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Improving Transparency and Investment Climate

PROPOSALS ON ECONOMIC RECOVERY

Albania post-COVID-19

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ABBREVIATIONS

AIDA	Albanian Investment Development Agency
ALL	Albanian Lek
BP	Western Balkan
DCM	Decision of Council of Ministers
EBRD	European Bank for Reconstruction and Development
ECD	European Commission Delegation
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
IC	Investment Council
ICT	Information Communication Technology
IMF	International Monetary Fund
INSTAT	Albanian Institute of Statistics
MARD	Ministry of Agriculture and Rural Development
MFE	Ministry of Finance and Economy
MIE	Ministry of Industry and Energy
PPP	Public-Private Partnership
TEDA	Free Economic Area
UNCTAD	United Nations Conference on Trade and Development
WB	World Bank

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INTRODUCTION

The COVID-19 pandemic was officially confirmed in Albania on 8 March 2020. Following its spread, the Council of Ministers declared on 24 March 2020, state of natural disaster throughout the Republic of Albania.

In response to the unprecedented situation created in the country, on 14 April 2020, the Investment Council held an extraordinary meeting to discuss the impact of the COVID-19 pandemic on business activity in Albania, focusing on the financial and economic measures taken by the government to face in the short term the consequences of pandemics, as well as to present the preliminary findings of the survey conducted by the Secretariat of the Investment Council during March - April 2020 with businesses operating in Albania.

Upon request of the Investment Council Chair, the members and partners of IC decided that the next measures should be seen in a broader framework, in the medium and long term. *The*

aim is to address not only the immediate business needs in terms of liquidity and employment but also to determine the re-dimensioning points of the country's economic development, sources of growth and public revenue collection, assessment of fiscal interventions and recovery of priority sectors for a period of at least 5 years. This is in line with the ambitions and commitments of the Albanian government to present within June 2020 the plan of economic recovery and specifically of priority sectors such as tourism and manufacturing. In this context, to stimulate the debate, the Secretariat, in addition to summarising supporting measures undertaken by the Albanian government¹, the IC members and partners suggestions², also prepared a comparative matrix³ of the measures taken by the Western Balkan (WB) governments to support their economies. *This Concept Note summarises the main pillars of recommendations and measures of all IC members & partners to address economic recovery in the medium and long term.*

¹ Annex 1

² Annex 3

³ Annex 2

ANALYSIS PROCESS

The Secretariat analysis, conducted during April-May 2020, aimed to encourage the debate on the options and suggestions of IC members and partners regarding Albanian economy recovery, and it was based on the following:

- (i) In close collaboration with MFE, the Secretariat conducted a survey on *'Assessing the Impact of Consequences Derived from COVID-19 Pandemic on Business Activity in Albania'* during 28 March - 6 May 2020. The survey analysed the responses of 833 businesses operating throughout Albania.
- (ii) The questionnaire⁴ was distributed to all IC members and partners. The purpose of these consultations was to collect proposals on potential interventions to ensure economic recovery by addressing not only the survival of businesses and workplaces but also providing views on the prioritisation of mid-term and long-term reforms, needed for the Albanian economy.

- (iii) Based on the above recommendations, and following joint⁵ working group orders, technical consultations were organised during May 2020, through the Zoom platform by the Secretariat of the Investment Council in co-operation with the Ministry of Finance and Economy, the Ministry of Agriculture and Rural Development, as well as with the Ministry of Infrastructure and Energy. The purpose of these meetings was to discuss and specify at the sectoral level the main pillars of recommendations according to responsible institutions and to determine deadlines.
- (iv) Consultations of documents, laws, and bylaws regarding measures taken to support the Albanian economy after the strong earthquake of 26 November 2019 and the outbreak of global pandemic COVID-19. Research of international reports such as the European Commission Economic Forecast, World Bank's Western Balkans Regular Economic Report, IMF's World Economic Outlook, OECD, UNCTAD, etc.
- (v) Preparation of a Comparative Matrix of Albania, Western Balkan countries, and Croatia on the supportive measures taken by governments of these countries to help their respective economies face implications of COVID-19 pandemic.

⁵ Minister of Finance and Economy, Minister of Agriculture and Rural Development and Minister of Infrastructure and Energy joint orders

CONTEXT

Since the onset of the COVID-19 pandemic, international institutions have provided estimations on the impact of the pandemic, particularly on the economic growth of the countries, as well as the main problems they would face during the economic recovery.

While there is still no definitive way to exactly estimate what damage will be caused to the global economy by the COVID-19 pandemic, there is widespread consensus among economists that the effects will be severe, affecting almost all sectors of the economy. How countries will be affected will be determined by the level of economic development, particularly by its economic structure and dependence on foreign trade.

According to the International Monetary Fund (IMF), the COVID-19 pandemic is significantly increasing human costs, and the measures taken to protect life are seriously affecting economic activity. As a result, the world economy will shrink by 3% during 2020, more than

during the 2008-2009 financial crisis. If the pandemic weakens in the second half of the year and restrictive measures are off, supported by government aid, maybe the world economy would recover by 5.8% over 2021. Eurozone countries will experience a contraction even larger, around 7.5%, during 2020. *According to IMF forecasts, Greece and Italy, the Albanian main economic partners, will experience the deepest economic decline in Eurozone in 2020, respectively at 10% and 9.1%.*

Like most countries⁶, the Western Balkans region will also shrink economically. Hit first by the November 2019 strong earthquake and then by the COVID-19 pandemic, Albania will have to face double consequences. Estimations on its economic growth range from -5% according to the IMF⁷ and the WB⁸ to -9% according to EBRD⁹ forecasts.

Based on the estimates made for the impact on the economy of the powerful earthquake that hit Albania on 26 November 2019¹⁰, effects are equivalent to 6.4% of Gross Domestic Product (GDP) in damage and 1.1% of GDP in losses¹¹. In terms of losses, the *most affected economic sectors*

⁶ According to IMF WEO April 2020, more than 90% of the countries will experience negative economic growth.

⁷ WEO, IMF April 2020

⁸ RER, WB Spring 2020

⁹ REP, EBRD May 2020

¹⁰ Albania Post-Disaster Needs Assessment, February 2020

¹¹ Damage amounts to 26.4% of gross fixed capital formation

were tourism and real estate, but significant damage was also caused to education, health, public infrastructure, manufacturing, trade, and agriculture.

The € 160 million reconstruction package was expected to boost the short-term growth of the Albanian economy, mainly by giving a boost to construction and private sector spending, *but the spread of COVID-19 significantly reduced its expected recovery*. According to the latest report published by the WB, the Albanian economy will face a decline in supply due to the interruption of the global supply chain and a decline in labour supply as a result of the quarantine and social distancing measures. The uncertainty that accompanies the length and progression of pandemics can have additional effects as workers will lose their incomes, especially in the most affected sectors, such as *tourism, manufacturing, and trade in non-core products*.

According to the World Bank, the countries with the highest economic decline in the Western Balkans region will be Montenegro, Albania, and

Kosovo. *The main reason will be the high dependence of these countries on the tourism sector.*

Dealing with two consecutive emergencies within a short time, the Albanian government launched support packages for the economy¹². After the first phase of the emergency oriented on humanitarian needs after the earthquake, efforts focused on preparing a consolidated reconstruction program coordinated between the Government of Albania, donors, development partners, and international financial institutions. We also emphasise the opening of negotiations with the EU on the eve of the crisis.

Afterwards, the Albanian government approved two financial support packages for individuals and businesses affected by the COVID-19 pandemic, mainly consisting of budget expenditures, provision of state guarantees and deferral of payment of tax liabilities for specific categories of taxpayers. These measures were accompanied by decision-making regarding monetary and credit policy undertaken by the Bank of Albania.

¹² For more details, please refer to Annexes

ISSUES IDENTIFIED

In line with the above, and in an effort to identify the main issues and possible suggestions, the Secretariat analysed several international reports and identified some of the key findings regarding the impact of the COVID-19 pandemic on the Albanian economy.

