



**MONITORING REPORT ON
IMPLEMENTATION OF ALBANIA
INVESTMENT COUNCIL'S
RECOMMENDATIONS
January – December 2019**

ABOUT THE REPORT

This is the first monitoring report prepared by the Secretariat of Albania Investment Council. Its main purpose is to document and inform IC stakeholders on the impact of IC work.

Secretariat of Albania
Investment Council
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INTRODUCTION

Albania Investment Council was created in 2015 by the Government of Albania (GoA) with the support of the EBRD in the framework of EBRD's Investment Climate and Governance Initiative (ICGI). It plays an important role in the national debate on crucial issues of the investment climate in the country.

To improve the efficiency of the IC work, in reporting its results and increasing its role and impact, the Secretariat undertook during 2019 more focused monitoring activities on the implementation status of IC recommendations. This report intends to give an overview of the progress achieved, focusing solely on 2019.

During 2015-2019, the IC has held 18 meetings with discussions amongst the members based on the analytical and research outputs prepared by the Secretariat. In total, there are 154 recommendations brought forward by the Secretariat underpinned by this analytical work, while 34 more recommendations were added from the discussions of the members at the meetings. Thus, in total since its creation, the Investment Council members have approved 188 recommendations for improvement of the investment climate, out of which 37% *have been fully implemented*.

During 2019, some positive steps were taken from different institutions in terms of implementing IC recommendations addressed to them. Therefore, 34 *recommendations were taken in consideration* and concrete measures were taken in regard to:

- *Inspections reformation*, progressed toward the unification of administrative practices on Inspections at the central and local level. Furthermore, verification lists were produced for all inspectorates.
- In terms of *Informality Reform*, a new DCM was issued to enforce the formalization of the touristic structures that operate in this sector through imperative categorization. Moreover, the Ministry of Finance and Economy presented an Innovative application "Stop Informality" used from around 13,800 registered users with an impact on the fight against informality.
- The setting of the vision, mission and policy goals in the tourism sector through the approval of the "NATIONAL STRATEGY FOR SUSTAINABLE TOURISM DEVELOPMENT 2019 - 2023" that paves the ground toward the formalization and the sustainable development of this sector.
- Legal changes which incite fiscal incentives in terms of VAT simplification for the operators in the agricultural sector. The VAT compensation scheme for agricultural producers was reviewed and the VAT rate was reduced from 20% to 6% for this category. In addition, due to another change, the entities providing supply with agricultural inputs, such as fertilizers, pesticides, seeds, seedlings, etc., became VAT exempted from January 2019.
- Strengthening of collaboration between institutions in regards to the implementation of IC recommendations with proper follow up through three working groups between the Ministry of Finance and Economy (MFE) and Ministry of Agriculture and Rural

Development, Ministry of Infrastructure and Energy, and Ministry of Tourism and Environment.

- Deregulation Reform had positive progress this year through the simplification of procedures from General Directorate of Customs with the implementation of the “Paperless Customs” procedure which affects 93% of all the entities operating with the customs office. Moreover, it has been observed an increase in the number of applications and attestations issued completely online from the General Directorate of Taxes - 12 documents online being used by around 90,000 users (January-October 2019)
- Supporting innovation for the young generation and start-ups in the ICT sector by promoting new IT investments such as Tech Hub or Tirana’s Pyramid Hub. Very important to mention the investment promotion and job creation in the BPO sector since 2019. For example, through interventions by Risi Albania, the sector has contributed to the creation of over 600 new full-time equivalent jobs.
- Tax Administration capacity building and taxpayers’ education on tax procedures and liabilities.

In four years, IC has consolidated in structure and format, while the IC Secretariat has adopted a “public-private debate” methodology focusing its work on:

- 1) Consultations with the business community, government, and international development partners, collecting proposals for the agenda to improve the investment climate in the country;
- 2) Analyses, surveys, consultations, country desk-research (national and international reports), face-to-face interviews, collecting written comments from partners, organizing focus group meetings, working groups, and maintaining a comprehensive database of business issues;
- 3) Elaborating recommendations and specific actions to support necessary investment climate improvements;
- 4) Monitoring implementation status of IC recommendations.

