

# Doing business in Albania

2012

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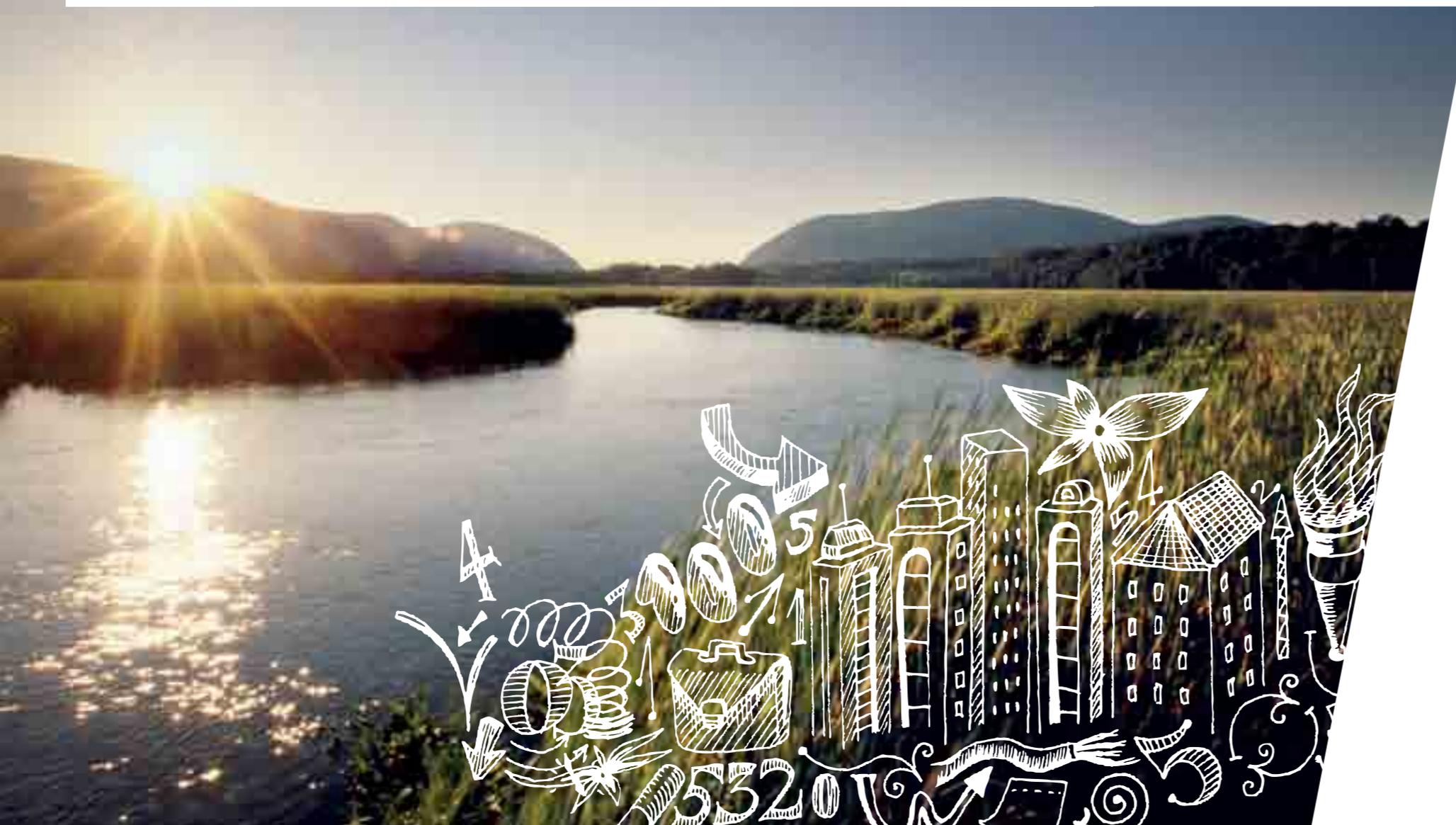
This guide is one in a series of country profiles prepared for use by clients and professional staff.

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# General overview



## Geography

Albania lies in the Southwestern part of the Balkan Peninsula, covering an area of 28,748 square kilometers. Albania occupies a strategic geographical location in South-Eastern Europe along the Strait of Otranto which links the Adriatic Sea with the Ionian Sea and separates Albania from Italy.

Albania shares a border with Greece to the south/southeast (282 km), Former Yugoslav Republic of Macedonia to the east (151 km), Kosovo to the northeast (112 km), and Montenegro to the northwest (172 km)<sup>1</sup>. The capital city of Albania is Tirana. Other major cities include Durrës, Vlorë, Fier, Shkodër.

The Country is in the Central European time zone, one hour ahead of the Greenwich Mean Time (GMT).

Much of Albania's surface is mountainous - the average height above sea level is 708 m, (2,336 feet) and its highest peak, Mount of Korabi, is 2,753 m (9,085 feet)<sup>2</sup>. The country is rich in water resources with the main rivers being extensively managed to generate hydro-electricity.

The Country has nearly 450 km (280 miles) of seacoast along the Adriatic and Ionian Seas. Over a third of the territory of Albania is forested and the country is very rich in flora. Other natural resources include petroleum, natural gas, coal, bauxite, chromites, copper, iron ore, nickel, salt, timber, and hydropower.

## Climate

Albania has a mild climate, conditioned by the country's geographical position in the transit zone between the typical Mediterranean climate with dry hot summers and cool rainy winters in the west and the moderate continental in the east. The country has an average of around 300 sunny days per year. Annual precipitation ranges from about 100 cm (40 inches) on the coast to more than 250 cm (100 inches) in the mountains.

## Population, Language

According to the latest official data, published by the Albanian Institute of Statistics, Albania's population is 3.2 million (2010 estimation.) with an average density of approximately 110 people per square km<sup>3</sup>. The main minority groups are Greeks and Vlachs, Romany and Bulgarians.

The official language of the country is Albanian with an adult literacy of 99 per cent. Italian, English and Greek are the foreign languages most spoken in Albania.

<sup>1</sup> INSTAT, *Albania in Figures 2010*; p 5; Tirana, 2010; at [www.instat.gov.al](http://www.instat.gov.al).

<sup>2</sup> *Ibid*; p 6.

<sup>3</sup> *Ibid*; p 10.

## Travel and work in Albania

Albania is relatively easy to access. Citizens of EU, Australia, Canada, United Kingdom, Iceland, Norway, San Marino, Switzerland and USA and holders of a valid Schengen visa can enter into Albania without an entry visa by presenting only a valid identification document at the border crossing point<sup>4</sup>. They are allowed to stay within the Albanian territory up to 90 days within a 180 days period. Otherwise, they need to apply for a residence permit. The duration of a residence permit may be three months, six months, one year, five years or permanent.

Foreigners who come in Albania for work purposes need to obtain a work permit with the Albanian Labor Inspectorate from the first moment they start working in Albania, unless they come in the country on business trips, i.e. the duration of stay is less than 30 days in a six months period.

## Official Bank Holidays Schedule

In Albania, banks are closed on Saturdays and Sundays and on official public holidays. The following lists bank holidays as provided by the Bank of Albania for 2012:

Holiday	Date
New Year's Day	January 1 and 2
Summer Day	March 14
Nevruz Day	March 22
Catholic Easter	April 8
Orthodox Easter	April 15
End of Ramadan	August 19
Mother Teresa Beatification Day	October 19
Feast of Sacrifice	October 25
Flag and Independence Day	November 28
Liberation Day	November 29
National Youth Day	December 8
Christmas Day	December 25

*Note: The End of Ramadan and Feast of Sacrifice holidays may be subject to change according to the lunar calendar.*

## Political system

Albania is a parliamentary republic. Integration into the European Union and NATO has been the ultimate goal of all the post-communist governments in Albania. The major priorities of the current government are thorough reform of the legal system, fast and stable growth of the economy, development of the education, health, sports and culture to reach the EU standards, ensuring national prosperity and EU membership.

### Executive branch

The head of state in Albania is the President of the Republic. The President is elected to a 5-year term by the Albanian Assembly by secret ballot, requiring more than 60% of the votes of all deputies. The President has the power to guarantee observation of the constitution and all laws, act as commander in chief of the armed forces, exercise the duties of the Assembly of the Republic of Albania when the Assembly is not in session, and appoint the prime minister.

Executive power rests with the Council of Ministers (the Government). The prime minister is appointed by the

<sup>4</sup> See Decision No 362, dated 01.04.2009, of the Council of Ministers "On setting out the criteria, procedures and documentation for the entry, stay and treatment of foreigners in the Republic of Albania", as amended.

President; ministers are nominated by the President on the basis of the prime minister's proposal. The Assembly must give final approval of the composition of the government. The government is responsible for carrying out both foreign and domestic policies. It directs and controls the activities of the ministries and other state organs.

### Current Political Leaders

**President:** Bamir Topi (since July 2007)  
- *Democratic Party*

**Prime Minister:** Sali Berisha  
(since September 2005)

- *Democratic Party*

### Next Election Dates

Presidential election: 2012

Parliamentary election: 2013

### Legislative branch

The Albanian Assembly (Kuvendi i Shqipërisë) is the lawmaking body in Albania. It is composed of 140 deputies, who are elected through a proportional system. Parliamentary elections are held at least every four years.

The Assembly has the power to decide the direction of domestic and foreign policy; approve or amend the constitution; declare war on another state; ratify or annul international treaties; elect the President of the

Republic, the Supreme Court and the Attorney General and his or her deputies; and control the activity of state radio and television, state news agency and other official information media.

## Economy

According to the World Bank<sup>5</sup>:

"Albania has made great strides over the last years and is considered a success story from the International Development Association (IDA). Albania is now creditworthy for the International Bank for Reconstruction and Development (IBRD) and entered the ranking of upper-middle income countries".

### Infrastructure

The national road network in Albania is about 18,000 km long including 3,636 km of national roads, 10,500 km of interurban roads, and the rest of 4,000 km is under the jurisdiction of autonomous units, enterprises or companies<sup>6</sup>. The primary road network is about 1,138 km with nine main connections which made up the basis of the network. The secondary network is 1,998 km long<sup>7</sup>.

The only Pan-European Transport Corridor crossing Albania is Corridor VIII, which is an energy and infrastructure axis connecting the Adriatic with the Black Sea through Italy, Albania, FYROM and

Bulgaria, and linking Greece with Turkey. Albania has joined the Memorandum of Understanding on the Development of the South Eastern Europe Core Regional Transport Network. Together with the European Commission, Bosnia and Herzegovina, Croatia, FYROM, Serbia, Montenegro and Kosovo, Albania is committed to cooperate for enhancing the development of regional transport network in South Eastern Europe (SEE). The Core Network includes 4,300 km of railways across the Western Balkans, 6,000 km of roads, major ports and airports. The total cost of developing the Core Network is estimated at over EUR 16 billion and 17 priority projects are identified<sup>8</sup>.