1. MAIN ISSUES IDENTIFIED FROM INTERNATIONAL REPORTS

Overall, the assessments converge in terms of (i) *sectoral impact and employment*, (ii) *the unique challenges of the Albanian economy after the earthquake of 26 November 2019*, (iii) *the expected economic recension*, which relies mainly on trade exchanges and investments from European countries. *Production and the tourism sector are projected to be more affected by the spread of the pandemic, increasing unemployment in the country*

while the fiscal space for support remains limited. In its Regular Economic Report (Spring 2020), the World Bank noted that:

1. *Albanian economy will cope with difficulties due to job destruction* - The labour market in Albania is characterised by high self-employment and informality. The sensitivity of these jobs to the consequences of the COVID-19 pandemic will be very high.
2. *Albania's high dependence on the tourism sector* could have significant consequences in reducing revenues for this sector due to restrictions on people's movement.
3. Government assistance in these times of crisis is crucial for the economy, but *Albania has little fiscal space to provide the necessary financial support* to the economy due to its fiscal parameters, deficit, and public debt.

4. Although with solid capital and sufficient liquidity, the financial sector will *still be tested in this unprecedented situation, given that bad loans, although reduced, still remain high in Albania.*

The European Commission, in its spring projections, noted that:

1. *The high reliance of the Albanian economy on agriculture, family farming and hydropower production could be a support to minimise the economic contraction as a result of pandemics, as these will be the two least affected sectors.*
2. *Rising unemployment levels and high social insecurity will be the main contributors to reducing domestic consumption.*
3. *Deterioration of fiscal balances in the country.* The aftermath of the November 2019 earthquake, followed by government intervention in the face of the COVID-19 pandemic combined with forecasts of declining public revenues, will increase the public debt and worsen the country's fiscal deficit.

According to the European Bank for Reconstruction and Development report on Regional Economic Prospects,

1. *Albania's high dependence on tourism* will cause a decrease in revenues from this sector, directly affecting the country's economic growth
2. *Albania's high dependence on exports of semi-finished products with low added value, mainly with Italy, heavily affected by the pandemics,* will negatively affect the country's economy.
3. *Expectations for declining remittances in the country due to pandemics* will be another factor that will affect the economic downturn in the country.

2. SURVEY'S MAIN FINDINGS

In response to the extraordinary situation, the Secretariat of the Investment Council (SIC) in close cooperation with the Ministry of Finance and Economy (MFE), launched a survey on "Assessing the Impact of Consequences Derived from the COVID-19 Pandemic on the Activity of Business in Albania."

The survey's timing was unique, 28 March - 6 May 2020, and it aimed to collect initial perceptions on the impact of COVID-19 on business activity in Albania, according to specific sectors, company size, and employees' number.

Below are the main findings¹³:

- » *COVID-19 has affected each sector of the Albanian economy.* Tourism and services are expected to be largely affected by the pandemic. *Covid-19 forced almost half of the Albanian economy to shut down.* Among all economic sectors, tourism is most affected by a 75% shutdown. In contrast, agriculture continued to work in part or in full at 81%.
- » *COVID-19 has significantly reduced the expectations of companies on their annual turnover* - More than 80% of companies expect more than a 20 per cent reduction in annual turnover.
- » *COVID-19 made companies face uncommon challenges.* The main challenges facing companies during this unusual period are lack of customers, lack of liquidity, difficulty paying salaries, and compliance with tax payments. *Due to COVID-19, companies in Albania have encountered problems with their imports,* mainly from the EU countries. The industry is more dependent on imports, while the construction sector is less dependent. *Only 2% of*

¹³ Survey Findings to be published soon on IC Website

enterprises operating mainly in trade, industry, and services stated that they could completely switch from imports into the country's resources to ensure business continuity;

- » *Due to the COVID-19 pandemic, the classic work routine changed dramatically, and businesses were not prepared on how to react.* 37% of companies did not take any action to address the inability of employees to present themselves at work, while the rest of the companies used online work, annual leave, or even lay-offs.
- » *COVID-19 is a threat to business continuity.* Regardless of the sector or size, businesses estimate that the impact of COVID-19 on the economy will last up to a year. In an effort to ensure the continuity of their business, most companies state that they will use the accumulated income or will reduce costs, mainly by laying off employees or reducing production.
- » *An important survey finding is that COVID-19 confirmed that government support and collaboration are irreplaceable when dealing with unfamiliar situations to ensure business continuity.* The companies welcomed the financial plan launched by the Albanian government as an opportunity to ensure their continuity. Companies with a turnover of over ALL 14 million estimated that the postponement of loan payments would have the most positive impact; Meanwhile, businesses with a turnover of up to ALL 14 million estimated that financial support for employees will have a mitigating effect on them;
- » *COVID-19 influenced companies' perceptions on the effectiveness of online services.* 75% of companies stated that they used online services during closure due to COVID-19, mainly the service sector, tourism and industry. Also,

81% of them said that they would continue to use online services in the future. *Interestingly, 38% of companies stated that they would change their investment plans towards online services, mainly by investing in new technologies, regardless of their size.* It remains to be analysed and specified which online services are most important to the business in the future.

- » *COVID-19 confirmed that Albanian companies are seriously unprepared to deal with unforeseen situations.* 86% of companies stated that they do not have an approved emergency plan, regardless of the size or economic sector.

3. GOVERNMENT INTERVENTIONS IN THE WB AND CROATIA

In a comparative look with other countries in the Western Balkans and Croatia¹⁴, it turns out that the main pillars of government support measures are: (1) *fiscal measures and interventions*; (2) *employment protection*; (3) *financial/monetary support measures* and (4) *sectoral measures*.

Fiscal interventions - almost all governments have been active in providing measures that directly support enterprises by postponing the payment of taxes and fees (tax deferrals, social/health care contributions, profit tax prepayments, etc.). These are measures pure fiscal taken by almost all BP countries with some varying specifications.

Employment protection - the second pillar of measures is oriented to wage subsidies aimed at preserving jobs. The mechanisms used are from direct assistance to the categories of employees, subsidising contributions for enterprises, increasing salaries in the health sector, etc. Ac-

¹⁴ For more details on support packages refer to Annex 2

according to pillars (1) and (2), the main focus in the measures is small businesses and self-employed people.

Financial/monetary measures - measures in this pillar can be grouped into 2 categories: (1) guaranteeing liquidity (through state guarantees) and (2) measures to alleviate the burden of current business loans (through the facilitation of procedures and deferral of instalments payments).

Sectoral measures - Croatia seems to have sup-

ported a sectoral approach through a group of measures for agriculture. This is related to EU schemes/funds available only to EU countries¹⁵. Meanwhile, the government in Croatia focused on buying stocks of ready-made goods in agriculture and the agro-processing industry. Support for agriculture has also been provided by Northern Macedonia, which has dedicated the third package of anti-COVID-19 measures to agricultural support through the mobilisation of 76.1 million EUR¹⁶.

¹⁵ The European Commission has approved a scheme (approximately € 4 million) to support the fishing and aquaculture sector in Croatia. The scheme was approved in the framework of the Provisional State Aid Framework approved by the Commission on 19 March 2020, amended on 3 April 2020.

¹⁶ These include a) support for micro-enterprises and SMEs; b) direct support to green oil farmers, which includes about 50,000 farmers with a value of EUR 4.6 million; c) Support grape and vineyard processors with a value of EUR 3.5 million over a three-year period to stimulate the production of alcoholic disinfectants; d) long-term lending for livestock in support of farmers; e) Financing program for micro-agricultural companies worth EUR 3 million for processing and marketing equipment

SUGGESTIONS AND RECOMMENDATIONS

In the context of previous analyses and suggestions made by IC during the past 5 years, it is worth re-emphasising the following elements. They could create positive momentum and a competitive package compared to other countries of the region, as requested by business associations and chambers of commerce, and would converge with the ambitions for the adoption of the unified investment law within 2020.

- » The importance of formalising the economy (analysed by the IC since 2015) remains an important challenge for the country, especially for tourism, agriculture, services, etc., where informality is displayed in various typologies and a determining factor in underpinning fair competition. *Both crises caused by the earthquake and Covid-19 create premises for increased informality and make it difficult for the government to provide timely support to beneficiaries.*
- » Stabilisation of the fiscal legal and sub-le-

gal framework¹⁷. Frequent changes over the years, although in most cases have consisted of the provisioning of incentives and mitigation measures for specific categories of taxpayers, *have created many tax exemptions and fragmentations in rules and specific criteria applicable to particular types of taxpayers, which if not well-managed, can produce the counter effect in terms of formalising the economy.*

For their good governance, in short-term the following are required:

- » additional resources, an efficient, fast, non-bureaucratic and accountable administration;
- » transparency of sectoral incentives applicable to investors and stakeholders through the preparation of a systematic inventory (periodically updated).

