



AMERICAN CHAMBER OF COMMERCE
DHOMA AMERIKANE E TREGTISË

INVESTMENT AGENDA IN ALBANIA

AmCham Recommendations 2021

This document is prepared by the American Chamber of Commerce in Albania. It reflects findings and Recommendations based on the collective input of 220 International and Albanian businesses, including the wider business community's perception about the business enabling environment in Albania.

The recommendations reflect some of the best global practices and are a product of senior experts of AmCham committees: The Tax and Customs Committee / The Regulatory, Legal & IPR Committee / The Labor and Ethics Committee / The Digital Business Committee and the Investment and Trade Committee.

The recommendations align, where appropriate, with other findings such as the World Bank's 'Doing Business' Report, the European Commission's 'Albania Progress Report', Transparency International, the US State Department's 2020 Investment Climate Report, OECD etc.

BACKGROUND

The economy and businesses in Albania are facing the challenges presented by the Covid-19 pandemic. The Government has taken supportive steps to ease the recovery in a moment when businesses play a crucial role in the country's economic recovery. But in addition to Covid-19 challenges, existing underlying and structural issues with competitiveness, the tax system and fiscal policies in general, transparency, public procurement and workforce skills, remain potent contemporary threats to a fragile economy.

Throughout 2020, AmCham and its community engaged in a series of high-level activities that sharpened the perception of the business environment in Albania. A case of a high-profile American investor, unable to start a duty-free investment in the main airport, exposed major issues with contract enforcement. Secondly, Albania dropped 19 ranking points according to the World Bank's 'Doing Business' Report – further losing ground to its regional competitor economies. And the annual AmCham Business Index fell by a significant 5 percentage points – the largest drop in AmCham's community confidence in eight years. These events, combined with a growing call for action by our investor community, elevated the business enabling topic into one of the biggest concerns in the last few years.

As a result, a team of a dozen senior experts, representing six different AmCham Committees conducted a diagnostic data analysis and later recommendations. The approach to data analysis and recommendations was agreed through a mutually collaborative approach with the Ministry of Finance and Economy and the Ministry for the Protection of Entrepreneurship. Draft conclusions on key topics with the purpose of addressing improvements to the business environment were laid out.

The recommendations aim to support the Government's actions in response to the needs of the business community by enabling an attractive investment climate that drives economic growth and job creation.

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EXECUTIVE SUMMARY

In the last 12 months AmCham, conducted a series of surveys and expert analysis to diagnose the investment and business climate in Albania. Advancing on the path to the EU, Albania faces some key challenges to overcome but also potential opportunities to leverage.

On the one hand, consistent surveying of the business community, confirmed by reputable international reports, paint a picture of a costly and inefficient business environment. Left unresolved, these threats would accelerate during and post Pandemic challenges. But Albania also offers an increasingly strategic location, natural resources and a talented and agile labor force. The upcoming prospect of joining the EU market and a recent economic agreement with the United States present unique medium to long-term opportunities. Tackling the challenges in the business environment, however, is critical for a successful leverage of these opportunities.

While previous work was focused on diagnosing the business environment and raising awareness, the purpose of this publication is to provide solutions. The 40 specific recommendations in this report are organized into eight subject groupings, representing key challenges and opportunities.

First, Albania would need a coherent strategy to attract Investments, implemented and monitored by the highest levels of Government. For the agenda to work, it must identify key strategic sectors, announce incentives to help these sectors grow, set up infrastructure support among local and national government and reduce inefficient processes and market concentration.

To build public trust, an uncompromising stance against corruption with meaningful sanctions for abuse and more transparent monitoring is an immediate start. In addition, a transparent *public procurement* system and an effective *public consultation* on decision-making would raise citizen engagement to healthy levels.

New economic growth opportunities can also be explored. A modern and competitive tax system can encourage formalization and regional investments. Albanian exports present new opportunities in the approaching EU markets and can be supported with trade policies and tax incentives. In the post Pandemic era, no countries will prosper without a strong digital economy and Albania can develop a proper framework to support it. The new economy will also require new abilities for which the Government and private sector must partner to reskill and upskill the workforce, capturing these new opportunities.

Implementing these recommendations with rigorous measures would upgrade Albania's status from one of the least competitive countries to one of the most dynamic business environments in the Western Balkans.

An important role to these driver recommendations is the political stability and the bipartisan consensus for important reforms. An often-polarized political situation indicates an unstable environment and create obstacles for new investments, leading uncertainty and discouragement to potential investors.

For a wide scope reform like this, AmCham urges a constructive dialogue and cooperation among the Political Parties, Government and the Parliament to achieve a long-lasting impact.

The American Chamber of Commerce in Albania is committed to strengthen the partnership with the government and all the parties involved in the common interest of developing a better environment that guarantees real business growth and attracts strategic investments in the country. AmCham remains open to offer further assistance in ensuring concrete results on improving the business climate through the implementation of these recommendations.



AMERICAN CHAMBER OF COMMERCE
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40 RECOMMENDATIONS

To Improve The Competitiveness
of Albanian Economy & Business
Environment



Foreign Direct Investments

Adopt a Highly Strategic Approach towards Foreign Direct Investments (FDI)

The Goal: Becoming the Most Attractive Investment Destination in the Western Balkan

THE RELEVANCE

An effective and attractive FDI policy is the key ingredient for transitioning from a developing economy to a competitive economy. Countries that adopt FDI as a central strategic goal have produced economic growth and welfare for its citizens at a much higher level than those that do not. Statistics show that the right FDI policies not only enable capital injection into the economy, but also translate into significant impact benefits – measured by key primary and secondary indicators. The primary and most significant economic benefits from FDI are a direct and measurable increase in GDP, an increased income growth and higher employment.

