

Research Terms of Reference

A final report has been prepared combining together ten different reports from national agencies, institutions and international organizations addressing the main issues and recommendations for Foreign Direct Investment in Albania.

Summary (Abstract)

The aim of this report is to identify government FDI priorities by seeking on-line research and analysis undertaken on Albania and FDI from national agencies, institutions and international organizations (e.g AIDA, World Bank, UNDP, OECD, EU). Through the report it is identified the current research on government FDI priorities and captured the following:

- Identified constraints in FDI per sector/cross sector.
- Recommendations for overcoming constraints i.e policy/investment
- Key FDI investment priorities to overcome sector/cross sector constraints
- Cross-reference findings to institutions.

Introduction

This report combines ten different reports from national agencies, institutions and international organization regarding the main issues and recommendations for FDI in Albania. These issues and recommendation are divided into sectors and cross-sectors where each sector has its own subcategories. The main goal is to identify the top main issues, subcategories, sectors and cross-sectors encountered in these reports related to FDI and top main recommendations for these issues. Top main issues are identified by their occurrence across all the reports. After the main issues are identified, then the top recommendations are identified for each issue.

Methods

The material used in this research is retrieved from national agencies, institutions and international organizations. The selection of these reports was based on the issues and recommendations they address regarding the FDI in Albania. The top sectors, issues and recommendations were selected based to their occurrence through all these reports.

The team to check all the issues did a full analysis of the reports. Then linking recommendations per every issue and regrouping if different recommendations are given on the same issue also having in mind the number of references per every issue. The concrete solutions then are given. As a next step inputs received from the discussions in this event will serve as a resource for the stakeholders whom will be involved per every solution and probable timing needed.

Summary

Top 5 Sectors

1. Agriculture

- *Food Safety and Quality Standards*
- *Land*
- *Credit*

2. Infrastructure

- *Roads and Transport*
- *Access and Maintenance*

3. Trade

- *Export*
- *Trade Policy and Facilitation*

4. Law

- *Judicial System*

5. Finance

- *Investment Schemes*

Top 5 Cross-sectors

1. Corruption

- *Judicial system*

2. Workforce Capabilities

- *Skills*
- *Overall Performance*

3. Investment

- *Contract Enforcement*

4. Public Administration

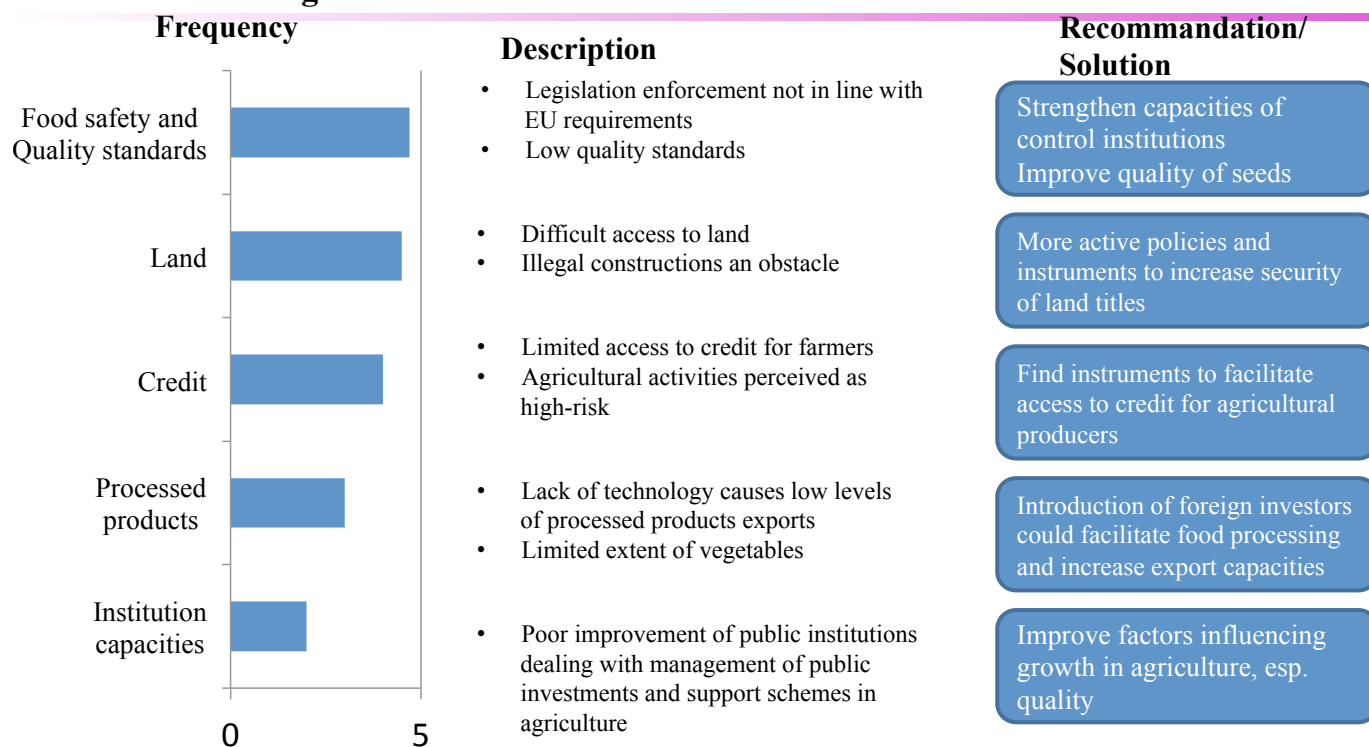
- *Administrative Procedures*
- *Legal Framework*