¹⁷ This is especially related to tax procedures and relevant guidelines which have been amended more than 17 times whenever it has been deemed necessary to address an ad-hoc issue rather than integrally, by creating therefore inconsistencies in some cases between the law and these guidelines.

While in the medium term, it is suggested the substantial revision of laws such as law 9920/2008 “On tax procedures”, law 9632/2006 “On the local tax system” and especially the law 8438/1998 “On income tax” which has been an object of previous discussions and does not properly reflect the economic context of business and individuals.

We emphasise that the preparation of new laws in these areas would first enable a responsible tax system towards the economy’s needs for the formalisation of enterprises and individuals. On the other side, they would: (i) enable a greater coherence of rules with the business requirements and procedures requested by enterprises; (ii) avoid existing discrepancies with the secondary legislation, which makes it difficult the implementation of the rules into practice; (iii) further simplification of business-administration procedures in light of the fiscalization reform expected to be implemented from September and technological developments; (iv) as well as pave the way for reform in terms of income tax by establishing the equality and justice of the fiscal system at the core of the taxation of individuals and corporations, in terms of recognising deductible expenses in favour of individuals, income thresholds and the way they are taxed, extending the deadline for the carryforward of tax losses to businesses from 3 years to 5-7 years despite the initial amount of investment, by supporting as such the new “green-field” investments.

1. SUGGESTIONS BY IC MEMBERS AND PARTNERS ¹⁸

During April - May 2020, IC Secretariat held structured and intensive communication with IC members, highlighting their suggestions on the measures to be taken in the context of economic recovery after COVID-19.

Based on the Secretariat’s analysis, the proposed interventions converge in the following areas:

a. Drafting an encouraging policy for attracting foreign investment “Albania-The Gateway to the Balkans”, that will focus on:

- » *Creating a marketing strategy “Albania-The Gateway to the Balkans” (National Chamber of Diaspora) and an efficient and concrete package for the FDIs incentivising, possibly more attractive than other Western Balkans countries (BALFIN). For this, a progressive package of incentives to boost sustainable and long-term investments also coordinated with international organisations. Fiscal incentives through tax relief for 5 years can be made based on a minimum threshold of elements to investment – such as a \$1 million estimated investment and the creation of 50 new jobs in 2020-21 (AMCHAM).*
- » *Privatised industrial facilities - Design a list of all industrial facilities that have not yet been privatised and possibly attract foreign investors. To guarantee the proximity of these facilities, the necessary infrastructure with roads, energy, drinking water, transport and to promote them through various incentives for foreign investors and sectors of interest co-*

¹⁸ These suggestions will be consulted specifically in the coming months with government representatives in order to analyse the possibility of their adoption in policies and action plans.

- operating with business associations, AIDA, etc. (CONFINDUSTRIA).
- » *Areas with human potential - Develop an incentive plan to attract new investment in areas where there is human potential but a lack of jobs. Encouragement for investment attraction can be achieved by covering part of the transport costs to these areas, eliminating local taxes for new businesses in areas where unemployment is high, covering training costs for employees (CONFINDUSTRIA).*
- » *Shorten the procedures for making investments, i.e., number of steps and duration to finalise investments, aiming to increase competitiveness in the region (AMCHAM).*
- » *Coordination with diaspora and transparency of the public investment plans. To be considered encouraging policies for investments from the diaspora (coordinated with the public investments) (NATIONAL CHAMBER OF DIASPO-RA).*
- » *Boost the country’s economic integration with the world, becoming part of global value chains, to increase the provision of goods and services. This requires more and better managed public investment. Meanwhile, the country’s energy resilience should be enhanced, mainly through renewable energy investments, reducing the almost exclusive reliance of the economy on hydropower (EBRD).*
- » *Improvement of governance, focusing on resolving the problematic issues related to corruption, land ownership, and the private sector. Corporate and public governance should be enhanced to improve the business environment, reduce corruption, and ease access to land, thus contributing to more private sector investment (EBRD).*

- » *Resolving land ownership issues. Accelerate the resolving of land ownership issues in the priority areas. It is the right moment to offer more than only the “1 Euro- depreciated facility”. It is necessary to intervene in the cadastral registration of the property, as there are currently large areas of land that do not have an initial registration. Registration should be prioritised to serve the tourism sector. Inventory of state-owned properties and the creation of passports for these properties would facilitate the process of making state property available to investors (AIDA) (EBRD).*

b. Competitiveness of Albanian Products in Global Markets

- » *Incentivization of Exports and Made in Albania products, through an encouraging legal package for enterprises to become competitive in global markets (such as light processing industry, textile factories, shoes), through subsidies to these sectors (AMCHAM).*
- » *Promoting rapid economic cooperation with Kosovo (Might be considered granting Albanian citizenship to Albanians in Kosovo) (FIAA).*
- » *Albania should be promoted as an attractive investment destination and for having processing industry capabilities very close to the EU countries’ markets, to compete with China or other Asian countries (FIAA). Albania’s processing capacities are unknown to the foreign market that is currently seeking diversification of the supply chain, so Albanian companies need to be incentivised to be more globally exposed through assistance with the development of websites, marketing, participation in international fairs, etc. (AMCHAM).*
- » *Support in terms of increasing processing capac-*

ity, standardisation, and quality control as per European standards, to improve the export of traditional and bio or natural products (CONFINDUSTRIA). *Subsidy in certification and consulting for products intended for the EU market*, especially food (certification laboratories for bioproducts) (DIHA).

- » *Promote Albanian light industry exports by reducing customs barriers to imports of raw materials.* (Concrete case, in January 2019, a customs duty was imposed on plastic products.) (DIHA)
- » *Creating a fund of 100 million EUR to support companies with investment potential and the export market.* This fund in the form of a grant of up to EUR 20,000 for companies, to be provided for the implementation of standards, certification of products and services, for increasing production and employment capacities, for marketing, innovation, training, digitalisation, etc., which will constitute the basis of the criteria for obtaining this grant from companies (CCITR).
- » *Exporting businesses should be assisted to close the entire production cycle within the country* (AIDA).
- » *Establishing links between SMEs - technology institutes and research and development institutions* (AIDA).
- » *To develop poor or less developed areas, taxes and fees should be reduced, or subsidised policies should be applied* - various funds such as IPARD or others. (1) Re-formulation of grant schemes for business; (2) Reduction of the fiscal burden for some sectors; (3) Free zones or TEDAs should be put into operation while to be also reviewed TEDA's incentives (AIDA).

c. Informality

- » *A long-term strategy should be built to reduce informality* to avoid unfair competition and promote e-payments, for minimising cash payments and at the same time reduce informality (AMCHAM/National Chamber of the Diaspora/BALFIN).
- » *Ensure transparency and sustainability to measures taken to assist the private sector, particularly SMEs*, minimising the informal economy using formalisation incentives (EU).
- » *Informality is one of the main issues that reduces public revenues and contributes to low investment* (EBRD).

d. Active policies post COVID-19 with a focus on training the workforce, being an important factor for promoting sustainable investment

- » *Timely harmonisation of the labour needs in most priority sectors with stimulating measures for the orientation of the vocational education for young people and the training of the workforce*, as there are shortcomings in the quantity and quality of labour (CONFINDUSTRIA/AMCHAM/EBRD/WB/AIDA).
- » *Developing policies to attract back home Albanian professionals residing outside the country* (AMCHAM).
- » *Organising 1-week – 3-month training courses for workers in agribusiness* (Agrotek shpk).
- » *Incentivise multilingual vocational education and health care (medicine/nursing)* (FIAA).
- » *Short-term measures to preserve the employment rate using short-term employment schemes*, and once the COVID-19 pandemic is over, active labour market policies should be adopted, with a particular focus on training and skills development (EU).