The infrastructure of the country needs considerable investments in new construction and modernization. For this reason, in 2008, the Ministry of Public Works and Transport and Telecommunications adopted a sectoral transport strategy (2008-2013)<sup>9</sup>. It includes a detailed investment plan for the road network, railway infrastructure, the ports and airports of Albania. The development of the national transport infrastructure as an integral part of the South-East European Core Network and the future trans-European Transport Networks is the core of the Government's investment policy.



### Skilled work force availability

According to the Institute of Statistic (INSTAT) data for 2008-2009 period, Albania's working age population is 2,150,000. The labor force consists of 1,060,000 men (64.3%) and women (43.6%)<sup>10</sup>. The adult literacy rate in Albania is 99%<sup>11</sup>. A high percentage of the workforce has completed some form of secondary, technical or vocational education. Many Albanians have strong backgrounds in engineering, medicine and economics, but there is still a relative shortage of professionals with strong management skills. The skilled workforce and the relatively low cost of labor (the average monthly salary as of December 2010 is ALL 40,874 according to INSTAT<sup>12</sup>) are considerable incentives for foreign companies, especially those that are labor intensive, to invest in Albania.

### Economic development

Albanian economy during 2010 was characterized by consolidated macroeconomic stability and decreased risk premiums. According to the Bank of Albania, the Albanian economy grew by 3.6% over the first nine months of 2010<sup>13</sup>. Economic growth was supported mainly by infrastructure projects, favorable weather conditions for the increase in the capacity of hydropower generation and high global prices for minerals.

Provisional data show that real GDP grew

by 3.4% year-on-year in the first quarter of 2011, decelerating from 5.6% in the final trimester of 2010<sup>14</sup>. The slower pace of economic activity was due to lower growth in the industry, trade, hotels and restaurants and transport sectors which together account for some two-fifths of output.

### Labor market

The rate of unemployment remains practically unchanged at 13.4% in the first quarter of 2011<sup>15</sup>. Year-on-year employment growth amounted to 2.2% in the first trimester, mostly due to a strong increase of 4.2% year-on-year in private non-agriculture employment. Employment with the public sector continued to decline, while the sector's average wage rose by 8.3%, year-on-year.

### External sector

During the first half of 2011, in annual terms, current account deficit shrank by approximately 25.9% year on year according to INSTAT.

In the first quarter of 2011, foreign sales of goods rose by a sizeable 46% year-on-

year, driven primarily by higher exports of electricity and construction materials. Leather goods and textiles also posted strong increases. Imports of goods rose by some 16% in the first quarter of 2011, boosted by higher import of machinery and equipment amid an increase in public investment. Increases were also recorded for import of food as well as minerals and fuel in the wake of higher global prices of these commodities. During the first quarter, the services account posted a deficit which, however, was higher than in the same period of 2010 as the increase in travel outflows surpassed the rise in earnings from inbound tourism. In the first quarter of 2011, current transfers declined by almost 7% year-on-year amid a continued decline in workers' remittances. Inflows of remittances, which represent the bulk of current transfers, fell by almost 10% compared to the same period a year before.

Overall, the balance of payments was in deficit in the first quarter of 2011 which led to a corresponding fall in reserves of some EUR 77 million. Foreign reserves in the first quarter of 2011 provided 4.3

months of import cover. Gross external debt stood at EUR 3.7 billion in the first quarter of 2011, representing a year-on-year increase of slightly less than 10%. Government long-term borrowing constitutes some 51% of gross external debt.

### Monetary developments

In the first half of 2011, the average annual consumer price index (CPI) fell to 3.6% coming close to the Bank of Albania's target of 3%+/-1)<sup>16</sup>. A conservative consumer demand and more moderate import prices have eased the inflation pressure on the CPI.

In view of the ease of inflation and a more conservative fiscal policy, the Bank of Albania lowered the key repo rate at 5.00%, by 25 basis points in September 2011. As of November 2011, the repo rate stands at 4.75%<sup>17</sup>. In the second quarter of 2011, ALL weakened by 1.7% vis-à-vis the euro but appreciated by some 1.3% against the US dollar compared to the previous quarter<sup>18</sup>.

### Financial sector

The restored confidence in the financial system, stabilized macroeconomic situation and prudential and regulatory measures taken by the Bank of Albania, led to the stabilization and improvement of capitalization, liquidity and profitability indicators of the banking system. This made the credit support of the economy

be upward during 2010<sup>19</sup>. However, it is still suffering from lack of demand and realistic, qualitative and creditable business plans, as well as from the banks' tight lending conditions. The easing of lending terms and the upward interest of the banks in financing domestic consumption and investments, decreased uncertainty and risk premiums, as well as the overall sound balance sheets of businesses and consumers, are expected to continue to stimulate the domestic demand.

### Fiscal developments

According to cash-based government finance data, total revenue in the period January-May 2011 increased by 0.8%, year-on-year<sup>20</sup>. According to the European Commission, revenue from VAT and excise taxes - the major components of tax receipts - declined by 0.6% and 4.5%, respectively, partly reflecting the continued weak domestic demand. Social contributions increased by 9.4%, on the back of continued employment growth. Total expenditure rose by a significant 10.1% year-on-year in the period January-May. Current spending increased by 8.7%, mainly due to higher expenditure in operations and maintenance, subsidies and public service wages. Capital outlays rose by almost 10% as a result of new capital projects<sup>21</sup>.

As a result of these developments, the budget deficit in the period January-May

2011 increased by more than 2.5 times to ALL 20.5 million from ALL 7.7 million in the same months of 2010<sup>22</sup>. The deficit for the first five months of 2011 was slightly over one-fourth higher than planned. Almost nine-tenths of the deficit was financed from domestic sources.

### Eurobond

Following previous unsuccessful attempts, Albania issued its first-ever Eurobond for a total of EUR 300 million on 28 October 2010. The bond has a maturity of 5 years and carries an interest rate of 7.5%<sup>23</sup>. Three-quarters of the proceeds from the issue, rated at B1 by Moody's and B+ by Standard & Poor's, will be used to repay a 2009 syndicated loan, while the rest will be used to replace short-term domestic T-bills.

In March 2011, the credit rating agency Standard & Poor's kept Albania's sovereign rating stable at 'B+B'<sup>24</sup>, indicating that the ratings on Albania are constrained by the country's low per capita GDP level, high government debt and a polarized political environment which constrains the government's ability to press ahead with reforms. The outlook remained stable on account of Albania's strong growth potential and the policy anchor of EU integration which balance the downside risks.

### Albania and the EU

On 12 June 2006, Albania entered into a

<sup>5</sup> World Bank Country Brief 2011.

<sup>6</sup> Ministry of Public Works, Transport, and Telecommunications; Sectorial Strategy of Transport; p. 3; at [www.mppt.gov.al](http://www.mppt.gov.al).

<sup>7</sup> Ibid.

<sup>8</sup> See South-East Europe Transport Observatory at [www.seetoint.org](http://www.seetoint.org).

<sup>9</sup> Supra at 6.

<sup>10</sup> INSTAT, supra at 1; p 13.

<sup>11</sup> Ibid. p 19.

<sup>12</sup> Ibid. p 16.

<sup>13</sup> Bank of Albania; Annual Report 2010; p 39; at [www.bankofalbania.org](http://www.bankofalbania.org).

<sup>14</sup> Bank of Albania; Monetary Policy Report 2011 (II quarter); p 52; at [www.bankofalbania.org](http://www.bankofalbania.org).

<sup>15</sup> Ibid; p 15.

## General overview

Stabilization and Association Agreement (SAA) with the EU and its member states. This agreement is drawing the country to the EU by providing rights and obligations and creating mechanisms for working closer together in areas of mutual interest.

Ensuring free movement of goods is one of the main objectives of the SAA. In this framework, Albania is gradually establishing a free trade area with the EU, in conformity with the GATT and other relevant WTO provisions. Albania has abolished all quantitative restrictions or measures having an equivalent effect and has progressively dismantled its tariffs in trade with the EU. Albania is also using the Combined Nomenclature for the classification of goods in trade and to determine the basic duties to which the successive reductions of duties would be applied. In addition, Albania is prohibited, in principle, from introducing new duties, restrictions or measures with equivalent effect in trade between the EU and Albania. Albania is also required to abolish any domestic tax measure or practice which discriminates directly or indirectly against EU products. Moreover, trade arrangements of Albania with third parties are established in such a way that they do not result in discrimination against the EU.

The SAA requires Albania to ensure non-discrimination as regards working conditions, remuneration and dismissal

against EU workers who are legally established in its territory. The resident spouse and children of an EU worker legally employed in Albania has access to the labor market during the period of the worker's authorized stay. Albania grants similar treatment to EU nationals legally employed in Albania and their family members residing with them.

Under the SAA, EU companies have the right of establishment in Albania. EU companies are granted either national treatment or most-favored-nation (MFN) treatment, whichever is more favorable. Notwithstanding the provisions governing on the free movement of workers under the SAA, special establishment provisions could be introduced for 'key personnel'.

In addition, the SAA provides for the progressive and reciprocal liberalization of trade in services, consistent with the relevant WTO rules, in particular Article V of GATS. EU companies not established in Albania would gradually acquire the right to provide services in the country, in accordance with the GATS provisions and taking account, in particular, of progress

in approximation of laws in the various fields.

In the framework of the SAA, Albania has committed itself to progressive liberalization of both inward and outward movement of capital, in particular for direct investments. Protection of investors as regards liquidation and repatriation of investments and profits is also covered.

Finally, the SAA includes provisions on the gradual approximation of the existing and future legislation of Albania to that of the EU. Albania is gradually aligning its laws with the *acquis*, notably in key areas of Internal Market legislation, and has agreed binding deadlines for harmonization in areas such as competition, intellectual, industrial and commercial property, public procurement, standards and certification, financial services, land transport, company law, accounting, consumer protection, data protection, health and safety at work and equal opportunities.

On 28 April 2009, Albania submitted

its application for EU membership. The replies to the questionnaire, based upon which the European Commission delivered its Opinion on whether the country could become a candidate for EU membership, were submitted on April 2010. On 14 December 2010, the Council of the EU endorsed the Commission's Opinion on Albania's membership application, in which it was concluded that, although good progress was made, further reforms were needed before the country could be recognized as a candidate country and ready to start accession negotiations.