This report covers the points 3 and 4 above, aiming to provide:

- an update on the status of the recommendations issued during IC meetings;
- an update on the progress made in terms of outputs and some impact from recommendations implementation noted through the monitoring of the IC work during 2019.

METHODOLOGY

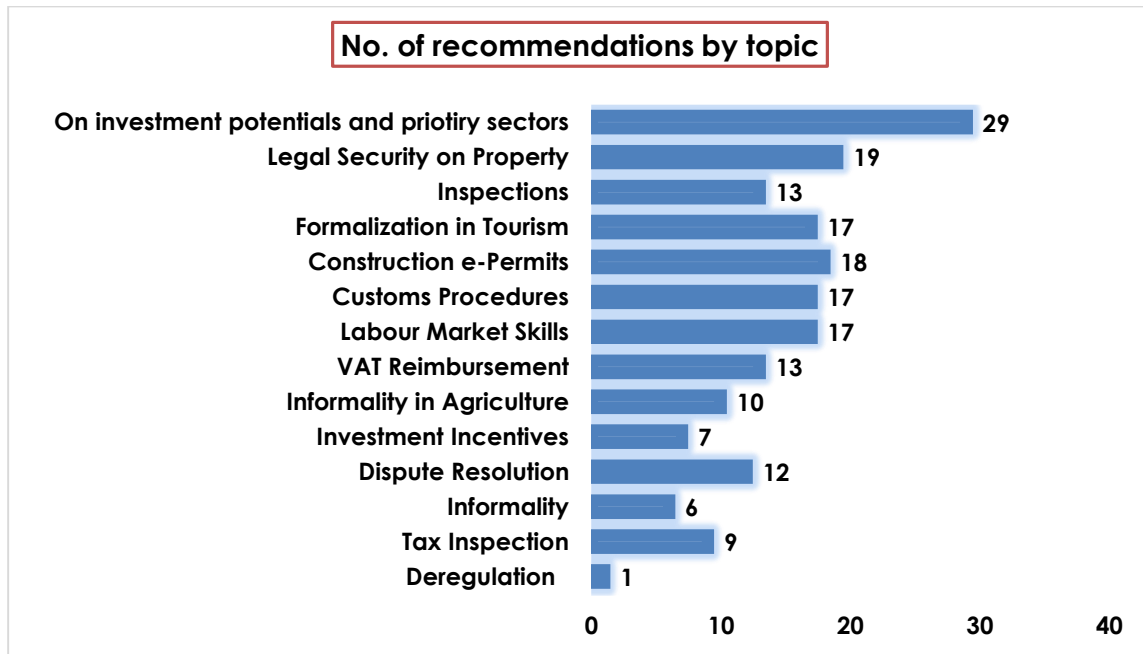
In line with the logical framework of the program, *we have based our monitoring report on the first component: "Investment Council (Secretariat)," and on the expected output: "IC as an effective reform tool"*.

The monitoring activities that took place during 2019, were the source of information for the preparation of this report and followed these approaches:

- Direct meetings with the representatives of the institutions responsible for the implementation of IC recommendations;
- Formal information exchange through letters after each IC meeting addressing the specific recommendations to be implemented and relevant request for information on follow up;
- Review of the regulatory framework, Council of Ministers Decisions (DCMs), Ministers' Decisions, laws, legal acts, strategies, and policies, action plans, approved during 2019 with the purpose of identifying changes that are related to the IC recommendations fulfillment;
- Daily monitoring of social and visual media for articles that are related to the implementation of IC recommendations;
- Meetings with the current members and the leaving members from 2018 to have their opinion and perception on the IC platform and on what can be improved in the future and other forms of collaboration. Feedback report has already been generated separately;
- Review of the international reports such as Doing Business, Competitiveness reports, etc. to assess the impact of IC recommendations linked with the improved indicators reported in these reports.
- Data research and exchange with the responsible institutions to measure the effects of the implemented IC recommendations and show the impact on the business community.