- » *Policies to increase entrepreneurial skills and, more specifically, financial ones. Policies supporting investment support services and exports* will improve very low levels of entrepreneurial skills and financial knowledge (EU) and *Financial Support for companies to cooperate with training companies and develop training programs for employees.* Also, financial support to formalise employment and increase job security (EBRD).

e. Liquidity challenge and support options

- » *Subsidised loans for exporting companies to increase their export capacity* (AMCHAM).
- » *Establishment of a 500 million EUR guarantee fund to credit priority economic sectors*, set up with government and donor contributions to facilitate credit access for businesses operating in the tourism sector, manufacturing, agriculture, services, transport and specifically for women entrepreneurs, etc. The guarantee fund, operating for up to 5 years, will create lending conditions, for a grace period of up to 1 year, with interest rates of 0-1% (CCITR).
- » *Issuance of bonds for large companies/corporations to provide significant monetary resources.* During a crisis, the possibility of securing a lower cost of their interest is considered by applying tax cuts for bonds with a maturity period over 5 years (CCITR).
- » *To incentivise businesses that seek funding from the capital market by listing them on the Stock Exchange.* Such a stimulus would relieve the government from the business pressure for funds and orient them towards the market mechanism through the sale of shares or corporate borrowing bonds. Incentives can be legal (compulsory as in some countries in

the region) or fiscal (reduction of profit tax for 3-5 years). Such a measure would combat tax evasion, enable businesses to access long-term funds, and develop the capital market (CCITR)

- » *Establishment of a development bank with capital injected by the government, other investments and with the monetary measure obtained from the application of a full amnesty of money.* This bank can lend to businesses in priority sectors by purchasing corporate bonds or guaranteeing the business's issuance of these bonds. The goal will be to run the economy and finance strategic sectors (CCITR)
- » *Total amnesty for undeclared money for a certain period for Albanian citizens.* According to the conditions set out in the relevant proposals, the requirement for accepting the amnesty will be the use of money that will be legalised in government bonds and development banks. The purpose of the amnesty is to provide low-cost public funding to deal with emergencies and provide funding for economic recovery. For the business, a cost of about 15% of the declared value may be applied for undeclared warehouse balances, and an additional cost of about 7% for other cash, credit and equity balances; while for the individual, this penalty can be 20%-30% (CCITR).
- » *To be granted to all businesses, a restructuring of all loans based on the requirements for a period of up to 5 years without penalties and without increasing interest rates for businesses and individuals' loans* (UCCIAL).
- » *End legal barriers to the execution of collateral of bad loans, given the risk of increasing these loans during the COVID-19 period* (EUD).
- » *It will be beneficial for exporters and firms in-*

egrated into supply chains to also benefit from appropriate export financing mechanisms, factorisation and credit insurance mechanisms. Additional credit lines can help mitigate economic outcomes and improve access to finance. Accelerated capital investment devaluation (WB)

- » *Building an expansionary fiscal policy that targets the extension of existing industries through the activation of customised banking products, rather than generalist ones, and that are unlikely to be used in practice.* To this end, needs to be clarified, (a) the purpose of the instrument, (b) its suitability with the gap it intends to fill, and (c) the expected rate of use must be precisely determined. On the contrary, if these conditions are not fulfilled - the instrument does not bring any added value to improving the financial access of businesses in need and suitable for this access (BOA).

f. Fiscal reform with a focus on competitiveness, stability, capital inflows, transparency in the use of public funds

- » Develop a fiscal reform that promotes competitiveness focused on a) tax reduction to become competitive among countries in the region, b) this measure should last at least 5 years so that businesses can plan long-term investments, c) lower tax rate for strategic investments. Other ways may be used to encourage taxpayers who prepay annual taxes by deducting a certain percentage of the taxes. To be considered deductible expenses, public donations, schools, hospitals, etc. (AMCHAM/DIHA/National Chamber of Diaspora).
- » *Adopting the medium-term income strategy as soon as possible, with a particular focus on “tax*

expenditures”; setting time limits on tax relief measures for the COVID-19 period, and timely VAT refund (EUD).

- » *Transparent procedures on assessing and approving all investments involving public funds*; strengthening institutional capacity to monitor and assess PPP fiscal risk, concession contracts, and state-owned companies (EUD).
- » *Orientation of fiscal support from emergency measures to temporary job creation programs*: a) Facilitating the participation of SMEs in public procurement, b) public works with an emphasis on SMEs, c) building SME support programs focused on promoting productivity growth, d) applying tax deductions up to 80% of costs in these areas up to a maximum ceiling (limit may be a company’s turnover/number of employees) (WB).
- » Developing and implementing an escalating tax system based on property and balance sheet (BoA).
- » *Complete performance review for all concession agreements for national assets given in concession*. Detailed verifications to prove that the conditions of the proposed business plan have been met or not. Verifications for improvement in terms of increasing jobs and increasing public benefit (Confindustria).

g. A legal framework that guarantees security to investors guarantees fair competition and stimulate innovation - preconditions for any successive sectoral reform

- » *Accelerate Justice Reform to guarantee security for foreign investors and contracts enforcement*. Implementation of legislative acts to avoid monopolies and encourage foreign compa-

nies to participate in the procurement process in Albanian markets (AMCHAM).

- » *Improving legislation on public procurement* to guarantee fair competition, fight against corruption and guarantee fair competitiveness practices (AMCHAM).
- » *Improving legal and institutional framework in support of innovation, quality, infrastructure and certification* with the ultimate goal of increasing the capacity of export companies (WB).
- » *Insolvency law, despite improvements, still has clearly undefined terms that leave room for misinterpretation among creditors, courts and business administrators*. Furthermore, this law must be accompanied by bylaws, regulations and implementation manuals as soon as possible. Bankruptcy administrators should be selected based on meritocracy and trained rigorously (BKT).

h. Other

- » *Establishment of a group of experts to develop a recovery strategy* as well as an agency that will control the internal market and enforce game rules (National Chamber of Diaspora);
- » *Review the possibility to reduce the number of employees in public administration in the next 3 to 5 years*, based on their work performance, since (a) it is inflated; (b) we pay approximately 1.5 wages for a single job due to unfair lay-offs; (c) considering that many services are now provided online (CONFINDUSTRIA).
- » *Improving social assistance* and taking effective measures to increase social services by improving municipal skills in identifying social services needs and preparing social care plans (EUD).
- » *Increasing institutional capacities in research*

and development; increasing public spending and support policies (EUD).

2. RECOMMENDATIONS ON A SECTORAL BASIS

Based on the suggestions of the survey respondents, members of IC, review of the above reports and consultations with several responsible institutions in the framework of working groups on sectoral policies for the recovery of the economy, we suggest sectoral interventions to be prioritised as follows:

a. Agro-processing sector:

1. To optimise the potential that exists in the agricultural sector, agro-processing (increasing figures of fruit/vegetable exports, medicinal plants, etc.) as well as agritourism, *to prepare an in-depth study aimed at giving specific recommendations that stimulate domestic production with the objective “import substitution”*. More specifically, the product of the study will be the identification of at least 3 specific products that are produced and have the potential to be processed locally at all stages of the chain, and perhaps even to be branded as an Albanian brand and exported to global markets (*short term*). For this, within the technical working group MFE & MARD to work with experts and analyse as follows:

- a. Yearly exports trends, data on ARDA investments, exemptions from customs duties on machinery and equipment, sector support from IPARD, national schemes, local schemes, AIDA’s funds, etc.
- b. Inventory of projects (including forms of support such as guarantees, etc.) and studies in this regard as well as funds provided by the (central and local) gov-

- ernment and donors.
- c. To show graphically and transparently the steps to be followed starting from the production, transport, collection and marketing of products as well as the responsible structures.
 - d. List of procedures easily accessible to a local or foreign investor interested in investing in agro-processing or production.
 - e. Information tailored for these products regarding food safety and access to certifications such as GAP (especially for bio or organic products).
 - f. Potential to promote local processing, including livestock products and fishing through TEDAs, to switch to industrial production as well as investments in refrigeration rooms, to optimise the chain, etc.
 - g. any other relevant information for achieving the objective of the working group
2. *Oil subsidy for the farmer.* Preparing a cost-benefit analysis for the state budget and the farmer in relation to subsidising the price of oil. The argument for support in this regard is related to (i) the use of this instrument to encourage the formalisation of farmers, (ii) supporting the investment of farmers, (iii) fishing example where the use of this instrument has yielded results in formalising and increasing processing of fish and on the other hand budget expenditures have been minimal, (iv) almost all countries in the region replicate such an instrument. *(short term)*
 3. Timely update and transparency regarding the completion of the agricultural land map and clarification of ownership in areas with greater economic potential, where production and impact are greater (e.g. Fieri, Lushnja and the southeast of the country, the area of Korça). *(middle term)*
 4. Referring to the very strict requirements that IPARD schemes have, the problem remains the classification of all farms to benefit from them, so *the negotiation by the institutions responsible for the inclusion of all farmers in these schemes remains a challenge and task to be followed with priority to negotiations* for IPARD3. *(long term)*
 5. Monitoring and coordination between MARD and DPD, and supervision of agricultural pharmacies in order *to limit the uncontrolled and dangerous use of pesticides and to simultaneously deter informality.* *(short term)*
 6. Analysis of the forms of organisation of farmers so that access to finance can be facilitated in some categories. BoA and representatives from international development partners, MFE and MARD to analyse the problems to increase the loan portfolio in this sector and to consider lending policies and to find innovative forms of financing for this sector that is considered risky. *(middle term)*
- b. ICT & Innovation – momentum for "Albania Digital Solidarity initiative"**
- Albania is considered a moderately prepared country in the area of information technology and audio-visual media, according to the "EC Report (May 2019), Chapter 10". *COVID-19 highlighted the need to diversify the way services are provided and identified the lack of emergency plans by businesses, so in the post-COVID-19 situation, IC members consider it necessary to invest in this sector that interconnects and significantly affects other priority sectors.*

