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Albania  
Investment  
Council

Improving Transparency and Investment Climate

# ON INVESTMENT POTENTIALS AND PRIORITY SECTORS

Tirana, October 2019



# ABBREVIATIONS

This working document was prepared by the experts of the Secretariat of the Investment Council in the frame of Meeting XVIII of the Investment Council (4 October 2019), Mr Elvis Zerva, Legal and Regulatory Expert, Ms Elida Fara, Economic Expert, Ms Xaira Shurdha, Monitoring and Liaison Expert, under the direction of the Head of the Secretariat, Ms Diana Leka (Angoni). Supported in the organisation of meetings with partners and language editing of the material, Ms Elisa Lula, Administrative and Communication Officer of the Secretariat. We thank the administrators/CEOs of private (Albanian and foreign) companies and business associations that collaborated with the Secretariat in reporting issues, as well as independent experts, representatives of the public institutions (MIE, AKBN, MARD, BoA, AIDA) and embassies/donors for their excellent contribution in providing relevant information. The views expressed herein are those of the authors and do not necessarily reflect those of the Investment Council or the EBRD.

<b>AIDA</b>	Albanian Investment Development Agency
<b>ALL</b>	Albanian Lek
<b>AKBN</b>	National Agency of Natural Resources
<b>DCM</b>	Decision of Council of Ministers
<b>ERE</b>	Energy Regulator Authority
<b>FDI</b>	Foreign Direct Investment
<b>GDP</b>	Gross Domestic Product
<b>GFCF</b>	Gross Fixed Capital Formation
<b>GIZ</b>	German Cooperation
<b>IC</b>	Investment Council
<b>ICT</b>	Information Communication Technology
<b>INSTAT</b>	Albanian Institute of Statistics
<b>KESH</b>	Albanian Power Corporation
<b>MIE</b>	Ministry of Industry and Energy
<b>NFA</b>	National Food Authority
<b>NSDI</b>	National Strategy for Development and Integration
<b>OSHEE</b>	Electric Power Distribution System Operator
<b>p.p.</b>	Point per cent
<b>PPP</b>	Public-Private Partnership
<b>REA</b>	Regional Economic Agenda
<b>RIRA</b>	Reginal Investment Reform Agenda
<b>KISSIC</b>	Committee of Strategic InvestmentsStrategic Investments Committee
<b>TEDA</b>	Free Economic Area
<b>UNCTAD</b>	United Nations Conference on Trade And Development
<b>VAT</b>	Value-Added Tax
<b>WB</b>	World Bank
<b>WTTC</b>	World Travel & Tourism Council

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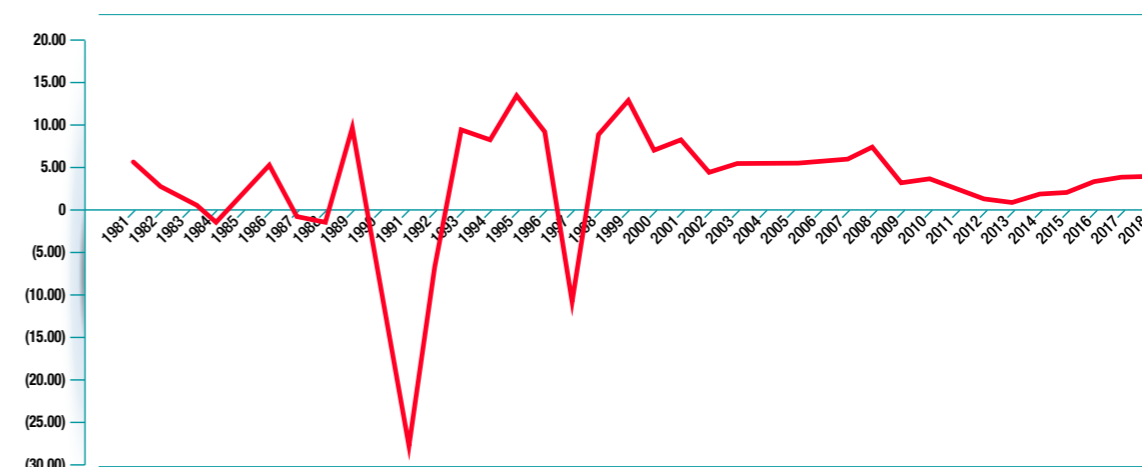
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# INTRODUCTION

New economic model, business freedom and openness to markets gave Albania a significant economic impetus after the 1990s. The country faced the challenge of economic remodelling to enable sustainable growth, where property rights, freedom in doing business and integration with other countries' economies became the new pillars underpinning the country's economic and social development. The main sectors supporting the

country's economy were industry (58% of GDP) and agriculture<sup>1</sup> (25% of GDP). Meanwhile, the changes that followed brought about the transformation of the Albanian economy structure<sup>2</sup>. New unknown sectors began to flourish, and now the economy's structure is focused on services that provide about 50% of GDP, followed by Agriculture with 19%, Extraction and Manufacturing with 9% and the Construction Sector with around (9%).

**Figure 1.** GDP growth in Albania, 1981-2018



Source: INSTAT

<sup>1</sup> Organized in the forms of agricultural cooperatives.  
<sup>2</sup> According to INSTAT data, in 1991, Industry's contribution to GDP was about 58%, mainly concentrated in the food industry (26%), light industry (19%) and extractive industry (14%). The second largest contributing sector was Agriculture with about 25% of the total followed by the Construction Sector with about 8%.

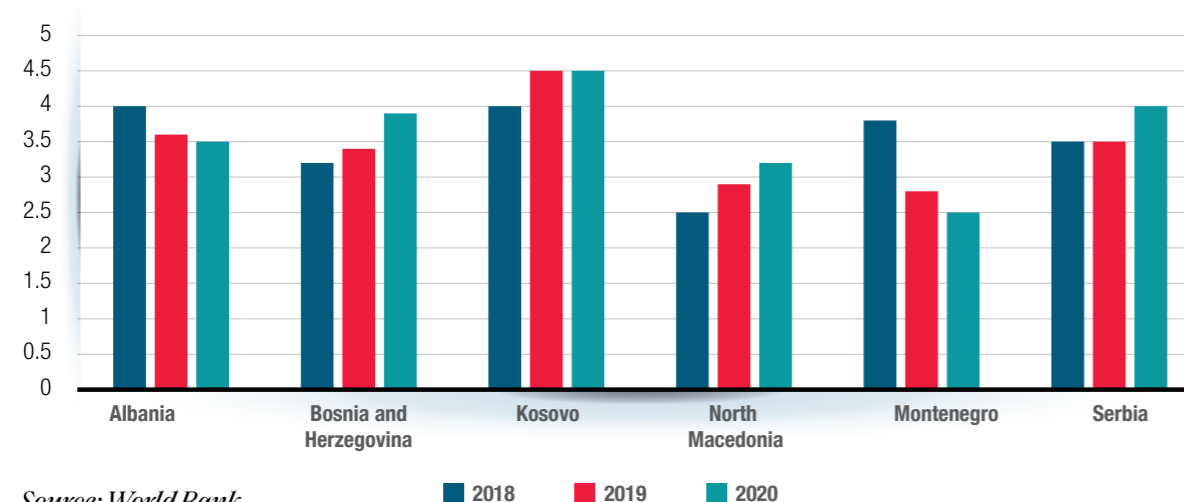
Based on the latest World Bank (WB)<sup>3</sup> analyses on the Western Balkans, it turns out that the growth trend is positive compared to EU countries<sup>4</sup>, but *the growth outlook varies from country to country*, e.g. growth will accelerate in Bosnia and

Herzegovina, Kosovo and North Macedonia and will decrease mainly in Albania and Montenegro. Completion of the two major energy projects in Albania will affect the slowdown in economic growth.

<sup>3</sup> Western Balkans Regular Economic Report: Spring 2019

<sup>4</sup> Where the average growth for the period 2019-2020 is projected at 3.7% down from the 3.8% growth of 2018.

**Figure 2. Growth Perspective in the Western Balkans, 2018-2020**



Source: World Bank

A WB study<sup>5</sup> estimates that an opportunity for Albania and the Western Balkan countries to secure sustainable growth is to rebalance economic growth from *consumption* toward *investment*, from *domestic demand* toward *external demand* and from *the public sector* toward the *private sector*. Therefore, small countries like Albania<sup>6</sup> need to find their niches in the global economic chain in the context of integration into the global economy.

<sup>5</sup> WB "The Western Balkans revving up the engine to growth and prosperity" (2017)

<sup>6</sup> Compared to 1990, Albania has increased its GDP by 2.4 times, growing at relatively high rates, averaging 7.8% per annum, while after the financial crisis Albania's economy slowed to an annual average of 2.7%, no longer reaching pre-crisis levels.

In this context, the object of the analysis in this paper is to stimulate debate on the sustainable growth options of investments and potential resources. The analysis focuses on the latest dynamics of economic growth in the country, highlighting the private sector's perceptions *on the need for a market where the principles of long-term sustainability drive growth and enable an optimal balance between nature, labour, social and financial capital*.

This *Discussion Paper* does not provide exhaustive recommendations for addressing issues raised at the strategic or sectoral level but intends to stimulate professional discussions on the development model of priority sectors.

## METHODOLOGY

The steps taken by the Secretariat to stimulate debate on investment, model and development of new potential sectors are as follows:

- (i) Desk research on strategies, documents, laws and by-laws<sup>7</sup> about concrete policies and measures to promote and develop investment in the country. Research of international reports such as EU Progress Report 2019, US Department of State Investment Climate Statement 2019, Western Balkan Regular Economic Report WB, World Economic Outlook IMF, OECD, UNCTAD (for more details see Bibliography).
- (ii) Analysis of individual issues of businesses and business associations recorded chronologically by the Secretariat during 2015-2019 in its database.
- (iii) Face-to-face consultations with around 40 representatives of business associations/

state institutions/companies (17 CEOs) and foreign embassies. The meetings were conducted on a pre-structured questionnaire, focusing on a) the current situation, expectations on investment growth potential in the country, b) the role of the legal and regulatory framework in attracting investment, as well as c) the main obstacles businesses face in the overall investment climate. The selected companies are representative of the main contributing sectors to economic growth, mainly in the fields of energy, tourism and agriculture.

- (iv) IC survey on "Investment Climate" during 2015-2018 (2019 in the process)
- (v) Focus Group Meeting held on 24 September 2019 with participants from business chambers, associations and independent experts to discuss and validate preliminary findings of this document and possible recommendations.

<sup>7</sup> The reform of the Regional Economic Area (REA) has already been formalized in the context of the country's EU and regional integration processes. One component of REA is the Investment Agenda (RIRA), which aims, among other things, at harmonizing the legal and regulatory framework of investment in the country with international best practices.