5. Property Rights

- *Property Rights*

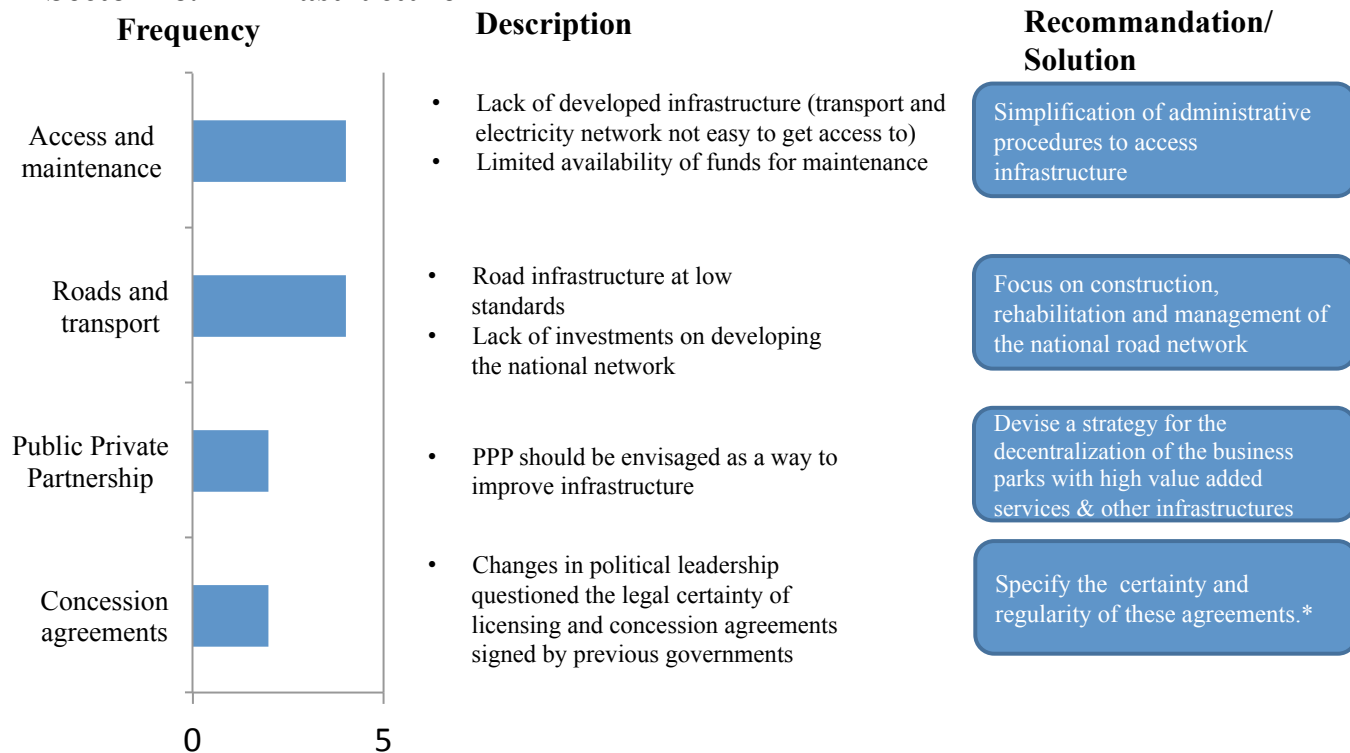
The issues of the sector reveal the need for further work on policy and harmonization with EU legislation on different areas