To maximise the potential of assessing investment potentials in ICT and Innovation, it is suggested:

1. *Prioritise digitalisation and accelerate national broadband coverage with broadband and secure Cloud platform* - initiate intervention for those areas of the country where we currently have a high presence of SMEs or the ones with a considerable population (especially of young people), as they carry the potential to improve the productivity and efficiency of industries and SMEs. To achieve this, it is necessary *to start preparing regional maps to give the level of concentration of SMEs to optimise investments in infrastructure and increase the competitiveness of these businesses* *(short term)*.
 2. *Accuracy and harmonisation of national statistical data referring to the level of use and accessibility in ICT by businesses.* The data should be elaborated and monitored based on clear indicators such as services used by businesses, areas covered, coverage speed, etc. and published so that businesses/investors adopt their investment plans. Furthermore, *monitoring the quality of service (AKEP) for a high-speed broadband internet would enable quality services* such as businesses/citizens and schools, universities, health centres, financial institutions, etc. *(long term)*.
 3. *Coordinate models (e.g., Kosovo) of government-business-international partnership cooperation to finance investment costs in the sector* as it remains a challenge for the state budget after the earthquake and COVID-19. Further consolidated support in terms of technological developments and innovation through grants or subsidy schemes *(long term)*.
 4. Increasing the access of SMEs to ICT through *the drafting of specific government policies with a focus on the specific needs of SMEs.* Simplification and better information coordination on European projects (possibly focus on a single portal) with the needs of local SMEs - to increase the level of information, timely accessibility, and the quality of business applications in EU funds agency *(short term)*.
 5. *Stimulating the population's exposure to ICT potentials through collaborations with businesses to subsidise the costs of digital devices* such as laptops, smartphones, etc., as the first devices with which people access the internet *(short term)*.
 6. Aiming for improved quality skills in this sector, free online training packages and relevant certifications in digital training, entrepreneurship, financial education, youth, women, etc. One form of incentive could be the creation of an online government platform (e.g., Albania Digital Solidarity) listing companies that offer such online services at (1) reduced prices or (2) for free. (e.g., Poland/Italy) *(short term)*.
 7. *Utilising the potentials offered by free economic zones (TEDAs) as an opportunity where companies can be placed both for training and for the development of technologies related to the ICT sector* *(long term)*.
 8. *Stimulation of e-commerce - its legal formalisation, as a potential model of providing sustainable services/products* *(long-term)*.
- c. Tourism**
- IC members' proposals on the sector:*
1. Diversification of the tourist offer, *through integration in wider (global) tourist chains*, is associated with reducing the level of informality in the sector. From a strategic point of view, the dependence of tourism revenues on other sectors should be reduced, increasing

the added value of tourist services provided, creating diversified destinations/packages in addition to the sea and the sun, extending this way also the tourist season (*medium-term*).

2. *Incentivization of the sector towards the extension of the tourist season*, e.g. through the provision of subsidies in the amount of 10-20 Euros a day/tourist for holidays longer than 3 days, during April-May and September-October. This would increase the tourist flow in non-peak periods, which enables the engagement of the employees of this sector for a longer season (*short term*).
3. *Quality of service in tourism*. More than expansion, the sector needs to raise the standard and quality of the product it offers, expanding the package. *For this, a regulatory requirement by the licensing state agency, mandatory to allow entry into the industry, would probably be effective*. The state agency should play the role of trainer, informant and coordinator at the national level (*short term*).
4. Special priority and timely harmonisation, transparency and *consultation of local and national plans for public investment in infrastructure in the tourism sector*. Businesses

need to know what will be done and when it will be done in national public investment strategies (water, sewerage, energy, etc.). For example, if it is a national priority as a sector, hotel construction can begin when the tourism area itself has access to water and electricity to afford the new investment in capacity. This also helps the business to advance its feasibility and investment plans. More specifically, public investment should aim at a) *Shortening travel time to tourist destinations*, especially sea routes, through major infrastructure projects (highways/airports); b) *building a quality system of hotel schools*, especially for coastal areas with flexible curricula that provide a quality long-term hotel service for the preparation of young people to serve in this industry; c) *creation of regional plans* for specific tourist areas with a focus on maintaining ecological and environmental standards (*middle term*).

5. *Implementation of the "travel bubble" initiative, which consists of opening the borders between the countries of the Western Balkans, excluding the obligation of a 14-day quarantine*, which would be an incentive for the tourism sector at current situation (*short term*).

ANNEX 1

SUPPORT MEASURES OF THE ALBANIAN GOVERNMENT

In 2019, Albania was hit by 2 major earthquakes, respectively on 21 September and 26 November 2020. These earthquakes, especially the one on 26 November, had a significant devastating impact on civil, public and private physical infrastructure and the loss of human lives (51 lost lives). After emerging the first phase of crisis focused on the immediate humanitarian needs, efforts were oriented on preparing a consolidated and coordinated reconstruction program between the Government of Albania and donors, development partners, international financial institutions.

One of the first measures aimed at preparing the reconstruction program was the establishment of the Ministry of Reconstruction (13 December 2019) and the start of work to identify the damage and the economic and social impact caused in the country. For this purpose, it was prepared

*"Albania Post-Disaster Needs Assessment"*¹⁹, based on a detailed analysis that started on 16 December 2019 and ended on 30 January 2020. The analysis estimated that the financial amount needed for recovery from the earthquake situation was in total 1,076 million Euros, related to 9 sectors²⁰. The report was presented on 17 February 2020 at the Donors' Conference organised in cooperation with the European Union, in which countries and international institutions/organisations committed to a financial support of 1.15 billion Euros, of which 300 million grants and the rest loans to support concrete reconstruction projects.

The dynamics for establishing the legal and

¹⁹ PDNA - The detailed report prepared with the cooperation of the Government of Albania, the European Union, the United Nations agencies and World Bank.

²⁰ Pages 97-101 of PDNA.

sub-legal framework of the procedures related to the reconstruction have been quite large²¹. The main taken measures are summarised below:

1. Determining the rules for the functioning of the bodies responsible for rehabilitation and reconstruction; establishment of the State Reconstruction Commission; rules of administration, use, and transparency of funds and procurement procedures.
2. Defining rules and procedures for benefiting from the reconstruction grant program and model projects.
3. Conditions and procedures for expropriation and/or exchange of property, in the public interest, in the function of the reconstruction process.
4. Announcing of the 26 new development areas.

Meanwhile, to address the emerging cases, a series of fiscal measures and incentives were taken. More specifically:

- » VAT exemptions for vehicles and equipment used to rebuild disaster-affected areas. This exception is valid in cases and for the duration of the state of the natural disaster²².
- » Increasing the level of the deductible expenses from 3% to 8% for tax purposes, for monetary donations made by businesses, and for other donations in the frame of the state of natural disaster made in the form of real estate. This incentive is valid for the period of “natural disaster situation”, enabling the mobilisation of monetary

21 Normative act no.9 dated 16.12.2019 “On the Resolution of the Natural Disaster Consequences”, DCM no.5 and no.7 dated 06.01.2020 etc.

22 Normative act no.4 dated 30.11.2019 “For some amendments and additions to the law no.92/2014 “On VAT in the Republic of Albania”.

support immediately by the private sector. Deductible expenses in the amount of 8% are obtained only if the donation will be addressed to the treasury accounts made available by MFE²³.