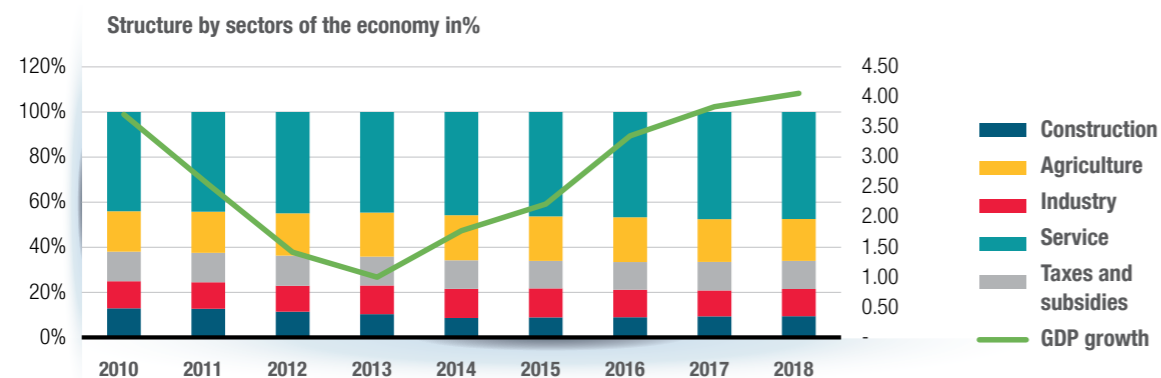
## CONTEXT

Based on international benchmarking indicators, we note that Albania has improved its positions on *Economic Freedom Indicators*<sup>8</sup>, ranked 52<sup>nd</sup> out of 186 countries. The situation is also improved in the *Doing Business 2019*<sup>9</sup> indicators, where Albania has improved in 8 out of 10 indicators. Meanwhile, *Corruption Perceptions Indicators*<sup>10</sup> rank Albania 99<sup>th</sup> out of 180

countries, while in the *World Competitiveness Index 2019*, Albania is ranked 76<sup>th</sup> out of 140 countries.

In the last decade, the average annual growth rate has been around 2.7%,<sup>11</sup> supported by *the services sector, which covers on average 46% of GDP, followed by the agriculture sector covering on average 19% of GDP, the industry and construction sectors covering 12% and 10% of GDP respectively*. The economy relies mainly on domestic demand, and *consumption is the engine that drives the economy, making the largest contribution to economic growth, on average 1.9<sup>12</sup> pp.*

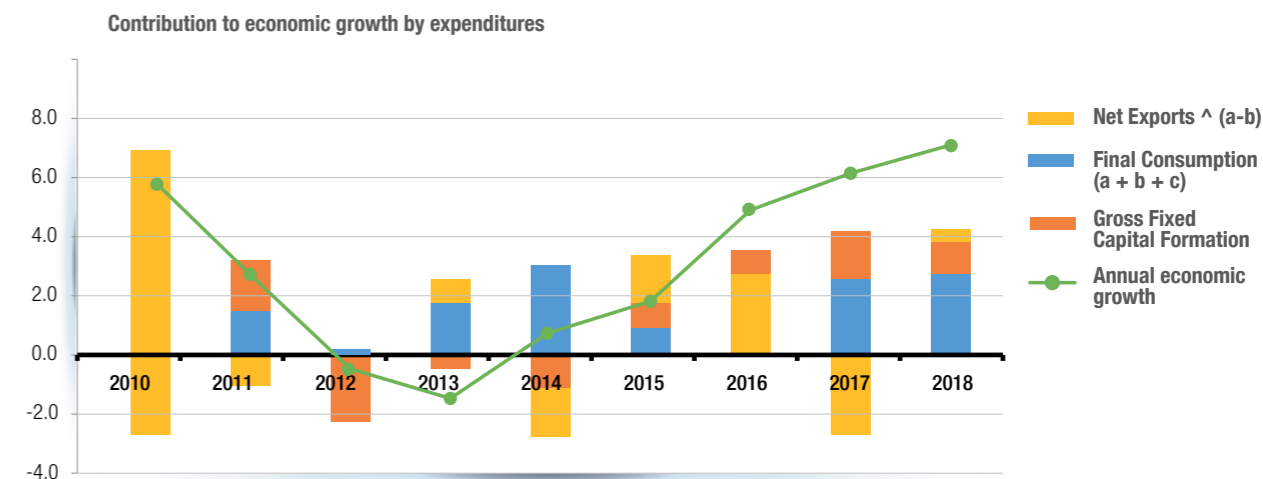
**Figure 3. Albanian Economic Structure, 2010-2018**



Source: Instat

8 Economic Freedom Index, The Heritage Foundation 2019  
9 World Bank, Doing Business 2019  
10 Transparency International 2019,

11 The data series in the material covers the period 2010 – 2018  
12 Annual mean 2010-2018



Source: Instat

Following the 4.1% growth recorded in 2018, according to the latest INSTAT data<sup>13</sup>, GDP growth in the first quarter of 2019 slowed down, and the economy grew by 2.3% (during the first half of 2018, growth was 4.3%), mainly as a result of the negative contribution of industry, energy and water.

Although there are opposing opinions as to whether a public investment or private investment provides sustainable and long-term growth, there is a consensus that *investments are a key factor in the economic growth of a country*. Thus, the analysis of the International Monetary Fund<sup>14</sup> emphasises that *the need for investment in emerging markets and economies remains a key and irreplaceable factor*. Since the early 2000s, high investment rates have been a major factor in significantly higher economic growth in emerging markets and economies than in developed economies, which has also

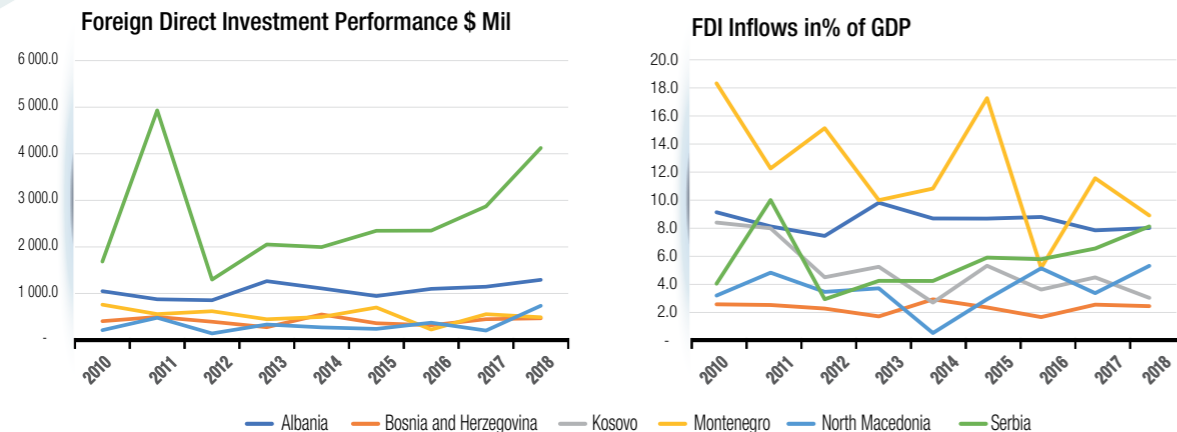
helped narrow the income gap in these countries.

According to the latest report released by UNCTAD<sup>15</sup>, FDI inflows globally have continued to decline for the third consecutive year. In developed economies, flows have reached their lowest point since 2004, while in *developing countries, FDI inflows have continued their upward trend, being stable*. As a result, the share of *emerging economies in the world FDI flows has reached a record of 54%*.

Compared to the region's countries, Albania is among the countries with the highest inflows of foreign investments since 2010, both in terms of value, ranked behind Serbia and as a percentage to GDP, ranked after Montenegro. As shown in the figure below, Serbia is the most attractive country for FDIs in the Western Balkans region, which despite volatility has always had the highest inward FDI.

13 Instat 2019  
14 World Economic Outlook

15 World Investment Report, 2019

**Figure 4. Inward Foreign Direct Investment in the Western Balkans**

Burimi: World Development Indicators

Starting from 2013, inward FDIs in Albania have continued a slight downward trend (9.8% of GDP), reaching 8% of GDP at the end of 2018. Inward FDIs in Albania<sup>16</sup>, at the end of 2018, focused mainly on Electricity, Gas and Water Supply (46% of total) and Extractive Industries (17% of total).

Meanwhile, in the countries of the region, the sectoral distribution of inward FDI is presented differently. In Serbia, the main sectors of FDI are the financial sector and the processing industry, such as automotive, electricity, food and textile. In North Macedonia, during recent years, FDIs have been in the automotive industry sector; in Bosnia and Herzegovina, the highest inflow sectors are industry, banking and telecommunications; while in Montenegro, the dominant sector is tourism.

Based on data published by UNCTAD, compared to the countries of the region, starting from 2010, Albania has attracted a low number of greenfield projects.

As a small transition economy, the Albanian economy has made significant progress in foreign trade performance. According to the WB Report “*Strengthening Albania’s Trade Competitiveness*” (June 2019), Albania has surpassed annual world trade growth and has achieved up to 11% average annual growth<sup>17</sup>. Albania’s challenge in terms of exports remains the basket of exported goods focused on low value-added products<sup>18</sup>. Regarding the structure of exported goods according to technology<sup>19</sup>, Albania represents a difference from other countries, where 90% of exported goods are mainly products that require high manpower and natural resources. The Balkan average for this product category is at 50% of exported goods. This poses a challenge to the country’s competitiveness vis-à-vis the region, to attract high-tech industries and to increase the value of its domestic and export products.

<sup>17</sup> Strengthening Albania’s Trade Competitiveness, WB, June 2019

<sup>18</sup> Strengthening Albania’s Trade Competitiveness, Banka Botërore, June 2019

<sup>19</sup> Sanfey, Milatovic, Kresic, 2016

## ORIENTATION TOWARD ECONOMIC GROWTH POTENTIALS

### 1. GOVERNMENT’S VISION

From the analysis of key government country’s policies<sup>20</sup>, it is noted their orientation towards the industrialisation of the country to ensure sustainable growth. Sectors to be supported, as per strategic documents,<sup>21</sup> are “Energy and Natural Resources”, “Hydrocarbons”, “Mining Industry”, “Agriculture”, “Tourism”, “Culture and Cultural Tourism.” Within the National Strategy for Development and Integration framework, the respective strategies have been drafted according to the priority sectors. Among others, we can mention:

» “*Business and Investment Development Strat-*

<sup>20</sup> In its program, the Albanian government states that “special attention will be paid to economic and financial policies that stimulate investment in the growth and expansion of industrialization through increased industrial activities. This will aim at increasing the production and processing capacity of the industrial sector in Albania. Focusing attention on increasing the country’s light industrialization level is one of the priorities of our governance in the 2017-2021 mandate.” - Government Program 2017 - 2021

<sup>21</sup> National Strategy for Development and Integration 2015-2020, National Business Development Strategy 2014-2020

egy 2014-2020” is the key document where national policies and their implementation can be identified in the context of business development and investment growth in Albania.