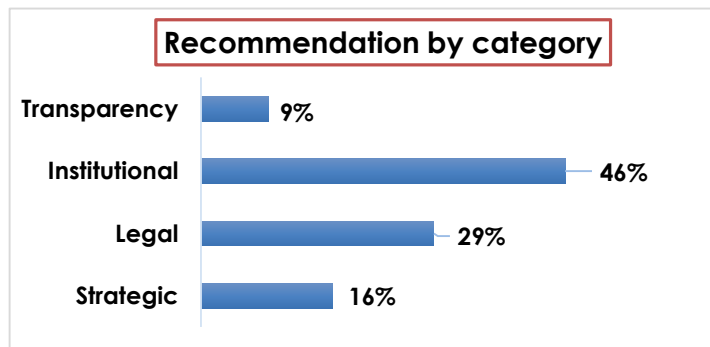
OVERVIEW ON RECOMMENDATIONS 2015-2019

Since 2015, Investment Council held 18 meetings where specific recommendations for investment climate improvements were issued. Each meeting has addressed a specific issue, while in 14 meetings were issued specific recommendations that can be broken down by topics as below:

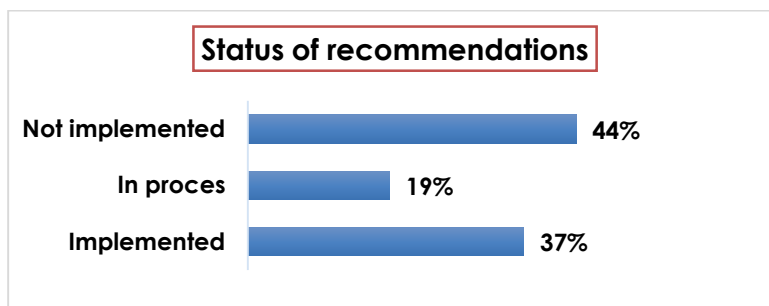


The recommendations issued are categorized in four pillars: (i) Strategic, (ii) Institutional, (iii) Legal and (iv) Transparency-related.

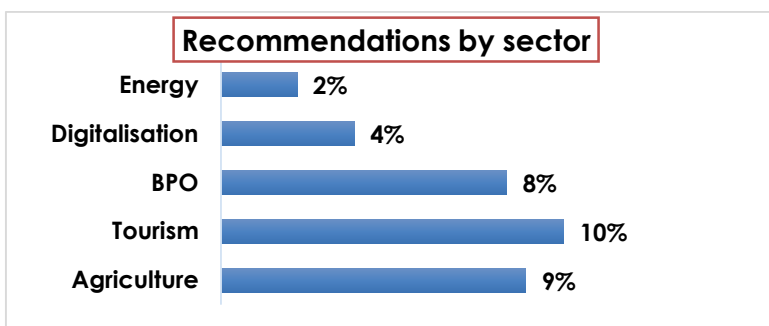
The interventions proposed under *Institutional improvements*, in institutional structures, procedures, policies, actions and capacity building count for around half of the total recommendations (46%). *Transparency* is an issue brought up in 9% of the total recommendations.



In overall terms, based on the issued recommendations, *37% of them are implemented and 19% are in process of implementation.*