- » Donation of 17 apartments owned by the Municipality of Tirana for the families of the victims of the November earthquake²⁴.
- » Special financial treatment for the survivors of families with the largest losses in people from the November earthquake and special pension for retired citizens who have lost relatives from the earthquake²⁵.
- » Exemption from the tax payment *on infrastructure impact* of investments related to the reconstruction, repair or restoration of buildings intended for residential purposes, damaged as a result of natural disasters, according to the definition given in the legislation in force for civil protection. Also, from payment of this tax are excluded investments within the reconstruction programs, according to the provisions of the law, for resolution of the consequences of the natural disaster²⁶.

The government has adopted two support packages for people and businesses affected by the COVID-19 pandemic consisting of budget spending, sovereign guarantees and tax deferrals for some categories of taxpayers.

Financial package 1 was launched on 19 March 2020, and it envisaged measures focused chiefly on individuals and small businesses affected by the lockdown. The package

23 Normative act no.5 date 30.11.2019 “For an addition to the law no.8438 date 28.12.1998 “On income tax” as amended.

24 Normative act no.6 date 30.11.2019 “For donation of apartments to the families of the victims of the earthquake date 26.11.2019”.

25 Normative act no.7 date 30.11.2019 “For an addition to the law no.7703 date 11.05.1993 “For social insurances in the Republic of Albania” as amended.

26 Added with the Normative act no.3 date 02.10.2019 in the law no.9632 date 30.10.2006 “On local taxes system”.

provided support measures of ALL 23 billion (1.4 per cent of GDP) through a combination of spending reallocations, spending increases and sovereign guarantees to support affected businesses²⁷. The main features of the package.

1. 6.5 billion ALL for the support of small businesses/self-employed that are forced to close activities due to the COVID-19 pandemic by paying the minimum salaries (up to two in the case of family businesses with unpaid family members), doubling the unemployment benefits and social welfare assistance;
2. 2 billion ALL of the defence spending reallocated toward humanitarian relief for the most vulnerable;
3. sovereign guarantee fund of 11 billion ALL (0.6 per cent of GDP) for companies to access overdrafts in the banking system to pay wages for their employees for up to 3 months with an interest rate capped at 2.85 per cent for the maturity of up to 2 years;

Financial package 2 was launched on 13 April 2020 and contained measures for the support of businesses categories that were not subject of the immediate support provided by fiscal package 1. The main features of the package:

1. 7 billion ALL fund for a one-off transfer of Lek 40,000 to employees of small businesses affected by the pandemic not covered in the first package, employees of large businesses laid off due to the pandemic, and employees in the tourism sector;
2. tax deferral measures allowing all companies (except banks, telecommunication, public enterprises and companies in the supply chain of essential goods) to defer payment of profit tax until after September. Tourism, active processing and call

27 Data as analysed and reported by IMF

centres – as well as small businesses with a turnover of at least 14 million – shall not pay the advance tax on income instalments for 2020;

3. sovereign guarantee of 15 billion ALL (0.9 per cent of GDP) to provide loans for working capital and investments for all sectors. This instrument shares risk with banks, and the government covers 60% of the principal of each loan and provides for repayment terms up to 5 years. Loans to be disbursed shall also contain the feature of 6 months grace period.

Additionally to the above, other important measures were adopted, such as:

- » Since April, ministers and lawmakers have received half of their salaries for the next three months, with the savings going to the anti-COVID-19 social support fund. Such decisions have been endorsed by other institutions such as the Supervisory Council of BoA, AMF, etc.
- » Suspension of four PPP contracts and public procurement procedures.
- » BoA and GoA ordered second-tier banks to postpone for a 3-month period terms instalments payment interest from the private sector.
- » Bank of Albania Supervisory Council:
 1. suspended dividend distribution by the banks until the end of June 2020 for (a) the accumulated profit carried forward from previous periods, (b) profits realised in 2019, and (c) the profit that will be realised during the first half of 2020;
 2. starting from 10 April 2020, it waived the commissions for transfers in local currency and fees for participants in AIPS and AECH payment systems operated by the Bank of Albania. This measure urges the use of e-banking services and aims to reduce the number of people requiring services in bank premises.

Periodic and/or consolidated information on the fiscal, macro-financial or institutional measures is published in the IC website's dedicated window <https://www.investment.com.al/covid-19/>.

Albania is still under the state of natural catastrophe until 23 June 2020, which enables the government to use extended powers.

The November earthquake and the ongoing global outbreak of COVID-19 have caused significant losses and disruptions to Albania's economy. To address Albania's, need to balance urgent payments, the IMF approved US\$190.5 million (Euro 174 million) financial assistance under the Rapid Financing Instrument.

ANNEX 2

SUPPORT MEASURES OF WESTERN BALKANS AND CROATIA

D **DISCLAIMER:** This matrix contains and structures updated information obtained from reports of IMF, EBRD, OECD, KPMG, Deloitte and other reputable sources of information, as well as from national legislation applicable in the respective

jurisdictions. The information contained in this Summary is not exhaustive and does not replace the professional assistance or counselling you may need or the appropriate institutions. IC Secretariat reserves the right to edit it accordingly if any changes arise.

FISCAL

Country	Measures
Albania	<p>he government has adopted two support packages for people and businesses affected by the COVID-19 pandemic of a combined size of Lek 45 billion (2.8 per cent of GDP), consisting of budget spending, sovereign guarantees and tax deferrals.</p> <p>Package 1: support measures of Lek 23bn (1.4 per cent of GDP) through a combination of spending reallocations, spending increases and sovereign guarantees to support affected businesses. (1) additional funding for the health sector in the amount of Lek 3.5 billion; (2) Lek 6.5bn for the support of small businesses/self-employed that are forced to close activities due to the COVID-19 pandemic by paying them minimum salaries (up to two in the case of family businesses with unpaid family members), doubling of the unemployment benefits and social assistance layouts; (3) Lek 2bn of defence spending reallocated toward humanitarian relief for the most vulnerable; (4) Lek 11bn (0.6 per cent of GDP) sovereign guarantee fund for companies to access overdrafts in the banking system to pay wages for their employees for up to 3 months with an interest rate capped at 2.85 per cent for a maturity of up to 2 years; (5) As of April, cabinet ministers and lawmakers will receive half of their salaries for the next three months with the savings going to the Anti-Covid 19 social support fund.</p> <p>Package 2: (1) Lek 7bn (0.4 per cent of GDP) fund to pay for a one-off transfer of Lek 40,000 to employees of small businesses affected by the pandemic not covered in the first package, employees of large businesses laid off due to the pandemic, and employees in the tourism sector; (2) tax deferral measures allowing all companies (except banks, telecommunication, public enterprises and companies in the chain of supply of essential goods) to defer payment of profit tax until after September. Tourism, active processing and call centres – as well as small businesses with a turnover of Lk14m or less – shall not pay the tax on income advance instalments for 2020;(3) a sovereign guarantee of Lek 15 billion (0.9 per cent of GDP) to provide loans for working capital and investments for all sectors. This is an instrument that shares risk with banks, covering a percentage of the principal of each loan and repayment terms up to 5 years. Loans contains also the feature of 6 months grace period.</p>
Kosovo	<p>Tax measures focused on: (1) allocation of €6 million to the health ministry; (2) deferrals for corporate income and personal income taxes, and VAT; (3) advancing payments for social assistance schemes by an additional one month's amount (from one month to two months) to support families in need; (4) removal of VAT on imports of wheat and flour; (5) deferral of public utility payments until the end of April. In addition, the fiscal package in the amount of 170 million euro (2.5 percent of GDP) was adopted by the government.</p> <p>(1) Monthly salaries coverage will be covered in the amount of EUR 170 per employee for the period of April-May 2020. The total amount of this measure is EUR 41 million. In addition to the salaries covered, the government will also pay the related pension contributions for the period of April-May 2020, at the total amount of EUR 8 mln;</p> <p>(2) Rental subsidy for small and medium-sized enterprises up 50% of the monthly rentals, for the period of April-May 2020, at the total amount of EUR 12 mln.</p>

North Macedonia

Package 1- (0.2 per cent of GDP) to help address firms' liquidity problems and protect jobs, targeted to affected sectors such as transport, hotel and restaurants for three months starting in April. The measures include (1) a subsidy on social security contributions for firms that maintain employment; (2) postponement of corporate income tax payments by suspending obligations to prepay based on last year's income, and (3) direct financial assistance to firms from the Development Bank, offering loans at zero interest rate.