- » “*Cross-Sectoral Strategy for Rural and Agricultural Development 2014-2020*”, with the primary objective of defining the strategic framework for addressing the challenges faced in the agricultural and agro-processing sector as well as sustainable economic, environmental and social development of rural areas.
- » “*Digital Agenda Strategy 2015-2020*” aims at more coordinated and efficient investment management in the Information and Communication Technologies sector to provide quality services to citizens and improve their living conditions.
- » “*National Strategy for Information Technology and Information Science 2017-2022*” sets out the policy, vision, goals, and strategic objectives of developing scientific research, technology, and innovation.

- » “National Transport Strategy 2018-2021”, with the main aim of developing an efficient integrated transport sector in the region and beyond to support economic development and improve citizens’ quality of life.
- » “National Energy Strategy 2018-2030” incorporates the necessary changes needed to increase the security of energy supply and optimise resources to meet the needs with the main objective of sustainable development of the economy.
- » “National Strategy for Sustainable Tourism Development 2019-2023” with the vision of transforming Albania into a welcoming, attractive and authentic destination, aiming at sustainable development of the country’s economic, natural and social potentials.

As noted above, some of the national strategies are close to their deadlines, and it is perhaps the critical moment to analyse the impact and open debate on the vision of the next 5-10 years and decide on the country’s economic model. *The moment becomes more strategic considering also the prospect of the country’s EU integration and alignment with the “acquis communautaire”.*

## 2. FISCAL POLICIES

In the macroeconomic context, in recent years, Albania has undertaken concrete measures to forecast key economic indicators, reducing public debt, controlling PPP contracts, contributing to the country’s macroeconomic stability and the ability to capitalise on the market. The fiscal rule adopted in 2016<sup>22</sup> stipulates the

<sup>22</sup> Law 54/2016 “On some amendments and additions to Law no. 9936, dated 26.6.2008, “On the management of the budgetary system in the Republic of Albania”, as amended

reduction of public debt to 45% of GDP. Also, based on the same rule, the country’s current revenues will cover current expenditures and then finance Public Investment. The same rule attempts to control the careful use of public money with PPP contracts<sup>23</sup>. Also, fiscal policy changes with *effects on tax revenues* are foreseen to occur only once a year and no later than three months after the end of the budget year.

Recent fiscal packages have made it possible to reduce capital taxation by improving the business climate. Reducing the dividend tax from 15% to 8% as a double taxation measure has been welcomed by the business as it helps to capitalise on the market by boosting consumption and investment growth in the economy. Also, extending the taxable wage base to ALL 150,000 will help *reduce the labour cost* of retaining skilled workers.

Regarding fiscal measures to incentivise investments in technology, the Albanian legislation includes *exemptions from VAT on the supply of agricultural machinery and equipment, active processing machinery and agri-business*. This is a measure that seems to have contributed to the increase in the import of machinery equipment in the country and the increase of Albanian exports of agro-processing products<sup>24</sup>. The government has also incentivised the ICT sector, *reducing the corporate tax rate from 15% to 5% for software production/development companies*. According to INSTAT, during 2018, there were 742 new companies in the field of In-

<sup>23</sup> Paragraph 4/2 of Law 58/2016 “The total amount of annual net payments made by general government units resulting from concessionary contracts or public-private partnerships (PPPs) shall not, as a rule, exceed the limit of 5% per cent of actual tax revenue for the preceding budget year”

<sup>24</sup> INSTAT (2019), Foreign Trade

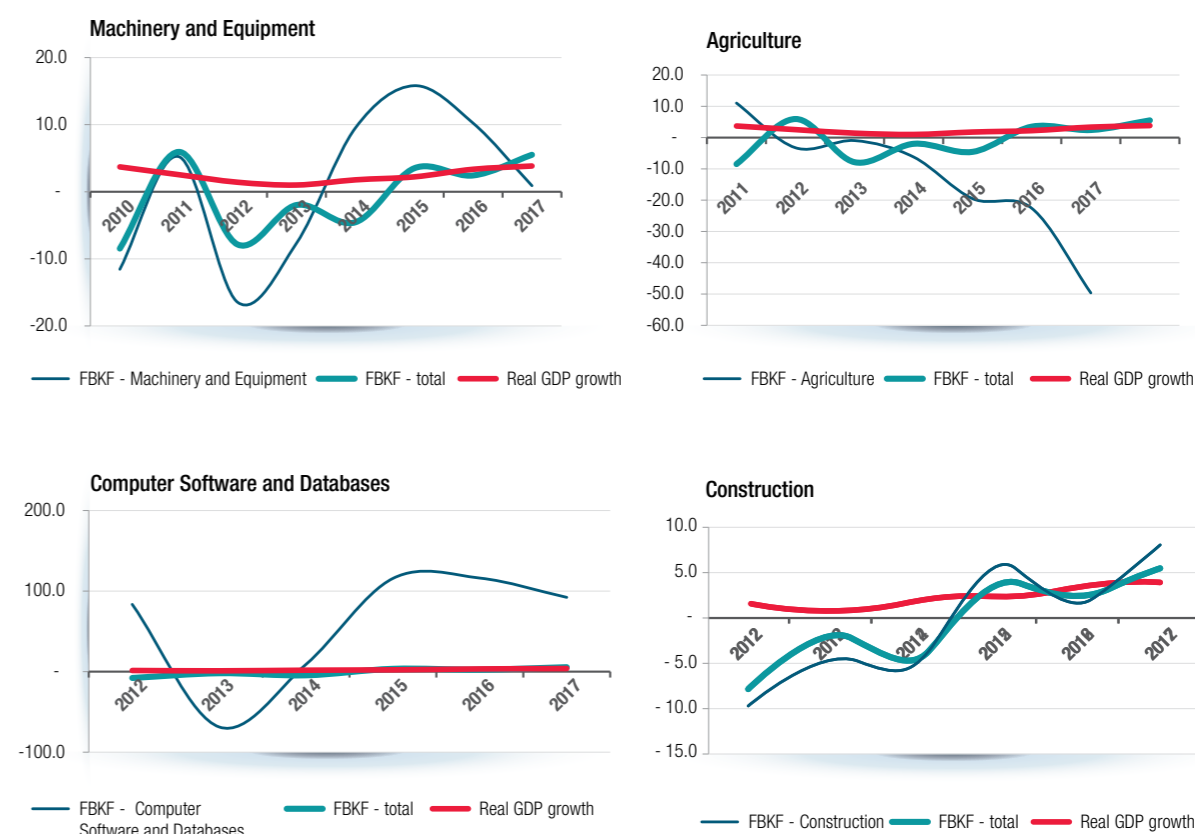
formation and Communication, mainly small companies with up to 9 employees.

The incentives undertaken in the field of tourism to boost the agro-tourism sector have also led to the growth of new start-ups in 2018, with 3,120, thus affecting the growth of the workforce.

To stimulate debate between policies and their impact on different sectors of the economy, the graphs below provide the performance

of gross fixed capital formation in machinery and equipment, agriculture and software and databases as indicators of investment in the economy. Overall, the trend in the *agricultural sector is declining, indicating the negative contribution of this sector to the overall Gross Fixed Capital Formation (GFCF)*, while in software and databases, the trend is increasing, indicating the advantage this sector has received in investments in the economy.

**Figure 7. Formation of Gross Fixed Capital (growth in %)**



Source: INSTAT

We also highlight dedicated sectorial incentives aiming at investment promotion. Following legal and regulatory incentives provided to strategic investors (one-stop-shop administrative procedures through AIDA with special/assisted procedures granted to investors) or financial incentives to potential investors in free economic zones (TEDA) during 2015-2016, additional incentives were provided. These are mainly tax incentives for tourism/agritourism accommodation structures that seem more aggressive compared to other countries. A detailed summary of such incentives has been prepared by Secretariat when analysing informality in the tourism sector<sup>25</sup>.

Also, for this analysis, the Secretariat has updated the comparative matrix (prepared in April 2017 in collaboration with AIDA).

- » What is common to most countries in the updated matrix (Annex B) is that they have adopted a progressive tax on income and different VAT rates depending on sectors.
- » Additionally, Albania applies a tax reduction on dividends from the normal rate of 15% to 8% and the lowest minimum turnover of ALL 2 Mln for VAT purposes. It implemented a package of fiscal measures for tourism and agrotourism in an effort to promote the set up of accommodation structures.
- » Countries like North Macedonia and Serbia are more aggressive in targeting investors in other sectors through national and regional economic free zones and direct rewarding policies for any new job openings in the country.

We emphasise that while taxation is recognised as an important factor in companies' invest-

ment decisions, it is not the main determinant<sup>26</sup>. Foreign Direct Investment is attracted to those countries that offer market entry and profit opportunities, predictable and non-discriminatory legal and regulatory framework, macroeconomic stability, responsible and capable workforce, and well-developed infrastructure. It is all these factors that in their entirety affect the long-term benefit of a project.

### 3. INVESTMENT LEGAL FRAMEWORK DYNAMICS

The IC Secretariat has previously<sup>27</sup> prepared an analysis of the legal framework applicable to investments. As agreed in the IC, the outcome of this analysis was that Albania has adopted liberal legislation, especially concerning foreign investments in the country based on the non-discrimination principle between domestic and foreign investors. More concretely:

#### a) The main laws that address issues related to foreign investments are:

- » Law No. 7764/1993 'On Foreign Investments' amended with Law No. 10316 dated 16.09.2010 and Law No. 46/2017 dated 13.04.2017.
- » Law No. 55/2015, 'On Strategic Investments'
- » Law No. 9789/2007 'On the Establishment and Functioning of Economic Zones' was amended by Law no. 54/2015 'On the Creation and Functioning of Technology and Economic Development Areas', which provided specific fiscal incentives for the economic activity of new industries, innovative technologies, information technologies, industries that meet international standards

<sup>26</sup> Tax Effects on Foreign Direct Investment, OECD 2018

<sup>27</sup> Meeting No.13 of IC- On the Investment Legal Framework (18 June 2018)

<sup>25</sup> IC Meeting No.14

of pollution elimination, efficient industries on energy use as well as high productivity industries, concerning employees.

- » Law No.125/2013 "On Concessions and Public-Private Partnership" amended with Law No.88/2014 and Law 77/2015 and lately subject to discussions related to the restriction of PPPs for unsolicited offers.