On 8 November 2010, the Council of the EU decided to lift visa requirements for Albanian citizens on short-term travel to the Schengen Area. The visa liberalization entered into force on 15 December 2010.

### Foreign direct investments

During 2005-2008, foreign direct investments (FDIs) in the Albanian economy had rapid growth rates. In general, foreign direct investments had a significant impact on the increase in employment, exports, introduction of technologies and modern production methods, and on services quality and variety.

Foreign direct investments inflows in 2010 yielded EUR. 827.4 million, up by about 17.1% year-on-year<sup>25</sup>. Foreign direct investments in 2010 were

oriented mainly to the hydropower and hydrocarbon sectors. The ratio of net foreign direct investments (inflows - outflows) to nominal GDP for 2010 is estimated at about 9.4% or about up 1.6 percentage points from the previous year<sup>26</sup>. Excluding privatization receipts, the inflows of foreign direct investments in 2010 increased by 66.4% compared to 2009<sup>27</sup>. This change was due to a higher level of privatization receipts and the important role they played in FDI growth in 2009.

In 2011, although FDI inflows increased year-on-year, a significant amount of foreign capital was repatriated resulting in a sharp drop in net FDI.

FDIs made an important contribution to the financial sector, particularly in banking. Out of 16 commercial banks operating at present in Albania, 14 are foreign-owned<sup>28</sup>. Following the entry of foreign banking groups into the market, the performance and competitiveness of the financial services industry has been enhanced, thus contributing to the improvement of the quality of banking services.

The telecommunications sector has also undergone a rapid development, thanks to foreign investments. Three

foreign capital companies are currently operating in the field of mobile telephony. The number of mobile phone users has reached 3 million, at an increasing level of about 92%<sup>29</sup>. Due to competition in this sector, the quality and quantity of services has increased and service costs have significantly declined. After the privatization of the state-owned fixed telephony company, even in this area there is an increasing number of subscribers, significantly contributing to the spreading of internet services in the country.

Important investments have been carried out in the energy sector. Investments in search and production of oil and gas have increased due to petroleum agreements with foreign investors and companies operating in this sector, thus contributing to an increase of oil production in the country.

Important international companies have approached the electric power sector as partners in public/private cooperation, with a view to bring about by way of concession large electricity works. Concession projects in this sector aim at almost doubling the current electricity production and diversifying the energy resources by using renewable power. According to the Ministry of

<sup>25</sup> Bank of Albania; *supra* at 13; pp 62-63.

<sup>26</sup> *Ibid*; p 63.

<sup>27</sup> *Ibid*.

<sup>28</sup> Bank of Albania; *Financial Stability Report 2011 H1*; p 8; at [www.bankofalbania.org](http://www.bankofalbania.org).

<sup>29</sup> Council of Ministers; *Albania's replies to the European Commission's Questionnaire*; April 2010; p 558.

## General overview

Economy, Trade and Industry, concession contracts for the construction of hydro-power plants signed by the Albanian Government with foreign companies over the last two years provide for about EUR.1.3 billion investments, to be carried out in the next three years. Foreign investments in this sector in the course of the coming three years are projected to be about EUR 1.3 billion<sup>30</sup>.

Companies with foreign capital have also contributed substantially to improving and modernizing the transport infrastructures, constructing of important road-works, seaports and the International "Mother Tereza" Airport, thus playing an important role in cross-border economic relations as well as among different regions in Albania.

Manufacturing sector is known for attracting foreign investors since early 1990s, especially in the sectors of textiles, clothing and footwear manufacturing, where their role is significant in the share of this sector to exports and employment. Clothing and textiles account for about 45 % of total exports in Albania. Approximately 235 foreign businesses or about 11% of foreign capital or joint-stock businesses are currently operating in these sectors<sup>31</sup>.

**Table 1:** Foreign direct investments (inflows, stock, as a share of GDP and per capita)

FDI in Albania	2003	2004	2005	2006	2007	2008	2009	2010
Inflows								
In million Euros	156.9	278.4	212.6	258.6	481.1	665.1	696.4	831.5
As a share of GDP	3.1	4.7	3.2	3.6	6.1	7.5	8.0	9.3
Per capita, in euro	49.3	87.5	66.8	81.3	151.2	209.0	218.9	261.3
Stock (cumulative)								
In million euro	382.3	614.2	860.7	1,048.5	1,815.1	2,169.7	2,312.3	n.a.
Per capita, in euro	120.1	193.0	270.5	329.5	570.4	681.9	726.7	n.a.

Source: FDI - Bank of Albania

<sup>30</sup> Ibid; p 559.

<sup>31</sup> Ibid.



**FDIs inflows by sectors of the economy reported for the balance of payments statistics (in million Euros and as a percentage to the total)**

Source: Bank of Albania

(in million Euros)	2005	2006	2007	2008	2009	2010
Operations on hydrocarbons and research	23.4	37.0	27.5	101.6	67.9	176.6
Telecommunication	39.4	62.0	196.0	-61.0	97.0	121.1
Banking system	44.5	30.0	136.0	167.0	119.5	125.2
Other sectors	105.3	129.6	121.6	457.5	412.0	408.6
Total IHD[1]	212.6	258.6	481.1	665.1	696.4	831.5
(As a % to the total)	2005	2006	2007	2008	2009	2010
Operations of hydrocarbons and research	11%	14%	6%	15%	10%	21%
Telecommunication	19%	24%	41%	-9%	14%	15%
Banking system	21%	12%	28%	25%	17%	15%
Other sectors	50%	50%	25%	69%	59%	49%
Total IHDs	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

**Stock of foreign direct investments in Albania by countries of origin (in % to total FDI stock, as at period-end)**

COUNTRY	2004	2005	2006	2007	2008*
Saudi Arabia	1.0	1.5	1.0	1.0	-
Austria	5.7	5.4	9.1	10.5	9.3
Bulgaria	1.4	1.1	0.8	0.9	1.0
France	0.1	0.4	1.2	1.4	1.0
Germany	1.5	3.4	2.8	3.5	3.4
Greece	55.9	55.1	53.0	52.7	44.0
Italy	12.9	11.6	11.2	10.9	8.0
Lebanon	0.8	2.9	2.3	0.9	1.9
USA	4.9	3.8	3.6	2.3	16.9
Turkey	4.4	5.6	5.7	12.1	11.0
Switzerland	1.2	1.1	1.3	0.1	1.0
Other	10.2	8.1	8.0	3.7	2.4
Total	100.0	100.0	100.0	100.0	100.0

Source: Bank of Albania, Survey on FDIs at enterprises.

## Leading industries

Albanian legislation not only permits but encourages foreign investment in most sectors of the economy. Foreign investors are allowed to participate in the economic activity, being treated equally with Albanian nationals, except for some limitations on the rights of land ownership.

Foreign investors may bring disputes before the Albanian courts. Provisions regarding domestic and international commercial arbitration are incorporated into the Albanian Code of Civil Procedure. As a practical matter, however, corruption

### GDP (millions of Leks, at current prices)

In %	2007	2008	2009
Agriculture, hunting and forestry	17.1	16.7	16.8
Extracting	0.8	1.0	0.8
Manufacturing	7.6	7.7	8.1
Construction	13.4	13.4	12.7
Trade, hotels and restaurants	19.1	18.9	18.7
Transport	4.9	4.9	4.9
Post and communication	3.8	3.7	3.6
Other services	23.4	23.1	24.0
FISIM (Financial Intermediation Services Indirectly Measured)	4.0	3.8	3.8
Taxes and subsidies	13.8	14.4	14.2
Total	100.0	100.0	100.0

remains a problem in the judicial system, and some foreign investors have experienced delays and losses as a result.

### Private sector developments

According to the IMF, domestic private investment increased from 19 per cent of GDP in 2005 to an estimated 20.3 per cent in 2010, mostly in the construction sector<sup>32</sup>. As measured by World Bank: Doing Business indicators, Albania moved from the 136th ranking in 2007 to 82nd in 2010 and achieved the second-highest rank among the top ten reformers worldwide in 2009.

There has been significant reduction in the time (from 36 to 5 days between 2008 and 2010) and cost of registering a business, trading across borders. Other improvements include the regulations for getting credit and protection of shareholders (disclosure index rose from 0 in 2008 to 8 in 2010 and investor protection index rose from 2.7 in 2008 to 7.3 in 2010)<sup>33</sup>.

### Agriculture

Twenty percent of Albania is fertile arable land. Utilized Agricultural Area (UAA) is 1.12m ha, which is 39% of the total land of the country. About half of the UAA is arable land, 38% is permanent grassland and 11% is land under permanent crops<sup>34</sup>.

Although agriculture is Albania's largest sector at 25% of the GDP and employing 60% of the workforce<sup>35</sup>, it is yet to modernize. Small landholders predominate and real estate disputes are common.

Nevertheless, the potential is considerable; the mild Mediterranean and abundant precipitation are especially suited for growing early and late season fruits, olives, medicinal plants and wine. Large rivers provide effective irrigation especially in the coastal plains where 60% of the arable land is located. The local consumption need is not covered by the

<sup>32</sup> World Bank; *supra* at 5.

<sup>33</sup> *Ibid.*

current agricultural production therefore numerous opportunities exist for various investment strategies.

Within the sector, the food processing industry is a better than average performer. In some niche market products, such as frog meat and game, the sector is an important player at the European level. Double digit growth has been seen in the sub-sectors of herbs and spices, vegetable oils and fish products. Again, the food processing sector is diverse, but dominated by small-scale, often artisan producers, most of them producing for the local market.

Small-sized investment opportunities have been identified in many sub-sectors. The best can be found in segments where exports already exist, namely medicinal plants and herbs, early and late season vegetables, preserved products such as olives, olive oil, canned tomatoes, fresh and processed fish, and cheese.

The 2009-2013 plan of the Ministry of Agriculture is to increase the financial support for farms, agricultural businesses, improve the marketing strategy of agricultural products and an increase in the level and quality of the technology and information available to farmers and businesses. The main objective of this plan is the increase in the production and processing of the agricultural goods and in the quality and security of the foods to achieve a larger market share in the international trade

and meet the EU standard requirements for this industry.

### Construction Industry

Albanian investors are the most interested in investing in the construction sector. They finance about 87.1% of the total value of construction. During 2009-2010, insufficient demand and higher financing costs caused a slowdown on this sector of the economy, which relies on domestic demand. Activity in this industry in terms of new construction fell by 22.5% for 2009 according to the Bank of Albania<sup>36</sup>. Nevertheless the house price market had a slower decline. In such circumstances, investment pace was relatively lower, compared with previous years.