Package 2- (about 1 per cent of GDP). (1) A wage subsidy equal to the minimum wage to affected companies to help them maintain jobs. (2) Vulnerable households who were part of the informal economy and lost their income will receive financial support. (3) Additional funding will be made available from the Development Bank to commercial banks at favourable terms. (4) The government has also implemented price controls on basic food products, medicines, and disinfection products and abolished the import duty on medical supplies.

Package 3- (1) As part of the third package of measures, the government plans to distribute payment cards credited with denar 3,000 and denar 6,000 vouchers to stimulate domestic tourism by the poorest households. The measure will affect about 100,000 citizens from the poorest households, i.e. earning less than denar 15,000 per month (the minimum wage is denar 14,500 per month). The voucher will be used in domestic hotels and other accommodation facilities, while the payment card will encourage the purchase of domestic tourism products and services. (2) The third package of measures supporting agriculture will mobilise up to EUR 76.1 million. It includes support to micro-enterprises and SMEs; direct support to green oil farmers. The measure will cover 50,000 farmers and is worth EUR 4.6 million; Support to grape processors and wineries with EUR 3.5 million over three years to stimulate alcoholic distillate production that will be used by domestic chemical companies to produce disinfectants; Long-term lease of pastures to support cattle breeders; and a Program for financing micro-agricultural companies in the amount of EUR 3 million for processing equipment and marketing.

Serbia

Fiscal measures (6.5 per cent of GDP) focused on: (1) 10 per cent wage increase for the public healthcare sector (RSD 13bn) and increased healthcare spending (about RSD 26bn); (2) one-off payment to all pensioners (RSD 7bn); (3) universal cash transfer of EUR 100 to each citizen over 18 years old (about RSD 65bn); (4) three-month deferment of labour taxes and social security contributions for all private companies, to be repaid in 24 instalments starting from 2021 (RSD 100bn); (5) deferment corporate income tax advance payment during the second quarter of 2020 (RSD 21bn); and (6) wage subsidies, including payment of minimum wages for all SME employees and entrepreneurs for three months (RSD 93bn) and payment of 50 per cent of the net minimum wage for three months for employees in large private sector companies and for employees who are currently not working (RSD 4bn). (7) 3-month moratorium on enforcement and interests on tax debt under rescheduling agreements and 10 percentage points reduction of the interest rate on the tax debt. (8) A state guarantee scheme for bank loans to SMEs has been approved (RSD 240bn), as well new loans to SMEs from the Development Fund (RSD 24bn).

Bosnia & Herzegovina

(1) FBiH measures subsidised contributions and taxes and pay minimum wages for all employees of the companies impacted by Covid-19. (2) Rep. Serbska decided to cover PIT and SSC for about 40,000 workers in the sectors closed by the government decision from March to May (KM 50 million, 0.15 per cent of GDP). The RS also announced that the government will pay minimum salaries for all employees in these sectors in April (KM 53 million, 0.16 per cent of GDP) and is planning to increase the transfers to unemployment funds (KM 25 million, 0.08 per cent of GDP).

Montenegro	Package 1: (1) the removal of the excise on medical alcohol sold in pharmacies; (2) the delay of tax payments and social security contributions; (3) the creation of a new Investment Development Fund (IRF) credit line of EUR 120 million to improve the liquidity of entrepreneurs; (4) the deferral of lease payments for state-owned real estate; (5) advance payments to contractors for capital projects; (6) one-off financial assistance to low-income pensioners and social welfare beneficiaries in the amount of EUR 50 each (EUR 1 million has been allocated); (7) an increase in the March wages of healthcare workers by up to 15 per cent (EUR 0.5 million has been allocated). Package 2: at the amount of EUR 75 million package (with a net impact of EUR 40 million) includes: (1) subsidies in April and May of 70 percent of the minimum wage for employees in sectors that are closed because of the pandemic, employees who are unable to work due to childcare for children aged under 11, or people who have to be self-isolated and quarantined; (2) a subsidy of 50 percent of the minimum wage for employees in sectors at risk due to the pandemic-related lockdown; (3) a subsidy of 70 percent of the gross minimum wage of newly employed workers in SMEs for six months if these workers are registered as unemployed; (4) state bodies and state-owned companies will impose a six-month moratorium on the enforcement of claims for companies that are not operating due to the pandemic; (5) energy firms will exempt the fixed portion of electricity bills for businesses that have stopped operating due to the pandemic-related lockdown; (6) the state utility will double its electricity subsidies for vulnerable households; (7) assistance to the agriculture and fisheries sector, including one-off assistance to fishermen and payments for the contributions of insured agricultural workers; and (8) one-time assistance of EUR 50 to all persons recorded as unemployed in the Employment Agency of Montenegro and who did not receive any compensation.
Croatia	Fiscal measures: (1) deferment of public obligations, free of interest for three months, which can be extended by additional three months if necessary; (2) temporary suspension of payments of selected parafiscal charges; interest-free loans to local governments, the Croatian Health Insurance Institute, and the Croatian Pension Insurance Institute to cover the deferred payments; (3) subsidisation of net minimum wages for three months to preserve jobs, which could be extended for another three months; (4) early refund of taxes for individuals; (5) an increase of the subsidisation of the net minimum wage; (6) tax obligations of companies to be reduced or written-off depending on their turnover and loss; (7) VAT payments will not be due until payment is received from customers and the deadline for the 2019 financial reports will be extended to 30 June.

SECTORAL

Country	Measures
Albania	
Kosovo	(1) Financial liquidity support will be extended to microenterprises and self-employed at the amount of EUR 10 thousand for a maximum period of 24 months, which measure amounts in a total of EUR 15 million. (2) Monthly salaries coverage of EUR 130 will be awarded for the first two months to any newly hired employee during the COVID-19 situation with a defined term contract of at least one year. The total coverage amounts to EUR 6 million. (3) Financial support to exporters after the termination of the COVID-19 situation will be at the total amount of EUR 10 million. (4) Support for grants and governmental institutions- A total amount of EUR 20 million is approved to increase the budget for grants and subsidies to the Ministry of Agriculture, Forestry and Rural Development, Ministry of Culture, Youth and Sports and municipalities affected by the pandemic situation.
North Macedonia	(1) Extension of instalment payments; (2) A total of EUR 5.5 million will be granted as interest-free loans to companies conducting business activates in the sectors most affected by COVID-19.
Serbia	
Bosnia & Herzegovina	The FBiH support the economy through: (1) setting up a special fund to stabilise the economy(KM 500 million, 1.5 per cent of GDP); and (2) establishing a guarantee fund at the Development Bank (up to KM 500 million, 1.5 per cent of GDP) which will be served to maintain and improve the liquidity of companies. The RS is also developing a credit guarantee scheme.
Montenegro	
Croatia	(1) Beneficiaries of some EU Structural and Investment Funds will be able to receive larger advance payments. Part of the EU funds envelope has been reallocated to microloans; a new credit line was introduced, accompanied by measures to facilitate faster disbursements of loans with lower interest rates and larger partial risk guarantees. (2) The government has also resorted to purchasing unsold stocks of finished goods in agriculture, the food processing industry, medical equipment, and similar strategic goods. (3) Financing of temporary fishing suspension with prior approval of the European Commission. (4) Assistance to the agricultural sector due to traffic restrictions and increased manipulation costs. (5) Increased funding for de minimis aid to the fisheries and aquaculture sector. (6) Establishment of a credit line for working capital for the agriculture, forestry and wood processing sectors. (7) State aid: EU Commission approves €4 million Croatian direct grant scheme to support fishery and aquaculture sector in coronavirus outbreak.