Sector no. 1-Agriculture



The sector needs improving administrative procedures and simplifying access to infrastructure.

Sector no.2- Infrastructure



*Implied, not specifically expressed

Low development and levels of export highlight the need for a better promotion of the sector and introduction to international markets.

Sector no. 3-Trade

Frequency	Description	Recommandation/ Solution
Export	<ul style="list-style-type: none"> Low export capacity and low development in compliance with international quality standards Poor export promotion programmes and lack of efficient export financing schemes 	Simplify administrative import & export procedures to support companies Strengthen Export Promotion Agencies
Trade policy and facilitation	<ul style="list-style-type: none"> Tax policy used as a substitute for trade policy Low standards and conformity assessments capacity 	Trade liberalisation, non-tariff barriers to trade
European markets	<ul style="list-style-type: none"> Unfamiliarity with European standards prevents placing goods to European markets 	Open up to international competition

Issues like lack of credit guarantee schemes and trust on the banking system are some of the reasons that cause low levels of investment readiness and poor attraction to investors.

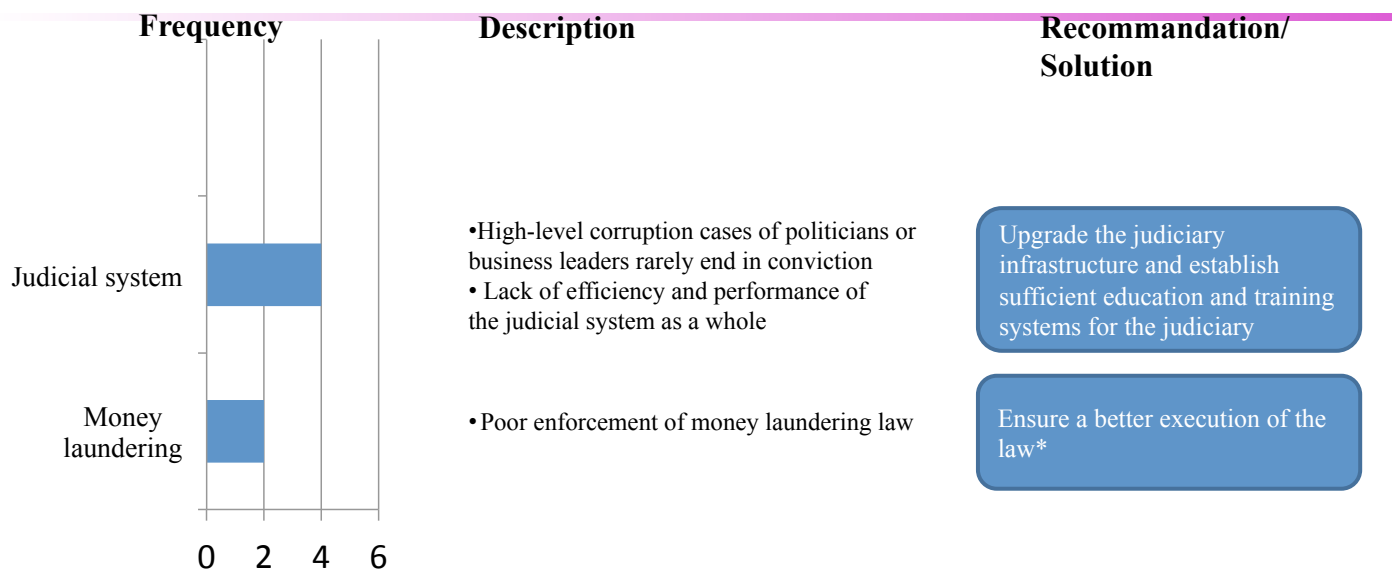
Sector no. 4-Finance

Frequency	Description	Recommandation/ Solution
Investment schemes	<ul style="list-style-type: none"> No support on taxation of capital gains and regulation for venture capital investment Need for credit guarantee schemes for innovation and for export 	Provide support to business angel network Improve the regulatory framework for venture capital investment
Access to credit	<ul style="list-style-type: none"> Concerns regarding high interest rates, distrust of the banking system; high bank operating costs 	Need for further assessment of the banking sector*
Banking sector	<ul style="list-style-type: none"> Obstacle to doing business due to the rapid growth of the banking sector and poor development of the equity finance 	Enhance protection of minority stakeholder rights
Investment readiness	<ul style="list-style-type: none"> Investment readiness & financial reporting in low levels 	Increase the investment readiness of entrepreneurs
Attraction of investors	<ul style="list-style-type: none"> Poor attraction of private investors & investors from Diaspora 	Implement policies to attract Diaspora investors

*Implied

The legislative framework needs to strengthen the accountability, independence, and efficiency of the judiciary.