### Mining Sector

Albania is a rich country in minerals. The most frequent ones are groundwater resources, carbonate minerals, industrial minerals, mineral rocks, sedimentary industrial minerals, chromites etc. Albania is well known for chromium, copper, nickel and copper reserves. Both the quantity and quality of chromium are high. Before 1990 Albania was the 3rd country in Europe for chromium reserves and now it ranks as the country with the highest level of reserves in Europe<sup>37</sup>.

Mining industry in Albania is currently being privatized and the government is also offering concession for construction

and operation in this sector. In 2000 the government signed a 30-year concession with the Italian company DARFO to exploit 50% of chromium reserves and 100% of ferro-chromium<sup>38</sup>.

The number of mining permits is increasing year after year and more than 738 small, medium and very few large private companies exercise their activity in Albania<sup>39</sup>. Out of the 738 mining permits, most of them are for chrome and limestone. In industrial aspect the production is going on in 300 deposits of 25 different kinds of industrial minerals and rocks. Albanian geologic reserves of copper deposits are about 53 million tons with 1.3-2.5% Cu; extractable reserves are about 27 million tons with 1, 52% Cu<sup>40</sup>.

### Power and Utilities Industry

The successful privatization of the electricity distribution company in 2009, supported by transaction advice by the International Finance Corporation (IFC), and with a World Bank Partial Risk Guarantee, was a critical reform that is increasing the reliability of electricity supplies and ease fiscal pressures in the future<sup>41</sup>.

The World Bank, together with the European Bank for Reconstruction and Development (EBRD) and European

<sup>34</sup> INSTAT; *Agricultural Statistics*; at [www.instat.gov.al](http://www.instat.gov.al).

<sup>35</sup> INSTAT; *supra* at 1; pp 47-52.

<sup>36</sup> *Bank of Albania; supra* at 23; p 47.

Investment Bank (EIB) has supported the construction of the Vlora Thermal Power Plant, which represents the first significant investment in domestic power generation in over 25 years in Albania.

Furthermore under the Dam Safety Project, the Bank will contribute to further increases by increasing the efficiency of the cascade of dams on the Drini River, which provide for the largest share of domestic generation.

### Transport sector

The Road Maintenance Project contributed to reducing the roughness index from 10 for national roads and 19 for rural roads to 5 and 8, respectively. About 110km of secondary and local roads are in the process of reconstruction and rehabilitation<sup>42</sup>. Around USD 400m is committed from external donors for rehabilitating and improving an additional 1,000-1,500 km of the secondary and local roads network<sup>43</sup>.

### Infrastructure in areas with tourism potential

Under the Municipal Water and Wastewater Project, the Integrated Water and Ecosystem Management Project and the Integrated Coastal Zone Management and Clean-Up Project (ICZMP), the World Bank supported significant improvements in water supply and investments in sewerage and wastewater treatment<sup>44</sup>. These included several

access roads to the beach or historical monuments (castle and monastery), repairing or extension of water supply systems and sewage water collection, as well as parking places and rehabilitation of coastal roads.

### Oil and oil byproducts Industry

Albania has petroleum resources both on and offshore, and shares geologic trends with the neighboring Balkan states of Croatia, Serbia, Montenegro, Macedonia, and Greece<sup>45</sup>.

Albania possesses important oil and gas reserves. In 2010, Albania produced 554,620 tons of crude oil and 6,740,000 m<sup>3</sup> gas<sup>46</sup>. Major oil companies have been operating in the country for a number of years and the government has a clear policy to attract foreign investment in its natural resource sector.

The oil and gas sector are split into 2 companies: Albpetrol (responsible for exploration and production) and ARMO<sup>47</sup> (responsible for refineries and retail activities). In the last 15 years, the country has licensed drilling to American, Austrian, Canadian, Croatian, Greek, and Swedish companies<sup>48</sup>.

The EBRD is providing USD 64.5 million to modernize the Patos Marinza oil field

<sup>37</sup> See *Proceedings of the 2nd International Conference of Foreign Investments in Albania*; at <http://www.icfi.biz/albania2009/index.html>

<sup>38</sup> *World Trade Organization; Trade Policy Review - Report by the Secretariat - Albania*; p 63; at [www.wto.int](http://www.wto.int).

<sup>39</sup> *Supra* at 36.

<sup>40</sup> See *Albania Extractive Industries Transparency Initiative Secretariat* at [albeiti.org](http://albeiti.org).

<sup>41</sup> *World Bank; Albania Partnership Program Snapshot*; p 8; at [www.web.worldbank.org](http://www.web.worldbank.org).

in southern Albania, one of the largest onshore oil deposits in continental Europe<sup>49</sup>. During 2008, ARMO was privatized by Refinery Associates of Texas, Anica Enterprises and Mercuria Energy group for EUR 128 million<sup>50</sup>.

### Insurance Companies

The insurance market in Albania started to operate in the beginning of the 90s with the liberalization of the Albanian economy and was strengthened with the improvement of the legal environment and the investment of foreign insurance companies in the market.

The insurance industry in Albania is regulated by a single regulatory body - the Financial Supervision Authority (FSA). There are currently ten licensed non-life and life insurance companies as well as four licensed insurance and non insurance brokerage firms operating in Albania<sup>51</sup>. The latest developments in the legislative framework were designed with the purpose of the alignment with EU directives in this field.

### Telecommunication Industry

Albania's telecom industry has been liberalized and legislation has been recently introduced,

adopting the principles established in the EU regulatory framework for communications. The market's growth potential has attracted international investment into both the incumbent and alternative operators. Future network development is expected in order to support the growing popularity of broadband services.

Albania's Internet market offers much growth potential due to currently low penetration levels. Internet access is available through a variety of means including dial-up, leased line, microwave radio, ADSL, WiFi and fibre. Broadband uptake is rising in response to increased availability and drastic tariff reductions<sup>52</sup>. Recognizing the potential of applying information and communication technology (ICT) to improve both social and economic development, Albania has taken steps to develop a knowledge-based society, principally by improving ICT literacy.

Albania's mobile market has undergone rapid growth due to competition, initially with the entrance of Albanian Mobile Telecommunication, Vodafone and later through the entrance of Eagle Mobile and Plus network. The majority of mobile users utilize prepaid services. With the mobile voice market maturing, mobile network operators are turning their attention to increase average revenue per user levels.

## Financial System

### Albanian Central Bank and Commercial Banking Sector

The Bank of Albania (BoA) is the central bank of Albania. It was established in 1992 from the transformation of the then State Bank of Albania, which performed both central banking and commercial banking functions. Its main task is to maintain Albanian Lek (ALL) purchasing power and thus price stability in Albania. Other tasks include: the conduct of foreign exchange operations; the management of the official foreign reserves; the promotion of the smooth operation of payment systems; financial stability and banking supervision; the issuance of banknotes; and the production of statistics.

Ever since its establishment, the BoA has been politically and functionally independent. Such independence, which is laid down in its organic law, is

conducive to maintaining price stability. It means that neither the BoA nor any member of its decision-making bodies (i.e. the Governor and the Supervisory Council), are allowed to seek or take instructions from the government or any other public or private authority. The latter must respect this principle and not seek to influence neither the BoA nor its staff. Under the law, the Governor and the members of the Supervisory Council are granted long-renewable terms of office as well as security of tenure.

16 banks are operating in Albania. Their assets account for approximately 94.5% of the total financial system assets and about 82.2% of GDP<sup>53</sup>. During 2010, the total assets of the banking sector increased by ALL 104.3bn or about 12%, indicating acceleration in the growth trend when compared to 7% in 2009<sup>54</sup>. By the first half of 2011, the banking sector's assets reached ALL 1,043,9 billion, increasing by circa 5.4% against the end 2010 and 11.7% against the year before<sup>55</sup>.

<sup>42</sup> *World Bank; supra* at 5.

<sup>43</sup> *Ibid.*

<sup>44</sup> *Ibid.*

<sup>45</sup> See *World Investment News; Albania: Opportunities in The Last Hidden Treasure of The Mediterranean*; at <http://www.winne.com/country/europe/albania/2009/cr/index.php>.

<sup>46</sup> *Ministry of Economy, Trade and Energy; Annual Statistical Bulletin 2010*; p 18; at [www.mete.gov.al](http://www.mete.gov.al).

<sup>47</sup> See *Decision No 41 dated 14.01.2009 of the Council of Ministers "On granting the concession permit to ARMO sha for the processing of oil and gas and their byproducts"*.

<sup>48</sup> *Supra* at 45; p 19.

<sup>49</sup> *EBRD; Albanian onshore oil sector*; 11.05.2009; at <http://www.ebrd.com/english/pages/news/press/2009/090511a.shtml>.

<sup>50</sup> *Law No 9993, dated 18.09.2008 "On the ratification of the sale contract for 85% of ARMO sha shares between the Ministry of Economy, Trade and Industry and purchaser "AMRA Oil, sha" and Consortium "Refinery Associates of Texas, Anica Enterprises and Mercuria Energy Group"*.

<sup>51</sup> *Financial Supervisory Authority; Annual Report 2010*; pp 25-31.

<sup>52</sup> See *BuddeCom; Albania - Telecoms, IP Networks, Digital Media and Forecasts*; at <http://www.budde.com.au/Research/Albania-Telecoms-IP-Networks-Digital-Media-and-Forecasts.html?r=65>.

## General overview

More than 90% of the Albanian bank assets are owned by large foreign banks, already well established in Central and Eastern Europe<sup>56</sup>. Some of the main problems facing the banking system include slow corporate loan granting and underdeveloped e-banking.

The banking sector is the main actor in financial intermediation in Albania. The assets structure of the banking system is mainly financed by deposits from the public and is concentrated towards financing the private sector. By the first half of 2011, the credit portfolio accounted for 60.4% of the total assets of the banking sector<sup>57</sup>.

The banking sector is completely private-owned. It provides the full range of business loans. Overall, the banking sector is well-capitalized and has good liquidity levels. However, in 2009, as the international economic crisis started showing effects in Albania, profitability suffered as non-performing loans increased, and banks started to tighten criteria for awarding credit thus dampening credit growth.

Finally, the banking system performance during 2010 showed high growth trends when compared to 2009. The net result in 2010 was 90% higher, and the growth of banking activity has been decisive in this regard<sup>58</sup>.

The Bank of Albania decided on 30 November 2011 to lower by 0.25% the

interest rate to 4.75% reflecting a lower inflation, conservative fiscal policy in the economy, keeping macroeconomic stimulus position. In the long-term the final objective of this movement remains to keep the inflation at 3% +/- 1 percentage point, which is the target of the Bank of Albania.

