

NEWSLETTER No. 1



Investment Council, a Bridge between the Government and the Business

The Investment Council was established on April 15th, 2015, to facilitate constructive dialogue and exchange of views between the government and private sector in the area of investment climate and anticorruption. A new platform established by the Albanian authorities with the support of EBRD.

"The Investment Council is a new creature, not for the purpose of adding another mechanism in this interaction process, but to establish a mechanism, which thanks to the support and expertise of the EBRD will enable us to address directly the entrepreneurial problems and to seek together solutions, in order to facilitate the investing process in our country," said the Albanian Prime Minister, Mr. Edi Rama in the ceremony organized for the establishment of the Investment Council.

The work of the Council is supported by the Secretariat, an independent body of professionals, selected and hired by the EBRD, to directly engage with the business community. The initial funding (three years) for the Secretariat is provided by the EBRD with the support of the Italian Government.

According to Mr. Holger Muent, EBRD's Director for the Western Balkans, *"Improvement of the business climate is already at the heart of the economic agenda of the government. EBRD supported Albania in setting up the Investment Council, to create a platform for public-private dialogue and improve the investment climate."*

Deregulation Reform, Less Bureaucracy for the Business

Since its first meeting, the Investment Council discussed unification of the National Registration Centre and National Licensing Centre, as an important part of the deregulation reform undertaken by the Government in the framework of the business climate improvement of the country. Main objective – facilitation of procedures and reduction of the bureaucracies for the business. It focuses on:

- 1) the reform of the authorizations issued by the Ministries and the subordinate institutions (completed in March 2015),
- 2) the reform of licencing and permits and the establishment of the National Business Centre (NBC). The latter one was set up based on Law No. 131/2015 which unifies in one single institution National Registration Centre and National Licensing Centre.

Benefits of NBC:

- A one-stop shop for the registration and licencing of businesses;

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Deregulation Reform, Less Bureaucracy for the Business

- Unified access to the public regarding registration and licencing procedures;
- Reduction of administrative costs to the amount of 14 million Lek;
- Possibility for the reduction of the current expenditure for the windows in the other towns because of the territorial reform.
- Establishment of a single centre to inform the business regarding the registration and licencing. Also expand the range of services to be offered online.

IC members expressed their encouragement and support for the deregulation reform, and suggested to the Government to be cautious on the steps to be undertaken, to timely inform the business and to consider sectoral specifics in this process, as this is a strategic reform for the business.

Bankruptcy – new draft law, the business is still waiting



A very important issue for the business remains the bankruptcy issue. IC members after hearing the presentation of the new

draft developed with the support of the IFC, after an intensive process of consultations started more than a year ago (37 round tables, 6 discussed drafts, etc. including as well a report on the novelties of the proposed draft), asked to the Government a more constructive engagement to complete as soon as possible the final draft law "On Bankruptcy." This law is considered as an important element also in the framework of the strategy for resolving the high level of non-performing loans in the country.

As part of the monitoring process of the IC recommendations, the Secretariat is following closely the dynamics for the approval of the draft law "On Bankruptcy."

Tax Inspection, the Business asks for Clarity and Simple Procedures



In the first meeting of the Investment Council, Tax Inspection was voted as one of the main concerns for doing business in Albania. The proper management

of tax system remains the key to the success of public finances and macroeconomic stability in the country. It also creates a strong basis for the attraction of investments, promotion of the business and eventually contributing to the economic growth. The effective procedures in the tax system, while ensuring transparency and impartiality in the relationship between the state and public entities, create a base for

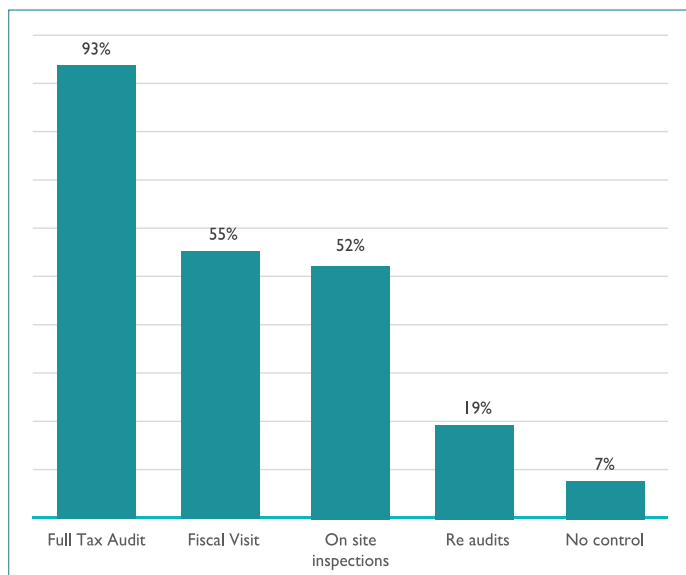
the successful functioning of the fiscal system.

