

Summary of Minutes of Meeting

SIXTH MEETING OF INVESTMENT COUNCIL

For Formalisation of the Agriculture Sector: The well-functioning of the VAT Compensation Scheme and Promotion of Investment

Tirana, 29 June 2016, 15:00 – 17:00

The Meeting took place at Tirana International Hotel and was chaired by Ms. Milva Ekonomi, Minister of Economic Development, Trade, Tourism and Enterprise (MEDTTE).

I. Opening of the meeting

The Chair of the Investment Council, Minister Milva Ekonomi welcomed the participants, and opened the meeting by thanking the Secretariat about the continuous support it provides to the regular working of Investment Council, by following its periodicity and produce a report. She also expressed her appreciation to EBRD for its contribution. In addition, the Chair asked the members to agree on the proposed agenda. Moreover, as the Investment Council has been functioning since 1 year, it has become necessary to initiate the rotation process of the non-permanent members from the business community.

II. Progress on the Recommendations from the Previous Meetings

Legal Expert of the Secretariat, Mr. Elvis Zerva briefed on the status of the recommendations from previous IC meetings. In total, there are 35 recommendations and 60 measures approved by the Investment Council, some of which dealing with legislation amendments, transparency and communication. Four recommendations have been accomplished and some are under discussion and evaluation process. In addition, 10 recommendations are now considered in the new draft laws elaborated by the Government, while 13 recommendations are under discussion.

III. Main Findings and Recommendations for Formalisation of the Agriculture Sector: The well-functioning of the VAT Compensation Scheme and Promotion of Investments

Head of the Secretariat, Ms. Diana Leka delivered a presentation on the main pillars of the analysis conducted by the Secretariat, focusing on the context, methodology, and eventually on the main findings and recommendations deriving from the consultation with business community.

Main comments delivered in the Meeting are summarized below:

The IC Chair, mentioned the special attention that the Government is currently providing to the agriculture sector at different levels showing some relevant data that the sector is contributing to the national economy. She informed that one of the most difficult aspects of the current work was the quality and quantity of the statistical data. She mentioned that the census in agriculture performed in 2012, is still not valid as there is a contradiction between the registration and administration of data, which need to be corrected. In addition, it is true that in this sector the entrepreneurship education is more difficult to be spread than in any other sector. Meanwhile, there has been a huge increase of farmers' registration with Taxpayer Identification Number (TIN) from around 700 in the end of 2014 to 18,000 in the end of 2015. The Chair recommended that all the structures of the Ministry of Agriculture, especially Regional Agriculture Directorates should have some duties depending on the farmers' work seasonality and raise the awareness among the farmers to be equipped with a TIN, in order for them to have access to finance, to projects and subsidies. In addition, it seems that the threshold for cash reimbursement is low, but some time is deemed necessary to prove the efficiency of this scheme.

Mr. Roni Telegrafi, Deputy Minister of Agriculture, mentioned that for the first time, the Agency for Agriculture and Rural Development has disbursed more than 95% of its budget. Obviously, this figure is significant and it shows a correlation between the number of farmers getting the TIN (already over 18.000 in 2015) and the increased access to credit.

Ms Laura Qorlaze, stated that the Secretariat's analysis does truly reflect the reality, and it gives a clear situation of the measures undertaken in all the previous years. She also appreciates the Secretariat for the provision of recommendations which attempt to address the identified problems. However, Ms. Qorlaze provided her opinion on the formalisation of the farmer and raised two questions:

1. It seems that the compensation schemes have played a big role in raising the awareness about being equipped with TIN. Farmer's code, or differently defined the Farmer's Card, was thought at the time, as a way for the farmer and peasant to benefit from the subsidy schemes, or other schemes. Why the Farmer's Code did not work, and why it is thought that the TIN will work instead, in order to benefit from the scheme?
2. Making also reference to the very small size of farms mentioned in the analysis (only 80% of the farmers have between 0.8 - 1.2 hectares), Ms. Qorlaze highlighted that these are mostly rural families that work and produce mainly to support themselves. How important is being equipped with a TIN to this category? Why not consider other alternatives? As there is already a database of ID Cards for citizens including countrymen, Ms. Qorlaze proposed the use of ID Cards as a means to identify the farmers. ID card could also be used for other identification purposes, such as land ownership, ownership on other movable and immovable properties, considering the already established database of ID Cards.