But a number of interrelated secondary impact indicators make the case for FDI even more compelling. Countries with advanced FDI policies benefit from an infusion of technology transfers which improves overall competitiveness of the economy and enables local businesses to compete in external markets and increase workforce skills. The technology factor is very important, because well designed FDI policies attract the type of technologies that are in high demand in the modern economy.

For instance, ‘clean energy’ technologies will not only make Albania compete more effectively in the 21st century global economy, but will also support a smoother integration into the EU economy. Such adaptation will also create more socially responsible corporate policy examples – which local businesses can adopt.

The regional benefits will also be significant. A robust FDI strategy would transform Albania from one of the least competitive regional Western Balkan (WB) countries (see ranking of the World Bank’s Doing Business Report) into one of the most competitive WB economies benefiting from billions of investments. Studies show that the internal productivity and efficient use of the country’s resources will also take a boost. One of the main benefits of FDI in the long-term would be its contribution towards aligning the Albanian economy more closely with the global economy – in a process that will likely increase both exports and imports. Trade and Investment will mutually reinforce channels for cross-border activities – an outcome strongly suggested by the EU Progress Report.

One of the indirect benefits of FDI would be increased development in Human Capital skills – through training and education of the workforce. It is expected that multinationals investing in Albania would also want to invest to modernize their workforce skills given that their products must be successful in a competitive global environment. FDI would also lead to a sizeable improvement of corporate governance, internal reporting and principles of information management – leading to higher standards for local markets as a whole. Given its considerable importance, the FDI recommendations interrelate with all other seven sections in this report.

¹ For the purposes of this analysis, the term FDI is designed to include and address improvements related to Domestic Investments as well.

RECOMMENDATIONS

1. Adopt an Investment Strategy to be led, implemented and monitored by highest levels of Government. A real, impactful FDI-oriented policy will require strong government leadership with significant political and legislative will to be implemented. The strategy, supplemented by implementational details, must be articulated by the highest levels in the administration through a public commitment. We recommend that for the strategy to be affective, it must be led by the Ministry of Finance and/or the Economy, supported and monitored by the Prime Minister's office with a commitment for implementation by all responsible agencies. The Investment Strategy would include the definition of strategic sectors, incentives for a given strategic sector, and transparent publication of planned public work (infrastructure, water, electricity, plumbing and other public services) to align the strategy with private sector investments. Investments that provide protection and development of natural resources and increase employment could also be incentivized. Considering previous gaps, coordination policies between local and central government would be important for implementation of public infrastructure.

2. Shorten the bureaucratic process for making Investments – targeting the reduction of procedural steps and duration. Albania ranks poorly in the World Bank's Doing Business report for the time it takes to complete an investment. North Macedonia and Serbia for instance have set up a much faster investment permit processes – a crucial reason why they attract higher FDI levels. This is a key determining factor for AmCham investors as well.

3. Legislate a progressive package of Incentives to boost sustainable and long-term investments. Best practices of Incentives in FDI include performance, regulatory, procedural and financial incentives: a Establish a benchmark for incentives including: a minimum of new investment value (sector-based) and b) new jobs created committed by the investor with c) specified sectors such as Manufacturing, IT etc. Alongside, a performance indicator for investments must be developed so that the incentives are rolled

out in tranches aligned with achievements.

b) Regulatory and Procedural: Expedited permits for qualified sizeable Investments.

c) Financial: Meaningful subsidies on Infrastructure facilities and Job Training

d) Fiscal: Reduced Corporate Income Tax for qualified investments

4. Enact meaningful antitrust and anti-competitive regulation to disincentivize monopolies and market concentration. In order to ensure that foreign companies will invest in a fair and open market, free of monopolies, the supervising agencies must adopt a rule-based policy approach to examining and reducing market concentration.

5. Support the enforcement of business contracts by guaranteeing a minimum level functionality of the justice system by ensuring an acceptable standard timeframe for handling cases and disputes.

6. Stimulate the development of private Investment Funds, Venture Capital and other alternative financial instruments to grow private investments. Capital availability is key to attracting investors. Proper regulation and internal policies that encourage Investment Funds (with the purpose of investing into local companies) and bank or credit guarantees to incentivize investments are critical support factors. For the Albanian economy to turn into a serious regional competitor, a professional investment fund, managed by professional experts from the private sector, supported with capital by the Government and in partnership with international funds would be a key investment stimulator. The fund would invest in start-ups and SMEs with high growth potential. A wider utilization of guarantee funds by the banking sector and other financial players in financing of FDI transactions is also recommended.



The Fight Against Corruption

Develop and Enact an Effective Anti-Corruption Program

The Goal: Boosting Trust and Confidence in Citizens, the Business Community and Foreign Investors in Transparency, Fair Practices and Rule of Law

THE RELEVANCE

Albania has initiated important reforms and activities in the fight against corruption. The further consolidation of Justice Reform, with the establishment of SPAK (Special Anti- Corruption Structure) has created high expectations on the investigation and punishment of high-level corruption cases. The Government has approved ambitious initiatives, including an inter-sectoral strategy to fight corruption and an action plan for 2020-2023. A task force, headed by the Ministry of Justice in the quality of National Anticorruption Coordinator has been set up to implement the strategy.

