

SUGGESTIONS ON BUSINESS AND INVESTMENT DEVELOPMENT STRATEGY AND ACTION PLAN 2021-2027

SECRETARIAT OF INVESTMENT COUNCIL

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ABBREVIATIONS

BIDS	Business and Investment Development Strategy
EU	European Union
EC	European Commision
ICT	Information and CommunicationTechnology
IC	Investment Council
MFE	Ministry of Finance and Economy
R&D	Research and Development
TEDA	Technological and Economic Development Areas
SME	Small and Medium Entreprisess
SIC	Secretariat of Investment Council

I. SUGGESTIONS OF SECRETARIAT OF IC ON DRAFT-BIDS 2021-2027

A. GENERAL SUGGESTIONS

- 1) ***Vision of the Albanian Government to stimulate investment, SMEs and human capital.*** We appreciate the wise approach of the government in terms of the commitment it has undertaken to stimulate innovation in support of SMEs and attract investment, also the long term 7-year duration of this strategy. This assessment is based on the suggestions of IC members for the revitalisation of the economy (IC Meeting, October 2019), which prioritizes the need for "*timely sustainability of national policies and clarity of government vision*" as preconditions to mitigate risk and stimulate private investment. In the meantime, we would suggest that the role of the private sector for the country's economic growth be explicitly recognized. For this we suggest to add in the material "*the private sector is vital for the economic growth of Albania, as a major contributor to budget revenues, through which the government provides services to society in education, health, etc*".
- 2) ***Good governance and the sustainability of institutions should be considered as a specific objective of BIDS 2021-2027 or the fourth area of policy objectives.*** The argument relates to the fact that institutional sustainability and good governance or inter-institutional coordination are essential elements for achieving the objectives and action plan of the strategy. Lack of institutional coordination has resulted as problematic in many reforms and topics discussed/analyzed in these 6 years in the IC. The reasons for this vary and can be grouped into: (a) overlapping competencies between institutions; (b) different agendas for pursuing the priorities where different institutions have different sectoral objectives; (c) lack of budgetary resources or human resources; (d) frequent institutional reforms which are accompanied by changes in laws/bylaws and the creation of new structures. BIDS 2021-2027 underlines some of the main challenges identified during the evaluation of BIDs 2014 - 2020 where inter alia it is stated that: "*No coordination not only within the partners involved in the implementation of the strategy, but also with donors and other organizations operating in field of business promotion...*". Despite this, the Strategy and Action Plan do not provide any concrete measures to address the lack of coordination between dependent institutions (vertically) or other institutions (horizontally) responsible for implementation into practice and monitoring of these measures. *How will be addressed the institutional coordination and the sustainability of the institutions envisaged to follow the implementation of the Strategy at the hierarchical level?*
- 3) ***Sustainability, harmonization and simplification of fiscal policy measures towards investments and SMEs - may be the moment to think about a "guillotine / substantial fiscal reform" stabilization of the fiscal legal and sub-legal framework***¹. Frequent changes over the years, although in most cases have consisted on the provisioning of incentives and mitigation measures for certain categories of taxpayers, have created many tax exemptions and fragmentations, in rules and specific criteria applicable to specific categories of taxpayers, which if not well-managed can produce the counter effect in terms of formalizing the economy. For their good governance, in short-term the following are required: (1) additional resources, an efficient, fast, non-bureaucratic and accountable administration; (2) transparency of sectoral incentives applicable to investors and stakeholders through the preparation of a systematic inventory (periodically updated). While in the medium term, it is suggested the substantial revision and preparation of new laws such as law 9920/2008 "On tax procedures", law 9632/2006 "On the local tax system" and especially the law 8438/1998 "On income tax" which has been object of previous discussions and does not properly reflect the economic context of business and individuals. *This component is very important and should be part of the serious commitment of the government and the MFE as the institution responsible for the implementation of BIDS to enable the efforts to deliver the expected results, as well as to increase trust in institutions and governance after the COVID-19 health crisis and the earthquake. of November 2019.*