Mr. Xhavit Curri, General Tax Directorate, said that until beginning 2015, the farmer's fiscal code was in operation, but taking into account that some hundreds registered in all these years, it meant that something did not work at that time. Considering that in 1 ½ years circa 30,000 farmers were registered with TIN, it means that this scheme is more functional. TIN is simply an identification method for the farmers and it is important that transactions are documented. And in this regard, the new Instruction for the VAT compensation of Farmers has brought some novelty. Firstly, it increased the benefit from 6% to 20% of the compensation, and secondly, it imposes few documentation requirements to the farmers, collectors or processors. The farmer has neither fiscal nor administration burden. In fact, the collector and processor have the right to simply issue a VAT auto invoice just for documentation, writing the farmer's name and his respective TIN. Also the compensation amount has been raised to a substantial amount and with this pace it will reach more than one billion ALL by end of 2016.

Mr. Nikolin Jaka, Tirana Chamber of Commerce and Industry, commended the work and the analysis of the Secretariat. Mr. Jaka stated that the topic is problematic and this meeting is tackling only the top of the iceberg. Mr. Jaka raised some questions to the Ministry of Agriculture regarding the investing potentials in agriculture and agro processing and if there is any inventory of agriculture land?

In his discussion, Mr. Jaka was mainly focused on: the current VAT compensation scheme as a local and fragmented initiative, which does not provide neither standard/quality nor food safety. He proposed that the scheme should be extended to the whole production chain, since for example structured farms, which have to abide to the standard and quality requirements, have a high cost while the VAT is not being reimbursed. For this reason, to promote investment in agriculture and livestock, we should provide to these investments, VAT or reimbursement in production. So agro-processors should receive the product with reimbursed VAT, enabling thus fair competition. On the subventions scheme, he raised a question to the Ministry of Agriculture regarding the capability of the Ministry to administrate the subsidising funds, and their efficiency. He also suggested that the prerequisites for benefiting from the funds should be unbiased. For subventions there should not be a winner, but 'cold' requirements for fulfilling the requirements, and even better to make public and identify the beneficiary, and its purpose. In addition, he also commented on the real status of the agriculture land, and in areas where high technology has been invested, the reference price and the relevant taxes for the agriculture land imposed by the state are too high compared to their real price. On the farmer's card, he proposed to be issued by Albanian Agriculture Council (AAC), which on its side should provide to the farmer all the necessary information related to it.

Mr. Jaka also raised a question of when will be operational the EBRD guarantee fund proclaimed by the Government.

In the framework of the Trade Committee established by the Ministry of Economy, Mr. Jaka recommended to the Minister to be part of the IC and for the donors to support this committee in order to have the same efficiency as the IC. Also he requested to be increased

the number of business associations members by adding new ones such as the Albanian Agribusiness Council and the Albanian Producers Association.

Mr. Roni Telegrafi, Deputy Minister of Agriculture, replied to Mr. Jaka and said that there is a shortage and a discordance of data with INSTAT related to the 2012 census. There will be a common working group assisted by Eurostat that will be dealing with the calibration of the data which will be made public shortly. The preparation of an inventory of the land is proving to be a difficult task because of the high level of fragmentation due to the Law No. 7501. There are currently several projects working together to solve this problem. On another note concerning the quality of the incentives, the Deputy Minister remarked that they are of the highest quality and agreed that the procedures for attaining such incentives should be simplified. This problem has also been raised by the groups of interest as well as the farmers. Currently the Ministry is working towards this goal.

Mr. Christoph Denk, EBRD Tirana RO, appreciated the work done by the Secretariat for the technical note. He said that there are interlinks between informality and food safety, informality and access to financing, informality and access to support schemes, informality and the ability to build whole value chains around agribusinesses which are absolutely critical. It was also mentioned how important it is to create a level playing field among all the business actors. There are a number of initiatives in the pipeline to be implemented by improving financing to agribusinesses and EBRD is leading one of them. EBRD has launched a first of these agreements with banks and micro-finance institutions in the country. The first one is already operational and will be formally launched on July 26th in the presence of the EBRD President with the participation of banks, financial institutions, the government as well as businesses. Mr. Christoph also pointed out that on September 21st a big conference will be held in Tirana, by CIHEAM, an intergovernmental organization of the agribusiness ministries in the Mediterranean area. The event will be hosted by the Minister of Agriculture and EBRD together with FAO, and it will be centred on building value-chains in the agribusiness sector. In the end, Mr. Denk announced that he will be leaving his position and thanked the Minister of Economy for being the chair of the Council as well as the members, the participants and the Secretariat for its excellent work.

