

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

“Private Sector Challenges: Fiscal Administration, Innovation, Productivity”

Tirana, 26 March 2024, 11:30 – 13:00

The meeting was chaired by the Minister of Economy, Culture and Innovation, Mr Blendi Gonxhja. The meeting was attended by 19 IC members and around 30 observers—representatives of local and foreign business associations and state institutions in Albania.

Opening of the Meeting by Minister Blendi Gonxhja – IC Chair

In his opening speech, Minister Gonxhja highlighted the progress reached in the modernisation of government-business interactions through the improvement of communication with the tax administration and the wide application of electronic services. While presenting some positive results of fiscal reforms, he also emphasised the importance of balancing formalisation and innovation to support entrepreneurs. Also, Minister Gonxhja emphasised the importance of interventions in the development of long-term revenue collection strategies and the promotion of engagement and transparency in sectors to promote sustainable economic growth. Minister Gonxhja thanked the European Bank for Reconstruction and Development (EBRD) and the Swiss State Secretariat for Economic Affairs (SECO) for their support to the IC platform for improving the business climate in the country.

Presentation by the Investment Council Secretariat

Ms Diana Leka (Angoni), IC Secretariat, briefly presented the main findings of the Secretariat’s analysis, highlighting business challenges in four main areas: interaction with the tax administration and fiscalisation, informality, productivity, innovation and regulatory burden. Among the proposed recommendations (*also included in the technical note sent in advance electronically to members*) were mentioned addressing fiscal instability and tax administration, improving formalisation, stimulating business innovation through measures such as accelerated depreciation and raising awareness of businesses on the benefits of innovation and investing in research and development.

Summary of main discussions

Minister Delina Ibrahimaj appreciated the work of the Investment Council, emphasising its importance as a forum that shows seriousness in analysing and recommending key policies that affect the country’s business climate and cooperating in identifying major business reforms. She stated that the Secretariat’s latest technical note addresses previously discussed elements, but despite joint efforts, there is still a need for in-depth work (working groups) in the direction of fiscal stability and productivity promotion to modernise the manufacturing sectors.

Ms Ekaterina Solovova, EBRD, welcomed Minister Gonxhja as the new Chair of the IC, while thanking Minister Ibrahimaj for her continuous and active participation. She recognised the importance of the topic of this meeting for the competitiveness of Albanian businesses. Highlighting IC’s decade-long operation, she noted the organisation of its 33 plenary meetings, in

addition to more than 100 focus/working group meetings to discuss issues at a technical level, reaching out to around 450 business representatives, and the approval of 326 recommendations, with nearly half already completed or in progress, contributing to concrete improvements in the country's business climate. She emphasised the IC's effectiveness and recognition as a public-private dialogue platform, evidenced by increased interest from associations and business chambers, resulting in more members representing the business community. Ms Solovova also praised the ongoing commitment of the Albanian government to the Investment Council and SECO's continuous support. She concluded by underlining the importance of dialogue between the EBRD, the government, and the private sector regarding Albania's business climate.

Minister Blendi Gonxhja expressed the need for coordination and improvement of information regarding grants and program applications. *He proposed a website to combine and categorise information for all applicants, ensuring that everyone has clear and complete access to information about the deadlines and opportunities they can apply for.* In this regard, Minister Gonxhja proposed undertaking a joint effort to increase efficiency and transparency in the application process for grants and programs.

Minister Delina Ibrahimaj commended the Secretariat for the work done and appreciated the importance of the topics being discussed at this table, which require special attention and in-depth technical working groups. Referring to the current study and others, the Minister pointed out the following:

- Although agriculture and industry sectors had some growth, still their productivity has been low compared to others and expressed the need for special measures to increase it. She mentioned ongoing work undertaken under the S3 strategy as a prior step to identify specific indicators, enabling more knowledge on where to focus ahead. So far, productivity in both potential sectors could be enhanced through interventions focusing on (a) human capital (enterprise, knowledge, and workforce) and (b) increased access to finance.
- The need for a horizontal (such as digitalisation, etc.) and sectoral approach to address informality-related issues and their interaction in different sectors. It is work that the National Economic Council (NEC) has undertaken to carry forward and develop. She invited IC to collaborate by (a) leveraging expertise and (b) fostering collaboration among IC members to cooperate through established working groups for sectoral analysis.
- Underscored the importance of IC draft recommendations on the need for *more structured information and simplified access to finance for businesses*. She informed that the government has initiated reforms related to the restructuring of chambers of commerce to maximise their contribution to Albania's ongoing European integration process. These chambers would play a crucial role in business education while helping to disseminate key relevant information to every business entity. Additionally, the Minister highlighted various initiatives geared towards establishing business advisory services (e.g. one-stop-shop) designed to assist businesses in navigating the application procedures for EU funds, enhancing trust in the process while improving the quality of the information provided to them.