### Capital market

The Financial Supervisory Authority (FSA) is the exclusive regulator of the capital market in Albania. The only organized securities market in Albania is the Tirana Stock Exchange (TSE) founded in 1996. In 2002, the TSE was restructured as a joint stock company with the Ministry of Finance as its exclusive owner, and in 2007 it was licensed by the FSA to conduct stock exchange transactions in Albania<sup>59</sup>. As of today there are no companies listed on the TSE; consequently there are no recorded transactions.

Insurance market must abide to certain limitations with respect to investments in real estate and securities. Private pension funds occupy an insignificant position in the institutional investor arena. These entities also invest in treasury bills and bank deposits.

Currently there are no investment funds. Yet, a new Law No 10198, dated 10.12.2009 "On Collective Investment Undertakings", aims at developing such institutions.

The corporate bond market remains undeveloped. The passage of a new law "On Corporate and Local Government Bonds" aims at fostering the development of the market. Government bonds with a maturity of over 1 year are sold in the primary market through auctions organized by the Bank of Albania. The Government has issued bonds of respectively 2, 3, 5 and 7 year maturities, with variable and fixed interest rates. After their issuance, such bonds are traded on the retail market by licensed entities.

<sup>53</sup> Bank of Albania; *supra* at 28; p 17.

<sup>54</sup> Bank of Albania; *supra* at 23; p 109.

<sup>55</sup> Bank of Albania; *supra* at 28; p 18.

<sup>56</sup> *Ibid*; p 97.

<sup>57</sup> *Ibid*; p 60.

<sup>58</sup> Bank of Albania; *supra* at 23; p 110.

<sup>59</sup> Financial Supervisory Authority; *Annual Report 2007*; p 29; at [www.amf.gov.al](http://www.amf.gov.al).

## Currency

### ALL's exchange rate versus major foreign currencies

The currency of Albania is the Albanian Lek (ALL). The exchange rate regime is determined by the Bank of Albania. The value of ALL against foreign currencies is freely determined by the market.

Bank of Albania interventions in the foreign exchange market are carried out in accordance with its own rules and procedures. Such interventions are aimed at fending off harmful short term fluctuations in the market and increasing the level of foreign exchange reserves. In the last 10 years, however, interventions by the Bank of Albania have been rare and have aimed to dampen strong one-sided moves at times of abnormal market behavior. More rarely interventions have been carried out in order to increase the level of foreign reserves according to a pre-approved plan, provided that the purchased amounts are minimal and do not increase the volatility of the exchange rate.

Monetary policy does not target an exchange rate, but takes into consideration the potential impact of the exchange rate on inflation when deciding on the interest rate. Albania applies no official intervention currency, but interventions are mainly carried out against the EUR.

ALL per unit of foreign currencies

Main foreign currencies	Average of period				
	US dollar (USD)	European currency (EUR)	British pound sterling (GBP)	Swiss franc (CHF)	Japanese yen (per 100) (JPY)
2007	90.43	123.62	180.83	75.31	76.77
2008	83.89	122.80	154.37	77.50	81.68
2009	94.98	132.06	148.29	87.50	101.60
2010	103.9	137.8	160.53	99.87	118.66

The Bank of Albania has no intention of changing neither the exchange rate regime, nor its policies and regulations governing interventions in the foreign exchange market. There is a general official consensus on the advantages of the current regime in Albania's conditions. The exchange rate regime is planned to be free-floating, given that the Bank of Albania considers this regime the most appropriate for the fulfillment of its principal objective (price stability). Such free-floating regime is viewed as an absorber of external shocks to the economy and facilitating the process of convergence with the European Union.

The ALL denominations are as follows:

- ▶ Notes - ALL 200, ALL 500, ALL 1000, ALL 2000, and ALL 5000;
- ▶ Coins - ALL 1, ALL 5, ALL 10, ALL 20, ALL 50, and ALL 100.

## Special investment considerations

Banking, insurance, securities, pension, health and investment fund activities are subject to special laws, which govern the terms of conducting their business operations, authorizing the operators on the market and establishing the minimum capital for carrying out these types of activities.

The Bank of Albania is the responsible authority for licensing and supervising banks and other financial institutions, while the Financial Supervisory Authority (FSA) regulates and supervises the securities market, insurance market, supplementary pensions market, and other non-bank related financial activities.



## Government-owned industries and privatization

Albanian privatization law was passed in March 1998, even though the privatization process started in parallel with that of restitution and compensation of ex-owners. According to the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), in 1991 Albania counted at least 2434 state-owned enterprises, distributed along 18 different economic sectors. At present, the privatization process for state enterprises and companies (with the exception of a limited number of state-owned companies operating in the trade and services sectors) can be considered as completed.

The law on the Privatization Strategy of Sectors of Special Importance provided for the privatization of state enterprises and state-owned commercial companies operating in the energy and mining industry, oil and gas, post offices, telecommunications, forestry and water resources, roads, railways, ports, airports, air and rail transport, as well as state-owned banks and insurance companies.

The privatization process is conducted by the Ministry of Economy, Trade and Energy, which is entitled to represent the State as owner.

The privatization of the above sectors is realized with the participation of strategic

investors (i.e. legal persons possessing financial guarantees and a good name in the economic activity of a given sector), which are offered at least 30 per cent of shares.

The state may reserve the right to decide on problems related to public and strategic interests or where the preservation of a control measure is required, by retaining ownership of a 'golden share' or a particular share package. To date, however, no such right has ever been used. Once the company is privatized, the package of residual shares is transferred to the company's employees and to former land owners.

During 1998-2009, state-owned enterprises operating in the mining, telecommunication (fixed-line telephone operator Albtelecom), oil (ARMO), gas and air transport sectors were privatized. The privatization process in the main economic sector has already started, with the privatization of the Distribution System Operator (OSSH), will continue in 2011 with the privatization of the Transmission System Operator (OST), Albpetrol (the state-owned oil company) and the public stake in OSSH, oil refiner ARMO and Albtelekom.

The privatization process in other sectors is governed by Law on privatization of commercial companies operating in non-strategic sectors. The privatization formula under this law is as follows:

- ▶ a share package is offered for sale to the buyer;
- ▶ a share package is offered to the former land owner who acquires a share in the commercial company without participating in the auction;
- ▶ a share package is offered to the public and to the company's employees.

## Foreign exchange

Regulation on the Foreign Exchange Activity governs transfers and transactions between residents and non-residents in the form of payments and transfers from and into Albania. Such a regulation simplifies the procedure for cross-border payment transactions and/or foreign currency transfers from Albania to other countries and removes ceilings on the maximum amount that can be transferred. The regulation treats residents and non-residents alike in terms of physical movement of foreign currency at customs offices.

Besides current transactions and capital transfers, the regulation liberalizes also personal and physical transfers of assets into and from Albania. Personal transfers include those, whose object is assets deriving from loans, endowments and gifts, inheritance, tax settlements by immigrants in their previous residence, transfers of assets of immigrant residents for the period of their staying abroad, income from games of chance and

savings of non-residents employed in Albania. Physical transfers include national or foreign currency cash movement, transfer of gold and precious metals and securities.

For amounts above ALL 1 million or their equivalent in foreign currency, residents and non-residents have to declare the source and purpose of holding that amount at the customs authorities. Non-residents, who temporarily visit Albania, can take out foreign currency in cash and/or travelers' cheques up to the amount they declared at the customs authorities when entering Albanian territory. Also, residents and non-residents may transfer abroad, gold and precious metals standardized only through entities licensed by the Bank of Albania.

## Environmental law

In June 2011, Albania passed a new law on the Protection of Environment. This law sets out the principles, requirements, responsibilities, duties and general procedures for ensuring a high level protection of the environment in Albania. The law establishes a framework for environmental liability based on the 'polluter pays' principle, with a view to preventing and remedying environmental damage. It is in line with Directive 2004/35/CE of the European Parliament and of the Council of 21 April 2004 on environmental liability with regard

to the prevention and remedying of environmental damage.

The Albanian environmental legislation is incorporated in a number of laws and decisions of council of ministers. Some of the most significant provisions, having an impact on foreign investments, concern the environmental impact assessments, the permission regimes for usage of some types of resources, some restrictions on the use of natural resources in view of preserving the ecological balance, etc.

The main institution responsible for environmental protection is the National Agency of Environment, under the Ministry of Environment, Forestry and Water Management. The agency is the competent authority for the establishment of conditions for the relevant environmental permits, and for ensuring the implementation of the principle of environmental liability against every operator.

Inspections for environmental protection are carried out by the competent state inspectorate, which ensures the implementation of all the requirements laid down in the environmental permit. In addition, inspections related to products, trade of items, materials, chemical substances and chemical packaging, are carried out by special inspection bodies.

## Intellectual property

Companies operating in Albania can

protect their intellectual property through:

## Copyright

The Copyright Law applies to works from literature, art and science. Copyright covers original literary and artistic works, music, television broadcasting, software, databases, advertising creations and multimedia. Copyright protection in Albania is granted automatically, with no need of registration by the authors. However, the Albanian Copyright Office acts as a depositary where authors can register their works, in order to assist them in case of dispute on the ownership of the work.

Albania has ratified the international conventions in the field of copyright and related rights administered by the WIPO, such as the Berne Convention (being a member of this convention, Albania grants to works belonging to one of the other Contracting Parties to this convention the same rights as the Law on Copyright grants to Albanian citizens). Albania is a member of the World Trade Organization and has implemented the TRIPS Agreement. Accordingly, businesses publishing their work for the first time in Albania benefit from automatic copyright protection to all the other countries that are members to these conventions.

## General overview

Businesses may enforce their copyright in the courts. No specialized court to adjudicate disputes related to copyright or industrial property exists in Albania.

### Industrial property rights

The Industrial Property law regulates the system of granting and protection of: patents and utility models (for the protection of inventions), industrial designs, trade and service marks, as well as geographical indications. In order to obtain protection in Albania, these rights should be registered with the General Directorate of Patents and Trademarks (GDPT).

In addition, designs and trade marks can also be registered at EU level. The protection granted to industrial designs under Industrial Property law is without prejudice to protection granted under the Law on Copyright.

### Three bodies are responsible for intellectual property:

- ▶ at the national level: GDPT – the responsible body for filing with trademarks, industrial designs, geographical indications, as well as patents and registering of integrated circuits.
- ▶ at the European level: European Patent Organization (EPO). Albania has acceded to the European Patent Convention and, as of May 2010, is a full member of the EPO. The EPO applies a centralized procedure to examine

European patent applications for the Organization's member states. Applicants can obtain patent protection in as many of the member and extension countries as they designate on the basis of a single application. A single application for a European patent from the European Patent Organization (EPO) provides national protection in those European countries which are members of the EPO, and selected by the applicant. Albania is also a member of the Patent Cooperation Treaty (PCT), which simplifies international application.