The Secretariat of the Investment Council conducted a survey with businesses operating in the country to properly identify the problems that they encounter with the tax administration and tax procedures in general. 110 businesses participated in the survey, where 78% of the respondents were medium and big companies, while around 22% were of foreign ownership. The most represented sectors in the survey were services (32%), hotels and touristic agencies (24%), industry (22%) and trade (15%).

According to the survey, the VIP taxpayers were the most audited companies by the tax administration. The business considered as high the number and frequency of the tax inspections and the direct contact with the inspectors. The business is concerned regarding the frequency of the controls, perceived by them as a means

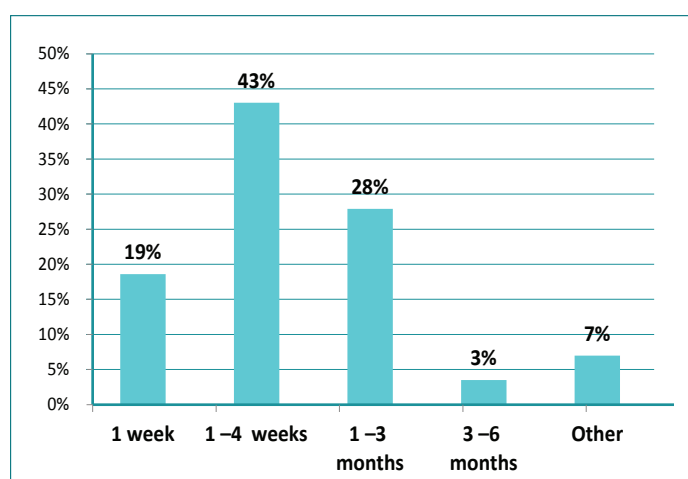
by the tax administration to fulfil the revenue plan in the state budget. 25% of the big companies claimed to have had all types of inspection for 2013-2015, which makes three to four inspections. Also, comments like “the most correct taxpayers are those which are most inspected and punished” arrived through this survey.

Types of Tax Inspection for the Big Business



There is a general perception by the businesses that the tax inspection is not performed on risk factors, but instead it aims only issuing penalties and collect additional revenues to the budget as well as put pressure to the businesses to pay bribes to the tax officials.

Duration of the Last Tax Inspection in the Big Business

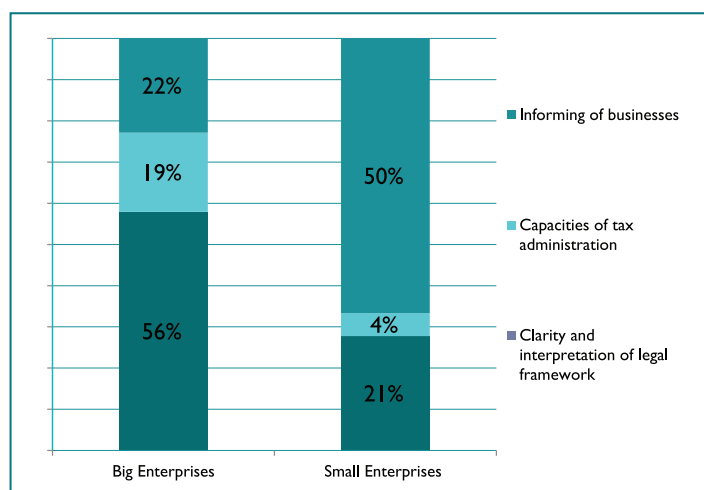


Tax legislation is in general perceived, mainly by the SMEs, as very difficult to put in execution. About 56% of the responding big companies think that the proper execution of the laws has to do with the legislation clarity and interpretation. Therefore, simplification and unification of the tax system and legislation as a whole is necessary to promote further improvements.

Frequent changes in the legal tax framework do not help businesses to consolidate their approach to the tax system.

There seems to be a big dissatisfaction from the business also regarding Tax Appeal. Most of the appeal requests are submitted by the big companies. The survey identified a very high level of business dissatisfaction in this process. 90% of the companies claimed that the tax appeal is somewhat ineffective or ineffective. The appeal procedures are bureaucratic and not flexible because the taxpayers are obligated to pay all their tax liabilities and the relevant interests, even though the fines are not included.