#### b) *Draft – Unified Investments Law*

For more than 2 years now, it has been under the discussion preparation of a unified investment law<sup>28</sup>. It is expected to be finalised within 2019, along with the related by-laws, aiming to improve investor confidence by creating mechanisms for attracting, maintaining investments, handling their complaints (*investor grievance mechanism*) and improving the institutional framework. Some of the main comments and issues suggested to be considered are related to the following:

#### (1) **Clarification of strategic objectives and national policies which orient investments:**

- (a) Although investors take risks in return for profit, they consider sustainability and clarity of strategic priorities one of the main drivers of decision-making. Based on Secretariat's consultations with the business, it comes out that companies demand a sustainable and clear focus on economic policies in the sectors/activities (e.g. services) that are in coherence with Albania's competitive advantage (e.g. cheap labour force), natural resources and infrastructure (transport, energy and electronic communications)

- (b) In the framework of enhancing the country's competitiveness, directing public investments toward the improvement of infrastructure, institutions and services for the business would strengthen the impact of legislative reforms in the investment climate.

#### (2) **Administration and Institutions**

- (a) Re-dimensioning of the administration to guarantee the responsible and effective implementation of the principles sanctioned in the laws;
- (b) Increasing the capacity of regulatory bodies, especially in specific industries such as electronic communications, hydrocarbons, financial services and insurance;
- (c) Fighting corruption and institutional practices that limit fair competition and open markets;
- (d) Investor support institutions and structures responsible for handling their grievances.

#### (3) **Access, transparency and assessment of incentives on investments**

- (a) Making public of the analysis of the impact of Law 55/2015 "On Strategic Investments" in attracting investments and the status of those investments.

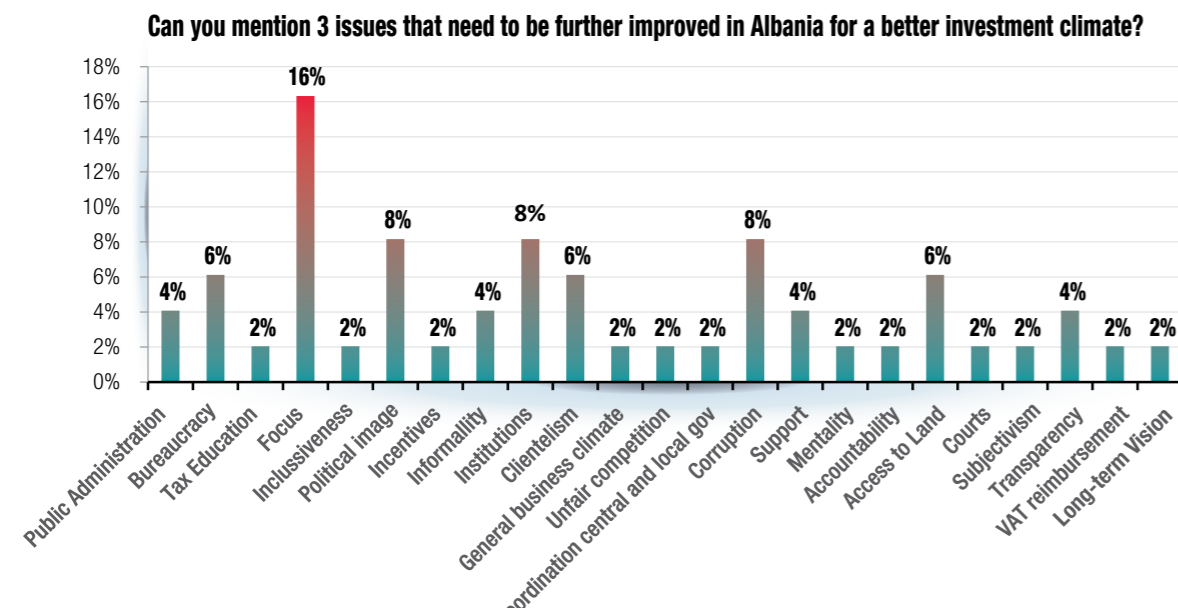
In the discussion phase is also the approval of the draft law "*On the Establishment of the Albanian Investment Corporation*", which has been the subject of discussions, comments and revisions by Albania's development partners. This law is expected to give impetus to TEDA/Free Economic Zone projects where the state can act as a developer/co-developer partner.

<sup>28</sup> Objective set by the Investment Policy Roadmap of the Albanian Government approved by DCM No. 579, dated 03.08.2016.

## FINDINGS

Based on the above, as well as on the face-to-face consultations with the business representatives regarding the country's strategic approach to potential investments, current and future (national, regional or global) challenges for sustainable growth, the Secretariat has identified the main findings at several levels as follows:

**Figure 8. Perception of the Private Sector on the Main Factors to be Improved**



Source: IC Secretariat's Own Data Processing from Face-to-Face Consultations with the Business (September 2019)

### 1. Difficulties in focusing policies as per the declared vision

Despite the existence of strategic documents that set out policy directions, in reality, the *focus is not always consistent over time and with supporting projects*. Thus, the National Strategy for Development and Integration (NSDI) is the key national strategic document supporting the country's sustainable social and economic development<sup>29</sup>. It combines the development agenda with the country's integration processes, *summarising the vision, priorities and major national objectives*. Based on the vision set out in the NSDI<sup>30</sup>, relevant strategies have been developed according to the sectors identified in this strategy to achieve the major objectives<sup>31</sup>. For instance, we highlight that the selection of tourism as a priority sector with potential for sustainable growth in the country was initiated with the adoption of the NSDI in 2014 and included in the Law for Strategic Investments (2015) or the 2018 fiscal incentives. Meanwhile, the strategy was approved only in June 2019. This time period, coupled with political and institutional changes, is considered to have influenced the sector's investment potential and certainly the *focus of the interventions*. Another example is the announcement of important infrastructure projects for the development of tourism, such as the construction of the airport in Vlora, ports, road infrastructure towards tourist areas which are significant incentives for investors, but major challenges are related to their

<sup>29</sup> <https://www.kryeministria.al/strategjia-kombetare-per-zhvillim-dhe-integrim-2015-2020/>

<sup>30</sup> About 37 cross-cutting strategies and national programs are based on the NSDI

<sup>31</sup> (1) Growth through macroeconomic and fiscal stability (2) Growth through increased Competitiveness (3) Human capital investment and social cohesion (4) Growth through sustainable use of resources and territorial development.

respective implementation and deadlines.

In the meantime, we note that, for instance, the package for fason, if we refer to the figures and process - can be considered as a success story of the collaboration between the state and the business. Based on INSTAT<sup>32</sup> data, the number of enterprises in the processing industry increased by 29%, the number of employees by 37%, while the added value in the economy increased by 46%. The measures taken in collaboration with the business and the focus of the state on the implementation of these measures turned the fason sector into a promoter of employment growth, increased exports of "textiles and footwear", and attracting more investors in the sector. Since 2014 (the year of presentation of the package), exports in the "textile and footwear" group have increased by an average of 14% per year and this group of goods has increased its share in the export structure from 28% in 2013 to 44% in 2016, two years after the application of the proposed package.

### 2. Lack of data or even impact assessments of strategies such as Business Development and Investment Strategy

We emphasise the importance of monitoring reports as important instruments for measuring the progress made. For instance, if we refer to the latest monitoring report (prepared by GIZ), 70% of the activities within the Business and Investment Strategy have been carried out. However, to truly judge the progress made and the challenges faced to build the vision, we consider it important to analyse the impact and performance in-

<sup>32</sup> INSTAT (2018), Register of Enterprises

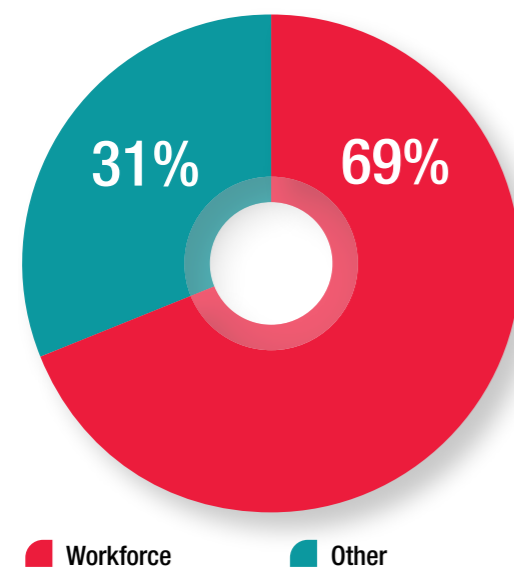
dicators. In the meantime, monitoring specific indicators' performance would help identify and take appropriate measures to help achieve the objectives under the specific components.

### 3. Availability and quality of workforce vis-a-vis market demands - the main challenge of the future

During consultations with investors, the Secretariat observed that they consider it very important in their decision-making whether to invest in the country, the availability and quality of workforce—an issue already tackled by the IC since February 2017.

**Figure 9. Perception of the Private Sector on Its Future Challenges in Albania**

What is the future challenge of the business in Albania?



\* **“Other”** includes property, certification of products, system and institutions, clientelism  
Source: IC Secretariat's Own Data Processing from Face-to-Face Consultations with the Business (September 2019)

In the meantime, we also highlight the fact that according to published data<sup>33</sup>, Albania ranks among the top 20 countries (17<sup>th</sup> in 2016) for emigration. ***The problem is extremely important and requires integrated and emergency intervention at several levels.*** We also highlight ***progress towards improving the regulatory framework and focusing on vocational education (Law on Promotion of Employment, March 2019 / Law No.15 / 2017 “On Vocational Education in the Republic of Albania / Some DCMs Approved in 2018); results are to be monitored.***

### 4. Access to land issues that refers to land titles and land administration<sup>34</sup> is also a significant impediment for attracting investments in strategic sectors, especially in agriculture and remain a major bottleneck for improving the investment environment in Albania. The forecast improvements with the latest developments of a new legal and institutional framework on Cadastre are quite expected.

The IC Secretariat has already tackled the issue (IC Meeting XVI, May 2019) by providing relevant recommendations. In short, it is highlighted that a) there is no unique complete and consolidated register of immovable properties yet, which in particular influenced potentially the investors' decision in agriculture and

<sup>33</sup> UNDP, [https://www.undp.org/content/dam/albania/docs/Brain\\_Gain%20web.pdf](https://www.undp.org/content/dam/albania/docs/Brain_Gain%20web.pdf)

<sup>34</sup> Issues identified in the previous IC Meeting No.16.

tourism<sup>35</sup>, b) although the Law No.55/2015 “On Strategic Investments” under article 31 provides for establishing the Strategic Investment Support Real Estate Fund<sup>36</sup>, to date there is not yet a comprehensive register of such properties, their status and category c) access to land limitations has been an issue also identified by EU<sup>37</sup>, foreign investors and professionals during the consultation phases of the new draft law on investments<sup>38</sup> as a formal restriction towards foreign investors.<sup>39</sup>

### 5. Various legal and regulatory issues in the Investment climate already tackled by the IC, briefly summarised in the following table:

*Non-functional judiciary system to adequately respond to the requests of the businesses for fast and fair resolution of disputes.*

*There are thousands of requests for court hearings in the Administrative Courts which from years now have failed the mission since their establishing for resolving cases within 60 days. More than 30,000 cases are waiting in the High Court<sup>40</sup>. A*

<sup>35</sup> EU Progress Report 2019.