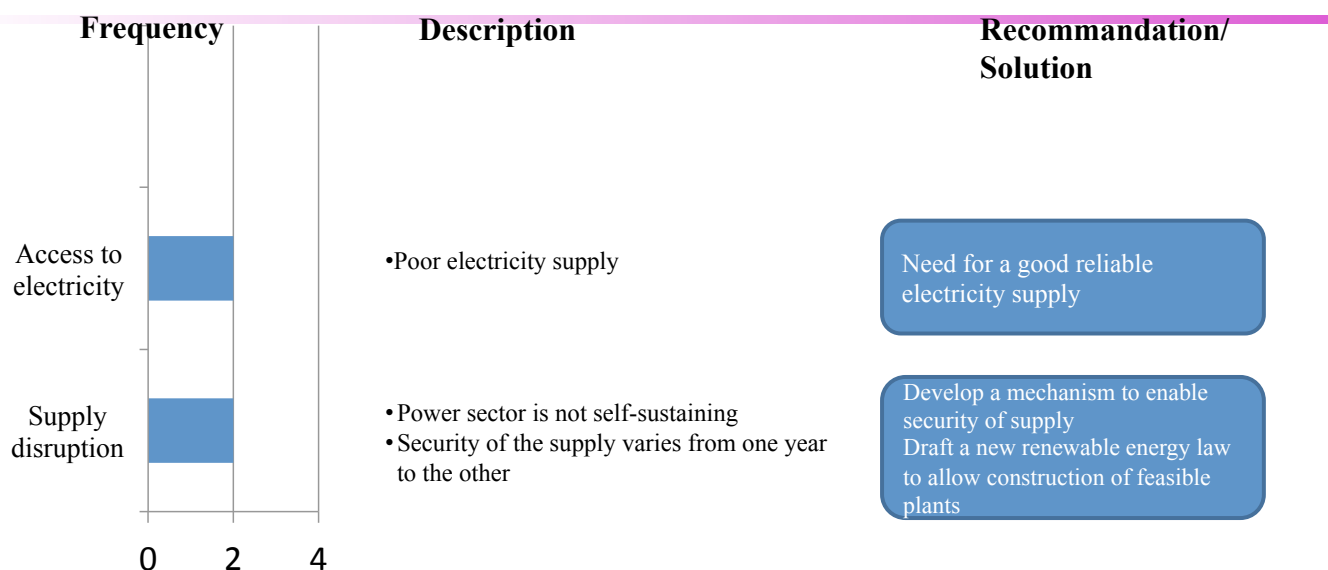
Sector no. 5-Law



*Implied

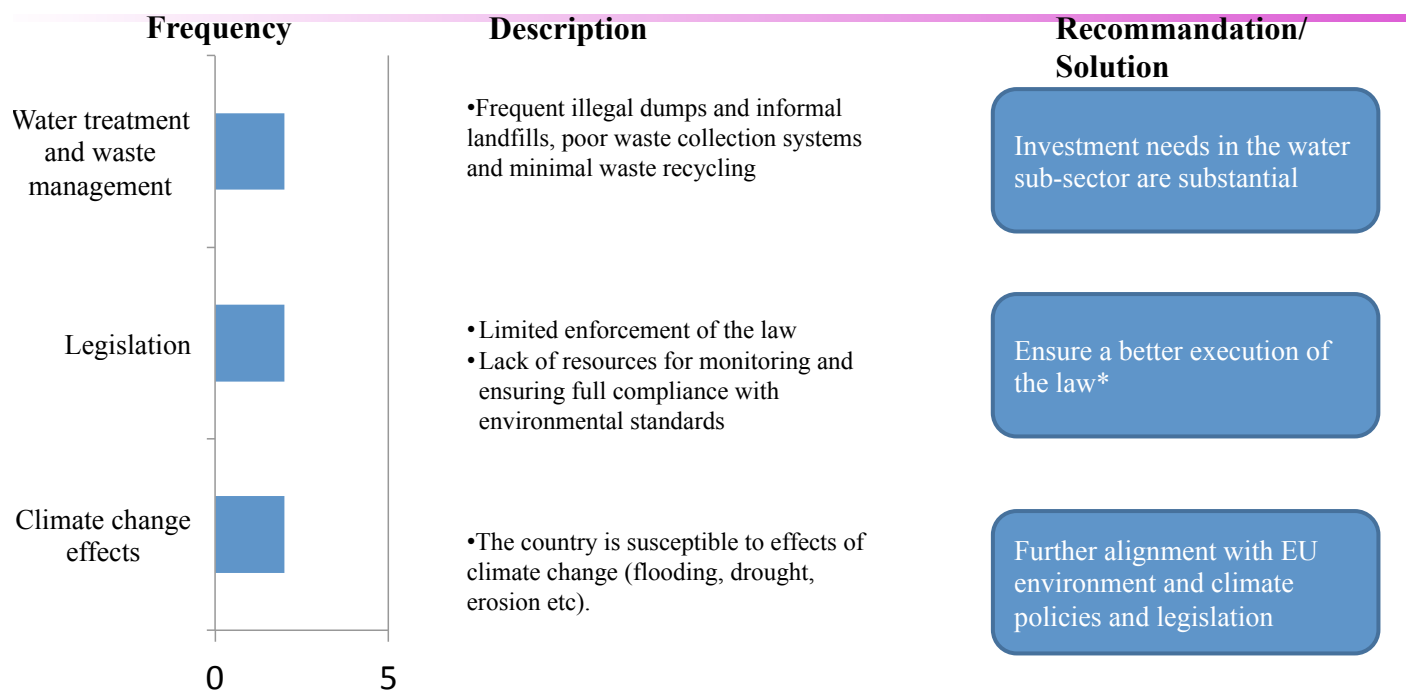
A strong mechanism to secure electricity supply is necessary to create an independent system.

Sector no. 6-Energy



The issues reveal the need to further invest on the sector to make it more reliable and aligned to EU policies and legislation.