MONETARY

Country	Measures
Albania	<p>A. Bank of Albania Supervisory Council:</p> <p>(1) suspended dividend distribution by the banks until the end of June 2020 for (a) the accumulated profit carried forward from previous periods; (b) profits realised in 2019 and (c) the profit that will be realised during the first half of 2020;</p> <p>(2) starting from 10 April 2020, it waived the commissions for transfers in local currency, as well as fees for participants in AIPS and AECH payment systems operated by the Bank of Albania. This measure urges the use of e-banking services and aims to reduce the number of people requiring services in bank premises.</p> <p>B. BoA and GoA order second-tier banks to postpone for a 3-month period terms instalment payments from the private sector in the first phases, and 3 more months in the second phase up to 31.08.2020.</p>
Kosovo	<p>(1) Interest-free loans repayable until 31 December 2020 will be awarded to state-owned enterprises facing financial difficulties, legal entities/companies authorised to provide essential services, amounting to a total of EUR 20 million.</p> <p>(2) The Central Bank of Kosovo (CBK) and the Kosovo Banking Association decided to suspend the payment of loan instalments for businesses and individuals starting from 16 March until 30 April. This suspension could be extended depending on the situation. The CBK will apply regulatory forbearance on loan provisions and capital requirements on reprogrammed loans.</p>
North Macedonia	<p>The National Bank measures:</p> <p>(1) Cut is policy rate by 25 basis points to 1.75.</p> <p>(2) The fees for withdrawing and returning cash to the National Bank's central vault have been abolished to minimise any risk of transmitting the virus infection by coins and bills.</p> <p>(3) Revised its credit risk regulation to encourage banks to restructure loans temporarily and has relaxed the loan classification standards for NPLs. It has also reduced the base for the reserve requirement by the amount of new loans to firms in affected sectors and has extended the deadline for banks to submit their first Internal Liquidity Assessment Report to allow them to focus on providing credit while maintaining credit the quality of the loan portfolio.</p>
Serbia	<p>The National Bank measures:</p> <p>(1) cut the key policy rate from 2.25 per cent to 1.75 per cent and then to 1,50% and narrowed the interest rate corridor from ± 1.25pp to ± 1pp relative to the key policy rate.</p> <p>(2) provided liquidity (both in dinars and euros) to banks through additional EUR/RSD swap auctions and repo purchase auctions of dinar government securities;</p> <p>(3) reduced the FX swap interest rates</p> <p>-Moratorium on leasing and loans, beneficiaries are entitled to delay in payment of obligations that were due within 3 days from the day the decision came into force.</p> <p>Leasing providers cannot charge interest on arrears, initiate collection procedures against the lessee, or undertake other legal actions to collect the receivables from the lessee.</p>

Bosnia & Herzegovina	<p>(1) Banking Agencies have announced a six-month loan repayment moratorium for restructuring credit arrangements for individuals and legal entities which are found to have aggravated circumstances for loans repayments due to COVID-19.</p> <p>(2) Banking Agencies have instructed banks to track clients and exposure portfolios affected by COVID-19. Banks are also instructed to consider additional customer relief, including reviewing current fees for services and avoiding charging fees to handle exposure modifications.</p> <p>(3) All banks were ordered not to pay dividends or bonuses.</p>
Montenegro	<p>The central bank measures:</p> <p>(1) moratorium on loan repayment for a period of up to 90 days. It includes the interim suspension of all payments of obligations based on the loan (principal, interest, default interest, fees, etc.).</p> <p>(2) Banks are also allowed to restructure loans and reclassify them as new loans, including by additionally extending the repayment period by up to two years, if the borrower's financial position was impacted by the pandemic and restructuring would improve the credit capacity of the borrower. These measures also apply to leasing and microfinance institutions.</p> <p>(3) The central bank has also announced measures to temporarily prohibit banks from paying dividends to shareholders, except in the form of equity, and to allow banks to increase exposures to a person or group of related parties beyond the prescribed exposure limits (25 per cent of the bank's own funds), with prior central bank approval. More details here.</p> <p>(4) Additional measures are being considered, including the extension of the moratorium to the most vulnerable borrowers, securing access to credit lines for the financial system through the EBRD and the International Finance Corporation (IFC), and reducing the price of withdrawing the reserve requirement for the liquidity of banks.</p>
Croatia	<p>The National Bank provided liquidity via:</p> <p>(1) the structural repo facility, used for the first time since December 2018 (5-year kuna liquidity of HRK 3.8 billion at a fixed interest rate of 0.25 per cent);</p> <p>(2) regular weekly reports used by banks for the first time since December 2017. This repo rate has been reduced from 0.30 to 0.05 per cent; and</p> <p>(3) a reduction of the reserve requirement ratio (from 12 to 9 per cent).</p> <p>- A moratorium for three months on obligations to banks has been introduced. Banks will not apply enforcement measures during this period.</p> <p>- The Croatian Bank for Reconstruction and Development (HBOR) has issued a moratorium on debt service for three months, can provide liquidity loans, export guarantees, and restructure obligations. In April, the European Commission approved subsidised loan programs of up to €1.8 billion.</p>

OTHER

Country	Measures
Albania	(1) As of April, cabinet ministers and lawmakers receive half of their salaries for the next three months, with the savings going to the Anti-Covid 19 social support fund. Such decisions have been endorsed by other institutions such as the Supervisory Council of BoA, AMF, etc. (2) Suspension of four PPP contracts and public procurement procedures (3) Bank of Albania Supervisory Council halved the salaries of its supervisory board and BoA top management for the duration of the pandemic.
Kosovo	
North Macedonia	(1) Enforced collection measures: - The tax authorities announced that they would not conduct any enforced collection in respect of all taxes and other public charges (fines, court fees) against those taxpayers who have not paid their obligations. - The Law on Enforcement is suspended until the end of June., and the enforcement agents are obliged to stop taking any enforcement action.
Serbia	
Bosnia & Herzegovina	
Montenegro	(1) Postponement of payment of lease of state-owned real estate, also for a period of 90 days. (2) Advance payment to service providers and contractors on started capital projects with the provision of a bank guarantee in the value of the advance payment to ensure their liquidity and maintain continuity of work, where this does not endanger the health of citizens.
Croatia	

ANNEX 3

QUESTIONNAIRE TO IC MEMBERS AND PARTNERS

Dear IC Members and Partners,

Following the conclusions of the IC Extraordinary Meeting date 14 April, on the short-term measures in the frame of Covid-19 situation, the Secretariat in collaboration with the Ministry of Finance and Economy, is initiating a new round of consultation with its members and partners, main focus reconstruction of the economy.

The purpose of such consultation is to gather elaborated proposals for economic recovery options that do not only address the surviving of businesses and jobs, but also provide insights for prioritising medium- and long-term actions and new reforms that could be appropriate for Albania.

One of the major lessons learnt from the post-2008 stimulus packages, and the economic downturns is that consistent and transparent public investments directed toward high-potential and socially useful sectors are needed for the long-run prosperity. As we reconstruct our economy, we may have a real opportunity to reflect on

an inclusive recovery that could better work for everyone.

The outcome of the above aims to depict and prioritise some of the most important upcoming policy decisions for the recovery of the Albanian economy. They shall be submitted to MFE in the upcoming IC Meeting (June 2021).

To facilitate the gathering of your valuable input and rationale, we have prepared in advance the following questions:

(a) **Horizontal approach:**

1. What could be the main actions (medium and long-term) or priority reforms at the policy level based on which the economy as a whole can thrive in the medium-term? If possible, please emphasise any institutional, legal and regulatory changes or new initiatives (including import substitution, export policy options, technology and innovation in support to the made in Albania, etc.) that could be necessary to support the reforms.



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(b) **Sectorial Approach:**

2. If possible, rank the below strategic activities (from the most strategic to the less strategic) and prioritise the concrete measures and interventions.
 - a. Agriculture
 - b. Construction
 - c. Industry
 - d. Tourism
 - e. Trade (e-commerce)
 - f. Services
 - g. Transport
 - h. Other such as Eco, Bio, etc
3. Due to the Covid-19 crisis, many companies are reconsidering their supply chain from the Asian market. In your view, what is the feasibility of expanding business operations in Albania to meet the potential demand for:
 - (a) Manufacturing; (b) Agri-business; (c) Tourism d) Health e) Services f) Other

What type of support would be needed in case of this transformation process?

4. Please list 3 concrete measures to be taken to attract new businesses or support current domestic efforts for each of the above sectors.
5. Post-COVID19 lessons: What are you going to change in your business model in:
 - a) the short term, b) medium-term, c) long-term
- (c) **Employment**
 6. What type of interventions (ex teleworking, etc. is needed to return to pre-crisis employment levels? What about generating new jobs? Please list 3 concrete measures.
- (d) **Other**
 7. Please feel free to include any other recommendation that does not necessarily correspond to the above questions but supports the policy reforms according to you.

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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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