<sup>36</sup> With state-owned properties by central institutions or municipalities and the respective by-law addressing the procedures and modalities for state participation in strategic investments and functioning of the property fund register is in place

<sup>37</sup> Acquisition of real estate by foreigners remains subject to restrictions: they are not allowed to acquire agricultural land, forests, meadows and pastures. Provisions regulating the acquisition of a real estate property by foreigners remain unchanged and uncertainties over real estate ownership rights continue to discourage investment

<sup>38</sup> Unified Investment Law

<sup>39</sup> EU Progress Report 2019

<sup>40</sup> Vetting process related to the ongoing Justice Reform is ongoing.

*good part of such numbers is related to court cases initiated by businesses and investors towards public administration institutions. Lack of final court decisions has impeded the unification of administrative practices towards businesses, leaving room for arbitrary and discretionary decisions by the administration and increased legal uncertainty. On the other side, the lack of a judiciary filter impedes the administration itself to self-improvement and better regulation.*

### Specific sector cases of legal uncertainty for businesses as a result of controversial policy decisions

*There have been encountered some examples in the country which have demonstrated the legal uncertainty created by institutions, such as signals transmitted to potential investors in a strategic sector like energy. For example, a series of measures were taken by the Albanian Government, the regulatory authority ERE and the national power company KESH sh.a. which made the operation of small hydro-generation projects (HPP) in Albania difficult due to unusual ERE decisions<sup>41</sup> by revising downward the price of electricity that KESH gives to small hydropower plants up to 15 megawatts, applying as such retroactive prices for years 2013-2014, in breach of contractual terms*

<sup>41</sup> ERE decision no. 143/26.12.2014 “On the revision of the purchase price of electricity for the producers of electricity from existing HPPs, with installed capacity up to 15 MW for years 2013 and 2014”, and ERE decision no. 144 “On the revision of the purchase price of electricity for the producers of electricity from new HPPs, with installed capacity up to 15 MW for years 2013 and 2014”.

of concession<sup>42</sup> agreements<sup>43</sup>.

**Instability of legislation. Frequent and ad-hoc changes to laws and by-laws determine the stability of the business environment.**

*Frequent and non-well studied changes with long-term effect have continuously been identified by business associations and companies as premises for unfair treatment. They have somehow contributed to uncertainty in the context of a non-stable and fully professional administration to transpose adequately and in time the laws' will. This is an issue that becomes of high prevalence in the cases of procedures with financial impact for businesses.*

*An example of this is the provision of tax on plastic products which has been imposed via Law No. 93/2018, dated 03.12.2018 and cascaded to administration and businesses via instructions only in late February 2019 with the Instruction No. 20.2.2019. It is worthy of mentioning that Law No. 9920/2008, "On Tax Procedures", as the most important law related to taxes, has been subject of amendments 16 times while its Instruction No. 24/2018 has been subject of amendments 18 times, by substantial changes with new rules and procedures and short time for implementation.*

**6. Although main legislation for boosting diversified investment has been approved and there is a good will from the government, difficulties have been encountered in materialising the approved legislation into concrete measures and activities.**

The cases of Free Economic Areas (TEDA) where no active investments are still established should increase awareness for more focus and dedication. Law on TEDA<sup>44</sup> provides a series of fiscal, administrative and legal incentives<sup>45</sup> intended to attract investments in advanced technologies in free areas as per the definitions of the Customs Code. At the time of approval, this law has considered as a necessary change simplification of procedures for businesses by providing a group of consolidated incentives with a clear focus. The necessary by-laws were accordingly approved in due time and completed all the packages of the initiative.<sup>46</sup> Despite the efforts and procedures to attract investors in TEDA, there has been no implemented TEDA since 2015 and until to date, from private companies or municipalities, although the state has prepared documents for TEDA Spitalle and TEDA Koplik.

While the legislation on strategic investments is

44 Law No. 9789 dated 19.07.2007 "On the Establishment and Operation Of Technological And Economic Development Areas" As Amended With Law No. 54/2015 "On Several Amendments And Addenda To Law No. 9789, dated 19.7.2007, "On The Establishment And Operation of Technological And Economic Development Areas".

45 Article 13 of Law No. 9789 dated 19.07.2007 sets forth 10 incentives/fiscal relieves. Paragraph 1 point b) of Article 13 "Fiscal Facilities" of Law No. 9789, sets forth as fiscal facilities: "developers and users are exempted from the payment of the 50 per cent tax on-profit rate for the first 5 years from the commencement of their activity in the area". Investors do not consider this a full guarantee in the conditions of the potential change (increase) of the corporate tax on-profit rate, as a result of changes in the fiscal package.

46 [http://www.teda.gov.al/?page\\_id=690](http://www.teda.gov.al/?page_id=690)

42 In 13 June 2017 after several court hearings the High Court decided in favour of small HPP, involving the legal certainty principle according to which gained rights could not be subject of unilateral changes from ERE with the imposition of lower retroactive prices. According to which decision KESH sh.a should pay back 6 Mln Euro, as a result of the non-consulted decision by ERE

43 The selling price of new HPPs up to 15 ME for the regulatory period 2012-2014 was 9.3 ALL per kilowatt. With the review made by ERE, the sale price for 2013 was calculated at 9.73 ALL/kwh and for 2014 was recalculated at 7.95 ALL/kwh. The recalculation for 2014, from 9.3 ALL to 7.9 ALL, marked a decrease of about 14% of the profits that HPPs had benefited from the sale of energy.

completed with the respective by-laws, its perceived impact would be highly appreciated<sup>47</sup>. Investments are focused chiefly on tourism (7) and agriculture (4). Below is the status of the projects as per information provided by AIDA:

- » SIC has approved in total 13 strategic investment projects, of which 8 have benefited from strategic investor status/assisted procedure and 5 from strategic investor status/special procedure.
- » Sectors - 7 projects are in the tourism sector, 4 in the agricultural sector, 1 in the energy sector and 1 in the sector of development priority areas.
- » There are 7 projects under implementation in tourism, 2 in agriculture and 1 in the sector of development priority areas.
- » Currently, 4 projects are in the application phase, 3 in the tourism sector and 1 in the agricultural sector.
- » Meanwhile, 15 projects are in the consultation phase, 5 out of which are in agriculture, 6 in tourism and 4 in energy.

According to AIDA, the total value of the proposed investments is 2,007,090,406 Euros, while the total value of the approved investments is 692,826,000 Euros.

## 7. Potential Investment Sectors

By trying to argue on the strategic approach to attracting new investment and sectors that can be considered as potential for the country, during consultation meetings with the business, it turned out that besides the classic criteria, there are also some reflections to consider, such as the withdrawal of industries that require a lot of manpower for the sake of the issues we mentioned above, or the withdrawal of companies industries/businesses seeking investment in "un-

occupied" land or properties, or logistic hubs that require ready infrastructure in advance. We also highlight the potential of the construction sector, which is conditional on informality (e.g. unregistered buildings) but which carries benefits, especially in increasing exports.

From the consultations, we can point out that some sectors can be prioritised as follows:

**a) Agro-processing<sup>48</sup>** - perceived as a sector where there are potentials for new investments such as the processing of value-added "niche" vegetable products and fruits for export and domestic market (made in Albania), or on-site processing of medicinal plants, etc. In recent years, there has been an increase in exports of plants, roots, flowers and ornamental leaves, tea and spices, and an increase in exports of processed agricultural products such as vegetable and fruit processing.

**b) Tourism<sup>49</sup>** - The perception that the tourism sector has the potential to support sustainable economic growth for Albania is also backed by recent official data. Throughout 2017<sup>50</sup>, the tourism sector recorded a direct contribution of 8.5% of GDP, employed about 7.7% of the labour force in Albania, covered 7.5% of investments in the country, and the number of companies increased by 26%. Tourism accounts for 11% of all economic activity in Albania. Meanwhile, the challenge of tourism towards achieving the potential it represents is conditioned by infrastructure progress, eco-systems conservation, accommodation capacities, quality of services, supply and tourism products. We emphasise

48 Cross-cutting Strategy for Rural and Agricultural Development 2014-2020, sets out the main directions of sector support by the Albanian government and some fiscal incentives have been adopted in support of it.

49 Additional information on the sector is given in Annex A.

50 According to the 2018 Travel and Tourism World Economic Impact Report (WTTC),

47 Secretariat couldn't find any relevant assessment in regard

that these factors have somewhat inhibited the sustainable and consistent development of tourism in Albania, leaving room for uncontrolled and chaotic development that has kept the industry afloat but possibly jeopardising its sustainability in the long run.

- c) **Natural Resources** – *While the interest remains considerable for the sector, especially foreign investors, still the good modelling and supervision of the sector, especially the hydrocarbon, remain a real challenge. Below, it is given a summary of the main capacities in renewable and hydrocarbons<sup>51</sup>.*

## RENEWABLE ENERGY SOURCES

1. Albania has a considerable hydropower potential, where circa 35% of it is utilised. There are around 540 HPPs (527 Small HPP up to 2 MW) representing 31% of the power generation forecast, which is only 43% of the electricity consumption projected in 2020. The government has committed to a policy of increasing the use of renewable energy, mainly hydro, solar and wind<sup>52</sup>. The country is exposed to a considerable degree to the risk of supply insecurity due to changes in the hydrologic conditions and non-diversification. Albania's overall energy target from renewable energy sources to final gross energy consumption is 38% in 2020<sup>53</sup>. Also, there is a *new regulatory framework that supports the vision*. Law no. 7/2017 "On Promotion for Using of Renewable Energy Sources" was adopted to comply with the Energy Community Treaty and the Directive no. 2009/28/EC "On Re-

newable Energy Sources." *This law provides for "incentive schemes"<sup>54</sup> as a direct engagement of the government to reach the target on the use of power produced from renewable sources.*

2. **Wind Energy. Thirty companies have applied for Eolic parks (Wind)<sup>55</sup>.** Wind energy constitutes a potential opportunity for power production in Albania, however, there is no activity into practice. The major problem of establishing wind powerplant in Albania is the lack of successive measurements of the velocity and duration of the wind that would create a clearer picture for potential investors.
3. **Photovoltaic** – During the consultation, we find some interest from the potential investors. There are around **11 entered contracts for energy production from photovoltaics (solar), while the number of applications is higher.** About 10 months after announcing the auction winner for the construction of the Akernia photovoltaic power plant in Vlora, the parties (Investor and MIE) have yet to sign a contract that would pave the way for one of the most important energy investments in the country. There is interest from investors in the energy market to be part of eventual procedures for the construction of photovoltaics under a transparent process that leaves reasonable time for preparing investment and consolidated business plans. However, investors' claims appear to be focused on the procedures that enable a fixed price for the purchase of photovoltaic energy produced by the state and, therefore, a lower risk.