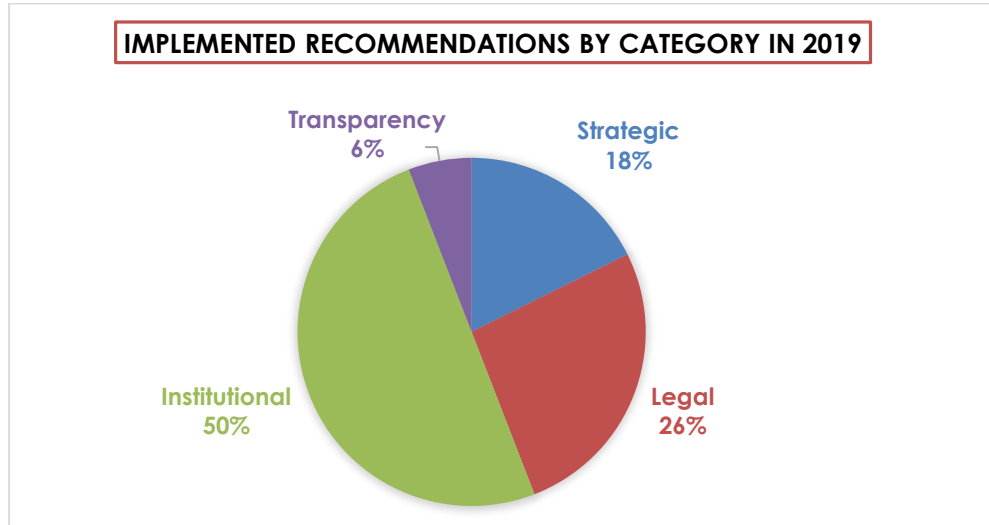


Investment Council has approved recommendations for interventions in different sectors, but the five most relevant sectors tackled are expressed in the table below. The level of Informality and recommendations on how to fight it, were addressed in two meetings related to **tourism sector** (in 10% of total recommendations) and **agriculture** (in 9% of total of recommendations) sectors, both potential sectors for bringing sustainable growth and investments in Albania. 8% of recommendations are related to the BPO sector, a very discussed topic for development potential of the youth employment actually.



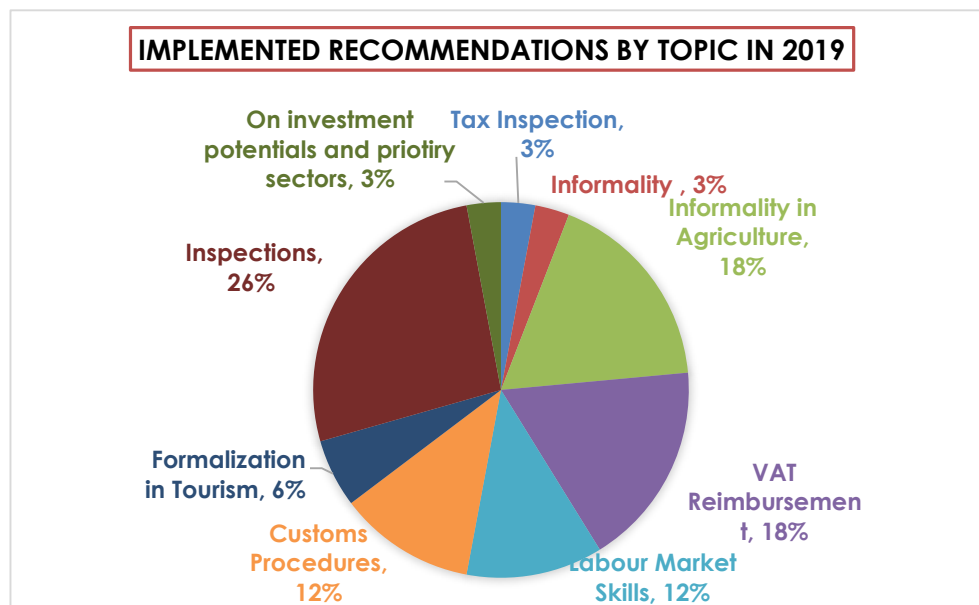
STATUS OF RECOMMENDATIONS IN 2019

During 2019, progress was made towards fulfillment of IC recommendations, there were **34 recommendations implemented** and **2 in process**. In terms of categories, 50% of the recommendations implemented were *Institutional* interventions, followed by 26% *Legislative* improvements, 18% *Strategic* recommendations taken in consideration and 6% *increase in Transparency* from governmental institutions.