¹ This is especially related to tax procedures and relevant guidelines which have been amended more than 17 times whenever it has been deemed necessary to address an ad-hoc issue rather than integrally, by creating therefore inconsistencies in some cases between the law and these guidelines

- 4) ***Informality remains one of the “gangrenes” of competitiveness***, which with the emergence of the pandemic, conditions the challenge of a local market in coherence with European standards. *The inclusion of the fight against informality and the sustainability of fiscal policy we would suggest to be part of a specific objective of the strategy (as mentioned in point 2, Specific Objective 4).*
 - ***The need for better interconnection and promotion of the concepts of "digital transformation" and "green transformation"***. While the Strategy highlights the role of digital transformation in increasing the competitiveness of Albanian enterprises and as a precondition for the integration of SMEs in the regional and international value chain, it does not highlight well its relationship with the implementation and investment in green technologies (green transition), nor provides for concrete measures in the action plan. The strategy reflects *EU Industrial Strategy 2020*, while the link between *digital transformation* and *green transformation* is more clearly evidenced in the changes made to *EU Industrial Strategy 2020* by the European Commission in 2021² in the context of the impact of Covid-19 in EU member states. In this sense, *the Strategy should enable concrete measures that can be mostly related to business awareness about these transformations and business access to available national and international funds which enable new investments in technology, digitalization/ innovation.*
 - ***Continuity between the proposed new strategy and the legal and regulatory initiatives undertaken in recent years to improve the investment climate and make transparency of their current status to the stakeholders involved.*** While the Strategy highlights its connection with the strategic objectives of the Albanian government and the national and international legal framework, it does not highlight some of the legal initiatives such as: the draft law *"On the Support and Development of Innovative Startups"*, or the draft *"On Unified Investments Law"* which have been previously and extensively consulted also in dedicated IC meetings. It is not clear whether the strategic vision regarding the legal framework is oriented towards further prolongation of law 55/2015 *"On Strategic Investments"* and the maintenance into force of law 7764/1993 *"On Foreign Investments"*, or the approval of the draft *"On Unified Investments Law"* already prepared with the assistance of IFC. Also, although the Strategy has a separate reporting section on the progress of TEDA, it does not provide a consolidated strategic approach or plan, on how to implement them according to law spirit³, attracting foreign investment in this area, nor a link to structural measures such as the establishment in 2019 of the Albanian Investment Corporation⁴.
- 5) ***Standardisation of government (central and local) consultation/dialogue process with stakeholders (private sector)*** based on concrete results by avoiding overlapping “ad hoc” platforms and increasing process transparency as a basic prerequisite in conveying the voice of private sector to all government initiatives, as well as BIDS 2021-2027.
- 6) ***Clearly identify the risks associated with the strategy*** and design their mitigation plan.

² May 2021 - *Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's recovery: The European Commission states that “Europe must leverage the potential of digital transformation, which is a key enabler for reaching the Green Deal objectives”. This idea is reinforced in the New Industrial Strategy for Europe, where it is underlined that the twin ecological and digital transitions will affect every part of economy, society, and industry. New green technologies will help to tackle the biggest challenge of our time: climate change. The European Commission has long promoted digital transformation to enhance economic competitiveness, while also recognising that digitisation can contribute to sustainability goals and enable the changes needed for a just green transition. The Commission's twin green and digital goals are seen to complement each other well.*

³ Amended with the law 54/2015

⁴ Main object of the activity is Development of Economic and Technological Areas. The Strategy deal with it only under the measure 1.1.3- Evaluation and Reform Program of TEDAs.