In summary, from the consultations, it can be concluded that the sector is considered relevant to potential investors, despite its progress being associated - with further measures, such as mar-

<sup>51</sup> Detailed information on the sector is provided under Annex A.

<sup>52</sup> Strategy of Energy 2018-2030 approved with CoM No.480 Dated 31.07.2018. Albanian energy goals consist of the following priorities: (1) utilization of energy sources; (2) energy diversification; (3) increasing the competitiveness and (4) the environmental protection.

<sup>53</sup> Law no. 7/2017 "On Incentives for Using of Renewable Energy Sources" and Consolidated National Action Plan.

<sup>54</sup> Support with regulated tariffs (feed-in-tariff) and CoD (Feed-in-premium)

<sup>55</sup> Consolidated National Action Plan

ket liberalisation (Energy Stock Market), pricing models/ methodology and land available for such investments.

4. **Hydrocarbons<sup>56</sup>** - Albania's oil sector is small if compared to international standards, but it is essential to Albania's economy, and there are still large undiscovered oil reserves. The state-owned oil company, Albpetrol, estimates the geological reserves of crude oil are about 437 million tons and the total gross oil reserves are about 46.9 million tons and natural gas reserves at about 5.7 billion m3N. Exploration and extraction of such resources are expensive (thus requiring important investors), qualified workforce and a combined formula which optimised the extraction, revenues for the budget and profits for companies. The sector is crucial for the economy, as it is one of the main contributors to Albanian exports. Also, the private sector is unique in its field of operation and potential. That is why it is a unique moment now that the sector's vision is updated and aligned with relevant state institutions, aiming to upgrade their level professionally and financially too.
5. **Digitalisation.** The Information and Communication Technology Sector in Albania has made progress in terms of market liberalisation, expanding internet use, improvements in public electronic services, and in the context of developing the Digital Agenda strategy. In principle, the government creates the necessary preconditions by building strategy and clarifying the vision for the digitalisation of the economy, coordinating with donors and facilitating fundraising. The EU,

with its digitalisation and innovation strategy, has also prepared a specific strategy for the Western Balkan countries where the intervention pillars (REA MAP) are specified. Meanwhile, a plan for "broadband" internet is expected to be completed by April 2020.

This sector currently faces some issues such as the lack of a responsible policy-making institution for innovation and digitalisation, the lack of an action plan for 2018-2020, etc. In the meantime, we note the increased level of internet use in Albania every year by 10-15%, but broadband penetration remains at low levels of approximately 38% of internet-connected households. In the meantime, as the sector is developing, and the country is currently shifting human capacities towards developed countries, it remains a challenge to train specialists in the field and continuous education of young people (professional and university) to reduce the digital gap (rural areas constitute 40% of the population, but only 1% of it is connected to the internet).

6. **TEDA.** Although the legislation in this field is considered complete, there is no active light industry operating in the free economic zone, thus being an immense opportunity for new investors (please refer to point 7 above). The package of (legal, administrative and fiscal) incentives provided constitutes a solid basis that should be associated with grid infrastructure investments by the state. From face-face consultations, it turns out that there is currently interest from various activities in the processing sector (e.g. sectors such as agro, semi-finished products, or information and digitalisation technologies, etc.) to exploit the potential that free economic areas offer.

<sup>56</sup> Detailed information on the sector is administered, produced and provided by the National Agency on Natural Resources on the official website: <http://www.akbn.gov.al/brochure-2019-petroleum-exploration-and-production/?lang=en>.

# SUGGESTIONS

To promote a good debate on investment promotion in the country, both from a strategic and sectoral point of view, the following are some considerations. Do we need a new approach, or can we continue with the current strategy model? Where do we see our economy in the next 5-10 years? What should be the focus, and what should be done to incentivise current investors and attract new investors? How can our economy be better integrated into the regional market? Can we focus more on ICT, green economy, manufacturing or energy and hydrocarbons?

## 1. AT STRATEGIC LEVEL

1. Initiating and structuring the debate on Albania's economic model and the priority sectors that enable sustainable development can be considered a "unique niche" for the country in the next 10-15<sup>57</sup>. We emphasise, due to the

specifics of the Albanian economy, a) SME support should be the main focus of the sustainable development model and policies, b) Good fiscal management as an essential factor in improving the business climate in the country.

2. Specify the vision on the priority focus (at the central and local level). For example, Vision "Albania 2030" - to define sectors that are considered as unique potentials and engines of growth.
  - » Specific country context (transparency and finalisation of major infrastructure projects/EU integration); Regional countries are consolidating efforts in the regional market/Aggressive Competition;
  - » A strategic approach to attracting FDI in coherence with priority sectors and developing an economic model of measuring FDI impact to create added value in the country and integrating it into the modern digital technology market;

57 Review/Preparation of new strategies which conclude in 2020 (e.g. SKZHI/SZHBI/SNZHRB/SAD, etc.)

- » Lack of coherent and aggregated data, human and financial capacity for in-depth analysis and impact measurement. It is therefore recommended to create an experts platform with a concrete plan of action to identify missing data, enable detailed analysis of Investment Impact (such as substitution or reduction options for key imports, options for export growth and diversification, etc.) in key economic indicators in coherence with priority sectors.
  - » Identification of targeting opportunities e.g. service sectors (as property issues remain a major obstacle to attracting serious investment).
3. Consolidation and depoliticisation of institutions *in coherence with priority sectors* to ensure "institutional memory" and achieve sustainable development potential. E.g.: AKBN, NFA, AIDA (capacity / expansion), MIAP (merging).
  4. Monitoring and transparency of Public Investment Coordination (central and local) in line with the requirements of priority sector strategies, to enable:
    - » Investment optimisation;
    - » New projects (at national and international level) that impact and stimulate investments and increase the absorption capacity of funds from EU, WBIF, etc.
  5. Increase business cooperation at the sectoral level to enable applications in innovation and information technology funds, research and development in development partner funds such as COSME, etc.
  6. Preparation and Publication of the State Real Estate Fund (under the Law on Strategic Investments).

## 2. AT SECTORAL LEVEL

### Energy

1. Completion of the legal framework on the renewable energy sector (Adoption of the Methodology of determining the purchase price of energy produced by photovoltaics as per the MIE Instruction No. 3, dated 20.6.2019).
2. Making effective the liberalisation of the energy market and the Energy Stock Market. Investing in the power distribution network to improve technology access for local solar and wind producers
3. Establishment of joint MIE-MFE-Business Working Groups to debate the sector's challenges in coherence with the Energy Strategy 2018-2030.

### Agriculture

1. Incentive measures on the de-fragmentation of agricultural land and promoting the competitiveness of domestic production;
2. Transparency on a) information and progress on donor **support policies for the agricultural/agro-processing sector** and b) performance of investments under public-private contracts in the sector.

### Digital

1. Focus on creating **regulatory conditions** for quality services in the field of **electronic communications (broadband/5G)**.
2. Completing the **regulatory framework** and promoting **FINTECH**.
3. **Establishment of a central policy-making institution/platform** to enable cross-sectoral coordination and to push forward the digital agenda, research and development, as well as capacity building toward business sophistication (e.g. North Macedonia, Germany, Ireland). This platform to:

- » consist of experts in the field, adopt an eco-system or value chain philosophy (have interactions between telecommunications, media, IT industry, infrastructure, usability)
  - » interact with a network of actors: academia, business, civil society, start-up, government, media focusing on the impact of digitalisation in Albania on education, economics, employment, social aspects, etc.
4. Set up concrete **incentive policies on vocational training with a focus on IT** and digital skills.

**TEDA**

1. From face-to-face consultations, it turns out that there is an interest from various businesses in the processing sector (e.g. sectors such as agro, semi-finished products, or information and digitalisation technologies, etc.) to exploit the potential offered by TEDAs.

Consequently, it is highly suggested that TEDAs become functional as soon as possible to exploit the potentials they can provide.

**Education and Employment<sup>58</sup>**

1. **A strategic approach based on adapting employment policies** and improving the workforce's skills towards priority sectors for sustainable economic development. This should be done through a clear regulatory framework and by setting standards and criteria for implementation, and through incentives.
2. Creating **a systematic collaboration platform** between schools and businesses to create clusters of business actors - professional service providers - civil society, employment offices, career offices etc., operating in priority sectors.
3. Government to enable the leasing of state-owned buildings to support the creation of training centres to re-dimension the workforce skills as per market requirements.

58 Adaptation of pre-university, post-graduate and vocational education curricula to the requirements of priority sectors for investment (IC meeting no 9 - "Readiness of the Labour Market against the Potential for Investment in the Business Process Outsourcing (BPO) Sector). Specific industries through the implementation of projects and courses from the local business environment. Flexibility in providing knowledge from public universities through innovative short-term programs in business partnership: Business Academy (intensive 1-3 day programs in a specific area such as Management and Operations Consultancy, Taxes, Business Plan Development, Feasibility Studies, etc.) Certificates obtained upon successful completion must be accredited by the Ministry of Education and the Ministry of Social Welfare and Youth as an added value for access to the labour market. (IC meeting no 9- "Readiness of the Labour Market against the Potential for Investment in the Business Process Outsourcing (BPO) Sector). Standardisation of practices and to become part of the curriculum - business model project - faculty - teaching practice. Accreditation of Universities should consider monitoring state-business relationships for effective implementation of practices as part of the curriculum. (IC Meeting no 9- Readiness of the Labour Market against the Potential for Investment in the Business Process Outsourcing (BPO) Sector).

# ANNEX 1

## Natural Resources

### 1. RENEWABLE ENERGY SOURCES

#### » Strategic Vision

The government has committed to policies of increasing the use of renewable energy, mainly hydro, solar and wind<sup>59</sup>. According to ERE, for 2017, the power production for public consumption was entirely generated by HPPs, despite one of the main objectives of the National Action Plan for Renewable Energy Sources 2015–2020 being diversification into renewables. Due to changes in the hydrological conditions, the country is exposed

to a considerable degree to the risk of supply insecurity. The Albanian Government has acknowledged that the need for diversification of energy sources is urgent<sup>60</sup>. According to the National Action Plan on Renewable Energy 2018–2020, Albania will continue to support the development of renewable energy sources, including diversification, either a particular focus on solar and wind capacities. Albania's overall energy target from renewable energy sources to final gross energy consumption is 38 per cent in 2020<sup>61</sup>.