A campaign against the informal economy has also shown some results. The fact remains however, that corruption is still widespread and prevailing in Albania with little progress to be shown in the last few years. According to Transparency International, Albania ranks worst in the WB region in their corruption index. The State Department points out corruption as one of the key elements that keeps foreign investors away from Albania. The AmCham community has been increasingly concerned and increasingly vocal against unfair and corrupt practices. And the public perception of corruption has reached concerning levels.

Government of Albania has reached an agreement with USAID to launch USATA (US- Albania Transparency Academy), a 5-year program to set up a programmatic structure and tools to increase transparency, engage citizens and ultimately fight corruption. While this is a welcomed development and we encourage a full cooperation of the government and private sector with the academy. But based on global practices, real economic progress can only be achieved if the fight against corruption is relentless and done with commitment. Therefore, AmCham strongly recommends the deployment of a specific, powerful and public anti-corruption program. Following are some practical recommendations to establish the program.

RECOMMENDATIONS

7. Enact & Energize Civil society's tools of Public Accountability and Oversight in Government Operations and Management of Public Budget. The action would ensure the transparency of government operations and increase citizen engagements in government affairs. Specific instruments tailored to this purpose, such as Open Data standards (link to recommendation #12) and other similar tools must be empowered through enabling regulation, grants and collaboration with welcoming support from international organizations.

8. Enact a package of Anti-Bribery Compliance Legislation by targeting previous and current underlying government failures (or public perception of certain operations) with proper sanctions and meaningful penalties. One of the most effective methods of fighting corruption is to enact legislation that makes corruption practices punishable. Alongside, the whistle-blowing practices, cooperation with prosecutors and barring offenders from public office, a proper punishable sanction targeting both the offeror and receiver of the bribe must be legislated. We strongly recommend alignment with OECD anti-bribery convention standards as well as implementation of EU recommendations.

9. Eliminate or minimize 'Special Exceptions' from public procurement and other decision-making regulations to reduce the risk of corrupt activities. We recommend full alignment with EU directions towards the management of public procurement to eliminate loopholes or special exceptions.

And given Albania's controversial use of exceptions in the past, we recommend a austere reduction towards full elimination of exceptions. Additionally, a strictly 'defined' criteria when exceptions would be activated, alongside with related procurement methodologies to be applied, would be required.

10. Increase the Transparency of government operations. The goal is to increase the deployment of transparent tools and platforms (such as e-services from government to businesses) with the purpose of increasing public transparency and minimizing the risk of corruption. The platforms should be designed in a way that increase businesses or citizen's engagement in the detection of corrupt activities. In particular apply the advanced e-services or fully transparent public platforms to the following agencies/ activities: 1) Land Administration 2) Customs Administration 3) Tax Administration and 4) Public Procurement.

11. Enable and Incentivize a Coalition of activists from the media, businesses and civic society to support the government reform anti-corruption program. The program would enable a coordinated media publication and related activity monitoring for increasing the pressure on parliament and politicians to support reforms. The activity could be supported through commitment of public funds and partnership with international development agencies. This would boost public confidence in the government commitment in the fight against corruption.



The Public Procurement System

Ensure Transparency, Strengthen the Accountability and Lower the Political Influence into the Public Procurement System

The Goal: Providing fair and equal treatment of businesses and investors through transparent and fair public procurement procedures

THE RELEVANCE

An effective, efficient and transparent system of Public Procurements is essential to the business environment. Although, Albania is making progress by implementing e-procurement systems, the lack of transparency, accountability and contracts enforcement remains a problem which leads to corruptive practices and abuse.

Many investors find themselves excluded from tenders competition in an arbitrary way. Most business complaints towards the PPA (Public Procurement Agency) are dropped, forcing them to appeal to the Administrative Court. In line with the same concerns expressed by businesses, the 2020 EU – Progress. Report states that the public procurement procedures in Albania are controversial and the contracting authorities lack the capacity to manage public procurement processes effectively. The concerns are related also with the lack of transparency on procurement procedures during the pandemic. According to the international reports findings, the compliance of Public Procurement in Albania is still generally weak, especially in complex procedures.

However, a moderated initiative to draft a new Public Procurement Law has started and is based on the need for transparency and harmonization of Albania's legal framework with the legislation of the European Union. Our recommendations below consider the new draft a progress but put attention into some key improvements and more importantly in the commitment of the administration to law enforcement. The set of recommendations below aims to improve and increase the efficacy of the new draft.

RECOMMENDATIONS

12. Strengthen the transparency of procurement contracting processes by adopting international legal framework and EU directives. Specifically, we recommend the application of three standards to avoid malpractice: a) procurement processes must go through the transparent Open Contracting Data (OCDS) standards b) all public work must report on beneficial company and individual ownership, performing checks on individual connections with red flags and conflict of interests c) selection process must consider past performance of public contractor beneficiaries based on agreed performance indicators.

Simultaneous application of these three internationally accepted standards, will make procurement systems more secure and lower the risk of internal fraud and collusion. The public procurement agency would have an effective internal control system, applying easier detection of debarred persons or individuals on sanctions lists, allowing for a robust risk-based assessment of beneficial owners and detect political influence or conflict of interest. The strong performing companies can be qualified for other public tenders while underperformers would be disqualified.

