

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

“Consultation of the structural reforms of the Economic Reforms Program 2024-2026”

Tirana, 15 December 2023, 10:00 – 11:30

The meeting was chaired by the Minister of Finance and Economy and IC Chair, Mr Ervin Mete. The meeting was attended by 15 IC members and around 30 observers - representatives of local and foreign business associations and state institutions in Albania.

Opening of the Meeting by Minister Ervin Mete – IC Chair

In his opening speech, Minister Mete emphasised the importance of the Economic Reforms Program (ERP) in light of the European Commission’s recent publication of the Growth Plan for the Western Balkans, allocating 6 billion euros over the next three years. From these funds, Albania is expected to benefit around 1 billion euros, depending on the progress and advancement of the reforms. In this context, a wide involvement of the business community in the shaping of these reforms will create a more stable basis for achieving the objectives.

On the other hand, the Minister informed that it is intended to further expand the number of business members at the Investment Council, a reputable forum in the Government-Business dialogue and cooperation.

ERP Presentation

Mr. Endrit Yzeiraj, Deputy Minister of Finance and Economy, briefly presented the main pillars of the ERP draft for 2024-2026, prepared by the Ministry of Finance and Economy (MFE). Once agreed, the ERP serves as a guide for the government to prioritise and implement the necessary economic reforms. The ERP 2024-2026 presents updates in three thematic groups, focusing on human capital, sustainability & recovery and competitiveness. The proposed structural reforms cover education, social protection, renewable energy, digital transformation and improving the business climate. The document plays an important role in the European Commission’s New Growth Plan, which presents a EUR 6 billion fund for the Western Balkans. ERP focuses on key areas such as the promotion of renewable energy, digital infrastructure and sustainable transport. The document deals with economic integration, research and innovation, the fight against informality and the support of startups. Measures include improving access to e-services, increasing digital skills and developing a legal framework for startup businesses. The deadline for submitting the ERP to the EC is January 15, 2024.

Summary of main comments

Mr Hubert Perr, EU Delegation, highlighted the importance of the ERP in the partnership between Albania and the European Commission. He informed about the Reform and Growth Facility for the Western Balkans of the European Commission, which allocates about EUR 1 billion to Albania for the next four years, where one-third is in the form of grants and two-thirds in concessional loans. The allocation of funds will be linked to tangible reforms, where half will go through budget support, and the other half will be given to specific investment projects under

the Western Balkans Investment Framework. Further, Mr. Perr raised two issues related to the process and substance:

1. Regarding the process. He emphasised the transformative nature of the themes and reforms presented in the ERP. According to him, the reforms need to be designed with the involvement of the private sector, ensuring that they have a platform to express their concerns, such as the Investment Council. Involvement in these processes will present opportunities for the private sector, especially in terms of direct access to the Single Market and regional market integration.
2. Regarding the content. Mr Perr highlighted the ongoing negotiation of reform areas under the Reform and Growth Facility, emphasising the importance of aligning priorities with the ERP. This alignment is essential to avoid conflicting messages and ensure a cohesive approach. While ERP may have specific nuances, especially on the social front, there is considerable overlap. He suggested the use of the ERP as a basic document to be integrated into the Reform and Growth Facility. Further, he clarified that the ERP does not include financial aspects, while the disbursement of the Reform and Growth Facility depends on the implementation and realisation of the reforms.

Minister Ervin Mete, MFE, said that the discussions on the reforms in the growth plan continue, and it is intended to be approved within March-April 2024. This meeting is held at the right time, as the documents are still in the discussion phase, and the input of the participants is important to prepare a reform plan as effective as possible and in line with business needs. Consultation will accompany this entire process, but it is essential to understand that the reforms we will undertake are important for the entire country, especially for improving the business climate. These reforms will lead to development, and it is essential that they, after approval, enjoy financial support, including that from the European Union.