Part of the Albanian renewal energy in 2009	Mean for 2011-2012	Mean for 2013-2014	Mean for 2015-2016	Mean for 2017-2018	Objective for renewable energy for 2020
31.2%	32.6%	33.2%	34.3%	35.6%	38%

59 Strategy of Energy 2018-2030 approved with CoM No.480 Dated 31.07.2018. Albanian energy goals consist of the following priorities. (1) utilization of energy sources; (2) energy diversification; (3) increasing the competitiveness and (4) the environmental protection.

60 As outlined in the National Action Plan on Renewable Energy 2018–2020 approved with CoM Decision No.179 Dated 28.03.2018 and confirmed also in the Consolidated National Action Plan on Renewable Energy 2019–2020 approved with CoM No.580 Dated 28.08.2019

61 Law no. 7/2017 "On Incentives for Using of Renewable Energy Sources" and Consolidated National Action Plan.

» **Currently, Albania is the only country in the region with 100% energy production from Renewable Energy Sources.**

» **A new regulatory framework that supports the vision**

Law no. 7/2017 “On Promotion for Using Renewable Energy Sources” was adopted to comply with the Energy Community Treaty and the Directive no. 2009/28/EC “On Renewable Energy Sources.” This law provides for *“incentive schemes”<sup>62</sup> as a direct engagement of the government to reach the target on the use of power produced from renewable sources.*

Some sub-legal acts<sup>63</sup> were enacted in compliance with Law no. 7/2017 (e.g. GoA adopted CoM No. 349 Date 12.06.2018 “On the Approval of Support Measures for the Promotion on the Use of Electricity from Renewable Sources of Solar and Wind and the Procedures for the Selection of Projects for Their Benefit”), but many others have not yet been adopted (e.g. establishing of Agency on Renewable Energy Sources). The Law on Power Sector provides for priority and guaranteed access of renewables to the network and priority dispatch of electricity from renewable sources. *However, secondary legislation is incomplete. In practical terms, transmission and distribution system operators have to improve the methodology determining the costs of connection to the grid*

62 Support with regulated tariffs (feed-in-tariff) and CoD (Feed-in-premium)

63 Instruction No. 3, dated 20.6.2019 “On the Approval of the Authorized Procedure for the Connection to the Distribution System of Small Renewable Projects for Self-Generating Solar Power Generators”, CoM No.407, dated 19.06.2019 “On the approval of the procedure, categories, conditions, qualification requirements and professional experience for the person to whom the energy auditor’s certificate is issued”, CoM No. 342, dated 22.5.2019 “On the approval of categories, conditions and qualification requirements for the energy manager”

*or grid reinforcements and transparency towards investors.*

» **State of affairs related to the sources of renewable energy in Albania**

- (1) Albania has a considerable hydropower potential, where circa 35% of it is utilised. ERE has licensed a considerable number of private entities upon stipulation of concession agreements for the construction and operation of HPPs with the Albanian Government. Around 540 HPPs (527 Small HPP up to 2 Mw) represent 31% of the generation forecast, which is only 43% of the electricity consumption projected in 2020. The expectation of HPVs in the construction phase can increase about 8% hydro production in 2020<sup>64</sup>.
- (2) **30 companies applied for Eolic parks (Wind)**<sup>65</sup>- but no activity into practice. Wind energy constitutes a potential opportunity for power production in Albania. The major problem of establishing wind powerplant in Albania is the lack of consecutive measurements of the velocity and duration of the wind. Consequently, various companies ready to invest in this field should make a prior assessment of the records of the wind velocity and duration.
- (3) **11 entered contracts for energy production from photovoltaics (solar) while the number of applications is higher** - only small producers under production (capacity up to 2 MW). About 10 months after announcing the auction winner for the construction of the Akernia photovoltaic power plant in Vlora, the parties (Investor and MIE) have yet to sign a contract that would pave the way

64 AKBN Renewable Energy Overview 2019

65 Consolidated National Action Plan

for one of the most important energy investments in the country. The auction winner was announced in November 2018, anticipating the construction of a 100 ME power plant. 50 MW would be part of support measures that guarantee energy purchase, while the rest would be freely traded in the energy market<sup>66</sup>. In the eventual relaunch of the procedures, there is interest from big investors in the energy market to be part of a transparent process which leaves reasonable time for preparing consolidated investments and business plans.

» **Some recommendations to address the above situation and speed investment to the sector:**

- (1) Making effective “incentive schemes” as provided by Law no. 7/2017 “On Promotion of Renewable Energy Sources” for direct government engagement to reach the target on the use of power produced from renewable sources.
- (2) Setting up the pricing system: Adoption of the Methodology of determining the purchase price of energy produced by photovoltaics as per the MIE Instruction No. 3, dated 20.6.2019.
- (3) Investing in a power distribution network

66 <https://acp.al/news/6759/Vonon-projekti-i-Parkut-fotovoltaik-ne-Akerni-MIE-Jemi-ne-proces-nenshkrimi-te-kontrates/>

to improve technology access for local solar and wind energy producers.

- (4) Make effective market openness and Power Exchange.

## 2. HYDROCARBONS<sup>67</sup>

Albania’s oil sector is small by international standards, but it is essential to Albania’s economy, and there are still large undiscovered oil reserves. The state-owned oil company, Albpetrol, estimates the geological reserves of crude oil are about 437 million tons and the total gross oil reserves are about 46.9 million tons and natural gas reserves at about 5.7 billion m3N. Based on the geological studies, old seismic acquired by Albpetrol and those acquired in the recent years by the foreign companies, it appears that Albania, despite the existing oil and gas fields, still has a very good potential and is a very promising area for further exploration in both onshore and offshore. Currently, six companies have a Production Sharing Agreement (MNP) with the state-owned oil company ALBPETROL for development and production in existing oil fields. Exploration and extraction of such resources are expensive, thus requiring important investors, a qualified workforce and a combined formula that optimises the extraction, revenues for the budget and profits for companies.

67 Detailed information on the sector is administered, produced and provided by the National Agency on Natural Resources on the official website: <http://www.akbn.gov.al/brochure-2019-petroleum-exploration-and-production/?lang=en>.

# ANNEX 2

## Momparative matrix of incentives for investments in the countries of the western balkans

October 2019

Since April 2017, the Secretariat of the Investment Council, in cooperation with AIDA, has prepared a Comparative Matrix of the incentives and the main elements of the fiscal burden applicable in Albania and other Western Balkan countries in the context of [Meeting No. 5 – “Investment Promotion Incentives: Albania vis-a-vis Western Balkan Countries.”](#) This matrix has been updated as follows in the context of [Meeting No. 18 – “On Investment Potentials and Priority Sectors.”](#)

» What is common to most countries in the updated matrix is that they have adopted a progressive tax on income and different VAT rates depending on sectors.

- » Additionally, Albania applies a tax reduction on dividends from the standard rate of 15% to 8% and the lowest minimum turnover of ALL 2 Mln for VAT purposes, and it implemented a package of fiscal measures for tourism and agrotourism in an effort to promote the set up of accommodation structures.
- » Countries like North Macedonia and Serbia are more aggressive in targeting investors in other sectors through national and regional economic free zones and direct rewarding policies for any new job openings in the country.
- » We emphasise that while taxation is recognised as an essential factor in compa-

nies’ investment decisions, it is not the main determinant<sup>68</sup>. Foreign Direct Investment is attracted to those countries that offer market entry and profit opportunities, predictable and non-discriminatory legal and regulatory framework, macro-economic stability, responsible and capable workforce, and well-developed infrastructure. It is all these factors that in their

entirety affect the long-term benefit of a project.

### 3. COMMON ASPECTS:

1. *Free Trade Agreements such as CEFTA and EFTA*
2. *Double Taxation Avoidance Agreements for with many states*
3. *Legal Framework on Investments and Protection of Foreign Investments*

68 Tax Effects on Foreign Direct Investment, OECD 2018

INCENTIVES	ALBANIA	NORTH MACEDONIA	SERBIA	MONTENEGRO	KOSOVO	BOSNIA AND HERZEGOVINA
FISCAL BURDEN						
Corporate profit tax	15%	10%	15%	9%	10 %	10%
Income tax on interest	15%	15%	5%	9% for non-resident companies and 5% for non-resident individuals except for cases when otherwise foreseen in the DTT	10 %	10 %
Personal income tax	0%, 13%, 23% <sup>5</sup>	8% / 10% / 18%	Income from employment and income from business 10%; income from copyright and income from rent 20%; Income from capital 15% by exempting from taxation the sale of assets that were the property of the seller for more than 10 years.	9% Taxation at 11% for income of more than 766 Euro net/month from employment Start-up employment salaries (except for the agriculture sector, fisheries, transport, shipbuilding sector) are exempt from taxation for 8 years, up to a total sum of EUR 200,000.	10%	10%

68 Që prej 01.01.2017, niveli i të ardhurave të tatueshme për aplikimin e nivelit më të lartë të tatimit mbi të ardhurat individuale është ALL 130,001.

