

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

***“Internationalization of Micro, Small and Medium-sized Enterprises,
Challenges & Opportunities”***

Tirana, 12 November 2021, 12h00 – 13h30

The meeting was held in a hybrid format and was chaired by the Minister of Finance and Economy, Ms Delina Ibrahimaj (IC Chair). The meeting was attended by 15 IC members and over 20 observers - representatives of local and foreign business associations and state institutions in Albania.

1. Opening of the Meeting by Minister Delina Ibrahimaj, IC Chair

In her speech, Minister Ibrahimaj praised the role that the Investment Council has played and is playing in the dialogue between the government and the business.

Minister Ibrahimaj highlighted the importance of small and medium-sized enterprises for the country's economic development and employment, so the Albanian Government has undertaken incentivising and fiscal policies to develop and strengthen them. From this year, all entities with a turnover of up to 10 million Lek do not pay VAT, and those with a turnover of up to 14 million Lek do not pay profit tax. This is undoubtedly done to promote businesses and their development, given that the number of SMEs is about 99% of all enterprises in Albania, accounting for about 81% of employment and about 68% of the country's total investments.

Minister Ibrahimaj said that the Ministry of Finance and Economy has approved the Business Development and Investment Strategy.

The main goals of this Strategy are:

- Investment attraction and internationalization,
- SMEs Development,
- Human capital development.

According to the Minister, through the implementation of this Strategy, but also through various initiatives undertaken, such as those in the frame of CEFTA or Open Balkans, the intend is to encourage SMEs exports and enable their empowerment through exports.

Also, these initiatives have as objective the development of human capital and consequently increase the productivity of SMEs.

2. Presentation on the Status of Implementation of Previous IC Recommendations

Ms Xaira Shurdha, IC Secretariat, delivered a presentation on the implementation status of previous IC recommendations, bringing some key achievements, especially in terms of access to ICT, e-commerce for SMEs, or cooperation between municipalities and businesses. More attention is needed on the remaining unfulfilled recommendations such as the adoption of a proper strategy for formalization, stabilization of the legal and fiscal framework, digitalization of the registers of key institutions, strengthening cooperation between inspectorates, etc.

3. ***Presentation of the Secretariat of the Investment Council on the Findings and Recommendations for the Internationalization of MSMEs***

Ms Diana Leka (Angoni), IC Secretariat, delivered a presentation on the main findings and proposals raised by IC partners during the consultation phase and through a questionnaire conducted with 82 companies in the agro, tourism and garment sectors. Most of the proposed recommendations are related to entrepreneurial skills and retraining of the domestic workforce, improving SMEs data and market research, international networking, raising SMEs awareness on energy efficiency and options for waste management.

4. **Summary of Main Meeting Comments**

Dr. Constantin Von Ahvensleben, FIAA, stated that MSMEs need more attention and support. Many sectors are considering relocating supply sources and are interested in relocating production and service delivery to countries closest to Central Europe, such as the Western Balkans; and Albania, as an open, free country without religious tensions, would be considered an ideal country if given some help. FIAA supports all the recommendations given in the Secretariat's analysis and invited Ms Albana Shkurta for a summary of FIAA's recommendations.

Ms Albana Shkurta, FIAA, brought to the attention of the IC, three main issues:

- (1) *The need for government support for the training and education of valuable staff not only for service companies but also for the manufacturing sector.*

Regarding training, education and deepening of knowledge - every enterprise, before facing the challenge of recommendation, faces the challenge of finding the right workforce to expand the activity. The government, especially during the second term, has had strong support, especially for vocational training, and has done significant work in this area, but FIAA thinks that a standard program in this area optimizes resources, but fails to adapt to rapidly evolving changes and MSMEs' specificities. In this regard, FIAA proposes support from the government for MSMEs in the first 2-3 months of starting work, especially when the recruitment is done for high number of employees (orientation period), when the company covers the costs of staff, salaries and training, but has not yet received any real benefit from them.

