Anila Denaj, MFE, regarding the presentation of the Secretariat, said that it is crucial for the strategy to be as tangible as possible by including the essential role of the private sector in the economic growth, or in the further elaboration of the digital transformation part.

Regarding the three suggestions given in the presentation, the Minister said that:

- (1) The institution responsible for the BIDS, according to the organization of the Albanian Government, belongs to the Ministry of Economy, which will follow it at the policy level (responsible for the drafting and consultation). Meanwhile, the role of policy-making should not be confused with the implementing function. Currently, AIDA has the regulatory aspect of functioning as an implementer, and the Minister said that she welcomes any concrete suggestions on how AIDA should work.
- (2) She is not in favour of aligning the economic policy and fiscal policy in one document. Fiscal policies are part of a separate document (where MFE has collaborated with IMF experts) in the framework of the medium-term revenue strategy that is being drafted for the next four years, and it focuses not only on the good administration of the fiscal to reduce informality but also on the policy review. This policy will be gradually introduced in the table of the Investment Council or in other formats within December.
- (3) The sustainability of institutions exists, and if there is something that should be improved in their work (AIDA, GCD, GTD, etc.), then the comments need to be concrete.

Mr Eduart Shalsi, Minister of State for the Protection of the Entrepreneurship, commended the work of the IC, adding that through its findings and observations, it has highlighted issues that are and remain to be resolved. Among others, Minister Shalsi said that the Albanian Government has significantly improved communication with the business, referring to the Prime Minister's recent initiative regarding the National Entrepreneurship Council which has been widely consulted with stakeholders. Minister Shalsi invited the business to submit comments on the draft BIDS for the agreed document to improve the business climate and increase investments in the country.

Mr Matteo Colangeli, EBRD, recognised that the strategy is in line with the EBRD priorities for Albania and expressed full support on it, adding that EBRD will contribute in the coming years to

¹ Members were informed about the full materials of this draft strategy, sent in advance by e-mail through the Secretariat.

the implementation of this strategy. Further, Mr Colangeli focused on three main issues important to EBRD:

1. *MSME's competitiveness and digitalization* – Currently, EBRD is contributing to areas such as “access to skills” through its advisory programs, and “access to finance” through financing facilities such as the agribusiness and tourism support facility.
2. *Transport infrastructure* is essential for the competitiveness of the Albanian economy as it ensures its connectivity with the region and the EU market, and as such it should be in focus of development strategies in the coming years, with investment not only in roads, but also in railways.
3. *The transition to a green economy* is very important for Albania, making it an attractive destination for foreign investors. Being a country with 100% renewable energy would make Albania not only a major producer of green energy but also an attractive country for more FDIs.

Mr Colangeli also announced that after 5 years of participation in all IC meetings, this would be his last participation, thanking Minister Denaj for her leadership and commitment to this format, Mr Shalsi in his role as the Minister for the Protection of the Entrepreneurship, the Secretariat's team led by Ms Leka for the excellent work in these 5 years, and SECO as the IC donor.

Finally, Mr Colangeli introduced Ms Ekaterina Solovova, who from July 1, 2021, will take his place as country representative of the EBRD in Albania and his place in the IC, wishing her success in pushing forward this format of consultation.

Ms Ekaterina Solovova, EBRD, thanked for the invitation and expressed her readiness for cooperation in the coming years.

Mr Ardian Lekaj, Chamber of Albanian Business Diaspora, said that in the specific objective no. 3 of the strategy should be specified in which direction human capital will be oriented in certain areas of the economy that have different requirements for the type and quality of labour, e.g. in the tourism sector the required skills are different from the ones in the transport sector. How is this plan going to be implemented and monitored?

Dr. Constantin Von Ahrensleben, FIAA, commended the Albanian Government for drafting this strategy which paves the way to the future and towards EU integration.

Some comments about the investment climate:

1. The strategy describes a largely positive picture for foreign investments, but the reality is not so positive for existing and future foreign investors. FIAA's Manifesto (February 2021) stresses the need to finish the work on justice reform to ensure the rule of law for any foreign investor. This is not only important for attracting new foreign investment. It is equally important for keeping existing foreign investors within Albania, and to ensure that existing foreign investors at all times give positive testimonials about Albania when they are called from abroad.
2. The need for improved tax procedural rules in the country remains very important. Albania needs a binding framework for obtaining tax rulings, making it obligatory for the tax administration to respond within a reasonable time frame to requests for advance rulings. Investors often face conflicting views of different authorities, leading to unnecessary disputes.
3. It remains crucial the consultation of laws or decisions before their adoption. The Albanian Government should always consult with the private sector before adopting its decisions.