Ms. Nadia Kyuchukova, EU Delegation, in addition mentioned Rural Credit Guarantee Fund with IPA funds and with the participation of the government of Albania. There are already availability for farmers in Albania to receive credits and to have their credit guaranteed. On this note she continued by saying that the IPARD program which is coming soon to Albania, hopefully after the accreditation, will bring €71 million that will be available for the agricultural sector. This means that with the national co-financing and with the participation of the farmers themselves it will be around €156 million going to the agricultural sector for the period 2016-2020. It is a huge amount of money which gives excellent opportunities for increasing the competitiveness of the sector, for having a much needed standard already implemented. On another note related to the clearness of the criteria, she assured the members that IPARD is quite clear on what can be subsidised and how it can be subsidised. In addition there will be a lot of information accessible so the farmers will have all the

information needed. She added that the transparency of the data is a principle which is at the core of the EU member states, so whatever it is financed under common agricultural policy, it is quite known to the taxpayers of the EU and the data for these kinds of projects will be available online. Furthermore it was mentioned how important the registers are as well as the efforts that the Ministry of Agriculture is putting efforts on creating such registers, which will be something very important for the absorption capacity of the IPARD money. In the end she urged the members to work together to avoid future confusions related to data issues or better processes and monitoring capacities such as in the example given on the confusion between the National Food Authority and municipalities and moreover to be responsible for the food safety.

Mr. Silvio Pedrazzi, FIAA, stated the need to discuss how to increase exports and decrease imports because this will mean quality advancement. Without full formalization there is no quality improvement and competition. If we become formalized actors we get grants, credits from banks, and this is a chain of actions that cannot be compromised. So, in order to make the jump we need to be formalised no doubt and under this point of view it is very important to start from the inputs. He recommended the monitoring and traceability of inputs. In addition, he remarked that there was a misconception about agriculture being only 2% of the credit portfolio. If the EBRD definition of agribusinesses is considered, in order to activate the fund, then it constitutes 15-16% of credit portfolio.

Ms. Ermonela Felaj, Minister of State for Relationship with the Parliament, highlighted that informality is a very broad topic and agreed that this meeting has discovered just the top of the iceberg. There are a lot of concerns coming from the municipalities and regional tax directorates. First, there are still no formalized peasants connected with the land ownership. She pointed out some measures taken in this regard. Thus, the Parliament has recently approved the extension of the deadline for land registration for peasants until the end of 2017, in order for the new municipalities to carry over this process to the Immoveable Property Registration Offices. But another issue has come up as many municipalities do not have licensed topographers and some municipalities are procuring their own limited funds for the service of topography. *This can be one of the recommendation of IC to ask for more resources to Municipalities on this regard.*

The farmers are somehow intimidated to be registered with a TIN as they presume this will make them come out of the social assistance scheme. Therefore, there is a need to raise the awareness and dissemination among the farmers about TIN and to encourage the role and cooperation of agribusiness associations in this regard. On the other side, some farmers have very small land parcels, and thus showing no interest for being registered, that's why it is need to make a proper campaign on the unification of farms to give more value to the land and capital.

Regarding the statistical data, it is true that there is a lack of coordination of data among regional directorates of agriculture, tax offices and municipalities. *Hence a recommendation would be to that every institution under the subordination of Ministry of Finance and*

Ministry of Agriculture should share information at local level with municipalities to give them the possibility to draft their own development policies.

Another issue is *the lack of collection points* in some municipalities. Not having such a facility the farmers are obliged to sell their products at very low price or often their production remains stock or becomes wasted. Perhaps, it is the moment for the Ministry of Economy to administer all the free public properties including those owned by local government units that can serve as adequate collection points. This information must be shared with investors and everyone who wishes to invest in agro-business. It should be considered also the reduction of bureaucratic procedures during tenders among line ministries. Therefore it would be good to start as soon as possible with the identification of these free public properties, as there are already many in Albania.