B. SUGESSTIONS ON THE SPECIFIC OBJECTIVES

B.1 INVESTMENT ATTRACTION AND INTERNATIONALISATION

- ***Strategic orientation on prioritizing which investments we will "target", as a basis for "screening" and the standard of new investments.*** We would suggest focusing on serious investors to attract "smart investments" such as specifying the stimulation of investments that are in line with nature protection or social cohesion to prevent uncontrolled entry of any type of investor or investment in the country. If this is already stated in laws or other documents, we would suggest that the relevant references be placed here. Also important is the need for transparency in plans for a sustainable solution to the land problem, as well as electricity and water infrastructure.
- ***We appreciate promotion of the country, but we would suggest in advance the preparation of solid and reliable projects / offers*** to attract serious investors who will come to the country for long periods and who respect national interests and standards.
- ***Transparency, sustainability and coordination of public investment plans as important factors in attracting private investment.*** The suggestions of IC members, including the recent COVID-19 survey, highlight the cost of transport, water and energy as factors limiting investment potential.
- ***Identifying models for internationalization of business in the international value chain would complement the strategic vision.*** This area of intervention put the emphasis on the strategic importance of investment and integration into the value chain and international markets for sustainable growth and development. Although the strategy has rightly identified it as one of its three specific objectives, it elaborates to an already consolidated extent only the *export model* as an option for integration into foreign markets⁵. Meanwhile, it does not elaborate any vision for the internationalization of Albanian enterprises, through the *foreign investment model* or the *mixed model* in the countries of the region through "*brownfield*" or "*greenfield*" investments, nor any strategic measure through which this can be implemented. It is well-known fact that some Albanian companies have already invested in the region countries in various projects and sectors (construction, trade, services, etc.). *We suggest that this positive model provided by them be recognized by the Strategy and further elaborated in the framework of potential support measures.*

B.2 SME DEVELOPMENT, ENTREPRENEURSHIP AND INNOVATION

- ***Integration of Albanian companies into international value chains requires for well structured and well governed companies.*** While major Albanian corporations might be more acquainted with the need to sophisticate their internal corporate governance and might have at their disposal the proper resources for doing so (both financial and human resources), SMEs struggle for managerial expertise and implementing corporate governance structures, thus having limited capacities to explore further potential for growth and more investments⁶. It is largely known that well governed companies demonstrate substantially better long-term financial results. They grow faster and more sustainably⁷. The Strategy, however provides for several measures to tackle training of human resources and entrepreneurial skills of SMEs⁸ *but lacks of any provision of measures that could effectively address specifically SMEs best examples of corporate governance.*
- ***Are there any plans to revitalize certain industries or sectors?*** The strategy mentions sectors, investments and target groups, but *does not specify the industries or target sectors and whether the incentives will be provided with budget support or will be part of TEDA development.*

⁵ There is an increasing focus on the part of the Government to increase exports through support measures, e.g. in agriculture.

⁶ IC Secretariat has identified in several topics during 2015-2021 (Access to Finance, Innovation, Informality in Economy, Skills Potentials etc.) and in the periodic Business Surveys, that Albanian SMEs in particular lacks of sophistication when it comes to internal organization and management.

⁷ IEC

⁸ Action Plan, Measures 1.3

B.3 HUMAN CAPITAL DEVELOPMENT

- ***The challenge of reducing the active population for work as a result of the aging of the Albanian population, reducing the birth rate and emigration of the population at a young age.*** The strategy does not envisage activities to address this issue already identified by a number of official documents, *while we appreciate the fact that the quantity and quality of work force is a separate objective of this strategy.*

II. SUGGESTIONS BASED ON SIC SURVEY MAY 2021

To update the debate, below are some of the key findings of the Secretariat of IC COVID-19 survey, April - May 2021:

- ***Companies' orientation towards innovation in full compliance with objective 2 of the strategy.*** COVID-19 highlighted the deficiency of business preparation in dealing with emergency situations. 52% of companies' respondents state that they will adopt emergency plans in their activity, where the sectors Agriculture, Trade and Tourism have the highest percentage of readiness. The pandemic seems to have accelerated companies' need to focus on innovation, with 57% of respondents saying they changed their investment plans towards innovation, mainly in new technologies and risk management. Surprisingly, agriculture is the sector most willing to embrace innovation (70% of companies).
- ***Facing total closure during COVID-19, companies are considering market remodeling and Albania can be considered an investment alternative to remote markets.*** 57% of the companies interviewed state that they have changed their import countries, moving closer to Europe and the region. 21% of companies operating mainly in Trade and Services state that they have replaced imports with domestic products.
- ***Alternating online work and physical presence in the workplace is becoming more acceptable to companies.*** More than 52% of companies that claim to have used online work during COVID-19, state that they will continue to use this alternative in the future. Companies have used the online services provided and are willing to re-use them in the future. The online services provided by the government are mainly used.
- ***Liquidity continues to be an issue for most companies regardless of size or sector and access to finance is of particular importance if addressed by the government.*** To ensure their continuity, companies will mainly rely on the accumulated income from previous periods (39% of companies interviewed), while other sources of funding remain second, only 26% of companies will rely on Banks.
- ***The agricultural sector is changing its behavior towards adaptability and innovation, highlighting the fact of factoring the most contributing sectors in the country's economy.*** Being a sector with a contribution of about 18% in GDP and about 40% in the labor force, the orientation of agriculture towards innovation and new technologies takes on a special importance. 70% of surveyed agricultural companies state that they have changed their investment plans, focusing mainly on strengthening trade channels, risk management, training and new technologies.
- ***Keeping in mind the various impacts of COVID-19 on sectors of the economy in BIDS.*** The construction sector is least affected by the effects of the COVID-19 pandemic, followed by services and agriculture, while the tourism sector (where 24% of companies report a loss in their revenue of more than 50%), Trade and Industry is the most affected.
- ***COVID-19 noted that state aid is irreplaceable in ensuring business continuity.*** 55% of companies state that they have benefited from government assistance after the closure, mainly "war wages". Only 8% have used the sovereign guarantee, mainly the industry and construction sector; while employment schemes were mostly used by the tourism sector.

III. SUGGESTIONS BASED ON IC RECOMMENDATIONS DURING YEARS

In 6 years of its operation, the IC has brought to the attention of members and associates a variety of issues that have been considered in part or in general terms in the BIDS 2021-2027. More specifically, we appreciate that in the draft strategy are taken into account some of the recommendations issued in the IC such as:

- ✓ Prioritization of digitalization and innovation that is emphasized in the vision of this strategy and concrete implementation measures;
- ✓ Systematic promotion of investment potentials according to a coherent promotion strategy;
- ✓ Development of TEDAs potentials;
- ✓ Focusing on the digital economy and government support in this regard;
- ✓ Identification of products, services and markets with the most potential for increasing exports as well as drafting strategies and specific incentives;
- ✓ Increasing access to finance for SMEs⁹ and enabling new schemes with government support;
- ✓ Simplification and better coordination of information on grant support projects and concentration of information in a single portal to increase the level of information, their timely accessibility and the quality of business applications in funding;
- ✓ Targeted support for the empowerment of start-ups;
- ✓ Increase the access of SMEs to ICT through government support focusing on the specific needs of SMEs;
- ✓ Creating a legal framework for venture capital, business angels and crowd funding;
- ✓ Development of incentive policies for enterprises that are engaged in R&D;
- ✓ Improving the value chain in order to increase competitiveness;
- ✓ Identify the need for structured support for the human capital development of SMEs;

However, we would suggest some additional/optional interventions to consider ***in the final version of this strategy or in its specific action plans***. More concretely:

(1) systematic promotion of targeted investments through a coherent promotion strategy - we would suggest to take into account (a) the sustainability of long-term investments through the drafting of a long-term master plan (10-15 years) of territorial development (in central and local level) made transparent to potential investors (b) consolidate and make transparent a calendar of international fairs to ensure access to contracts and new markets (c) increase the involvement of our embassies in “economic diplomacy” by promoting "Made in Albania" and facilitating connections between Albanian and foreign companies.

(2) evaluation and reform of the TEDA¹⁰ program - We emphasize that it is very important (1) information and transparency on the concept of development of these areas and replication of successful models (2) approximation of law no. 9789, dated 19.07.2007 "On Zones of Economic Technological Development" with the requirements of the ecosystem for the creation of "Dedicated Zones of Innovation".