Below some points about BIDS:

1. The logistics sector can be helped by creating the necessary legal framework for establishing free economic zones. Considering the government's focus on expanding and modernizing the port and airport infrastructure of the country, economic zones close to the port and the airport will boost the development.
2. Recently, we spoke about the need to promote innovation. Albania should take advantage of the EU and of IFI to support a venture capital/private equity ecosystem to support private initiative in growth areas such as manufacturing and IT services.
3. In the last three years, the Ministry of Economy has worked with the IFC/WB and the stakeholders for a new Draft Law on Foreign Investments and FIAA has commented a lot. We would like to know the status of this draft as its approval would be fundamental to the proper implementation of this strategy.

FIAA will be honoured and motivated to function as a partner of the newly to be formed GoA, together with all other distinguished business associations, to advise GoA during the next four years.

Mr Nikolin Jaka, Chamber of Commerce and Industry Tirana, said that CCI TR has submitted to the Secretariat an opinion in written about the strategy, where the main points are as follows:

1. The three pillars of the strategy are important, but it is necessary to define the sectors of the economy based on which the private sector will focus the investment of its capital;
2. If agriculture is a priority sector, what is the concrete vision and plan to support it.

All these should be part of the country's integration and development plan, while the strategy should align with the initiative of economic regionalization of the Western Balkans (WB). Analyzing and negotiating negotiation chapters with the EU will be challenging for everyone, so private-sector experts should be involved in this process.

If the IC recommendations of the past six years had been fully taken into consideration, the country's good governance performance would have been quite different, including the situation with informality which continues to be rampant. On the other hand, human capital does not match the demand and supply created in the market. It is important to make an in-depth comparative analysis of the sectors of the economy vis-à-vis those of the WB countries, with a view on the sectors' competitiveness. Why do all the other countries in the region have a 6% VAT on food and agricultural products, while in Albania this remains at 20%? Therefore it seems that there are no incentives to increase domestic production. Beyond strategies, we need to think about how much we support the economy, how much we are competitive to support sectors like agriculture. CCI TR will bring a detailed analysis on the identification of problems and what should be included in this strategy.

Ms Anila Denaj, MFE, expressed readiness to extend the deadline for public consultation by one week and reiterated that the comments on fiscal policy would be considered and reviewed in the context of another document related to fiscal policy. The review of fiscal policies will take place in the medium term, and a document that is being devised with IMF technical assistance will be presented later by the government. MFE is open to comments on the instruments envisaged in the BIDS. The GoA will support with 100% subsidy all HR training in all sectors according to the formula 50% payable immediately and 50% tax credit. The Minister said that she welcomes suggestions if the specifics of different sectors require this formula or other instruments to be detailed or improved. General problems should be detailed in specific as per pertinent instruments. The consultation should not end with the conclusion that the GoA did not accept the business comments - for this purpose, we should be very concrete on the needs and problems raised.

Mr Enio Jaco, AmCham, said that the BIDS is generally a serious and qualitative document with good content. He expressed the agreement that fiscal policies should not be part of this strategy but remain separate documents. Some of the priorities set out in this strategy are in the right direction, such as those related to labor development, digitalization and exports.

Some of the AmCham concerns are:

1. *The budget of EUR 78 million for the implementation of the strategy seems relatively low*; however, considerations should take into account where it will be focused.
2. *Lack of actions and implementation stages with the respective timelines for the implementation of the strategy.* We have seen good strategies before, but they have remained on paper and have been forgotten because their implementation has been poor. The strategy should also include the implementation phases.
3. Strengthening the “access to finance” plan and the various funds available to the business under the strategy will also be detailed in Amcham’s written comments on the entire strategy.

Ms Edlira Muka, Balfin Group, commended the work done to approximate of the objectives set in the strategy with those of the Balkan region. In the following, she made two suggestions:

1. *Transparency for local and foreign investors regarding investments in the infrastructure*—as an essential element for the development of the economy. Currently, there is no website or institution to serve as a hub where the business can get information. Transparency where the government plans to invest for roads, electricity, water, airport, port, etc., is crucial for potential investors to capitalize on opportunities.
2. *Reviewing of AIDA’s structures in terms of extending its services to other regions.* Currently, there is only one office covering many activities, which will be added the functions defined in the strategy. SMEs need more physical presence, so maybe the time has come to review AIDA’s functions to be closer to businesses.

Ms Ledia Muço, EU Delegation, commended the fact that some of the issues addressed in the strategy are related to the matters proposed in the ERP, which latest recommendations are to come out in July—so if possible, to consider them as well in the final version of the strategy. The evaluation document of the European Commission includes comments also raised by the other IC members in this meeting, such as acceleration of the justice reform, security on property titles, etc. If possible, the strategy should reflect more up-to-date data, possibly until 2020 (especially on the SMEs structure, etc.), which would also help set more accurate targets for the next 7 years.

Some specific suggestions for the draft strategy:

1. *The export strategy may also consider the existing international trade agreements*, such as e-commerce, rules of origin, etc. Businesses need to increase their capacity to take advantage of the current policies;
2. Triple Helix is mentioned extensively, but we would suggest analysing what has not gone well so far with this model and what needs improvement for the upcoming seven years;
3. *It is important to coordinate and evaluate the institutions’ capacities* (AIDA, etc.);
4. The need to expand IPMG’s role in investment and competitiveness to assist in implementing the BIDS.