- ▶ at the international level: World Intellectual Property Organization (WIPO). The WIPO is a specialist agency of the United Nations which encourages and protects international property around the world.

Article 18 of Law on Entrepreneurs and Commercial Companies defines trade secrets as a data considered by the company as an internal information or document that the company protects in appropriate manners, which, if disclosed to unauthorized persons would cause a considerable damage to the commercial interests of the company. They include manufacturing, industrial and commercial secrets. To obtain protection, trade secrets need not be registered. Administrators, members of the board, members of the employee's council, and employers' representatives are liable to the company for damage caused from

disclosure of trade secrets for which they have knowledge given the exercise of their functions at the company.

### Goods infringing intellectual property rights

To better protect consumers and right-holders, the Implementing Provisions of the Customs Code lay down various provisions aimed at combating counterfeiting and piracy, and clarifies the means and conditions for customs action against goods suspected of infringing intellectual property rights. This act enables customs authorities, in cooperation with right-holders, to improve controls at external border.

It simplifies the procedure for the lodging of applications for action with the customs authorities, in particular for small and medium-sized enterprises, and for the destruction of fraudulent goods.

The act sets up a more efficient system by laying down, on the one hand, the conditions for customs action where goods are suspected of infringing intellectual property rights, and on the other hand the measures to be taken against goods that have been found to infringe intellectual property rights.

The act applies to:

- ▶ counterfeit goods;
- ▶ pirated goods;
- ▶ patents;
- ▶ supplementary protection

certificates;

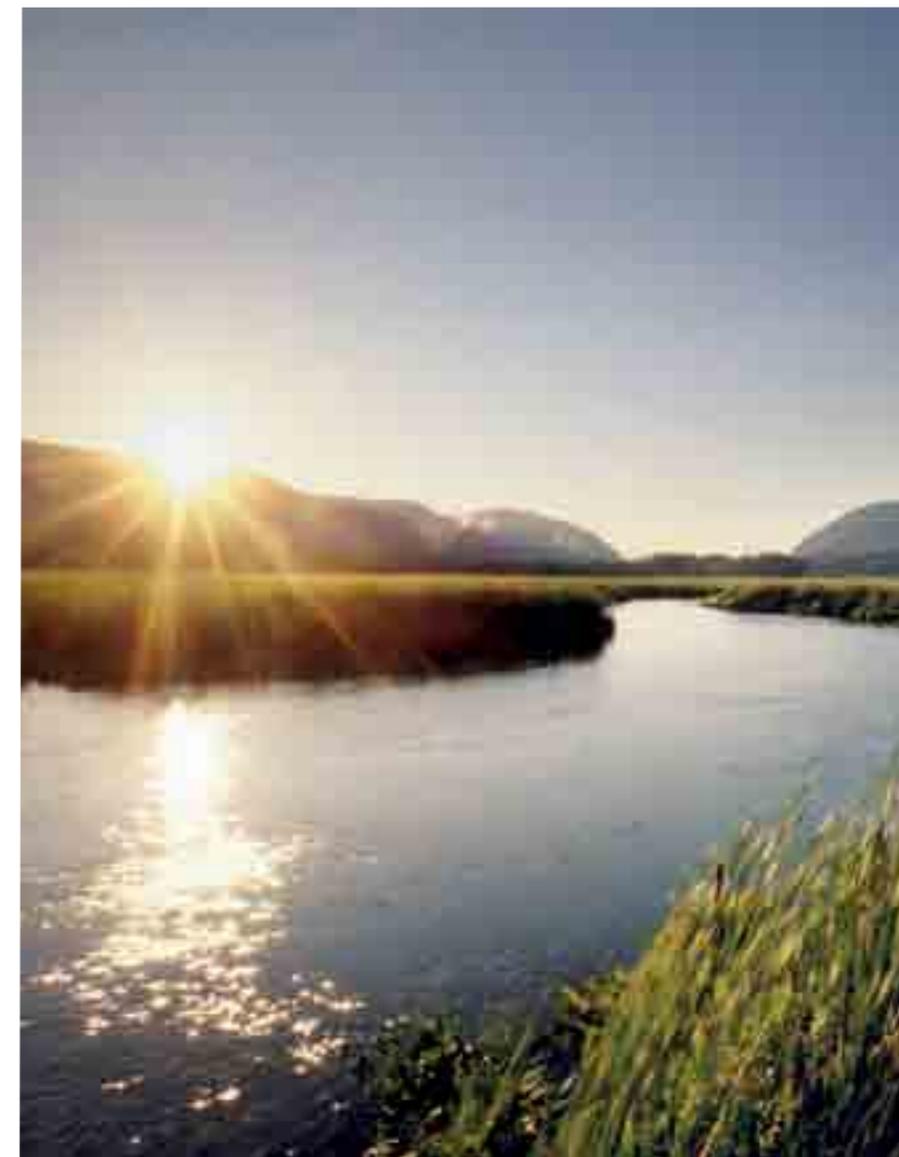
- ▶ designs and models;
- ▶ copyright and related rights;
- ▶ trademarks;
- ▶ designations of origin;
- ▶ new plant varieties;
- ▶ geographical indications;
- ▶ any mould or matrix designed or adapted for the manufacture of goods infringing an intellectual property right.

Where goods are suspected of infringing intellectual property rights, the right-holder may lodge a written application with the relevant customs authorities. Such an application for action must include an accurate and detailed technical description of the goods in question, any information concerning the nature of the fraud and the name and address of the contact person appointed by the right-holder.

The act sets out a simplified procedure to enable the customs authorities to have the goods destroyed. If the infringement of an intellectual property right is not established within 30 days, the detention order is lifted and the goods are released once the necessary customs formalities have been discharged. The deadline is shorter in the case of perishable goods.

Goods found to infringe an intellectual property right may not be:

- ▶ brought into Albanian customs territory;



## General overview

- ▶ withdrawn from Albanian customs territory;
- ▶ released for free circulation;
- ▶ exported or re-exported;
- ▶ placed under a suspensive arrangement, in a free zone or free warehouse.

If the customs authorities have sufficient reason to suspect that goods are infringing an intellectual property right, they may suspend the release of goods or retain goods for three working days, during which time the right-holder must submit an application for action. The customs authorities may ask the right-holder for information to help them in their investigation.

## Regional and international trade agreements and associations

Albania has been a member of the World Trade Organization since September 2000. In June 2006, Albania signed the Stabilization and Association Agreement (SAA) with the European Communities and their member states.

The country has acceded into the Central European Free Trade Agreement together with Bosnia and Herzegovina, Croatia,

FYROM, Moldova, Montenegro, Serbia and Kosovo. This agreement aims to expand trade in goods and services and foster investment, eliminate barriers to trade between the Parties, provide appropriate protection of intellectual property rights and harmonize provisions on modern trade policy issues such as competition rules and state aid. Albania has also signed a free trade agreement with EFTA states (Switzerland, Norway, Iceland and Lichtenstein), and a free trade agreement with Turkey.

As a result of the above agreements, the number of goods subject to duties has been significantly reduced. In addition, having entered into free trade agreements with all its main trading partners, Albania sees no economic interest in applying a General System of Preferences to third countries.

Anti-dumping, anti-subsidy and safeguard measures are regulated by:

- ▶ Law no 9790 of 19 July 2007 "On Safeguard Measures in Imports"; and
- ▶ Law no 9796 of 23 July 2007 "On Antidumping and Countervailing Measures".

Both laws are fully aligned with the relevant EC regulations as well as the General Agreement on Trade in Tariffs (GATS) requirements. Anti-dumping,

countervailing and safeguard measures are assessed by a special commission chaired by the minister of economy, trade and industry.

## Importing and exporting

Official data from the INSTAT show that the Albanian foreign trade turnover has doubled in five years.

According to the Bank of Albania, 2010 was characterized by accelerated growth rate of the country's trade activity, mainly affected by the recovered trade exchanges in international conjuncture and expanded external demand<sup>60</sup>. Trade increased by approximately 21% in annual terms. The ratio of import coverage by export was estimated at 33.7%. The 2010 trade deficit dynamics shows that it narrowed by about 5.9% y-o-y, accounting for 23.4% of nominal GDP.

Albania's trade is concentrated with EU countries, where the combined share of trade exchanges with Italy and Greece, in 2010, accounted for 53% of the total<sup>61</sup>.

### Imports

In 2010, the FOB<sup>62</sup> imports in Albania amounted to ALL 448,243 million, while the CIF<sup>63</sup> imports to ALL 497,001 million<sup>64</sup>. Imports by value increased by about 11% compared to 2009, influenced

by higher prices in international markets and large import content of buoyant exports. Their ratio to nominal GDP was 36.6%.

The major categories of imports in 2010 were: machinery and machine tools (19.4%); food, beverage and tobacco (18.2%); construction materials and metals (16%); minerals, fuels, and electricity (15.4%); chemical and plastic products (11.8%).

According to INSTAT data, in 2010, the structure of imports by main partners, were Italy (28%), Greece (13%), China (8%), Germany (6%), and Turkey (6%).

### Exports

FOB exports amounted to ALL 77,405 million in 2006, ALL 97,171 in 2007, ALL 112,572 in 2008, ALL 103,244 in 2009, and ALL 161,504 in 2010.

The major export categories in 2010 were: textile and footwear (34.4%); minerals, fuel, electricity (27.8%); construction materials and metals (20%); food, beverages, tobacco (5.8%).

Albania's main export partners were Italy (51%), Kosovo (6%), China (6%), and Greece (5%).

<sup>60</sup> Bank of Albania; *supra* at 23; p 57.

<sup>61</sup> *Ibid.* p 59. See also INSTAT; *Foreign Trade Statistics*; at [www.instat.gov.al](http://www.instat.gov.al)

<sup>62</sup> Free on board.

<sup>63</sup> Cost insurance and freight.

<sup>64</sup> Bank of Albania; *supra* at 23; p 234. See also INSTAT; *supra* at 51.



# Enterprises for doing business in Albania



## Forms of enterprises

Foreign nationals are entitled to take up economic activities in Albania as self-employed persons, and to set up undertakings, in particular companies, which they effectively control. Foreign companies can also do business in Albania through setting up subsidiaries and branches.

There are two main laws governing trade and commerce in Albania: the Law on Entrepreneurs and Commercial Companies (which provides a comprehensive code of company law) and the Civil Code.