Sector no. 7-Environment and Climate



Key findings by sector

1	Agriculture	The issues of the sector reveal the need for further work on policy and harmonization with EU legislation on different areas.
2	Infrastructure	The sector needs improving administrative procedures and simplifying access to infrastructure.
3	Trade	Low development and levels of export highlight the need for a better promotion of the sector and introduction to international markets.
4	Finance	Issues like lack of credit guarantee schemes and trust on the banking system are some of the reasons that cause low levels of investment readiness and poor attraction to investors.
5	Law	The legislative framework needs to strengthen the accountability, independence, and efficiency of the judiciary.
6	Energy	A strong mechanism to secure electricity supply is necessary to create an independent system.
7	Environment and climate	The issues reveal the need to further invest on the sector to make it more reliable and aligned to EU policies and legislation.

Cross Sector

There is a high level of corruption perceived from foreign investors in Albania especially in the Judiciary System. There is a low transparency level.

Headline: 1. Corruption

Subcategories	Description	Recommendation
Judicial system 5	<ul style="list-style-type: none"> • Low transparency level, public trust in the judiciary, conviction rates. • Endemic corruption the judiciary; uneven enforcement of laws and property rights. • A weak regulatory environment 	<ul style="list-style-type: none"> • Tackle corruption in vulnerable areas such health, taxation etc. Improving the inter-agency co-operation and coordination • Strengthening internal control mechanisms Verification of asset declarations.
Irregular Inspection 1		<ul style="list-style-type: none"> • Ensure regular and non-arbitrary business inspections
Shadow Economy 1	<ul style="list-style-type: none"> • The perception of corruption in Shadow economy. 	<ul style="list-style-type: none"> • Government could envisage creating hot lines for SME's & providing free legal advice for corruption matters

Cross Sector

There is a lack of capabilities of the country's current human resources in terms of skills, education, vocation training and teaching quality.

Headline: 2. Workforce Capacities

Subcategories	Description	Recommendation
Skills 6	<ul style="list-style-type: none"> • Poor Development of the country's human resources in line with labor market needs. • Lack of entrepreneurship culture, technology 	<ul style="list-style-type: none"> • Improve industry specific skills through on-the-job-training; Improve data development & analysis; Adequate training programmes (lifelong learning) (EU policies)
Overall performance 4	<ul style="list-style-type: none"> • Lack of competitiveness of the economy. • Deficiencies in the rule of law, no performance requirements on FDI • Poor Innovation, financial market dev. 	<ul style="list-style-type: none"> • Improve Economic and regional development and eventually increase employment and social inclusion, research and innovation capacities.
Vocational Training 2	<ul style="list-style-type: none"> • Lack of incentives for vocational training in firms. • Vocational Schools in Albania not very widespread 	<ul style="list-style-type: none"> • Develop policies to retain and attract qualified & skilled individuals; Promote entrepreneurial learning in institutions.
Secondary Education 1	<ul style="list-style-type: none"> • Insufficient financing of secondary education 	<ul style="list-style-type: none"> • Adult education as a policy priority to avoid deterioration of skills of the labor market. Increase tertiary education
Teaching Quality 1	<ul style="list-style-type: none"> • Need for monitoring of teaching quality & educational outcomes 	<ul style="list-style-type: none"> • Increase the quality of education according to the labor market

Cross Sector

The investment environment faces some challenges in Albania in contract enforcement, bankruptcy and FDI

Headline: 3. Investment

Subcategories	Description	Recommendation
<p>Contract Enforcement 4</p> <p>Bankruptcy 1</p> <p>Foreign Direct Investment 1</p>	<ul style="list-style-type: none"> Poor enforcement of contracts. Lack of an efficient court system for small claims (Commercial Sale dispute) Delayed planned privatization programme Slow pace of reforms to facilitate market entry and exit. 	<ul style="list-style-type: none"> Setting up specialized commercial courts in different cities beyond the capital, develop alternative dispute resolution mechanisms Further structural reforms by bolstering economic policy governance, enhancing labor market performance.
	<ul style="list-style-type: none"> Bankruptcy procedures remain slow and have a high cost 	<ul style="list-style-type: none"> Allocation of more resources to the Bankruptcy Supervisory Agency; Streamlining bankruptcy procedures
	<ul style="list-style-type: none"> Lack of investment opportunities in medium and higher technology manufacturing. Little investment in legal and consulting services 	<ul style="list-style-type: none"> FDI policy and promotion may target foreign manufacturing companies well established in the Albanian economy to carry out modernization, follow-up investment and upgrade the competencies of local affiliates