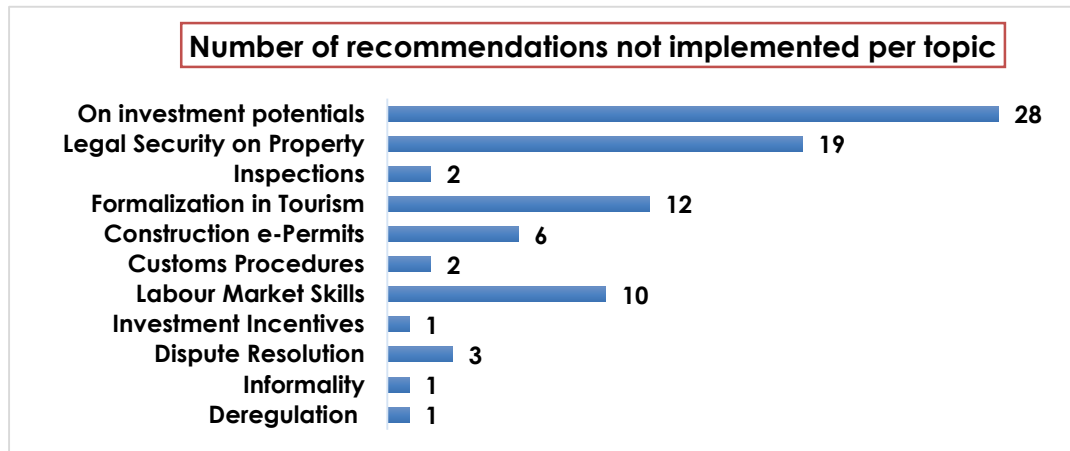


26% of the implemented recommendations during 2019 were from the recommendations approved in the meeting on Inspections, due to the job of the General Inspectorate to unify the procedures and online recording inspections for all inspectorates under coordination.

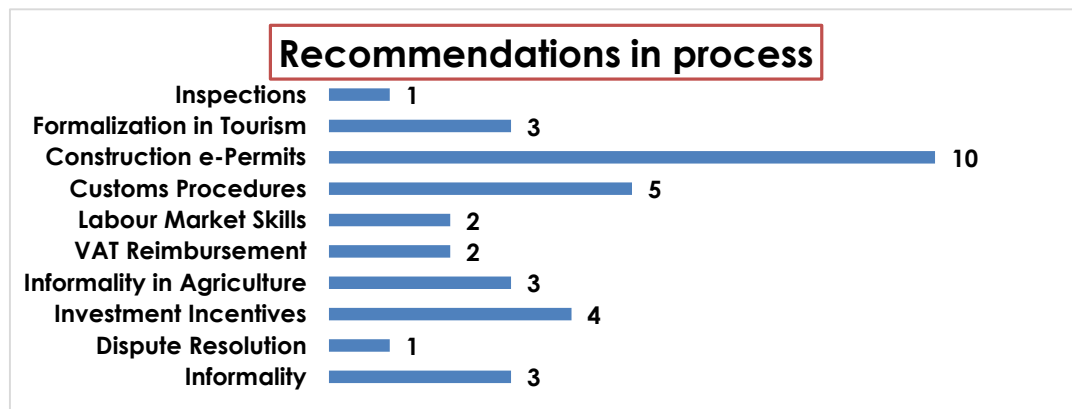
There were very positive steps taken in the direction of VAT reimbursement scheme for farmers resulting in 6 recommendations implemented in 2019 (18%) and also in the VAT procedures simplifications in overall resulting in another 18% of recommendations being implemented.



Meanwhile, the unfulfilled recommendations within the agreed timeline with the IC members, are presented in the table below. The biggest number belongs to the meetings held in 2018 and 2019 such as “On investment potential”, “Legal Security on property”, “Formalization in Tourism”, and their low level of implementation is related to the fact that the institutions take a lot of time to coordinate the actions for recommendations implementation.



In the below table, are listed the number of recommendations in process according to the meetings where they are issued. Steps are taken for the recommendations fulfillment, but still it needs time for their finalization. The “Agency for territory development” is fully engaged to implement the recommendations issued during the meeting on “Construction E-permits” and has the biggest number in process.