Ms Anila Denaj, MFE, said that indeed there is no drafting process of the KPIs on public infrastructure investments and agreed to keep a note so that it can be reviewed in the future. Meanwhile, regarding the non-maximization of the existing instruments, as well as of those that are not currently in use by the business, all the actors can bring concrete measures for the review of the institutions or of the Triple Helix model, going beyond the identification of the problem.

Ms Natasha Ahmetaj, Bank of Albania, stressed out the following issues:

1. *Inclusion in the strategy of the objective for reducing the inequality of education between the regions*, suggesting the use of unused labour force in the different areas of Albania—one of the reasons why the population is concentrating in Tirana, therefore this issue needs more focus;
2. *Defining in the strategy how to improve access to finance for SMEs*, suggesting as few intermediaries as possible between the funding institutions and the beneficiary. Existing schemes should be re-examined to assess what has worked well and what can be improved (risk-sharing, guarantee instruments, etc.);
3. *Focus on increasing the interaction between businesses and academic institutions* (to commercialize the product of the academic and research institutions), to structure how the interconnection between the two can be specifically achieved;
4. *Information sharing and transparency on the Sector Development Strategy*, so that the banking system knows which sectors will be in the focus (incentivized and with a future perspective) to direct their projects in line with the government's vision (request also submitted by the Association of Banks to MFE).

Regarding the discussion whether the fiscal policy should be included in this document, she agrees with Minister Denaj that this element is not missing as long as there is a budget and some foreseen costs (i.e. fiscal instruments). This strategy will bring in itself an economic policy, based on which the concrete taxation policy will be further outlined.

Mr Gazmend Toska, FIAA, said that the Covid-19 crisis has made it necessary for the production chain processes to be reviewed. This is an opportunity for Albania in terms of manufacturing for export. The relocation of some industries in Europe will give opportunities for investments in Albania.

For this purpose, the recommendations of FIAA are a) a realistic exchange ratio EUR-ALL, and b) a level of corporate income taxes in the middle range of the neighbouring countries, could help these new investments.

Other

Mr Ardian Hackaj, CDI, asked how the EU Economic and Investment Plan (which will bring 10 flagship projects and 30 billion euros to the 6 countries of the Western Balkans) is taken into account in the BIDS.

Closing of the meeting

Because of the extended duration of the discussions, Minister Denaj postponed the next point on the agenda “Presentation of the new Draft Law on MSME Development” to another meeting, suggesting a separate consultation with IC partners through the IC Secretariat.

At the conclusion of all comments, the meeting was considered closed.

List of participants

Government representatives

1. Ms Anila Denaj, Minister of Finance and Economy/IC Chair
2. Mr Eduard Shalsi, Minister of State for the Protection of Entrepreneurship
3. Ms Natasha Ahmetaj, Deputy Governor, Bank of Albania
4. Ms Mileva Meksi, Head of Investments Unit, delegated by Mr Sokol Nano, CEO, AIDA
5. Mr Arian Leco, Head of Entrepreneurship Department, 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 Evis Dino, Secretary General, delegated by Ms Ines Muçostepa, Chair, Union of Chambers of Commerce and Industry (UCCIAL)
4. Ms Gerta Bilali, CEO, Confindustria Albania, delegated by Mr Sergio Fontana, President of Confindustria Albania
5. Mr Enio Jaço, President, AmCham Albania
6. Mr Bledar Mankollari, CEO, DIHA, delegated by Ms Stephanie Sieg, President, German Chamber of Commerce and Industry (DIHA)
7. Mr Ardian Lekaj, President, Albanian Chamber of Diaspora Business
8. Ms Edlira Muka, CEO, Balfin Group (*ad-hoc*)
9. Ms Monika Farka, Managing Partner, AIMS Albania & Kosovo (*ad-hoc*)

Development Partners

1. Mr Matteo Colangeli, Head of EBRD RO in Albania
2. Ms Ledia Muço, Economic and Trade Advisor, EU Delegation, delegated by Mr Mario Mariani, Head of Coordination, EU Delegation in Albania
3. Mr Keler Gjika, Financial Sector Specialist, delegated by Ms Maryam Selim, Country Manager, World Bank Office in Albania

Special guests:

1. Mr Besart Kadia, Deputy Minister of Finance and Economy
2. Ms Ekaterina Solovova, newly appointed Head of EBRD in Albania
3. Ms Arjana Dymishi, Director, Directorate of Economic Development Policies, MFE
4. Mr Ardian Hackaj, Coordinator, Tirana Connectivity Forum Cooperation and Development Institute (CDI)
5. Ms Edlira Muedini, Project Manager, RISIAlbania

Absentee:

1. Ms Laura Qorlaze, Country Representative, IFC in Albania