Mr Nikolin Jaka, Tirana Chamber of Commerce, appreciated the establishment of the Ministry of Economy, recognising it as significant progress for the business community and deeming it essential for fostering a favourable business environment. He commended the Ministry's proactive agenda to enhance the business climate and coordinate economic sectors. Mr Jaka appraised the efforts and suggestions put forth by IC and emphasised the need for these recommendations to be seriously considered by pertinent institutions during the formulation and execution of drafts, platforms, and legal frameworks. In addressing some of the primary challenges confronting businesses, he highlighted:

- The importance of *legal and fiscal security* and the need to improve *legal security* for local investors and producers, especially for enterprises that draw up medium and long-term plans for developing their companies.
- Need for a *strategy to support local production and export* that considers support for Albanian producers and investors, e.g., identify one sector that has investment potential and prepare in advance a full and specific legal/regulatory package that, in support of the implementation of the project, will also consider all challenges related to land, energy, etc.
- The pressing need for collaboration between chambers of commerce and organisations to develop *models for accessing finance* tailored to each funding opportunity. As a reference, he mentioned the model devised by the Ministry of Infrastructure and Energy (MIE) to promote energy self-production and productivity among companies. This model has facilitated the expansion of enterprises generating their own energy within a short span of years.

Ms Elisabeta Katiaj, Diaspora Business Chamber, highlighted three key points:

- Firstly, she underscored the necessity of establishing *a centre of innovation and excellence for the private sector* to enhance competitiveness. She noted that start-up funding opportunities typically offer relatively small amounts, ranging from EUR 10,000 to 15,000, whereas the cost of business development consulting alone can amount to this sum. Consequently, the creation of such a centre is regarded as urgent, especially given that the majority of businesses in the country are small and medium-sized enterprises. In countries like Germany and Italy, thousands of experts are affiliated with these centres. They provide businesses with essential consultancy services against payment or support from public-private partnerships. Businesses require education and training in governance practices. Standardisation, industrialisation, and internationalisation are essential to encourage SMEs to expand internationally. Consultancy services are crucial in initiating all these three phases, and centres of innovation and excellence for the private sector would significantly facilitate this process.
- *Legal changes must be coordinated with the budget plan* to prevent unforeseen costs for businesses. It is essential to establish working groups to scrutinise and monitor proposals for implementation. While there have been notable enhancements in the tax and customs systems, such as expedited VAT reimbursement for exporters with minimal checks and reduced payment processing times, there is still a pressing need for automation and digitisation in both systems to streamline procedures further.
- *Necessity of establishing funds for clusters*. Albanian businesses, particularly farmers, cannot achieve internationalisation independently. However, by uniting small and medium-sized enterprises within cluster structures, they can foster proper industry and entrepreneurship while also facilitating procedures. The cluster initiative and the allocation of funds for clusters are integral parts of the ERP 2024-2026. Have studies been conducted to assess the feasibility and potential impact of cluster development, and are there measures currently being implemented to support this initiative?

Mr Sherif Bundo, Association of Accountants, raised concerns about the fiscal stability in Albania and proposed the following:

- A consolidated *fiscal code* to prevent frequent legal changes and ensure stability in tax laws. Frequent changes in tax regulations have led to tensions and mistrust in the business sector, increasing systemic risk. If laws change frequently, we fail to learn them, stabilise them, and reflect—and what is even more harmful—we fail to form a culture of respect and law enforcement. For this reason, the time has come for the law on tax procedures to pass to the level of a fiscal code, which means a well-constructed fiscal code, consolidated rails of a fiscal character, on which the administration does not have a free hand to change whenever political wills or electoral interests require changes for different purposes.

- *Accelerated depreciation* should be introduced in important sectors such as technological lines, investment in the tourism sector, processing lines of agricultural and livestock products, and manufacturing sectors. In our country, accelerated depreciation was applied to cars, as if they were the activity of the most interesting investment sector in the Albanian economy. If it were to be applied to really important sectors, then yes, let it be legislated that if an accelerated depreciation regime is chosen, the expenses that are reduced from this regime are considered deductible. A control mechanism must be put in place so that it is not abused.
- The time has come to understand why there was not a high coefficient of application to benefit from funds from EU calls. Businesses, in general, do not have all the necessary professional culture. However, there are two sides here. One party is the one making the calls, while the other party is the one absorbing the calls. If the party absorbing the calls does not understand them, it means that the other side has not done its mission either. Maybe it's time to have offices in municipalities to help with applications for European funds to increase productivity and avoid favouritism based on personal acquaintance. This would also be in the interest of the government, which wants to increase productivity.