The areas of intervention where the implemented recommendations stimulated concrete actions from the responsible institutions during 2019, are:

- 1) Reforms Continuity & sustainability: on Inspections, Informality, Tourism, Deregulation Reforms
- 2) Fiscal Incentivizing
- 3) Human resources capacity building
- 4) Inter-institutional collaboration
- 5) Transparency promotion
- 6) Innovation support

The most relevant IC recommendations and the specific actions taken during 2019 for their implementation, are detailed in the below Annex table, including also some early impact assessment.

CHALLENGES & LIMITATIONS

From the monitoring activities performed during this year, the challenges we tried to overcome were related to:

- The data collection process for follow up of recommendation status becomes difficult since some institutions in charge don't react or formally answer about the addressed recommendations to them.
- Lack of statistics and lack of impact assessment from the governmental institutions on the effects of new strategies, policies, incentives or action plans implemented (no published data) makes difficult measuring the effectiveness and the impact level of the IC recommendations.
- Lack of a baseline since the beginning of the program for the monitoring indicators.
- Recommendations, especially the ones requesting legal changes usually take long time to be fulfilled from the responsible institutions.
- The implemented changes from the responsible institutions, are promoted usually only in the social media through a short message with no formal documentation published.

Areas of Intervention	Recommendation	Achievement	Impact
A. Reforms Continuity & Sustainability			
Inspections	<p>Unification of administrative practices on Inspections in central and local level, through setting up a full inventory of the legal and regulatory inspection framework and ease it's access to all stakeholders;</p> <p>Preparation/improvement and disclosure of the methodologies applied by inspectors for the establishment of appropriate and proportionate administrative measures;</p> <p>Publication of commentaries; finalization of check-lists of verifications of inspection' s function in local level inspectorates;</p> <p>Performing of on-line inspections at local level.</p>	<p>The verification lists, legal requirements of all sectoral laws are summarized in a questionnaire for all areas of inspection and are accessible to all public and private entities. They have been designed and implemented in the online inspection system "E-Inspection", in order to verify legal compliance in their private activity.</p> <p>All state inspectorates have their legal and sub-legal basis published on their official websites. The publication of laws and bylaws on the IQ website is accessible to all stakeholders involved in a real-time inspection process.</p> <p>IQ has prepared a draft DCM which has been submitted for approval to the CoM (not yet approved). It is drafted the "point-based evaluation methodology" that is actually being applied and piloted by some of the inspectorates on the administrative measures according to the severity of the violation found.</p> <p>Checklists have been compiled and implemented for the areas of inspection in the jurisdiction of local inspectorates. The inspectors of 6 districts have been trained.</p> <p>The drafting of standard documents in accordance with the law on inspection has unified the inspection process for all state and local inspection bodies. The approved Regulation "On the establishment of the inspection procedure as a regular administrative process", has resulted in the effective unification of this already digitized process.</p>	<p>The standardization of the inspection procedures and the enforcement of all inspectorates to comply, through these measures has impacted the <u>decreasing of the corruption level</u> that is perceived from the business community in this direction.</p>