- (2) *Awareness-raising among MSMEs on digitalization and online payment systems.*

With regard to ICT training, it is no wonder that ICT has not emerged as a real issue for companies in the Secretariat's questionnaire, as you may not know if you are missing something when this is an area you do not know about. From FIAA's perspective, this is the main obstacle to the internationalization of MSMEs, the business model that seems to reach the consumer directly. Establishing a payment system through FINTECH, which has a competitive advantage over banks, will breathe new life into MSMEs transactions. How many FINTECHs are licensed now that we speak in the country?

- (3) *TEDAs and what can be resolved through them?*

TEDAs are thought to bring benefits not only to Albanian MSMEs, but also to foreign investors, but is there a concrete plan regarding their activation?

Mr Hubert Herr, EU Delegation, emphasised some key issues:

- (1) The EU is the largest investor in Albania and the main trading partner of the country and as a result MSMEs will definitely look out of the geographically closest market, which is also the largest market for them being that they also have lower transaction costs.

- (2) The value chain is of great importance as this is the only opportunity for Albania to penetrate indirectly in global markets. There has been no mentioning regarding “anchor investors”, large investors in a value chain after which other investors can be linked in the form of “cluster”, MSMEs in the form of a partner.
- (3) Sustainable green investments - companies and investors must meet the standards in this regard.

Ms Ekaterina Solovova, BERZH, emphasized that EBRD has in its focus the improvement of competitiveness of economies in all its countries of operation. Experience in other countries has shown that where the right set of incentives has been created for the large international producers to localise their production, they would in turn, bring the benefits of integrating the local MSMEs into their supply chains and drive the improvement of the production standards and training of the local workforce. The Government has a crucial task of creating the right investment incentives and articulating them clearly to the foreign and local investors. Albania competes with its neighbours for the FDIs who want to set up their production in the region and it has a lot to offer, such as geographical location and educated workforce, while ongoing infrastructure investments are connecting Albania with the rest of the region and with the EU. In this context, design of the right set of investment incentives and promotion of Albania as a destination for FDIs play a substantial role in the process of integration of the Albanian MSMEs into the international value chains.

Mr Bardhyl Baltëza, Union of Albanian Producers, commended the discussion of such important issues, as an opportunity to correct past mistakes. It is worrying that Albania does not have a national development strategy. We have oil and we buy oil more expensively than the whole Balkans; we have minerals but no processing of them is done in Albania. For this reason, it is necessary to conduct separate studies on cost-effectiveness instead. There is a natural gas line throughout the Balkans, but not in Albania. Our energy costs are 25 to 45 percent of total production costs. We as producers want to build our own power plants but our law limits our production to 500kw. There are thousands of Albanians integrated in the recycling industry, while we in Albania have laws that limit us. In addition, Mr Baltëza said that his company has 15 requests for cardboard packaging and is not able to meet them as the company manages to produce only 600 tons per month since its waste paper is exported abroad. Specific objective 3 of the strategy should specify in which direction human capital will be oriented in certain areas of the economy that have different requirements for the type and quality of labour, e.g. tourism requires skills different from those in transport? How will this plan be implemented and followed?

Mr Neritan Mullaj, AmCham Albania, expressed support for tackling this important topic for business, which may help structure policies, measures and actions that promote productivity growth in the country's economy. Also, this topic will be one of the pillars for which the American Chamber of Commerce is working in the frame of the “Investment Agenda” document. Some of the points to be emphasized are: the promotion of managerial culture, the increase of human capacities as well as digitalization, in particular, the exit from the cash economy and the transition to the online economy that will also promote the formalization of the economy. AmCham has already summarized all these in the “Investment Agenda”, where business working groups have been set up working in this direction. AmCham will be fully committed to work with the Government and the Secretariat to break down all the recommendations given in the proposed material.

Mr Donjaldo Hoxha, Industry of Milk Processing, expressed support for initiatives to increase export capacities in the country. Livestock and agriculture processing industry face a number of export

barriers which have also been discussed with the MFE and which are expected to receive focused attention as next year is expected to be the year of exports.