13. Define Conditions and Eliminate /Reduce the use of 'Special Exceptions' for use of Public Funds. The practice of moving large amount of public funds from standard public procurement jurisdictions, hurts the public perception on transparency and increases the risk of corruption.

Currently, several types of public funds bypass entirely standard public procurement processes with a justification of 'essential state' interest, giving public officials discretion authority to adjudicate and decide for exemptions under Article 10.

Alongside with EU directions, we recommend that 'exceptions' are either eliminated or conditions for enacting them are strictly defined, followed by a high-level independent body approving.

Furthermore, procurement methodologies for those cases that meet the definitions must also be published. This would eliminate the discretion of public agencies and lower the risk of corruption.



Public Consultation

Implement Effective Public Consultation to Ensure Buy-in & Engagement from Citizens and Stakeholders

The Goal: Enabling transparency and quality representation of interest groups in drafting new legislation

THE RELEVANCE

Public consultation is one of the most consequential public-private processes in which the public's input on matters important to them is sought and acted upon. When done right, it improves the efficiency, transparency and quality representation of public and interest groups in drafting new legislation.

Albania has made progress in this direction. In 2015, the Parliament approved Law no. 146/2014 "On Notification and Public Consultation", stipulating the main principles and procedures for public participation in policy-making. It was guided by principles of transparency and all-inclusive, non-discriminatory participation, and accountability. The Law was further improved by the Decision of the Council of Ministers no. 828 in 2015 "Approval of the rules for the creation and administration of the Electronic Register on Notifications and Public Consultations", which provides specific rules for the operation of the Register for Notifications and Public Consultations.

The existence of this law is important. However, AmCham and many interest groups have encountered significant issues with the implementation of the law by public agencies responsible for introducing new legislation. In general, the law lacks binding procedures for structures responsible for ensuring the effective implementation of the Law. Despite providing for a response mechanism in case of non-compliance with the obligations Law, it does not provide for any enforcement mechanism for public bodies to comply with their obligations to ensure effective application of the Law. Furthermore, there is no penalty consequences for offenders of the law. This has resulted in a sporadic enforcement of the law, which has demotivated business groups, citizens or stakeholders to participate with contribution into new legislation. The recommendations below are focused on improvement of the existing legislation rather than developing a new one.

RECOMMENDATIONS

14. Develop an enforcement mechanism to existing legislation to make the public agencies responsible beholden to consultation requirements. Public bodies are encouraged to conduct direct consultations with stakeholders, but those are not substitute for formal public consultation processes. The lack of an enforcement mechanism for the consultations procedures allows public bodies to keep breaking the law with no consequence, going against the scope and spirit of the Law. An enforcement mechanism – accompanied by appropriate penalty consequences for offenders is required in case of non-compliance.

15. Increase the transparency of the consulting process, by making the publishing of minutes of the public meetings and feedback from interest groups mandatory. The minutes of the public meetings are archived but not published. Making the publishing of minutes of the public consultations a mandatory process, will help the transparency of the process and increase citizen participation.

16. Include draft-laws initiated by the Council of Ministers into the subject of the Public Consultation. Draft laws proposed by the Council of Ministers are explicitly excluded from the provisions of the Law. The Decisions of the Council of Ministers have a critical impact on the rights and interests of citizens and other stakeholders. Furthermore, considering that the Council of Ministers is the initiator of more than 50% of the proposed legal actions, it is paramount that the effectiveness of the Law is compromised by the exclusion.

17. Define circumstances when public bodies have to make preliminary notifications. Preliminary notifications are the subject of the public's authority discretion.

But under the current law, it is unclear how public bodies can decide on notifying the preliminary procedure (or not). Defining the conditions for preliminary notifications, will ensure a more effective implementation of the law and engage a higher degree of public participation.

18. Specify conditions when and how public agencies can repeat or extend the consultation process. The decision for the extension of deadlines for submission of comments/recommendation is discretionary. The Law is silent on the new deadlines for submission leaving it open to the public agencies to decide. Specifying the conditions for triggering extension or process recurrences would provide much better guidance to the agencies and public alike.

19. Specify procedures how to handle complaints or appeal the process. No remedies seem to be offered in case the public body does not comply with the obligations set in the public consultation process. Procedures on how to handle complaints before the stage of approval of the draft act are not specified. The specifications would increase transparency and increase public engagement.

20. Amend Article 21 to specify procedures for amending an approved law when violations are found during the consultation procedures. The Law is silent on the possible remedies in case the draft acts have been approved but public consultation has been violated.

The approved act laws may be challenged at the Administrative Court of Appeals but for its content and not for procedural violations. The inclusion would increase public participation and engagement.



WELCOME
TO
ALBANIA

The Tax System

Implement a Modern Tax System to Increase Albania's Competitiveness and Attract Investments

The Goal: Enabling effective tax practices and a fiscal systems that stimulate business growth and attract foreign investments

THE RELEVANCE

Albania has a strategic geographical position in the region but underperforms with foreign investors. Among the key factors are the fiscal and tax policies. First, the constant tax changes and unsustainable fiscal policies pose a challenge for new investors, who seek predictability and safe planning. Furthermore, the current law (# 8438) that regulates Income Taxes, dates back to 1998 and is unsuitable for modern tax practices or application of IFRS (International Financial Reporting Standards).