<p>Tourism</p>	<p>The finalization and the approval of the Strategy of Tourism</p>	<p>Approval through DCM 413 dt.19/06/2019 of the “NATIONAL STRATEGY FOR SUSTAINABLE TOURISM DEVELOPMENT 2019 – 2023”. This strategy sets the vision, mission, strategic and policy goals, the path toward the development of the Tourism sector and paves the ground toward the formalization and the sustainable development through policies and action plans</p>	<p>The beneficiaries to this reviewed strategy are all businesses operating in the Tourism sector, which accounts for about 15% of the entire service sector and 11% of the entire economic activity in Albania, records a direct contribution of 8.5% of GDP, employs about 7.7% of the labour force in Albania and covers 7.5% of investments in the country.</p>
<p>Informality</p>	<p>GOA to provide incentives that may accompany the fight against informality. Ensuring compliance with regulatory and fiscal requirements for all the chain of subjects operating in the tourism sector.</p>	<p>The Council of Minister approved the Decision (DCM) nr 415 dt.19.06.2019 on enforcing the formalization of the touristic structures that operate in this sector making imperative their categorization. Since July 2019, the Ministry of Finance and Economy in collaboration with General Directorate of Taxes and different inspectorates, started an anti-informality operational action plan and made available for public the “Stop Informality” online application to give open access to notify the subjects that work informally, aiming the inclusion of the community to reduce the informality.</p>	<p>Through this DCM are impacted <u>20,180 businesses</u> that operate in tourism sector in accommodation services by improving the competitiveness and enforcing the formalization in the sector.</p> <p>Actually in the Stop Informality app, there are around <u>13,800 registered users</u> that were made aware that they can impact the fight against informality.</p>
<p>Deregulation</p>	<p>Simplifications on customs and tax procedures. Applications for authorizations or custom certifications should be made online and the scanned documents should be acknowledged. Simplifying administrative bureaucracies with the aim of reducing the number and timing of payments in particular for medium, small and micro businesses, and making innovative services available to taxpayers.</p>	<p>In May 2019, was introduced the online procedure - <u>Paperless Customs</u> that removes the obligation for businesses to present at the customs counter physically for filing a customs declaration, as the customs declaration can now be submitted only electronically, regardless of the place where the declarant is located and through electronic stamping. During 2019, the number of documents issued totally online from the General Directorate of Taxes reached 12 certifications and declarations.</p>	<p><u>Paperless Customs</u> directly impacts <u>93% of total customs procedures operators</u> that now go through the online process and optimum processing time. Actually, only 7% of all the customs operators that are considered as high risk subjects, goes through a physical control based on papers. Furthermore, it significantly shortens the waiting time of businesses in customs, reduces their costs and minimizes contact between business and customs, indirectly reducing corruption. It also completely aligns the law and Customs Code with EU legislation. In the period January-October 2019, through the e-Albania portal have been provided <u>82,772 online services by the Tax Administration</u>. These services that are provided in real time, at no cost.</p>

B. Fiscal Incentives			
	<p>Simplification of the VAT compensation scheme for farmers.</p> <p>To encourage investment in agriculture and livestock, VAT refunds should be applicable throughout the value chain, including the production cycle (depending on specific subsectors).</p>	<p>In February 2019 the Ministry of Finance and Economy, issued the Instruction nr.3 dt.21.02.19 so that the compensation scheme of agricultural producers for the purpose of value added tax was modified and the VAT rate was reduced from 20% in 6% for this category.</p> <p>In the DCM no.12, dated 09.01.2019, the subjects that supply agricultural inputs, such as fertilizers, pesticides, seeds, seedlings, etc, are VAT exempt.</p>	<p>These legal changes, <u>impact 40,953 businesses</u> operating in this sector and give them more space to reduce the costs of agricultural activity, increase investment in agriculture. They enable the agricultural import and trade companies to reduce sales prices to farmers by the same size of the VAT exempt.</p>
C. Human resources capacity building			
	<p>Sustainability and training of the staff of the inspectorates, and of the tax administration as a necessity to respond to business requirements for a fast, efficient and no burden administration.</p> <p>Increase fiscal education of taxpayers in terms of taxes, VAT procedures and legislative changes that impact their business and increase the degree of their compliance with the tax system.</p>	<p>During 2019, the General Tax Directory organized trainings for their specialists, inspectors and also for the taxpayers. All the staff delivering services in front office was subject of a centralized training in ASPA about the "Code of Ethics" and "Citizens Charter".</p> <p>The tax administration staff and audit inspectors from the Taxation Office of the Large Taxpayers, the Tirana Regional Tax Directorate and the General Directorate, were introduced to international best practices in auditing and accounting in a training organized from GDT in collaboration with AARC (Accounting and Audit Reform Consultant) located in Dublin, Ireland. Also the senior tax administration executives were trained to enhance their management capacity in a training organized in collaboration with USAID.</p> <p>Furthermore, General Inspectorate has trained all inspectors of state inspectorates in the Republic of Albania, and has also started training local inspectors. Pursuant to the Law on Inspection, a draft DCM was made on the evaluation and testing of inspectors who have been regulated by the Labour Code.</p>	<p>From the Taxpayer Service in the Tax Administration <u>182,869 taxpayers</u> benefited from face-to-face assistance during January – October 2019, while <u>145 outreach meetings</u> were held to prevent fraud and promote voluntary correction.</p> <p><u>53 477 advisory visits</u> and <u>68 taxpayer education seminars</u> were conducted on tax procedures and correct filing.</p> <p>99,520 taxpayers have been assisted by the Call Center regarding tax deadlines and procedures in order to avoid penalties for them and accurate self-declaration.</p>