Mr Balazs Revesz, FIAA, expressed appreciation for the recommendations provided, particularly highlighting the emphasis on productivity as a central focus. He underscored several key points:

- *Strengthening the availability of a qualified workforce and retaining new talents in Albania is crucial.* There is a pressing need for better alignment between demand and supply in the labour market, necessitating comprehensive and long-term reforms rather than short-term interventions. Mr Revesz urged the government to prioritise this area and initiate necessary interventions.
- While the macroeconomic environment appears favourable, *exporters face a significant challenge due to the devaluation of the Euro against the Lek.* This issue has been the focus of the work of the Bank of Albania and urged for continued efforts in this direction.
- Digitisation plays a pivotal role in enhancing innovation and productivity. Utilising digital services can also aid in combating tax evasion. Mr Revesz emphasised *the importance of the government's commitment to digitising its administration*, as this can reduce informality and expedite decision-making processes, effectively meeting the needs of businesses.
- *Legal tax harmonisation* is needed to establish a more predictable tax system and strengthen law enforcement efforts, thereby ensuring a broader tax base and combating tax evasion effectively.

Mr Hubert Perr, EU Delegation, commended the IC as an excellent platform for producing frank and honest discussions. He extended gratitude to all participants, including the Secretariat, for their commendable efforts. Mr Perr then addressed several key points related to the topic at hand:

- *Stability and predictability of the tax regime.* The European Commission has, on several occasions, also during the discussions for the formulation of the Growth Plan Reform Agenda, encouraged the authorities to finalise and adopt a medium-term revenue strategy. We stress the importance of gradually and structurally increasing fiscal revenues, which should, of course, remain competitive. This is essential for the ability to have public investments in infrastructure and in human capital development.
- As regards amendments to the tax procedures Law or the VAT Law, *the authorities are encouraged to follow the acquis approximation with the EU directives*, such as with the EU VAT Directive. The process of adopting changes and alignment should go hand in hand.
- To maintain a competitive tax regime, it is important that efforts are focused on broadening the tax base, primarily through the fight against informality and tax evasion, and by reducing the range of tax exemptions.

- Productivity – The government can undoubtedly play a role, but it must be targeted because resources are limited, and there must be a scheme that is transparent, clear and easy to understand.
- Innovation – The “EU for Innovation” program aims to bring innovation, focusing closely on the incubation of ideas and small businesses. The idea is to work closely with the government to *leave behind a system that enables the government to scale up.*

Regarding the Growth Plan:

- The EU will invest 6 billion euros in the Western Balkans (WB) for the next 3.5 years. Most of the reforms being discussed now have been negotiated in this framework between Albania and the EU.
- One of the most transformative parts of the Plan is *access to the EU market* and finding quick and real opportunities to enter this market, which was emphasised during the last summit held in Tirana. For example, the unique payment system (Single Payment system) is something very tangible that is being developed through the tireless work of the Bank of Albania. This will make Albania an attractive destination for business and tourism and will also attract the diaspora to send and receive money. These are the kinds of initiatives you can expect from the EU. Access to the market is impossible if the private sector is not ready to enter this market. It is possible that more products come from the EU, and therefore, the productivity of Albanian enterprises is very important to work in this direction.
- Reform in the Growth Facility. The EU will provide additional fiscal/financial space for the 6 WB countries in the hundreds of millions of euros through budget support against tangible, credible and agreed-upon measures and reforms that the government is undertaking. So you will have reforms related to the private sector and other areas such as capital, digitalisation, energy, justice and the rule of law, but at the same time, the government will have additional fiscal/financial space to put in place systems for the government to support the private sector in schemes that will boost productivity and innovation. The EU’s support for these schemes is similar to those applied by member states. Currently, the EU is offering support and partnership to Albania as if Albania were a member of the EU. So, basically, we’re moving from micro support programs to macro support that will allow you to do what’s best for your country.

Minister Blendi Gonxhja, underscored the crucial importance of technical and professional standards and protocols. He emphasised that the absence of such standards could potentially jeopardise investments and undermine the country’s credibility among investors. Minister Gonxhja emphasised the necessity of standardisation and quality control of products to instil confidence in the local market among investors. Additionally, he called for the enhancement of inspectorates and regulatory authorities responsible for overseeing standards, which are indispensable for fostering market credibility. The Minister proposed addressing the issue of lack of protocols and contracts, viewing it as a challenge for both parties involved and as an aspect that impacts the interests of all market stakeholders.