Cross Sector

Public Administration faces challenges in the administrative procedures, insufficient legal framework, public finance management and lack of comparable data on FDI.

Headline: 4. Public Administration

Subcategories	Description	Recommendation
<p>Administrative Procedures 6</p> <p>Legal Framework 4</p> <p>Public Finance Management 2</p> <p>Statistics 1</p>	<ul style="list-style-type: none"> Administrative barriers Burden for businesses: improper and uneven enforcement of legislation, rigid bureaucracy, frequent changes to legislation, and lack of transparency in developing legislation & regulations 	<ul style="list-style-type: none"> Improvement of organizational capacities, licensing Implementing the rule of law Simplification of post registration processes to avoid bureaucracy, and strengthening the competence of public agencies
	<ul style="list-style-type: none"> Current legal framework insufficient 	
	<ul style="list-style-type: none"> PFM lacks strengthening 	.
	<ul style="list-style-type: none"> Lack of comparable data on FDI Statistics for evidence based policy formulation needs strengthening 	<ul style="list-style-type: none"> Improve their effective role for policy based decision making.

Cross Sector

The tax treatment of capital gains, complexity of the procedures and VAT reimbursement are the main issues faced in Tax Policy and Administration

Headline: 6. Tax Policy and Administration

Subcategories	Description	Recommendation
Taxes	<ul style="list-style-type: none"> Tax treatment of capital gains and innovation) 	<ul style="list-style-type: none"> Ensure the tax treatment of capital gains don't deter investment by venture capital funds, private equity funds and business angels.
Procedures	<ul style="list-style-type: none"> Simplification of highly complexed procedures (lengthy procedures to pay taxes) 	<ul style="list-style-type: none"> Ease the administrative burden of tax compliance by further implementing the system of electronic filing & payment while also aiming to reduce the frequency of payments
VAT Reimbursement	<ul style="list-style-type: none"> Days in value added tax reimbursements from the government remain a serious issue for domestic and foreign investors 	<ul style="list-style-type: none"> VAT refund procedures should notably further be reduced

Cross Sector

In Innovation the main issues are: low level support to product improvement, low level of capacities for innovation in companies and insufficient funding.

Headline: 7. Innovation

Subcategories	Description	Recommendation
Product Support	<ul style="list-style-type: none"> Low level of support to product improvement (ISO standards, engineering, software, cooperative (non R&D) innovative projects)) 	<ul style="list-style-type: none"> Improvement of the innovation system and knowledge flows through carefully spent funds
Capacities For Innovation	<ul style="list-style-type: none"> Low level of capacities for innovation in companies 	<ul style="list-style-type: none"> Implementation of policies to increase the capacity & readiness for innovation in companies
Funding	<ul style="list-style-type: none"> Insufficient funding for innovation strategies/ inter-ministerial coordination 	<ul style="list-style-type: none"> Dedicate sufficient funds to the implementation of innovation strategies and innovation related policies and programmes

Cross Sector

Inability to register property, incomplete territorial planning and lack of clarity in property rights are the main issues faced in this cross sector

Headline: 8. Property Rights

Subcategories	Description	Recommendation
	<ul style="list-style-type: none">• Inability to register property with clear title prevents security of ownership• <i>Incomplete territorial planning reduces certainty for potential investment</i>• <i>Insufficiently defined property rights</i>	<ul style="list-style-type: none">• <i>Strengthening intellectual property rights.</i>

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