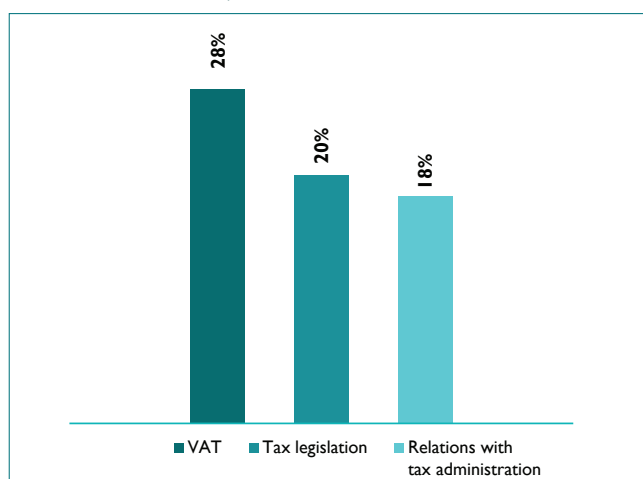
Business Perception - Factors leading to Proper Execution of Tax Legislation



The business identified as well the three main factors which lead to tax evasion.

VAT is the first most important factor according to the respondents which leads to informal activity. Tax legislation came out as the second most important factor and relationships with the Tax Administration as the third most important factor.

Business Perception - Most Important Factors leading to Informal Activity



INFORMALITY

A common challenge, Government-Business



Since the beginning, the Secretariat proposed to the Investment Council, a working agenda based on the identification of the most pressing problems as voted from the business. The common challenge against informality and the approach to fight it were voted by more than 70% of the businesses and discussed in the third IC meeting. The IC Chair, Minister of Economic Development, Trade and Entrepreneurship, Mr. Arben Ahmetaj stated that the debate against informality is currently one of the most heated, but still very healthy being in favour of the business and the citizens.

"Indeed, there is a need for a platform and an ongoing long-term strategy despite the government rotations. The new risk model is a revolution in the mentality of tax institution. It has been put in execution since two months ago and it is an honest struggle to put it in the service of the business climate and not only for budgetary purposes," said Mr. Ahmetaj.

Mr. Peter Sanfey, Deputy Director for Country Economics and Policy at EBRD said that Informality is not an issue only in Albania but in all trade economies. *"A clear government platform with timelines and measurable objectives is needed with the inclusion of the stakeholders,"* stated Mr. Sanfey. Appreciating the analysis and the case study in the milk sector prepared by the Secretariat, he suggested similar studies in other sectors with specific recommendations.

Mr. Dietlof Mare, FIAA's Vice President and Vodafone Albania CEO, also appreciated Secretariat's analysis and emphasized the need for a simplification and unification of the laws and proceedings to ensure correct implementation. *"But it is also very critical the role of the training and education of both tax administration*

and businesses especially of small and medium-sized ones to change their mentality in this new formalization reality," said Mr. Mare.

General Tax Director, Ms. Brisida Shehaj said that a lot of progress has been made in the legislation aspect and a considerable number of trainings have been provided to the tax administration, despite the difficulties encountered especially because of the limited capacities of the Fiscal Academy. *"The General Tax Directorate is in full reconstructing. Its structure will be totally different, with the objective to strengthen the service to the taxpayers. The current structure for the on-sight inspections at regional directorates will be removed due to its inefficiency. This "aggressive" structure will be substituted by inspectors responsible for specific areas and their daily work will consist in informing the business to be compliant with the law and the legislative amendments,"* said Ms. Shehaj. To eliminate arbitrariness, tax administration will complete by the end of December M-TAX Project, which will enable on-sight inspection to be made through a tablet for the declaration of, e.g. vouchers, turnover, employees' registration etc.

Ms. Irena Beqiraj, Deputy Minister of Finance stated that the Government is finalizing the two-year Strategy against Informality, aiming simplification of tax and customs procedures, with as less interpretation discrepancies as possible.

Head of IC Secretariat, Ms. Diana Leka stressed the need for prior consultation of the draft laws with an impact on the business, and more specifically to apply correctly law 146/2014 "For Public Notification and Consultation," as a continuous request from the business.

Survey: 'Complicated' Tax System and Difficult Access to Finance - Main "Factors" leading to Informality

To identify the business concerns and causes which lead to informality, the IC Secretariat conducted during the period October - November 2015 numerous meetings with various stakeholders involved in the debate regarding the action against informality such as companies, associations and business organizations, stakeholders from the civil society, independent economic experts, representatives of international organizations and fiscal administration, etc.