Mr. Genti Begiri, AIDA, pointed out that some 40% of investment requests arriving to AIDA are in agriculture sector. He raised an issue to the banking sector representatives about the possibility to have a dedicated bank for the agriculture sector. Transforming one of the current banks in agriculture bank will mean to change the mind-set of back office employees toward the agriculture sector considering the examples in the developed countries.

Ms. Diana Leka, IC Secretariat made some clarifications for the comments delivered by the members. She highlighted the main focus of the technical note on the farmer's TIN registration process and its relation with subsidy schemes as an opportunity for investment and financing. The question raised by farmers and stakeholders is what comes next. In the document of the Secretariat it is recommended an in-depth study in a pilot area to see how it has been working the TIN registration for farmers, VAT compensation and subsidy scheme in order to go further with the analysis and policy interventions.

Regarding the traceability and food safety, businesses have proposed the standardisation and technological cards to verify the quantity of inputs and related outputs. Ministry of Finance has in place a decision on expected losses in production and the regulatory authorities have to monitor these requests. For this reason, there is a recommendation in the technical note to involve a set of actors from the public and business community to standardise, certify and further monitor the technological cards. While as relates to questions raised by Ms Qorlaze, she clarified that the focus of the current work was not to include the comparison between TIN and farmer's code. As relates to that information of why the farmers code did not work, she explained that based on a feedback received in the framework of the current work, it seemed that the farmer's code was not linked to the subventions schemes for further financing options.

Mr. Filip Gjoka, Association of Medicinal Plants, intervened by stating that is not clear yet for farmers what they are really getting from TIN. He has encouraged the farmers in his business as collector, processor and exporter of medical plants, to get the TIN and assuring them that they will not be taxed on that. He urged Tax Administration to issue an instruction to inform the farmers that they will not be taxed if they get the TIN. If the amount of VAT

compensation of farmers goes with the pace mentioned in the discussion, it will overcome the subsidy fund of the Ministry of Agriculture.

Mr. Agim Rrapaj, Albanian Agribusiness Council, thanked the IC for dealing with such a critical topic as informality in agriculture. In 2012 there has been a census on agriculture that has shown a lot of problems in the sector and related data. The previous attempt for the Farmer's Card failed as there was no cooperation with the private sector and business associations. Now it is the right moment when the farmer is more willing to work and produce in the sector. The TIN is important but not the only tool. It is need for the electronic card, the farm register and also a dedicated centre for farmers' registration as the regional tax directorates could not afford the flow of farmers interested to be registered.

Ms. Natasha Ahmetaj, Bank of Albania, mentioned that for the banks it is very important the formalisation of the sector and there is an interest to finance the sector. One of the suggestions for the banking sector is to consider the expanding of services also in rural areas considering that bank branches are mainly concentrated in the urban areas. Opening of a new bank branch has costs but it is suggested to go with a light banking structure mainly oriented on credit analysis in order to be nearer to the farmer. A dedicated bank for agriculture in Albania is not feasible at the current development stage of agriculture, but the existing banks have already in their portfolio the agriculture. According to Ms. Ahmetaj, soon will come the moment when the banks will consider the establishment of these light structures in particular in rural areas with intensive agricultural activities.

Mr. Luan Muca, DELTA, appraised the analysis and recommendations provided by the Secretariat. He specifically focussed on some of them such as the follow up for the establishment of the task force of political actors on informality in agriculture, the need to go further to the food safety issues such as in milk and meat subsectors and informal markets. The opening of new farmers' markets from municipalities has to be seen as cooperation opportunities for domestic and foreign investors. In the end, Mr. Muca mentioned as well to analyse the reasons why the Agricultural Collaboration Associations have ceased to work, because this affects the farmers, and they will always remain small in size if they will not come together to have a stronger voice, and also to export in foreign markets.

The IC Chair, thanked all the members for their inputs and discussions. It is certain that agriculture will remain one of the main priorities of the government. Additionally, she responded to some of the comments addressed during the discussions on the geographic distribution of the collection points as well as construction permits procedure. According to the Chair, building of collection points is related first with the construction capacity of the business itself. Also the establishment of these points is related with the possibility of taking a construction permit in the municipality. So far municipalities could not provide such permits due to the delay of the approving of urban plans. She also informed that one of the recommendations in doing business, is getting a construction permit for different purposes such as industrial or residential ones. Now the construction permits procedure is already online for 21 municipalities. It means that the applicant can get the reply online. If the

municipalities are not responding within two weeks than the permit is considered approved. For the rest of municipalities which are working on their regulatory urban plans, we have to see the matching among the urban plans and the collection points.