D. Inter-institutional collaboration			
	<p>Consolidation of inter-institutional co-ordination and cooperation of all inspectorates is of paramount importance for the success of the Inspections reform.</p> <p>Establishment of three technical level working groups to take concrete actions toward IC recommendation implementations, for three priority areas with potential for growth, with representatives of each relevant ministry (including MFE).</p>	<p>In 2019 in order to encourage State Inspectorates to implement the applicable legislation in the field of inspection, General Inspectorate has coordinated joint inspections in several inspection areas</p> <p>In a very short time (2 months), under the leadership of Minister of Finance and Economy, were prepared and signed (December 2019) three joint decisions with Ministry of Infrastructure and Energy, Ministry of Agriculture and rural development and Ministry of Tourism and Environment for the creation of three working groups composed by representatives of the respective ministries including academia and business representatives as well.</p>	<p>State Inspectorate inter-institutional cooperation in conducting joint inspections has a positive effect on <u>reducing the administrative burden</u> on business and takes special importance also in the framework of the <u>fight against informality</u> where the role of the inspection functions such as GCD, GTD, SILSS, NFA, STII and SMSI etc. has an impact on the functioning of the market.</p>
E. Transparency promotion			
	<p>More transparency from General Directory of Taxes, especially promotion of the opportunity for <i>businesses to apply for Obligatory Tariff Information on the DPD website and publish all decisions made on these requirements</i> as well as <i>increase the transparency of the key risk indicators used by the electronic risk system to identify risk businesses and consequently subject to control.</i></p>	<p>Actually the information on the Obligatory Tariff Information is clearly promoted and published in their website. Moreover, on 25.11.2019, the GDT published on its website the 18 criteria that may constitute potential risk (mainly for VAT and Tax on earnings), in the "de jure" reporting of transactions and the "de facto" activity taking place.</p>	<p>Through the clarity on the procedures, requirements and decisions published there are 162,835 businesses that benefit by having this information easily accessible.</p> <p>The publication of the risk criteria gives the possibility to all taxpayers to self-check their situation according to these criteria and define if they will be subject to control, so it educates them to operate according to rules and prevent the possible fines.</p>

F. Innovation support			
	<p><i>Support to business initiatives for the creation of continuous training centres in technology and innovation (Digital Academy), as well as software house "for the creation of a pool of certified IT experts.</i></p> <p><i>Incentivizing of trainings i.e. through contracts that IT companies receive from the state such as <u>incorporating terms of reference into IT training or obtaining students or graduates for internships</u> in relevant professions with the tender awarded for a specified period of time.</i></p>	<p>In 2019 significant support was given in terms of incentivizing trainings, internships, start-up businesses ideas. As an example, a governmental managed ICT hub was created named "Tech-space" made operational from the National Agency for Information Society and giving many opportunities to the youth to become part and to be developed through it.</p> <p>Furthermore, the Albanian American Development Fund in collaboration with the Municipality of Tirana started a big investment in an ICT hub in "The pyramid" building in the centre of Tirana.</p>	<p>Through these incentivizing initiatives, can be partially <u>solved the problem of lacking of qualified skills working force in the ICT sector</u> and a new more innovative generation will bloom.</p> <p>Very important to mention is the investment stimulation and job creation in the BPO sector - as of 2019, the intervention by Risi Albania has contributed to the creation of <u>over 600 new Full-Time Equivalent jobs.</u></p>

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