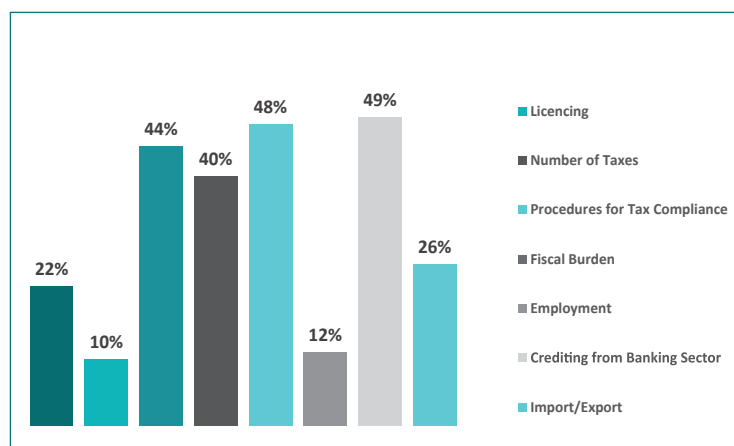
The purpose of the meetings was to collect thoughts and opinions on the action against informality, causes which lead to informality and suggestions for tackling effectively the phenomenon. In addition, an anonymous survey on informality was conducted by the Secretariat through the IC website to collect direct opinions from the business.



The survey was completed online by 89 businesses, while 11 companies responded during in-company visits. Based on the survey results, meetings and focus group meeting with representatives from the business community, it was concluded that a range of causes are considered to encourage informality, while becoming as well inhibitors to the phenomenon and contributors to the doing business climate if these indicators were improved. Based on the survey, the businesses stated that they encounter many

difficulties in relation to the tax system (number of taxes, fiscal burden and tax procedures) as well as in terms of access to finance.

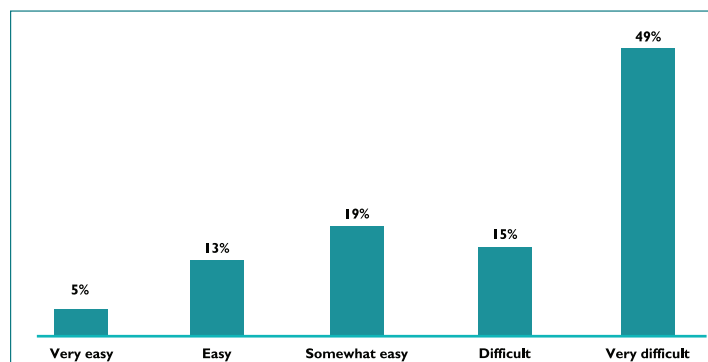
Most problematic issues for doing business in Albania



The low economic growth, reduced aggregate demand and fewer attractive investment options have led to a contraction of bank lending and stricter requirements for the business.

Another phenomenon, confirmed by the survey, came out the increased informal lending with very high interest rates which creates a chain of debt and difficulty in their formalization. Based also on the Survey on Informality, it came evident that the business lending has become very difficult by 49% of respondents, and as such not considered as an incentive for formalization.

Level of Difficulty in Access to Finance



Penalising Measures - Are they the right ones?!

Based on the replies coming from the survey and from the in-company visits, there is an agreement on the need for penalties to reduce informality and fight unfair competition. But, there is also a unanimous attitude on the irrational severity of measures assessed also in the conditions where there are reserves on the quality of Tax and Customs Administration and the capacity to take the right decision.

On the other side, there are many questions on the effectiveness of the appeal system including tax appeal and appealing in the judicial system. In addition, it has been reported that the Administrative Courts are on a standstill because of the high number of cases, limited organizational structures and infrastructure as well as lack of transparency.

No Administrative Court of First Instance has an official website. Apart of the delays in the judicial procedures beyond the legal timeline of 3 months, it remains a concern also the quality of the judgement where the business complains about courts' decisions being in favour of the public administration.

Upcoming Investment Council Meeting for 2016

Meeting IV – March 2nd, 2016

Agenda item: "Analysis of Business Concerns on Dispute Resolution Mechanisms within Public Administration as an Alternative to Judicial System."

Meeting V – April 28th, 2016

Agenda item: "Comparative Analysis of Foreign Investments and Government measures in Albania and Western Balkan Region (Benchmarking Exercise)."

Meeting VI – June 29th, 2016

Agenda item: "Informality and barriers to Investments in Agro - Industry sector."

Work Focus during 2015

AMBITION

- To bring a standard of constructive dialogue government - business with a focus on investment climate. Increase the confidence through all-inclusiveness and preliminary assessment from all the stakeholders.

INITIATIVES

*- Recommended 14 legal amendments
- 2 platforms against informality in the economy and against informality in the agriculture.*

MEETINGS

*- 2 Focus Group Meetings with a focus on tax and informality;
- 3 IC meetings;
- 15 members, 6 from the business.*

PRINCIPLES

*- Transparency
- Integrity
- All-inclusiveness
- Protection of business rights*

BUSINESS

- 8 official letters sent to government institutions on business concerns.

ANALYSES

*- 2 anonymous online surveys with 210 respondents;
- 100 meetings with stakeholders.*



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