INCENTIVES	ALBANIA	NORTH MACEDONIA	SERBIA	MONTENEGRO	KOSOVO	BOSNIA AND HERZEGOVINA
<i>Social contribution of the employer</i>	16,7%	25,8%	17,9%	10% The maximum contribution base is EUR 50,000 in a calendar year.	5% + 10% voluntary	10,5%
<i>Social contribution of the employee</i>	11,2%	27%	19,9% <sup>6</sup>	24% <sup>7</sup>	5% + 10% voluntary	31%
<i>Value Added Tax (VAT)</i>	20%  6% in tourism sector	18% standard rate 5% reduced rate (food, computers, software, solar thermal systems, the first sale of residential buildings)	20%  10% of basic food items and public services.	21% of taxpayers with a turnover of more than EUR 18000 are subject to VAT.  7% for basic food items, medicine, books, public services and transport.  0% VAT for international transport	18% standard rate  8% reduced rate  0 for exports	17%
<i>Carrying Forward Losses</i>	Carried forward for 3 consecutive years	The tax loss can be carried forward for three years	Carried forward for 5 years	Tax-loss, including capital loss, may be carried forward for 5 years.	Carried forward for up to 7 consecutive years	Loss may be carried forward for 5 consecutive years
<i>VAT reimbursement</i>	Immediate or from 30 – 60 days.	VAT reimbursement is done immediately within 30 days from the filing of the tax declaration.		The foreign investor does not have to pay every order for exported goods but is obliged to pay 0% VAT, according to the Law on VAT. This means that the foreign investor who has paid VAT for raw materials and at the moment he exports finished goods will pay VAT and will have the right to VAT reimbursement for raw materials.	Every three months for domestic supplies if the VAT crediting is carried forward for 3 months, and at the end of the third month, the VAT crediting value exceeds EUR 3,000. Every month for exports, if the VAT crediting is more than EUR 3,000	

6   Komisioni për Sigurimin Shoqëror prej 19,9% përfshin: 14% - Sigurimi pensional dhe invaliditetit; 5,15% - Sigurim shëndetësor; 0,75% - Sigurimi i papunësisë  
7   15% - Sigurimi pensional dhe invaliditetit; 8,5% - Sigurimi shëndetësor; dhe 0,5% - Sigurimi i papunësisë

INCENTIVES	ALBANIA	NORTH MACEDONIA	SERBIA	MONTENEGRO	KOSOVO	BOSNIA AND HERZEGOVINA
CONCRETE INCENTIVES						
1. Fiscal	VAT exempt when imported: 1. Agricultural machinery and equipment, for inward processing regime and agribusiness; 2. machinery dedicated for investment ≥ EUR 360 000  Import of machinery and equipment: a) to execute investment contracts of equal or greater value more than ALL 50 million; b) to execute investment contracts in the active processing sector and agribusiness, whatever the value of the investment; and c) the importation of production machinery by the subjects of the simplified profit tax.  Exempt from customs duties on imports of raw materials and semi-finished goods intended for export. (Suspension of import duty and VAT on goods imported under the inward-processing procedure)		Exempt from on-profit tax for investors for 10 years, if: • they invest in fixed assets with a sum that exceeds about EUR 9 million, and • they have employed at least 100 staff legally  Exempt from customs duty for the import of raw materials and semi-finished materials intended for export, and for the import of machinery and equipment for foreign investors.	Exemption from profit tax for the first 3 years is provided for companies engaged in production activities in an undeveloped area. (This incentive is not applicable in the agriculture, transport, shipbuilding, steel and fishery sectors.)	VAT exempt when imported: - Goods that are processed for purposes of export; - IT equipment; - Production machinery; - Raw materials entering a production process;  Exempt from customs duty for raw materials and production machinery. Return of excise on fuel consumed in the production process  Deductible expenses from Corporate Profit Tax: Representation expenses up to 10% of the pre-tax profit, plus another 10% for sponsorships. Deductible expense from 10% beyond the depreciation expense for new production machinery during the first year of their use.	Reduction by 30% of the profit tax when they invest more than 50% of current profit in production equipment. Reduction by 50% of the profit tax when they invest EUR 10 million from their funds constantly in 5 years, no less than EUO 2 million in the 1st year. Twice the amount of gross salary of new employees is considered as a deductible expense for taxation purposes on the condition that the duration of the work contract has to be at least 12 months full time and that the new employee must not have worked previously with the same taxpayer during the last 5 years.

INCENTIVES	ALBANIA	NORTH MACEDONIA	SERBIA	MONTENEGRO	KOSOVO	BOSNIA AND HERZEGOVINA
<b>2. Economic zones</b>	2 zones in the process but not active (Spitalla and Kopliku)	<b>15</b> Economic Zones, <b>3</b> fully functional (Skopje <b>1</b> , Skopje <b>2</b> and Stip) <b>1</b> is undergoing PPP procedures (Tetovo)  <b>11</b> others in different development stages	<b>14</b> approved zones, <b>12</b> operational zones		N/A	
<b>Fiscal incentives within Economic Zones</b>	<b>1.</b> 50% reduction of profit tax for the first 5 years. <b>2.</b> Entry and exit of goods according to the provisions of the Customs Code. <b>3.</b> Deductible expenses 20% of the annual capital for the first three years. <b>4.</b> The supply of Albanian goods in the zone is considered as export supply at zero VAT rate. <b>5.</b> The developer is exempted from the tax on infrastructure effect <b>6.</b> Buildings are exempted from immovable property tax for 5 years. <b>7.</b> The developer and user are exempted from the property transfer tax	Exemption from profit/ income tax for a period of up to ten years from the day of starting the activity in the TIDZ. To fully use this tax exemption, the investor must have started the business activity no later than two years following the official decision to start work in the TIDZ. 2-Exempted from personal income tax on salaries of employees, regardless of the number of employees, for the first 10 years of activity in the TIDZ; 3- VAT exemption of goods’ and services’ supplies, besides sales to the end consumer that is done within the economic zone. 4- VAT exemption for the import of goods that will be sent in an economic zone on the condition that they are not sold for end consumption	<b>0%</b> VAT on goods and services within free zones and for those who enter the area  The supply of electricity and gas with 0 % VAT  Entry and exit of goods that are exempted from customs duty Exemption from local taxes		N/A	Exempt from VAT on imports of goods.  Exemption from customs duties on import of equipment for production
<b>Non-fiscal incentives within Economic Zones</b>	Expenses for salaries and social contributions of the employer are recognised at <b>150%</b> of their value during the first fiscal year. Additional expenses for salaries in the following years are recognised as expenses at <b>150%</b> of their value. Training costs are considered deductible expenses at twice their value for 10 years. Research development costs are considered deductible expenses at twice their value for 10 years.					

INCENTIVES	ALBANIA	NORTH MACEDONIA	SERBIA	MONTENEGRO	KOSOVO	BOSNIA AND HERZEGOVINA
<b>3. Non-fiscal incentives</b>	<b>Assisted procedure by AIDA as per sectors and value of the investment:</b> 1. Energy and mining, transport, infrastructure, electronic communications, urban waste, for investments ≥ EUR 30 million; 2. Tourism at least 80 new jobs, TEDA ≥ EUR 5 million; 3. Agriculture and fisheries ≥ EUR 3 million and at least 50 new jobs; 4. Priority Development Areas ≥ EUR 1 million at least 150 jobs.		<b>Employer’s contribution reduction for new hires</b> for the period 1 July 2014 – 31 December 2017:  1 – 9 new hires, 65% reduction 10 – 99 new hires, 70% reduction Over 10 new hires, 75% reduction. It is assessed that this reduces the employer’s expenses for salaries to 20%.			
	<b>Special approval procedure by the Government and expropriation for:</b> investments ≥ EUR 50 million for the above sectors; for investments ≥ EUR 10 million and 600 jobs in the PDAs. For every investment ≥ EUR 100 million  Specific: Rental of state property with 1 Euro		<b>State grants</b> for investments by foreign investors, too, Greenfield projects and brown-field projects in the manufacturing sector and international trade varying from EUR 150 000 to EUR 600 000 of the investment cost or covering costs for new staff hired for purposes of the investment for 2 years. Allocation of funds in line with the criteria: Degree of regional economic development; New jobs from a minimum of 20 – 50, as per regions. For labour-intensive sectors, grants may be progressively increased (by 10%, 15%, 20%) for new jobs (more than 200, 500 and 1000).			

INCENTIVES	ALBANIA	NORTH MACEDONIA	SERBIA	MONTENEGRO	KOSOVO	BOSNIA AND HERZEGOVINA
4. Sectoral incentives						
Agriculture	Tax on profits 5% for Legal Entities - Agricultural Cooperation Companies	66 available sites in 6 communes <ul style="list-style-type: none"><li>• Offer price Starting from € 1 / m²</li><li>• Offer price Starting from € 0.1 / m² for 99 years of lease</li><li>• Average size of the site: 3000m <sup>2</sup> - 4000m <sup>2</sup></li><li>• State aid in the form of co-funding made available</li></ul> <b>Income tax:</b> For persons who are engaged in agricultural activity, as the first profession, the following tax exemptions are allowed: <ul style="list-style-type: none"><li>• Up to 300.000 dinars (income), they are allowed 100% of standard expenses and</li><li>• From 300,001 to 1.300.000 dinars (income), they are allowed 80% of standard expenses.</li></ul> For persons engaged in agricultural activity, as a secondary profession, standard expenses are set at the amount of 80% from the derived income.	Direct payment from EUR 80 000– EUR 160 000.  Incentives are dedicated to rural development.  Specific incentives for technical and professional assistance.			

INCENTIVES	ALBANIA	NORTH MACEDONIA	SERBIA	MONTENEGRO	KOSOVO	BOSNIA AND HERZEGOVINA
Tourism	<b>6% VAT</b> on Accommodation Structures (Bed + Breakfast); <b>6% VAT</b> on Any Supply Within “Hotel/Resort 5*, Special Status” Structures (Brand Name) Exemption from Building Tax and Impact Tax on Infrastructure Hotel/Resort 5*, Special Status”(Brand Name) Exemption from Profit Tax, for a 10-Year Period for Those Structures, “Hotel / Resort 4 * and 5*, Special Status” Eligible For Special Status until December 2024. 6% VAT for Certified Entities in agro-tourism (Sleeping + Restaurant (Non-Drinking)) Infrastructure Impact Tax Exemption for Agro-Tour Operators Who Will Invest in this Area. From 1 January 2018 For Certified Entities In agro tourism Profit Tax decreased from 15% to 5%.	Vat reduction for tourism from 18% to 5%  •Attracting foreign investors for the construction of hotels and touristic objects  • Subsidies for Tour and Air Operator. The scheme was prepared as below:  Depending on the countries tourists were coming from, the tour operator would make from EUR 10-25 for every tourist; For the transport of tourists by train, the operator makes EUR 15 per tourist; For combined transport (tour guides) from EUR 10-15 per tourist.		<b>VAT exemption</b> for the import of goods and services for the construction of 5-star hotels.  <b>Reduction of the property tax</b> by 30% for 4-star hotels and 70% for 5-star hotels.  <b>Grant support</b> for the northern part of Montenegro for investment in tourism – minimum EUR 500,000 and minimum 20 jobs within 3 years ( <b>construction of hotels of more than 3 stars</b> )		
IT	<b>5% Tax</b> on profit on software production/development					

*This summary is prepared by the Secretariat of the Investment Council in cooperation with AIDA. This summary contains general information obtained from laws, sub-legal acts, documents, websites part of the public domain. The information contained in this summary is not exhaustive and does not replace the professional assistance or advice that you or your company may need to make decisions, and should not be used as the basis for any decisions or actions that may affect finances or your business. Before making any decision related to the above, please consult the relevant legislation applicable in the respective countries. The Investment Council Secretariat is not responsible for the accuracy of this information nor for any decisions you make based on the information provided in this summary.*

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## ABOUT INVESTMENT COUNCIL IN ALBANIA

The Investment Council facilitates the development of mutual trust between the business community and the government in Albania and contributes to an incremental institutionalization of effective policy dialogue. It contributes to the national reform and economic transition process by enhancing institutions, laws and policies that promote market functioning and efficiency.

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