Under Albanian law, foreign persons can use the following forms of commercial business organization:

- ▶ Sole trader;
- ▶ General partnership
- ▶ Limited liability partnership
- ▶ Limited liability company
- ▶ Joint stock company.

In addition, the Civil Code provides for civil partnerships, which is a contract through which two or more persons intend to pursue an economic activity, with the purpose of dividing profits gained from it.

A person (regardless whether an individual or a legal entity) may participate as a shareholder/partner in more than one company.

In 2007, a National Registration Center (NRC) was established. The NRC is the only authority in Albania responsible for the incorporation of companies and for maintaining the Commercial Register. The commercial register is defined in the law as a unique database of the subjects that, according to Albanian legislation, pursue commercial activities. The register is kept in an electronic form.

Other NRC tasks include:

- ▶ registrations in the commercial registry;
- ▶ registration of entrepreneurs and companies for tax, social and health security registration, and for the inspection of employment relations;
- ▶ issuing of certificates, registration extracts and certified copies of deposited acts;
- ▶ publishing the register's data and ensuring free public access thereto;
- ▶ accepting applications for licenses, permits and administrative authorizations, and submitting them to the relevant authorities;
- ▶ informing and advising on registration and licensing procedures.

As a general rule, legal persons gain legal personality with the registration in the commercial register. While, the registration in the commercial register for physical persons, branches and representative offices of foreign companies, civil partnerships and other subjects not having legal personality,

according to legislation in force, has only declaratory effect.

The rules for registration of a commercial company apply to both Albanian and foreign nationals.

### Entrepreneurs (sole traders)

An entrepreneur is a natural person whose independent economic activities require an ordinary business organization.

The entrepreneur should register with the commercial register within 15 days from the commencement of his/her activities. For the initial registration, the entrepreneur should submit the following data:

- ▶ identification data;
- ▶ place of economic activity;
- ▶ area of activity, if defined;
- ▶ signature specimen.

The commercial registration in this case does not infer the establishment of a separate legal entity. The person, sole trader, preserves his/her status as individual, natural person, but adds up the ability of a trader, i.e. to be party to commercial relations.

### Companies

Companies are founded by two or more persons, who agree on achieving joint economic objectives through

contributions defined by the Statute. Limited liability companies and joint stock companies may also be formed by one person only (single-member company).

The new Law requires only one document for company formation and constitution - the written Statute. The minimum requirements of the Statute are the same as those data necessary for the registration of the company with the NRC, i.e. name, company form, date of incorporation, identification data of founders, seat, object (if determined), duration (if determined), identification data of the persons responsible for administration and representation, the representation competences and the terms of their office, specimen of signature of the representatives.

### General Partnerships

A company is a general partnership if it is registered as such, conducts its business under a common name and the liability of partners towards creditors is unlimited.

### Limited Partnerships

A partnership is a limited partnership, if at least one partner's liability is limited to the amount of his interest (limited partner), while the liability of other partners is not limited (general partners). General partners have the status of partners in a general partnership.

### Limited Liability Companies (Shpk)

A Limited Liability Company is a company founded by natural or legal persons whose liability for obligations undertaken by the company is limited to their contribution in the subscribed capital of the company. Each member acquires his/her share in the company in proportion to his/her contribution. The subscribed capital is divided between members accordingly. Limited Liability Companies may not offer their shares to the public. The basic capital of a Limited Liability Company is fixed to ALL 100.

The governing bodies of a Shpk are:

- ▶ the General Meeting of its Quotaholders; and
- ▶ one or more Administrators managing directors).

The General Meeting is the Shpk supreme managing body and is competent to resolve on most important issues, e.g. setting the business policies and monitoring and supervising their implementation by the Administrators; electing and removing the Administrators and establishing their remuneration; changing the Statute; increasing or reducing the basic capital; distributing profits; restructuring or dissolution of the company.

The General Meeting is convened either by the Administrators or by the Members. All important decisions require a three-quarter majority of votes of members participating in the voting. On other matters, the General Meeting decides by the majority of votes of participating members. Unless otherwise provided by the Statute, each quota carries one vote.

The General Meeting elects the Administrators for a term established by the Statute, but not exceeding 5 years, with the possibility of re-election. The nomination has legal effect once it is registered with the NRC. The Administrator is responsible for the day-to-day management of the company and for the implementation of the policies defined by the General Meeting. Where two or more Administrators are nominated, they manage the company jointly, unless otherwise provided in the Statute.

The Administrator is also empowered to represent the company to third parties. The name of the Administrator and his/her empowerment to represent the company are registered with the NRC.

The personal element involved in the relations among the quotaholders in a Shpk is stronger than the one in a joint stock company. Therefore, the Statute may set conditions for the transfer of quotas, in particular require the company's approval or create pre-

emptive rights for the company or the other members.

In addition, members in a Shpk have the right and the obligation to take part in the company's management and activity, to be informed and to check the company's books and financial statements.

The rights and duties of the general meeting in a single-member company are performed by the single member. However, this requires that all decisions taken in this function shall be entered into a decision register the data of which may not be altered nor deleted.

Limited Liability Companies are not legally obliged to form special reserves. There is no impediment, however, for decision on the establishment of reserves to be adopted by the General Meeting or provided for in the Statute.

### Joint Stock Companies (Sha)

Sha are typically designed for large enterprises which satisfy their financial needs by offering shares to the public. A Sha is a company the basic capital of which is divided into shares and subscribed by the founders. Founders are natural or legal persons, which are not liable for the company's commitments and which personally bear losses only to the extent of their contribution to the subscribed capital.

The set up of a Sha should be resolved by a Meeting of the Founding Shareholders at which the subscription of shares in the capital and adoption of the Statute take place. The newly incorporated company comes to live further to its recording in the Commercial Register.

The basic capital of a Sha with private offering may not be less than ALL 3.500.000. The basic capital of a Sha with public offering may not be less than ALL 10.000.000. At least one-fourth of the nominal amount of the shares for contributions in cash must be paid up before registration. The remaining amount is paid in one or more installments, in accordance with the decision of the Board of Directors.

The share participation in a Sha can be evidenced by the following types of shares:

- ▶ Ordinary shares entitle their holders to exercise their rights in the General Meeting and to receive a proportional share of profits and of liquidated assets.
- ▶ Preferential shares entitle their holders to have a certain amount or percentage of the par value of their shares paid from profits prior to ordinary shareholders if a dividend is declared, priority in the distribution of liquidated assets, and other rights set by the Statute. There is a presumption that the preferential



rights established by the Statute shall be exhaustive.

Shares carrying the same rights shall make up one class (ordinary shares, preferential shares, voting shares and non-voting shares).

The Sha is the only legal entity under Albanian law that is allowed to issue bonds.

A Sha is managed through:

- ▶ The General Meeting; and
- ▶ depending on the provisions of the Statute:
  - either a Board of Directors as a single administrative body combining management and supervision (one-tier system);
  - or a Supervisory Board and one or more managing directors where management and supervisory functions are allocated between these two separate bodies (two-tier system).

The General Meeting is the Sha's supreme body, competent to resolve on the most important issues related to the corporate operation of the company (e.g. changes to the capital, amendments to the Statute, adoption of the annual financial statements). The General Meeting consists of all shareholders with voting rights. In the case of a single-

member Sha, the single-member has the competence of the General Meeting.

The ordinary General Meeting is convened at least once a year. The General Meeting is convened by:

- ▶ the Managing Directors; or
- ▶ the Board of Directors or the Supervisory Board in specific cases;
- ▶ request of minority shareholders (i.e. shareholders representing at least 5 per cent of the basic capital or a smaller percentage envisaged by the Statute).

Should the General Meeting not be convened or the issue in question not be put on the agenda, any shareholder who has been party to the request may: (i) ask the Court to make an order declaring that the management will be in breach of their fiduciary duties if they fail to accede to the shareholders' request within 15 days, or (ii) require the company to purchase his shares.

The General Meeting is convened by letter or, if so provided by the Statute, by electronic mail. The letter or mail and the agenda for the meeting must be delivered to all members not later than 21 days before the scheduled date of the meeting.

The announcement must contain:

- ▶ the company name, the registered office, place and time of the General

Meeting;

- ▶ a clear and precise description of the procedures that shareholders must comply with in order to be able to participate and to cast their vote in the General Meeting;
- ▶ an indication where and how the full text of the documents and draft resolutions may be obtained;
- ▶ the address of the website on which the information referred to in this Article will be made available.

The General Meeting decides by three-quarter majority of votes of shareholders participating in the voting on the amendment of the Statute, the increase or reduction of basic capital, profit distribution, company restructuring and dissolution, unless the Statute requires a higher majority for these decisions. On other matters, the General Meeting decides by majority of votes of participating members.

In case of matters requiring ordinary majorities, the General Meeting may only make valid decisions if attended by shareholders holding more than 30 per cent of the subscribed voting shares. In case of matters requiring qualified majority, the General Meeting may only make valid decisions if the shareholders having more than half of the total number of votes are participating in the voting in person, by letter, or by electronic means.

Each decision of the General Meeting must be recorded in the minutes, and signed by the Chairman and the record-keeping person. A copy thereof is kept by the Managing Director, who posts a copy of the minutes on the company's website within 15 days after the General Meeting.

The Board of Directors is mainly responsible for:

- ▶ giving directions to the Managing Directors with respect to the implementation of business policies; and
- ▶ monitoring and supervising the implementation of business policies by the Managing Directors.

The Board of Directors consists of at least three or a higher uneven number of members, but of not more than 21. Directors are natural persons the majority of whom should be independent and non-managing. They are elected by the General Meeting for a term, not exceeding 3 years, established by the Statute with the possibility of re-election.

For the daily management of the Sha, the Board of Directors nominates one or more natural persons as Managing Directors for a term not exceeding 3 years, with the possibility of re-election.

In two-tier system of administration, the Managing Directors lead the company and decide on the manner of implementation of the business policy

while the Supervisory Board assesses the policy implementation and controls its compliance with the law and the Statute.

Members of the Board of Directors and the Managing Directors are jointly and severally liable for the probity of all financial statements and of statements on other key-data, such as information on the company's risk management system, its business prospects, investment plans, technical, organizational and human resources and corporate governance structures and practices.

## Licensing of businesses

The licensing system is governed by Law no. 10081, dated on 23.02.2009 "On licenses, authorizations and permits in the Republic of Albania", which sets out 45 categories for licenses, permits and authorizations. This is a horizontal law governing 12 major areas, such as:

- National Security and Public Order
- Health and Food
- Environment and Natural Resources
- Mining, Hydrocarbons and Energy
- Territory and Environment
- Culture heritage
- Transport
- Industry

- Education and science
- Social and Employment Care
- Notary and other legal services
- Financial services, betting, lotteries and gambling.