Ms Natasha Ahmetaj, Bank of Albania, emphasised that the ERP has many similarities with the “European semester” and represents an important challenge for member countries. She estimated that this process is an important tool that prepares the country for future challenges. Ms Ahmetaj mentioned that the ERP has a set of policies similar to those of the EU, including structural reforms and stabilisation plans. She estimated that the focus on improving human capital and digitisation is important for integration in the world economy, calling it an important step to face the fourth generation of the knowledge-based economy. Ms Ahmetaj pointed out that the planned training, especially in the field of professional education, and the inclusion of digitalisation are the steps towards fulfilling these objectives. She also spoke about the necessary improvements in the real and financial markets, mentioning the initiatives of the Bank of Albania (BoA) to increase the efficiency of the financial infrastructure within the country and abroad. Ms Ahmetaj emphasised the importance of introducing the Euro payment market (SEPA) and progress in this direction to improve financial transfers and reduce their costs. She expressed BoA’s commitment to meeting the conditions for entering SEPA, seeing this as a step towards integrity in the EU.

Mr Neritan Mullaj, AmCham, expressed his appreciation for this meeting, especially in the context of ERP consultations. He appreciated the role of business in this process and emphasised that its involvement should be continuous. Mr Mullaj guaranteed the maximum involvement of business in the consultations for drafting the document. He mentioned an important issue, the lack of labour force, which was also identified in the business index presented a few days ago by the American Chamber. Mr Mullaj appreciated the efforts to address this issue in the document and promised the Chamber’s contribution in this regard.

Regarding the fiscal framework, Mr Mullaj praised the improvement in communication with the tax and customs administration but emphasised the importance of fiscal stability for businesses and potential investors. Mr Mullaj emphasised the need for the inclusion of business in the drafting of the mid-term revenue strategy, seeing it as an important element in the dialogue with the IMF. Regarding the ERP, he informed that AmCham will send its comments within the required deadline.

Minister Ervin Mete, MFE, thanked and appreciated the contribution of the American Chamber. The Minister underlined that the Growth Plan and reforms are still in the discussion stages and that there is a will for change, including the SAA (Stabilization and Association Agreement), the most important document in relations with the EU. The aim is to accelerate the integration of certain economic sectors with the EU market.

The minister emphasised the positive momentum and opportunities offered by the open dialogue and constructive approach to achieve significant progress. For this reason, the Minister said that he proposed the topic of the current meeting as an “out-of-the-agenda” topic. For the next IC meeting, Minister Mete proposed for discussion the topic of the medium-term revenue strategy, hoping that this strategy will lead to further improvements in the field of digitisation, acceleration of interaction, procedures, as well as a unified interpretation of legislation. These steps are expected to bring improvements in the way the fiscal administration works and how businesses deal with fiscal challenges.

Ms Evis Sulko, World Bank, thanked for the meeting and expressed appreciation for the work of IC and the support of the EBRD. As a representative of the World Bank (WB) group with the contribution of the International Finance Corporation (IFC), she emphasised the synergy between the ERP and the WB strategy, which was approved six months ago. Priorities are aligned, ensuring that the areas to be pursued and those funded by the WB are in full alignment.

Ms Sulko emphasised that the inclusiveness of the Reforms and Growth Plan are under discussion and are based on several dimensions, including not only macroeconomic and fiscal aspects, but also sustainability. She added that there will be a need for good cooperation between MFE, WB, EU and other donors to determine the priorities and the funding that will come from each of the donors. Ms Sulko expressed interest in understanding the cost of the strategy and how much funding will be needed, including grant or loan options.

The WB team is currently planning several initiatives related to trade and access to finance. They are preparing a list of activities that can be deepened in discussions or in smaller roundtables. Ms Sulko appreciated the fact that the Minister emphasised that these reforms are made not only for the integration process but also for the general development of the country.

Minister Ervin Mete, MFE, underscored the significant role of the Western Balkans as a crucial partner in development initiatives. He mentioned that the Joint Growth Planning (GPL), to which reference was made, has a fourth dimension, that of environmental sustainability, so it is complete. Regarding costs and financing, the Minister identified three main points: competitiveness, economic growth and the budget, stressing that without a budget the projects cannot be realised. In terms of financing, the Minister emphasised that the government relies on two main directions: internal budgeting and foreign financing from the EU/donors, including soft loans or grants and aid. He announced that there will be a donor coordination once a cost is determined, stressing that the coordination structure will be beneficial to all.