Regarding the other proposal related to the public properties, the Chair informed that the Ministry of Economy is not the owner of all public properties but the administrator, and it communicates with the line ministries during their privatisation process. There is a privatisation working plan where 60 properties out of 1,200-1,500 have to be privatised by 2016. There are two approaches related to this. One is that all public properties are listed online on a database that AIDA is setting up, displaying all the property's features, related procedures on how to apply and for what purpose to be used by a private firm. Second, for those 'privatised' properties (passed under the ownership of the municipalities) during the reconfiguration process of the territories of municipalities, the Ministry of Economy asked again the municipalities to consider again those territories that are being privatised if they would bring any economic benefit to the municipalities themselves or to the social development of the population itself. Perhaps, there is a moment to ask them to consider collection points within their development plans for the use of these 'privatised' properties.

Albania has a unique problem of land distribution and ownership since 1992 and that is why the definition of farms is difficult to change and it is related to the land usage. Only if the Ministry of Agriculture cooperates with INSTAT and Eurostat, a new definition may be used for the farms related to the production cycle. Regarding the Trade Committee established within the Ministry of Economy, the Chair stated to start first structuring it and then see how it can be shaped to the IC.

As Mr. Christoph Denk is leaving the EBRD Office in Tirana, a special thanks was addressed to him for the support given not only to this Council but also to the economic development of the country and congratulated him for the new position at EBRD headquarters in London.

IV. Approval of the Recommendations

The IC Chair asked the Secretariat to improve the recommendations based on the discussions made and to circulate via email to the members for approval. Additionally, new members from the business community will be proposed and approved before the next meeting. Regarding the IC topics for the second half of 2016, based on the voting of the members in December 2015, two topics have been proposed: 1) the VAT reimbursement, and 2) a deep study on agriculture coming from EBRD. The Secretariat will notify in the coming weeks the members on the topic of the next meeting, planned to be organized by end of September or early October.

V. Closing of the Meeting

The meeting was closed at 17:00.

List of Participants

Government Representatives

1. Ms. Milva Ekonomi, Chair of the Investment Council/Minister of Economic Development, Tourism, Trade and Entrepreneurship
2. Ms. Natasha Ahmetaj, Deputy Governor of Bank of Albania, in absence of Mr. Gent Sejko, Governor of Bank of Albania
3. Ms. Ermonela Felaj, Minister of State for Relations with the Parliament
4. Mr. Genti Beqiri, Executive Director of AIDA
5. Mr. Xhavit Curri, Deputy General Tax Director, in absence of Ms. Brisida Shehaj, General Tax Director

International Partners

1. Ms. Nadia Kyuchukova, Programme Manager, EU Delegation in Albania
2. Mr. Christoph Denk, Director, Head of EBRD RO in Albania
3. Ms. Argita Muça, Operations Officer in absence of Ms. Tahseen Sayed, Managing Director of WB Office in Albania
4. Ms. Laura Qorlaze, Senior Country Officer at IFC

Business Community

1. Mr. Nikolin Jaka, Chairman of Chamber of Commerce and Industry of Tirana
2. Mr. Silvio Pedrazzi, President of FIAA
3. Mr. Luan Muça, President of Delta Group
4. Ms. Lindita Legisi, President of Omega shpk
5. Mr. Adamantios Frantzis, General Manager of TITAN ANTEA CEMENT

Absent:

1. Mr. Bledi Çuçi, Minister of State for Local Government/National Coordinator of the Anticorruption Strategy
2. Ms. Pranvera Fagu, General Customs Director
3. Mr. Christian Canacaris, Chairman of Albanian Association of Banks

Special guest

Mr. Roni Telegrafi, Deputy Minister of Agriculture, Rural Development and Water Administration

Other guests:

Mr. Agim Rrapaj, Chairman of the Albanian Agriculture Council
Mr. Filip Gjoka, President of the Medical Plant Association