Lastly, the tax rate for businesses in Albania is among the highest in the region and therefore less competitive than some of our Western Balkan neighbors.

AmCham believes it is of particular importance to create a new modern legal framework, that enables more long-term security for investors, encourages formalization of economy and applies a regionally competitive tax rate.

RECOMMENDATIONS

21. Modernize the Law on Income Taxes to reflect International standards and framework. The current law on Income Tax is based on older accounting legislation and does not properly aligns with IFRS (International Financial Reporting System) in Albania. This creates a vacuum of rules in modern tax legislation, resulting in higher tax burden for taxpayers; allowing room for confusion and misinterpretation by the tax authorities.

22. Legislate a Predictable Tax Code, lasting at least a full government mandate. A successful Tax Code must be both competitive and predictable to attract investors. Currently, the tax code changes too frequently – usually every year – making it difficult for investors to plan long term investment. We recommend a tax code that changes no more than once in four years. Other modern tax practices are encouragement for taxpayers to prepay their annual taxes, i.e. lower liabilities by 20%. The tax reform must also recognize expenses for donations for public benefit, i.e. schools, hospitals, natural disasters etc. at a percentage of profit tax that is higher than the current rates of 3% and 5%.

23. Restructure the tax system to incentivize the Formal Economy. Albania's economy still maintains a significant level of informality, especially in the agriculture sector but also in other sectors. Frequent ad hoc changes have undermined the tax system stability and transparency. While campaigns against informality

may show some results in the short term, they rarely bring long-term gains. We recommend restructuring the tax system to induce the formalization of businesses. The current practices of determining tax rates by revenue brackets, disincentivizes businesses from formally declaring all income activities. (For instance, a significant number of taxpayers tend to declare less than less than Leke 14 million of annual turnover to benefit from tax exemption and simplified tax filings). Moving away from the current categorization of taxpayers on revenue basis to a differentiation on profit basis, would lower the pervasive incentive of hiding revenues.

24. Amend law on Income taxes to provide an equal taxation of individuals, regardless of their legal status. The current tax code encloses several circumstances, where individuals of the same category are taxed differently. For instance, self-employed individuals with a turnover up to Lek 14 million are exempt from profit tax and pay no personal income tax, but the employees must pay progressive taxes on their salary. This creates distortion and unjust incentives. We recommend an equal treatment of these categories of taxpayers so that the taxation is not affected by their legal/contractual status. It entails that both small businesses and employees must pay personal income tax for their income. In alignment with current government policies, the tax rate can be lowered compared to the current progressive rates over salary.



Albanian Exports into International Markets

Provide a Legislative Package to Accelerate Albanian Exports into International Markets

The Goal: Enabling a new instrument for rapid economic development by increasing trade through successful export of local products

THE RELEVANCE

The Integration of Albania's products into international trade markets remains below potential. According to the European Commission, lack of entrepreneurial and technological know-how, weak institutions and low levels of investment and infrastructure quality are holding back industrial and agricultural production and limit Albania's integration into trade global value chains. The lack of product and geographical diversification of exports add to Albania's vulnerability to external shocks such as the current pandemic. At the same time, the geopolitical shifts and post-pandemic realities, have created new opportunities for Albanian exports.

Albania mainly exports manufactured goods (footwear, garments), minerals and construction materials. Exports of services (which account for 58% of all exports) are dominated by tourism and related services. Albania has historically run a large goods trade deficit, which is partly offset by a surplus in the balance of services.

The hard-hit SMEs and self-employed receive support, but the effective outreach of support measures is limited by the large informality in the economy. More SMEs engaged in exporting, but their entrepreneurial skills and financial literacy remained weak and public support insufficient. Stimulating Albanian exports would diversify economic reliance and expose small and middle producers to new global opportunities, preparing them for a smoother commercial integration with EU.

RECOMMENDATIONS

25. Encourage a Regional Economic Area (RGA) by adopting regional standards for International trade and investment agreements. A regional economic area would remove obstacles that currently restrict allowing for the free flow of goods, services, investments, and even skilled workers. Such an economic region would be of interest particularly for export companies but also for large multi-national corporations that see anyone of the WB countries as too small but the entire region as a considerable market. Such an agreement would allow all countries authorities to operate in concert with current CEFTA protocols to serve as a starting point. Regional Trade Agreements could be in the form of Free Trade Area, Customs Union or even a Common Market and might include the unification of policies such as competition policy, government procurement rules, intellectual property rights, common product standards and fair treatment of foreign workers and investors. Such deeper cooperation between the regional countries would accelerate economic growth and create more jobs.

26. Facilitate customs procedures related to E-Commerce. In the e-commerce environment, the order of goods via the internet creates large numbers of small shipments that requires additional Customs resources and capabilities. As the world is moving more and more towards cross-border digital economies, the World Customs Organization recommends that for countries to better integrate into this economy, they should invest in digital customs infrastructures and ensure it includes:

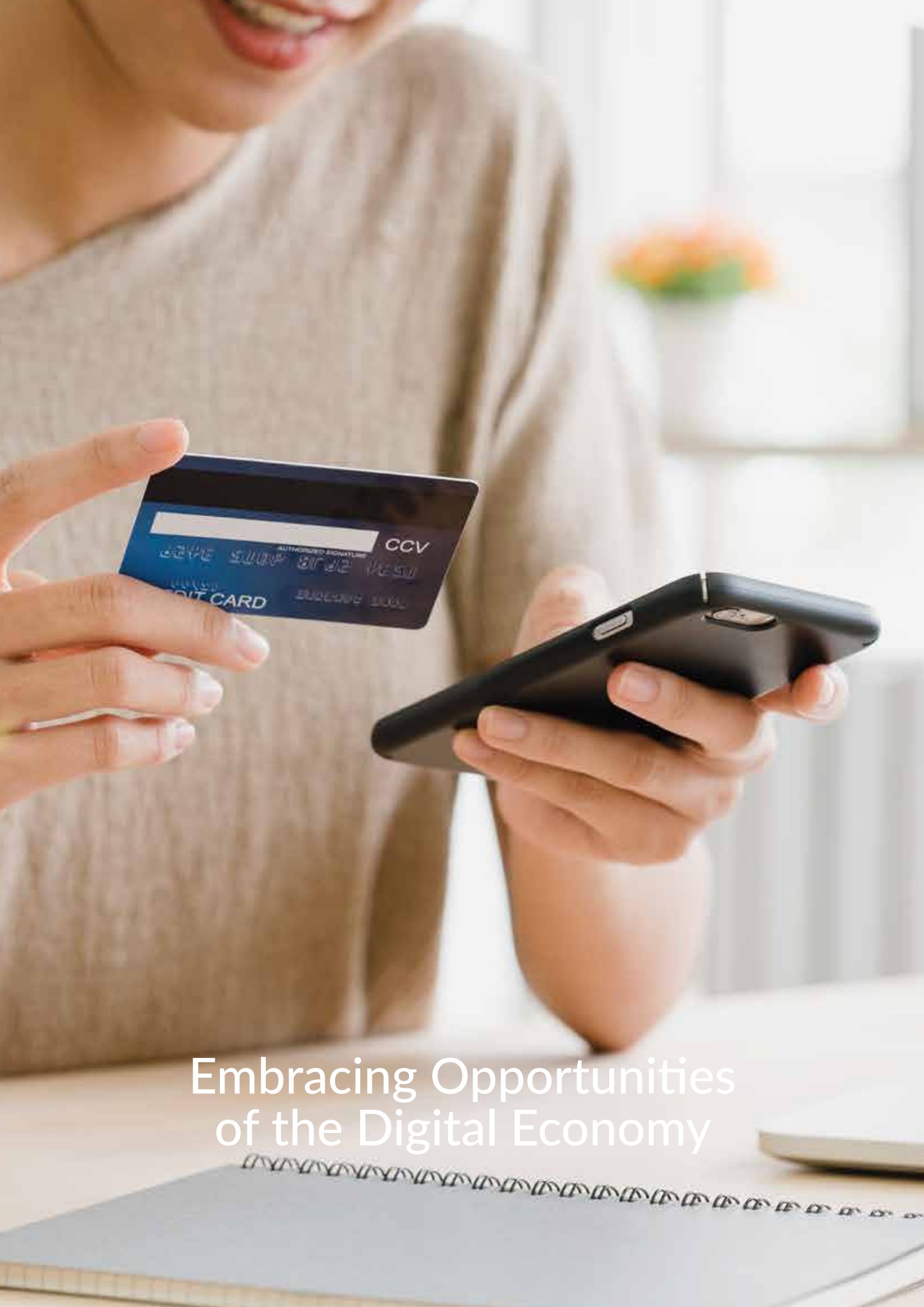
- Electronic processing, simplification, and dematerialization of documents
- Customs Declaration System
- Pre-loading advance cargo information
- Inspection at operator's facility
- 24/7 automated Customs processing
- E-duty calculator
- Mobile-enabled services
- E-refund – returned goods
- E-payment of duty and taxes

- De minimis-related measures and threshold for simplified clearance procedures

In a survey, members emphasize that the actual customs procedures result in higher costs and lower efficiency, which hinders growth in the e-commerce space. We also recommend that the government takes a more active role in promoting and incentivizing internal production and exports of goods and services with a demand in international markets. The recommendation has cross-cutting activities with #33.

27. Strengthen and incentivize the advisory system in agriculture, channeling investment into agriculture, agro-processing and diversification to raise productivity, rural income and agricultural exports. Agriculture is a key strategic sector for Albania that offers many advantages, i.e. weather, tradition and resources. Yet agro-products are significantly below potential for scale and sophistication required in the global trade. In full support of EU directions, placing a greater focus and resources in farming and agro-processing would make this strategic sector less volatile and an increasingly added value for the economy. Domestic production in this sector should also be provided with guidance and incentives to focus production on the latest trends in regional and international demand. Given that processed foods account for the majority of the food products consumed in the world, developing agro-processing capabilities is a necessity if Albania is to become competitive in the sector.

28. Sign a Double Taxation Agreement with the United States. In order to further deepen the economic relationship between Albania and the United States, we encourage the two countries to sign a Tax Treaty (Double Tax Agreement) to help companies and individuals avoiding and reducing international double taxation of income and property. Part of the agreement must include the sharing of information from both sides allowing for fair reporting.



Embracing Opportunities
of the Digital Economy

Move Away from limitations of ‘Cash Society’ by Embracing Opportunities of the Digital Economy

The Goal: Build up the necessary capacities to compete as a destination of choice regarding the application of technology

THE RELEVANCE

Albanian digital entrepreneurs are already emerging – some economic sectors, including the tourism industry and business process outsourcing (BPO), have been quick to embrace the online markets. There is further evidence, that this has increased during the pandemic. A 2020 World Bank Enterprise Survey reveals that almost 20 percent of Albanian firms have either started or increased their online business activity during the COVID-19 pandemic.