Speaking on behalf of the entire dairy and livestock processing industry, he outlined some of the obstacles that entrepreneurs are facing:

- (1) How can we be competitive in the region with all these costs being added to the industry?
- (2) A new excise tax on gas used by the processing industry has been added to the new fiscal package.
- (3) One reason why this sector is not competitive in the region is because industry is closely related to the farmer and farms. Government subsidies for the latter should be direct and should be closer to the countries of the region.
- (4) It is necessary to apply the existing models in the fight against informality, having the full support of producers and processors.

Entrepreneurs need to feel that the Government is listening; otherwise, farmers will protest in the streets just like fruit and vegetable farmers today if the parties do not sit down to seek for the right solutions.

Mr Edvin Prençe, Proeksport Albania, expressed appreciation for the Secretariat study, and raised the question of when these suggestions will become effective by the Government.

The clothing and footwear sector has done a lot while the support has been minimal and yet exports have increased by 40% for “Made in Albania” products and in 2019 the value of exports increased to over 980 Mln Euro export invoicing.

We need a dedicated support for the manufacturing sector, expecting that there will really be an increase in jobs, and an increase in “Made in Albania” exports. On the other hand, businesses need to be made aware that without a certification and increase of standards, they cannot be competitive and export their products to new European and world markets that Albania has not yet touched.

Mr Gazmend Toska, Marlotex, thanked for the organization of this meeting and congratulated the Minister on her duty and mission. As a French investor in the field of textiles, he underlined the following aspects:

- The current moment is interesting for the strengthening of the processing industry in Albania. Currently in Europe the demand for the processing industry and its products (textile, leather, plastic, mechanics, wood, etc.) is very high. In this respect, Albania can benefit by creating thousands of jobs.
- The level and expertise of Albanian workers in the field of garment industry is the same as that of French workers.
- We have not turned this wealth that we have in the country into an advantage in these 30 years in the macroeconomic reality of the country. The main problem in our country is a governance problem of 30 years.

What should we do to attract French, German, Dutch investors who are in high quality markets and who can pay much higher prices for our products:

- (1) The government should work steadily to improve the image of the country, the level of corruption, crime, emigration of the population.
- (2) The Lek - EUR exchange rate is very impeding for exports. The real link between the real industry and the 13% strengthening of the Lek against EUR cannot be understood. This has created a negative effect by increasing industry costs.
- (3) The level of corporate income tax should be reduced to a regional average as applied in the Balkan countries, e.g. at the rate of 10%.

- (4) Wage tax relief. Because of low profit margins, entrepreneurs are forced to maintain low employee wages when taxation burdens production costs.

Mr Kliton Gërxhani, ATOA, raised the following issues:

- (1) Lack of human resources in tourism has become the main problem of the sector especially after the pandemic.
 - a. A strategy is needed for the education of young people in this sector, and the possibility of opening a 3–4-year public university for tourism should be considered.
- (2) Market standardization.
 - b. Revising of the Tourism Law that is over 6 years old that does not meet the totality of the dynamic needs of the sector;
 - c. Minimizing the unknown expenses of tourism businesses, in a meeting with the Tax Directorate.

Support in various forms to combat seasonality in tourism, which especially harms employment.

Ms Delina Ibrahimaj, MFE, responded briefly to comments raised at the meeting:

- BIDS includes a part of the recommendations brought by the Secretariat, as well as the comments of the other stakeholders. Part of the BID strategy is the drafting of an export strategy which will be a document that will be consulted with this Council's members and stakeholders.
- Minister Ibrahimaj thanked FIAA and AmCham for the recommendations given to encourage investment in the country. A list with all the actors' recommendations has already been prepared and the work being carried out by AmCham will soon be formalized into joint and specific working groups so that those recommendations can be implemented.
- Regarding the comment on TEDA, it is better not to spend efforts on things that have already been done, such as legislation for TEDA, but currently focus on specific and technical meetings to identify what has gone well and what has not, as only then we will be able to make progress. Institutions are preparing a roadmap on the problems and reasons for non-implementation of TEDAs.
- Regarding the SME development and their education, AIDA intends to create a specific sector only for training, where the documents produced and the support provided by donors will be reviewed in order to understand whether these programs have really have the right impact and effectiveness or need to be improved. No matter how many grants are awarded, if the internal capacities are not increased, there will be no real impact on the viability of businesses, so we must definitely encourage MSMEs to develop.
- Regarding the promotion of Albania, AIDA has already produced a lot of materials and events that are published, but definitely more needs to be done in cooperation with relevant actors, so a specific group can be set up only in this regard.
- Regarding the three issues related to informality, VAT refund and energy, the first is a phenomenon that continues to be present, so what can be taken as a measure is the drafting of an inter-institutional strategy. During 2022 work will be done to build a strategy on informality. MFE has foreseen a budget of ALL 250 million dedicated to start-ups and small businesses and very soon the draft law on small businesses will be released for public consultation while the Ministry of Entrepreneurship is working on the draft law on innovative startups, i.e., the main focus of government in the next 4 years is digitalization and e-commerce. The Minister expressed readiness to formalize technical and focused working groups before the next meetings.

- Regarding the fiscal package, MFE is working to draft a revenue collection strategy that enables a number of issues that are expected to be finalized at the end of the year and of course consultations will be held before approval. Regarding the barriers with the region, we are working with Kosovo, Northern Macedonia and Serbia on the recognition of documentation such as phytosanitary certificates, the issue of transport and UHT products, so all concerns raised will be addressed within this year regarding the tariffs that at least those related to customs and border crossings will be resolved because it is the will of the government to boost competitiveness in the region.

Ms Diana Leka, IC Secretariat, thanked the members and stressed that comments and debates will be grouped, published and followed up as part of the inclusion and evidence within the three main principles that members have agreed since the beginning of the work of this structure. This is one of the points where the interest continues to remain with the IC, and the Secretariat will soon issue a publication on all technical notes drafted to date.

Closing of the meeting

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

List of participants

Government Representatives

1. Ms Delina Ibrahimaj, IC Chair/Minister of Finance and Economy
2. Ms Edona Bilali, Minister of State for the Protection of the Entrepreneurship
3. Ms Natasha Ahmetaj, Deputy Governor, Bank of Albania
4. Mr Arian Leço, Head of Entrepreneurship Department, Albanian Fund for the Development of Diaspora

Business representatives

1. Mr Donjaldo Hoxha, delegated by Mr Nikolin Jaka, Chair of Tirana Chamber of Commerce and Industry
2. Dr. Constantin Von Alvensleben, President, FIAA
3. Ms Ines Muçostepa, Chair of Union of Chambers of Commerce and Industry (UCCIAL)
4. Ms Gerta Bilali, CEO, Confindustria Albania, delegated by Mr Sergio Fontana, President of Confindustria Albania
5. Mr Neritan Mullaj, CEO, delegated by Mr Enio Jaço, President, AmCham Albania
6. Mr Ardian Lekaj, Legal Representative, Albanian Diaspora Business Chamber
7. Mr Edvin Prence, Chair, PROEKSPORT (*ad-hoc*)
8. Mr Bardhyl Baltëza, Representative, Union of Producers (*ad-hoc*)

International partners

1. Ms Ekaterina Solovova, Head of EBRD RO
2. Mr Hubert Perr, Head of Cooperation, EU Delegation
3. Mr Keler Gjika, Specialist of Financial Sector, World Bank in Tirana
4. Ms Laura Qorlaze, Country Representative, IFC

Special guests:

1. Ms Arjana Dyrmishi, Director, Directorate of Economic Development Policies, MFE
2. Mr Gazmend Toska, Administrator, Marlotex
3. Ms Albana Shkurta, Representative, FIAA

Absentees:

1. Mr Sokol Nano, CEO, AIDA
2. Ms Stephanie Sieg, President of German Chamber of Commerce (DIHA)