Mr Grant Van Cleve, AmCham, thanked for the invitation and commended the government’s positive steps in the separation of the finance and economy ministries, as well as the incorporation of innovation into the Ministry of Economy. He highlighted the following key points:

- *Greater coordination is needed for innovation and artificial intelligence initiatives.* These areas span multiple ministries and require coordination at a higher level. Establishing platforms such as councils or working groups can enhance coordination efforts.
- *Urgency in finalising laws related to e-commerce and crowdfunding.* While there has been progress, further steps are necessary to complete these legislative processes.

- *Knowledge transfer is important because it attracts* skilled individuals from abroad, such as digital nomads or regional headquarters of multinational companies. Smart people go where the living is convenient, and companies follow. Favourable living conditions in Albania attract foreigners who contribute innovation, money, and capital to the country. Strategies should focus on effectively harnessing and utilising this talent for the country's benefit.

Ms Antonela Hako, Women's Chamber of Commerce, emphasised the importance of start-up programs and stressed the need for their accessibility to all, including women in rural areas. She proposed that chambers of commerce, including women's chambers, collaborate as partners in providing guidance and assistance to individuals seeking grants. Ms Hako suggested leveraging chamber resources, such as interns, to offer training and support. Additionally, she recommended support for existing local businesses, particularly in the agro-processing sector, to ensure their competitiveness in the European market by reviewing the legal framework.

Minister Delina Ibrahimaj responded to several points raised during the discussion. She highlighted the necessity of a medium-term revenue strategy aimed at promoting stability and eliminating tax exemptions that may negatively impact the country's economy in the long run. Additionally, Minister Ibrahimaj underscored the importance of establishing a business training centre and an education centre to support both existing businesses and start-ups in launching their ventures. She proposed enhancing financial instruments to aid businesses, including the enactment of *crowdfunding legislation* and the establishment of *corporate venture capital* to facilitate start-up financing.

Ms Bilgen Aldan, ICC Albania, addressed two key issues concerning productivity and access to finance for businesses in Albania. She referenced an ICC study indicating that many *businesses in the country encounter challenges accessing European Union funds* despite efforts to adjust regulatory frameworks. While acknowledging the recommendations for enhancing access to finance, ICC Albania stressed the importance of speed, clarity, and practicality to ensure businesses can understand and benefit from these initiatives. Additionally, Ms Aldan suggested that *artificial intelligence should be treated as a separate horizontal pillar*, encompassing technology companies rather than being categorised under different sectors. This approach recognises AI as a specialised field with implications for funding and the country's overall strategy.

Mr Zak Topuzi, Albanian Tourism Association, appreciated that some of the association's recommendations have been incorporated into the Secretariat's technical note. He specifically emphasised a recommendation concerning labour productivity and seasonality in tourism. Noting Albania's high level of seasonality, ranking 108 out of 117 countries, Mr Topuzi underscored the urgent need for measures to address labour shortages, such as fiscal relief or subsidies. He cited the recent announcement by the Greek Ministry of Tourism regarding financial assistance for seasonal tourism workers as an example, highlighting the necessity for emergency measures to tackle this issue.

Mr Edvin Preçe, Pro-Eksport Albania, expressed gratitude for the Secretariat's work while highlighting the necessity of adding an agenda item to IC meetings that provides updates on the progress of recommendations made from the previous meeting. He brought as an example the unresolved business issues related to the National Agency of Information Society (NAIS), stressing the importance of transparency regarding the actions taken or not taken on such matters. Mr Preçe proposed conducting analyses to evaluate fulfilled recommendations and identify reasons for unfulfilled recommendations, aiming to enhance the credibility of the IC. Additionally, he underscored the significance of surveys to gauge business accessibility and willingness to engage, emphasising the importance of earning their trust.

Ms Diana Leka, IC Secretariat, thanked for the comment and clarified that implementation of recommendations requires time and effort. While efforts are made to adhere to deadlines, exceptions may arise, and some recommendations might not be completed within the specified timeframe. The Secretariat is committed to verifying the recommendations and providing specific responses as requested by interest groups.

Minister Blendi Gonxhja, shared his insights on the challenges and priorities for the current year, emphasising the significance of investing in human capital and strengthening the workforce in Albania. He applauded the approval of the two TEDAs as a positive development for the economy and quality employment, underscoring the necessity for broad collaboration to tackle the challenges ahead. The Minister proposed exploring a diverse array of policies and programs aimed at enhancing professional skills and making investments in this direction. Furthermore, he stressed the importance of innovation in streamlining procedures and practices, along with the collective commitment to investing in professional development. He concluded with a call for robust cooperation and invited all attendees to continue discussions and take further steps forward.