Ms Ines Muçostepa, Union of Chambers of Commerce (UCCIAL), thanked for organising a meeting on this important topic. She informed that UCCIAL has developed a regional event with the support of DG Near on the Growth Plan, with the active participation of businesses that wish

to understand their concrete advantages. Ms Muçostepa appreciated the Minister's speech, stating that the implementation of reforms is in the common interest.

Also, she reported on the initiatives related to the Growth Plan, emphasising the continuous cooperation with the 6 chambers of commerce in the region. These chambers have a key role in market freedom and in the process of accelerating integration. The priorities that were presented during this meeting are in line with these initiatives.

Ms Muçostepa mentioned that UCCIAL has taken a bigger role in the summit of chambers of commerce and industry in the region, through a formal mandate from the EU. This will enable cooperation with CEFTA and RCC to build the Common Regional Market and improve integration between the countries of the Western Balkans. She invited all actors at the table to contribute by defining the points they consider most important for building a common strategy.

Minister Ervin Mete, MFE, explained that the second point of the Growth Plan includes the creation of the Common Regional Market, which will then be integrated with the European Union. He emphasised that businesses play a key role in this process and MFE will be a good partner in this regard.

Ms Ekaterina Solovova, EBRD, expressed her support for the ongoing consultative process, emphasising the importance of reflecting in it feedback and comments from all stakeholders; concretely in the areas where these stakeholders (including IFIs) are actively engaged with the Government. For EBRD these concern areas such as renewable energy and infrastructure development. While acknowledging the document's comprehensiveness, she raised specific observations. Firstly, that the document has a very broad scope in some parts (e.g. in renewable energy development, where the EBRD has contributed to defining reform benchmarks for the Growth Plan), while certain measures, like the rehabilitation of the railway network, seem to be limited to one project only, omitting, for example, the importance of capacity development of the Albanian Railways company or other reform measures enabling operations of the built infrastructure.

Further, Ms Solovova emphasised the critical role of the implementation capacity of relevant government institutions and state-owned enterprises when it comes to realising specific measures, especially in the context of this three-year program. She stressed the importance of considering the capacity for implementing particularly large-scale infrastructure initiatives adhering to international and EU standards. Delays in project implementation often arise due to compliance with the EU standards related to environmental and social impacts, procurement, and more. To address this, in the railway sector for example, the EBRD and EIB have mobilised a comprehensive technical assistance package for the Albanian Railways, to enhance capacity to implement not only the ongoing Tirana-Durres railway project but also for all subsequent projects, including through an operational master plan and public service contract support. In this context, Ms Solovova stressed the importance of unlocking access to technical assistance at the earliest opportunity. Timely access to such assistance, as an integral part of the project, enhances the feasibility of implementing it within the designated timeframe.

Ms Laura Qorlaze, IFC, commented on some of the main challenges that Albanian businesses face regarding the prioritised pillars in ERP:

1. **Informality and Capacities of Fiscal Administration**: Ms Qorlaze pointed out the importance of treating informality as a priority in ERP, adding that an important part of this problem is related to the capacities of the fiscal administration and the need for effective reform in this direction. Risk-based control should be appropriately applied to make real change.
2. **Professional Education**: Although the ERP includes measures for professional education, Ms Qorlaze said that it is important to review the entire system, taking into account the

immigration trends and the need for qualified staff in the country. This implies that a thorough improvement of the education and vocational training system may be needed.

3. Reform on Land Ownership: The reform on land ownership, initiated earlier, continues to be an obstacle to investment in key sectors such as agriculture, tourism, and energy. Measures to fix this situation should be taken as soon as possible to facilitate development in these areas.

Ms Elisabeta Katiaj, Diaspora Business Chamber, expressed agreement with the chain of activities and the indicators for their measurement. Ms Katiaj expressed appreciation for the ERP as a document and suggested the inclusion of the diaspora due to its impact on human capital and potential investors. Regarding competitiveness, she suggested a combination and coordination between the concepts “Made in Albania” and “Made by Albanians”. This, according to her, will encourage diaspora consumers to consume local products and promote the country, brain absorption and partnership interests with the private sector.