Despite these encouraging signs, Albania is racing against time to build up the necessary production capacities to compete at a regional and global level as a destination of choice regarding the application of technology. The Fourth Industrial Revolution we are living through requires two essential ingredients that Albania must efficiently build: a) a regulation framework standard to support and incentivize the digital economy and b) adequate skill set (state of the art coders) to enable the digital economy. Albania has outdated legislation in terms of digital trade and is in the last position in Europe with 2 coders per 1000 inhabitants, very far behind Serbia - first in the Western Balkans with 7 - and Holland, first in Europe, with 19.

Another limitation is the widespread use of cash in economy. According to US State Department on Money Laundering report 2021, Albania has a large cash economy and informal sector. Benefits of reducing the cash economy are many, including the fight against money laundering and informal economy. And the digital economy as an alternative, can play a significant role toward this transformation.

AmCham believes that no economies can grow strongly in the 21st century without a strong ecosystem in Technology and Digital Commerce. Below are some recommendations to advance the current sporadic trend with some more systemic solutions.

RECOMMENDATIONS

29. Approve Legislation for public Utilization of E-Signature. Albania has a digital signature in place but it is costly and has high requirements, resulting in a minimum usage. The more widely available E-Signature will bring massive benefits to the digital economy including wide usage, low cost and time savings transactions. It will also increase business innovation.

30. Foster the development of 100,000 coders in the next 10 years. The IT industry presents a huge opportunity to grow high paid jobs for Albanian youth and increase FDI.

To take advantage, Albania should promote and subsidize computer science-focused training programs that can grow Albania's production capacities, software developers with a globally-relevant skillset - in a short amount of time. The initiative must be done in coordination and alignment with the private sector.

31. Further Increase the Fight Against Informality by Disincentivizing Cash Payments. The initiative must include 2 separate provisions: a) a higher limitation on cash transactions, encouraging businesses and citizens to use the formal banking system or alternative electronic payment and b) development of legislation to ease and widen electronic payment systems at a much larger scale than now exists. The initiative will have extra benefits in the fight against corruption.

32. Provide financial support and other targeted support programs for digital entrepreneurs. The support would include fiscal and financial stimuli for businesses that use qualified e-services, VAT reduction per certain IT services, tax relief for digital trade firms, dedicated financing and training programs as well as financial support for incubators, accelerators and venture capital financing.

Based on best global and regional practices we recommend two specific goals for financial support: a) supporting private Investment Fund for innovative and digital entrepreneurs b) setting up a Special Economic Zone for Technology with significant economic benefits to attract talent concentration. The recommendation has cross-cutting activities with #6

33. Simplify e-commerce and set up proper digital trade regulation. The provision includes a full enabling business environment with tax legislations and implementation procedures, regulatory environment for payment services and a consumer protection framework for digital commerce firms to regulate online trade activities. It would also include lowering the cross-border tax and custom procedures for small consignments (in terms of money and time), cross-border logistics to be brought down and establishment of a VAT online one-stop shop for importers, full implementation of electronic, risk-based and customs procedures. The recommendation has cross-cutting activities with #26.



The Workforce
and the Human Capital

Invest in Workforce Training with Upskilling and Reskilling for a Post-Pandemic World

The Goal: Offering a skilled workforce with professional abilities to manage and deal with business needs, expectations and future challenges

THE RELEVANCE

“Finding local qualified staff” remains for the sixth consecutive year among top 3 concerns for businesses operating in Albania (AmCham Index 2019). Closing skills gaps is particularly important for attracting foreign direct investment as Albania looks toward EU accession. A recent Gallup report revealed that 79% of young Albanians want to leave their country permanently – ranking among first countries in the world for youth immigration. The two main motives remain unemployment and lack of education programmes.

Improving the education system as well as increasing the focus on professional qualifications remains one of Albania's top priorities on its path towards European Integration. In order to ensure the Albanian workforce, has the skills needed to be employed, Albania's National Employment and Skills Strategy has called for investments in Vocational Education and Training (VET) and human capital development more broadly.

The main challenge of the high education and especially VET system, is to match the needs and requirements of the private sector. Until now, a very narrow range of courses are offered, mainly towards low skills/qualifications acquisition to the detriment of medium and high vocational skills. Secondary education is severely underfunded, and this affects VET in particular. However, while the share allocated to general education has risen over the past two years, the share for VET has faced a very modest increase.

Following the VET reform system in Albania, recent years have marked significant improvements of the legal and institutional framework, focusing on skills development policies. This framework has been completed by the adoption of Law No.15 / 2019 "On Employment Promotion" in March 2019 and the establishment of the National Agency on Employment and Skills – DCM 554/2019. During 2019, 13 vocational qualification descriptions/standards and 6 frame curricula have been developed. Thus, an increased focus has recently been placed on vocational Education and Training Providers.

However, despite the reforms in education, it is necessary to submit concrete action plans to strengthen Higher Education Institutions and the quality of their curricula to serve the development of strategic sectors of the economy.