Closing of the meeting

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

List of participants

Government representatives

1. Mr Blendi Gonxhja, IC Chair/Minister of Economy, Culture and Innovation
2. Ms Delina Ibrahimaj, Minister of State for Entrepreneurship and Business Climate
3. Ms Natasha Ahmetaj, Deputy Governor of the Bank of Albania
4. Ms Anila Shqypi, Head of Sector, SME and Projects Directorate, delegated by Ms Laura Plaku, CEO, AIDA

Business representatives

1. Mr Nikolin Jaka, Chair, Tirana Chamber of Commerce and Industry
2. Ms Elisabeta Katiaj, Vice Chair, delegated by Mr Ardian Lekaj, Chair, Albanian Diaspora Business Chamber
3. Mr Balazs Revesz, President, Foreign Investors Association in Albania (FIAA)
4. Ms Antonela Hako, Chair, Women's Economic Chamber (WECA)
5. Ms Bilgen Aldan, Chair, ICC Albania
6. Mr Grant Van Cleve, President, AmCham Albania
7. Ms Gerta Bilali, CEO, delegated by Mr Sergio Fontana, President, Confindustria Albania
8. Mr Denald Tafani, President, Hellenic Business Association of Albania (HBAA)
9. Mr Valer Pinderi, President, Albanian E-commerce Association (AECA)
10. Mr Zak Topuzi, President, Albanian Tourism Association (ATA) (*ad-hoc*)
11. Mr Sherif Bundo, President, Association of Accountants and Financial Professionals (*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 Hilda Shijaku, Senior Economist, delegated by Mr Emanuel Salinas, Country Manager, World Bank Albania
4. Ms Laura Qorlaze, Country Representative, IFC

Absentees:

1. Ms Ines Muçostepa, Chair, Union of Chambers of Commerce and Industry
2. Mr Bledar Shella, Chair of the Supervisory Board, Albanian Association of Banks

Special guests:

1. Mr Endrit Yzeiraj, Deputy Minister of Finance and Economy
2. Mr Ceno Klosi, General Director, General Tax Directorate (GTD)
3. Mr Piotr Szpunar, Board Director for Poland, Bulgaria and Albania, EBRD
4. Mr Philip Arnold, Deputy Chief of Mission, Embassy of Switzerland in Tirana

Other guests:

5. Ms Alketa Përnaska, Chief of Cabinet, Ministry of Economy, Culture and Innovation
6. Ms Rezana Celmeta, Director, Directorate for Business Processes, GTD
7. Mr Bledar Hamzallari, Director of the Control Directorate, GTD
8. Mr Trëndafil Tarja, Director of the Field Verification and Coordination Directorate, GTD

9. Ms Albana Laknori, General Secretary, Tirana Chamber of Commerce
10. Mr Berti Pashko, Chair, Institute of Authorized Accounting Experts (IEKA)
11. Mr Edvin Preçe, Chair, Pro-Eksport, Albania
12. Mr Bashkim Sykja, Chief of Cabinet, Tirana Chamber of Commerce
13. Mr Artan Luku, Chair, Durrës Chamber of Commerce
14. Ms Ardita Seknaj, Sekretare e Përgjithshme, ICC Albania
15. Ms Soana Teka, Executive Director, Diaspora Business Association
16. Mr Artur Papajani, Fiscal Expert
17. Mr Gledis Shehu, Expert
18. Ms Mimoza Agolli, Economic Expert
19. Ms Erifili Berberi, Executive Director, Hellenic Business Association in Albania
20. Mr Reinaldo Pipiria, Chair, National Albanian Real Estate Association (NAREA)
21. Ms Marlinda Zotaj, Head of Office, Advantage Austria
22. Ms Tiziana Domi, Project Coordinator, Swiss Chamber of Commerce (SWISSA)
23. Mr Martin Serreqi, Deputy Dean for Relationships with the Entrepreneurship and Public Institutions, Economic Faculty of the University of Tirana
24. Ms Arjeta Vokshi, Professor, Economic Faculty of the University of Tirana
25. Mr Bardhi Sejdarasi, Journalist, Albanian Radio and Television (RTSH)
26. Mr Keler Gjika, Senior Financial Sector Specialist, World Bank Albania
27. Ms Sigita Stafa, Programme Officer, Embassy of Switzerland in Tirana
28. Ms Ledia Muço, Economic and Trade Advisor, EU Delegation
29. Ms Endrita Xhaferaj, Principal Counsellor, EBRD