Regarding the issue of “skilling”, she estimates that the moment has come for a special policy for “re-skilling” for sectors in crisis, proposing a proper strategy in local-level cooperation with municipalities to increase the quality of the workforce.

Regarding the private sector, Ms Katiaj said that it cannot make improvement, automation, and standardisation and digitisation alone to compete in international markets. She proposed that the plans for Intelligent Albania and the Agency for Innovation and Excellence should also include the private sector, supporting SMEs to create innovation and face international challenges.

Mr. Bledar Shella, Association of Banks, valued the quality of the prepared document and appreciated the involvement of banks in the widespread financing, with a special emphasis on digitisation and the growth of digitalised products, as mentioned by BoA. He emphasised that banks should have a key role in improving the payment system. Mr Shella appreciated the focus on financing projects in the area of renewable energy and infrastructure, considering the “green” aspect as an important part of the strategy for the following years.

In relation to informality, he stated that, despite the actions undertaken, the high level of informality remains a hindering factor for the economy and for financing from banks.

For the education sector, Mr Shella said that the focus on professional schools is important, but emphasised the need for a fundamental reform in the educational system, mentioning the degradation and current problems. He expressed concern that the degradation of the education system is one of the main reasons people leave, and proposed that this should be considered as a reform that will bring long-term results, starting now to contribute in the medium and long term.

Mr Agim Rrapaj, KASH, raised some comments and concerns regarding the ERP:

1. Disbursement of Funds: The main focus is on budgeting and disbursement of funds from the EU and the state budget. The disbursement process can take time, and therefore, it is important that this process is not delayed; thus, it is a time challenge that must be addressed immediately.
2. Social Policies in Rural Areas: The age group over 60 should be considered as a part of social policies in rural areas. So, it is important to pay attention to the needs of this age group.
3. Digital Platform and SMEs: Mr Rrapaj mentioned EU support for the FED Invest digital platform and the importance of the platform for the farmer’s portal supported by the EBRD. Linking these platforms can bring good results in supporting farmers and developing the agricultural sector.
4. Law on SMEs in Agriculture: A separate law for agriculture is needed, as the current law, the Law on Agricultural Cooperative Societies, is out of date and hinders the development of SMEs in agriculture.

5. *Informality and VAT in Agriculture*: One of the main problems in agriculture remains VAT and measures must be taken to solve this issue, taking into account the discussions that have been started at the technical level.

Minister Ervin Mete, MFE, informed that the instruction for the recognition of VAT costs for the agricultural production sectors, including the dairy and livestock sectors, has changed from 2% to 12%. This change aims to better reflect the reality of production costs in these sectors and create a fairer level of comparison with other industries. Mr Mete emphasised that Albania is ready to discuss further interventions that will facilitate connections with regional and European markets. He cited the World Bank's forecasts for Albania's economic growth, where one of the challenges is better connection with the European market. In this context, Mr Mete invited organisations and chambers of commerce for suggestions and cooperation, with the aim of improving relations and trade exchanges, since the proximity to the European market has been a positive factor for the growth of the Albanian economy.

Mr. Artan Xhiani, Confindustria Albania, expressed his concern about some issues that have raised during the year at the IC and for which no information has been received on their implementation progress. It is imperative that these issues are taken seriously by the IC.

1. *Fiscalization platform*. There is no need for changes in legal acts and by-laws, but for the technical enablement of those services that the current framework recognises.
2. *Online services*. Some online services are disabled. In conditions where there are no physical counters, queues are created, and businesses do not know where to go and often receive the service very late.
3. Regarding the proposal for inclusion in the IC agenda of the *Mid-Term Strategy of Income Management*, Mr Xhiani expressed his agreement, hoping that it will help in the prognosis of the business development in the future. Meanwhile, fiscal instability remains a major problem, affecting business and investor investment plans.
4. Regarding the *reform in the field of professional education*, Mr Xhiani cited the PISA report and its findings as a concern. He emphasised the need for insights and analyses in the field of education to be brought to the attention of educational institutions and of those involved in the economic development of the country and the region.

Mr Loritan Prespa, Tirana Chamber of Commerce, informed on the capacities of the Tirana Chamber of Commerce in the implementation of various international projects in Albania, and its readiness to be an implementing partner in future targeted projects.