RECOMMENDATIONS

34. Explore additional sources of financing to support the VET system. The system remains under-financed with lower academic staff salaries, infrastructural set-ups deficit and innovative solutions are needed to explore additional sources of funding. In addition to public funds, we recommend that the VET system aligns its policies and seeks funding from two important sources: private sector and international donors. The Private sector can be considered a reliable and successful source of financing willing to invest in human capital development and skills training. But the VET system must strongly adopt to their needs so it provides strong value in long term. Support from international donors must also be sought, through performance and result-driven objectives.

35. Liberalize the diploma requirements for a new STEM (Science, Technology, Engineering and Mathematics) degree. Recent global trends show that students taking a combination of these four majors are better prepared for the challenges of global industries than some of the classic majors. Albania is showing initial signs of a talented digital startup sector which should be supported by a supply of workforce equipped with quick, market-oriented skills. The new degree must recognize credits from courses of VET systems as well as from various supply of quality coding academy courses available.

36. Complete the National Qualifications Framework for 2-5 levels in cooperation with the private sector based on current and future needs for strategic economic orientation: Tourism, Energy and Agriculture. We recommend a complete National Qualifications Catalogue to serve as a common ground for:

(i) defining VET needs and curricula to future proof the labor market needs for qualifications;

(ii) more structured and based on qualifications and contribution compensation schemes for each profession at industry or sectorial level. This would lead to sound and fair compensation of the labor force and low attrition.

37. Increase Private Sector participation and role in the VET system. Establish a collaborative partnership between key stakeholders in VET: Ministries, agencies, private sector and VET providers. Although the Private sector has a few entry points to represent its interest in VET and bring in professional expertise to optimize the system through Committees, Boards etc, it still lacks a concept to coordinate actions on all levels, including the implementation level.

Key advisory bodies at the national level, which are essential platforms for social partner dialogue need to be established and to properly execute their mission (i.e. Sector Skills Committee). In this way, the private sector can systemically take part in policy design, VET regulations as well as revision of occupational standards.

38. Design and implement an action plan to increase the awareness and use of the National Qualifications Catalogue and list of professions by all stakeholders, especially private businesses. This would help private businesses to draw their compensation schemes as well as identify qualification, skills gaps in their own businesses and to proactively collaborate with NAVETQ.

RECOMMENDATIONS

39. Develop a national quality assurance model for VET provisions including in collaboration with the private sector. Develop a concept and quality assurance mechanism for VET, based on successful pilot experiences, that is agreed by all stakeholders: governmental bodies, VET providers and the private sector. Define clear roles and responsibilities of each actor. This quality assurance mechanism to cover screening and approval of training companies, training and accreditation of trainers and mentors, coordinated learning at school and at businesses, and criteria-based assessments to verify and document progress and results.

40. Develop a dedicated VET online platform to increase awareness and recruit trainees. The online platform is to serve as a central information hub to contain an online registry of vacancies and promotional information with updated available courses and educational opportunities.

NOTES

The recommendations align, where appropriate, with other findings on international reports including:

2020 Investment Climate Statements: Albania

U.S. Department of State

<https://www.state.gov/reports/2020-investment-climate-statements/albania/>

Albania 2020 Report European Commission

https://ec.europa.eu/neighbourhood-enlargement/sites/near/-/files/albania_report_2020.pdf

Doing Business Report 2020

World Bank

<http://documents1.worldbank.org/curated/en/255991574747242507/pdf/-Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-Albania.pdf>

Albania e-commerce Diagnostic

World Bank

<http://documents1.worldbank.org/curated/en/781641608742366947/pdf/Albania-E-Commerce-Diagnostic-Leveraging-the-Digital-Trade-Opportunity.pdf>

Corruption Perceptions Index 2020 Transparency International

<https://www.transparency.org/en/cpi/2020/index/alb>

The Covid 19 Crisis in The Western Balkans

OECD

<https://www.oecd.org/south-east-europe/COVID-19-Crisis-Response-Western-Balkans.pdf>

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AmCham in ALBANIA

Working for a Better Investment Climate that Enables a Growing Business Future in Albania.

The American Chamber of Commerce in Albania is an independent business organization with an international approach, representing over 220 American, foreign and local companies committed to investing and doing business in Albania.

From small and medium size businesses to the biggest leading companies and corporations in the country, AmCham members play an important role in the Albanian economy with a significant contribution of approximately \$3.1 Billion in annual revenue, directly supporting over 38 000 jobs and representing a range of industries with an impact the country's development. Industries include Banking, Telecommunications, Trade, Construction, Agriculture, Tourism, Energy and more.

AmCham supports its members in overcoming challenges, defend their interests and rights as well as helps them to explore Albanian business opportunities and potential. AmCham goals are to build a business enabling environment, and to promote and strengthen the Albanian transatlantic relationship. As a trustful partner to its business community and to Albania, the American Chamber of Commerce stands for democratic standards, credibility, transparency and competitiveness as key drivers of the country's development and economic growth.

**Over
220 MEMBERS**
American, multinationals &
local companies from
SME-s to corporations



**\$ 3.1 BILLION
REVENUES**
Injected annually to
the Albanian economy



**38 000
EMPLOYEES**



TRANS-ATLANTIC Ties
and Part of Global AmChams NETWORK

The American Chamber in Albania is an affiliate of U.S Chamber of Commerce in Washington D.C, part of the 109 American chambers global network, the world's largest business organization representing the interests of more than 3 million businesses of all sizes, sectors, and regions.

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