(3) development of the digital economy - we suggest that (a) oversight of e-commerce be taken into account through the clear identification of e-commerce actors and the development of a concrete plan of measures to reduce informality from online sales; (b) the preparation of simple guidelines for e-commerce

⁹ In focus of IC discussions since 2016. The need to improve financial education and increase information on support schemes and grants has been a recommendation that at the initiative of the IC secretariat was proposed to MFE, AIDA and EBRD to develop a central platform online accessible to all SMEs and detailing the application processes in these schemes, accomplished during May 2021.

¹⁰ addressed in four IC meetings where the interest of businesses to use the potentials offered by free economic zones in some sectors such as ICT, Agriculture, Tourism and Manufacturing was identified

companies and communications on tax and customs operations (c) prepare an action plan to improve education, financial inclusion and reduce costs for bank access and local transfers in Euro.

(4) export strategy - we appreciate the fact that in the BIDS 2021-2027, it is stated that in 2021 there will be a new strategy for exports as part of this umbrella strategy. Meanwhile, we emphasize that KI has given recommendations in principle that *"the focus should be on the development of Albanian exports in EU and other markets bringing high value added to the economy"* There may be ongoing consultations on this, but we bring to attention the importance of consolidating high value-added sectors, involving actors and incentivizing exports by strengthening the regulatory and institutional framework.

(5) increased access to finance for SMEs - Beyond the diversification proposed in the strategy of guarantee instruments (such as in manufacturing), the following are also considered important from the IC platform: (a) simplification of procedures and reduction of administrative costs of support schemes that to make them more attractive and facilitate access to finance for a larger number of businesses. (b) Establishment of a Joint Public-Private Innovation Fund to invest in innovation covering all economic sectors (b) completing the regulatory framework and promoting FINTECH.

(6) startup and innovation program - we suggest that the approach to innovation be treated more broadly than simply related to start-ups, but seen in the entirety of all sectors and the impact on the entire Albanian economy. As proposed in the IC we emphasize (a) the importance of strengthening the innovation ecosystem and linkages between related parties through a comprehensive legal and regulatory framework (including, but not limited to - business angels and crowdfunding) (b) structuring Triple Helix formats as links between academia, businesses and financial institutions to diversify Start - up funding based on the identified needs of SMEs.

(7) Improving the value chain based on competition - as proposed in the IC and included in the BIDS 2021-2027, it is necessary to provide grants to consortia, educational and research institutions for collaborative capacity building projects. We would propose that the strategy consider that at the central level be considered incentives fiscal policies for those enterprises that have a budget and a certain number of employees dedicated to R&D.

(8) Entrepreneurial skills for SMEs have resulted in one of the main problems in IC surveys referring to the entrepreneurial mindset especially towards innovation and lack of capacity to generate accurate funding applications. Therefore, providing targeted technical assistance and taking measures to develop the capacities of SMEs have been the focus of several IC meetings. Beyond expanding training in collaboration with chambers of commerce, associations and other partners, we would also suggest *stimulating the education of SMEs through the use of media (visual / social)* and the importance of *collaborating with academia* as the best way to influence in the future of their business (eg through government-sponsored economic programs).

(9) support for human capital development - Surveys results from the IC Secretariat show that mainly in the Tourism, BPO, ICT and Manufacturing sectors, businesses are more concerned about the difficulty of finding qualified staff and filling the existing gap between job supply and demand by adapting educational curricula to specific market needs. Especially after the pandemic situation, we would suggest that (a) the strategy should have a sectoral approach on adapting employment policies and improving the skills of the workforce towards the priority sectors for sustainable economic development (b) creating a systematic cooperation format between schools and businesses and the creation of consortia with different actors professional service providers - civil society, employment offices, career offices, etc. operating in priority for investment sectors. In parallel with the increase of human capital capacities in the private sector, must be considered also strengthening of the administration, consolidation and "depoliticization" of public institutions in coherence with the priority sectors to ensure "institutional memory" and achieve the potential for sustainable development.