Closing of the meeting

Minister Ervin Mete, MFE, informed that the meeting on the mid-term strategy and the fiscal part (fiscalization, VAT, tax controls, informality, etc.) should be one of the upcoming topics to be addressed in the IC considering the recommendations given earlier and those that have been taken into account. Partnership and mutual communication are necessary to achieve agreement, progress and effectiveness of such reforms.

At the end of all discussions, Minister Mete thanked the participants for their contribution and declared the meeting closed.

List of participants

Government representatives

1. Mr Ervin Mete, Minister of Finance and Economy/IC Chair
2. Ms Natasha Ahmetaj, Deputy Governor of the Bank of Albania
3. Ms Laura Plaku, CEO, AIDA

Business representatives

1. Mr Loritan Prespa, Deputy Chair, delegated by Mr Nikolin Jaka, Chair, Tirana Chamber of Commerce and Industry
2. Ms Ines Muçostepa, Chair, Union of Chambers of Commerce and Industry
3. Ms Antonela Hako, Chair, Women's Economic Chamber (WECA)
4. Mr Tomi Beruka, Board Chair, Union of Albanian Producers
5. Mr Neritan Mullaj, CEO, AmCham Albania, delegated by Mr Grant Van Cleve, President
6. Ms Elisabeta Katiaj, Vice Chair, delegated by Mr Ardian Lekaj, Chair, Albanian Diaspora Business Chamber
7. Mr Agim Rrapaj, Chair, Albanian Agricultural Council (*ad-hoc*)
8. Mr Bledar Shella, Chair of the Supervisory Board, Albanian Association of Banks (*ad-hoc*)

International partners

1. Mr Hubert Perr, Head of Cooperation, EU Delegation
2. Ms Ekaterina Solovova, Head of the EBRD Resident Office in Albania
3. Ms Evis Sulko, Acting Country Manager, World Bank Albania
4. Ms Laura Qorlaze, Country Representative, IFC

Absentees:

1. Ms Delina Ibrahimaj, Minister of State for Entrepreneurship and Business Climate
2. Mr Bilal Kara, Chair, Chamber of Commerce and Industry Albania - Turkey (ATTSO)

Special guests:

1. Mr Endrit Yzeiraj, Deputy Minister of Finance and Economy

Other participants:

Former IC business members

2. Mr Artan Xhiani, Board Member/Expert, Confindustria Albania
3. Ms Gerta Bilali, CEO, Confindustria Albania
4. Mr Bledar Mankollari, CEO, German Chamber of Commerce (DIHA)

Other representatives

5. Mr Aleko Polo, CEO, Union of Albanian Producers
6. Mr Erion Harizi, Chair of the Board of Directors, Builders Association
7. Ms Albana Laknori, Secretary General, Tirana Chamber of Commerce
8. Mr Artan Luku, Chair, Durrës Chamber of Commerce
9. Ms Klodiana Ajazi, CEO, Women's Economic Chamber
10. Ms Ardita Seknaj, Secretary General, ICC Albania

11. Mr Denald Tafani, Chair, Hellenic Business Association
12. Ms Erifili Berberi, CEO, Hellenic Business Association
13. Ms Adelinda Farriçi, Secretary General, Association for Local Autonomy
14. Mr Reinaldo Pipiria, Chair, National Albanian Real Estate Association (NAREA)
15. Ms Marlinda Zotaj, Head of Office, Advantage Austria
16. Ms Tiziana Domi, Project Coordinator, SWISSA
17. Association "Trade Union of Albania"
18. Ms Eralda Shtylla, Head of Department, MFE
19. Mr Elson Caka, Specialist, MFE
20. Ms Natasha Rovo, Senior Economist, World Bank
21. Ms Hilda Shijako, Senior Economist, World Bank
22. Mr Keler Gjika, Senior Financial Sector Specialist, World Bank
23. Ms Sigita Stafa, Programme Manager, Embassy of Switzerland in Albania
24. Ms Ledia Muço, Economic Affairs Advisor, EU Delegation
25. Ms Endrita Xhaferaj, Principal Counsellor, Governance and Political Affairs, EBRD