With the establishment of a National Licensing Centre (NLC), a central public institution under the Ministry of Economy, Trade and Industry in 2009, many licenses were abolished, while procedures for many sectors have been simplified and streamlined, thereby reducing administrative barriers for businesses.

The evaluation procedures of the applications for licenses, authorizations and permits rely on the following principles:

- ▶ Principle of silent consent;
- ▶ Electronic communication and information, including the possibility of on-line application;
- ▶ One stop shop model;
- ▶ Integrated exchange of information and documents among the public institutions;
- ▶ Payments for the administrative services related to the licenses/authorizations/permits, in the event of application, cover only the documentation costs;
- ▶ Taxes and/or fees for issuing



the licenses/authorizations/permits are reasonable and serve the fulfillment of such instrument objectives.

A number of activities fall out NLC jurisdiction and are regulated by sectoral legislation, such as:

- ▶ banking;
- ▶ non-bank financial services;
- ▶ broadcasting and telecommunications;
- ▶ energy sector;
- ▶ betting, lotteries and gambling
- ▶ air/maritime/railway transport services
- ▶ notary services
- ▶ education
- ▶ natural resources concessions

## Mergers and acquisitions

The regulation of reorganization of commercial companies has changed considerably since the entry into force of the Law on Entrepreneurs and Commercial Companies. The reorganization provisions of this law are only applicable to Limited Liability Companies and Joint Stock Companies. Such companies may be restructured, if they have been registered for at least one year.

A company may be restructured by:

- ▶ merging with another company (merger);
- ▶ dividing into two or more companies (division); and
- ▶ changing its legal form (transformation).

### Mergers

Two or more companies may be merged on the basis of:

- ▶ Transfer of the entirety of assets and liabilities of one or more companies (the companies to be merged) to another company (the merging company) in exchange for shares of that company issued to the shareholders of the merged entities;
- ▶ Formation of a new company to which the whole assets and liabilities of the merged companies are transferred, in exchange for shares of the new company (merger by formation of a new company);

### Mergers by absorption

The law on Entrepreneurs and Commercial Companies provides for a very detailed procedure to be followed when companies are being reorganized, which includes the following major phases:

- ▶ drawing up an agreement in writing;

- ▶ drawing up a detailed report explaining the merger agreement and setting out the legal and economic grounds for it;
- ▶ submitting the merger agreement and the report, as well as the annual statements and performance reports to the NRC for registration and publication, for at least the last three years, if applicable;
- ▶ appointing licensed independent experts to examine the merger agreement who should draw up a written report, stating whether in their opinion the share exchange ration is fair and reasonable;
- ▶ approving the merger agreement by the General Meeting of all merging companies, in order to have legal effects;
- ▶ increasing the acquiring company's basic capital in connection with the merger;
- ▶ submitting the merger for registration to the NRC.

The merger shall have the following consequences:

- ▶ The transfer, both as between the merging companies and as regards third parties, to the acquiring company of all the assets and liabilities of the companies being acquired;
- ▶ The members or shareholders of the companies to be merged

become members or shareholders of the acquiring company;

- ▶ The company to be merged ceases to exist and is deregistered from the commercial registry. No liquidation procedure is required.

### Mergers through Formation of a New Company

The above procedure applies also to mergers by formation of new companies. The newly formed company is regarded as the acquiring company.

### Division

A company may be divided by transferring its assets to two or more existing or new companies by decision of the General Meeting, in which case the company being divided ceases to exist. The recipient companies are jointly and severally liable for the liabilities of the company being divided for the latter's commitments.

The merger procedure described above applies by analogy to company divisions.

The registration of the division has the following consequences:

- ▶ The transfer to each of the recipient companies of all the assets and liabilities of the company being divided in accordance with the allocation laid down in the division agreement;
- ▶ The members or shareholders of the

company being divided become members or shareholders of one or more of the recipient companies in accordance with the allocation laid down in the division agreement.

### Transformation

A company may change its legal form (without changing its rights and duties) by transformation as follows:

- ▶ Limited Liability Companies may transform into Joint Stock Companies and vice versa.
- ▶ A Joint Stock Company with private offer becomes a Sha with public offer and vice versa, in accordance with the requirements of Law on Securities'.

Competition Rules in Relation to Mergers and Acquisitions

See below in Competition Sections, under Concentrations.

## Competition

In July 2003, the Albanian Assembly adopted the Law on the Protection of Competition, which replaced the law existing for more than eight years. This law aims at protecting free and effective competition in the market, through laying down rules on the behavior of enterprises, and determines the responsible institutions for the protection of competition and their tasks. The

Competition Law applies to all companies doing business in Albania irrespective of whether they are based inside or outside the country.

The following practices and agreements are prohibited under the protection of competition:

### Anticompetitive agreements and concerted practices

Companies are prohibited from entering into agreements or taking part in practices, which have as their object or effect the prevention, restriction or distortion of competition in the relevant market (e.g. price fixing, market sharing, bid ridding, etc.). All agreements or concerted practices between undertakings are prohibited if they produce a negative effect on competition and do not fall within the special exemptions provided for by the law. Such agreements and practices are forbidden not only between competitors in one and the same market (the so called 'horizontal agreements') but also between participants in different fields ('vertical agreements', e.g. stipulations between a producer and a distributor). The Competition Authority should be notified on the conclusion of any agreement which may impact competition at a certain market. The authority is competent to allow or ban the application of such transactions based on

competition impact assessment.

### Abuse of dominant position

Companies are considered as having dominant or monopolistic position should their market share, financial resources and business relations allow them to distort competition. Such companies are forbidden from activities, which may directly or indirectly impose prices, limit production, urge contracting parties into undertaking additional liabilities, etc. It is to be noted, however, that the law does not prohibit dominant position as such. It only imposes limitations: abuse of a dominant position within the Albanian market or a relevant part of it by one or more companies is forbidden.

In order to apply competition rules, the Competition Authority may launch investigations and impose penalties. It can request information and make on site inspections without prior notification. Companies infringing antitrust rules can be fined or forced to honor periodic penalty payments.

### Concentrations

- ▶ Concentration of undertakings is considered when two or more undertakings or parts of undertakings independent of each other are merged; any transaction when one or more undertakings acquire, directly

or indirectly, a controlling interest in all or parts of one or more other undertakings; joint ventures exercising all the functions of an autonomous economic entity.

- ▶ If as a result of the reorganization of businesses, there is a concentration of control, within the meaning of the Law on the Protection of Competition, the companies have to notify the Competition Authority which scrutinizes planned mergers only where:
  - ▶ The businesses concerned have a combined worldwide turnover of more than ALL 7 billion and the domestic turnover of at least one enterprise concerned exceeds ALL 200 million, or
  - ▶ The businesses concerned have a combined domestic turnover of more than ALL 400 million and the domestic turnover of at least one enterprise concerned exceeds ALL 200 million.

The Competition Authority within 2 months from the notification should authorize the concentration, or in the event the concentration significantly impedes the existence or development of effective competition in the country as a whole, shall:

- a. authorize the concentration, subject to fulfillment of

specific terms and obligations by the enterprises

- b. initiate a special investigation

### Unfair competition

Albanian Civil Code prohibits all detrimental actions against marks, patents rights and competitors branded products, such as:

- ▶ using names or distinctive trade or service marks that can cause confusion with names and distinctive marks legally used by others, or imitating a competitor's products or performing actions that can cause confusion with a competitor's products and activity;
- ▶ treating as one's own the qualities of a competitor's products or enterprise;
- ▶ using personally, directly or indirectly, any other instrument that is not in compliance with the principles of professional honesty and can damage another's activity, e.g. negative publicity.

## Concession regime

As of January 2007, there is a new law on Concessions. The aim of this law is to establish the necessary framework for fostering and facilitating the implementation of concessionary projects, financed by the private sector,

by enhancing transparency, equality, efficacy and long-term sustainability in the development of infrastructure projects and public services. The law sets out special procedures for the granting of concessionary projects.

The law introduces a new definition of the term 'concession', which significantly differs from the old one. Accordingly, concession is an agreement, irrespective of the name given to it, between a contracting authority and a concessionaire, whereby the concessionaire:

- ▶ carries out an economic activity, which would otherwise have been carried out by the contracting authority, on a concessionary project, management contract or other public services;
- ▶ undertakes all or a substantial part of risk connected to such an economic activity;
- ▶ takes a reward through: (i) direct payments from the contracting authority or on its behalf; (ii) tariffs or payments, collected from users or buyers; (iii) a combination of such tariffs and direct payments.

## Public procurement

Public procurement is regulated in the Law on Public Procurement. As per the law, the subject matter of public

procurement are the procedures undertaken from contracting authorities for the selection of winners of public contracts for goods, works and services.

Contracting authorities can be: (i) constitutional institutions, other central institutions, independent central institutions and local government units; (ii) any other entity which is: constituted to pursue a general interest of a non-economic or commercial character; has a legal personality; and is financed mainly from the state, regional or local authorities or from other public entities or managed there from or having an administrative, managerial or supervisory board where more than half of members are nominated from the state, regional or local authorities or other public entities; (iii) organizations constituted from one or more of the above authorities or one or more public bodies; and (iv) any other public entity.

Contracting authorities are obliged to conduct a public procurement award procedure when the grounds provided in the law exist.

Any Albanian or foreign natural or legal person, as well as any combination of such persons, may participate in a public procurement procedure. Public procurement can be awarded by conducting:

- ▶ open procedure - an unlimited pool of companies can be invited to

tender for work, services and goods contracts with a contract price ranging between ALL 12 million to ALL 1,2 billion for procurement of public works and ALL 8 million to ALL 200 million for procurement of services and goods;

- ▶ restricted procedure - the pool of companies invited to tender is determined through candidate pre-selection based on their outstanding professional and financial capacity. Only the businesses invited by the contracting authority may take part in the tender procedure;
- ▶ negotiated procedure with publication of contract - in the event of submission of irregular, unacceptable bid offers in relation to the specific terms after two subsequent tender procedure rounds, the contracting authority may change the terms of the contract or organize a new open or them.
- ▶ negotiated procedure without publication of contract - in the event of submission of inappropriate bid offers after two subsequent tender procedure rounds due to irregularities in the criteria and/terms of the contract, the contracting authority organize a new open or restricted tender procedure.
- ▶ request for proposals - a negotiated procedure, without a public notification, applicable to contracts

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#### Enterprises for doing business

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which value range between ALL 400,000 to ALL 8 million; whereby the contracting authority asks for offers from at least five selected bidders and assesses such offers based on their price;

- ▶ procurement for small value - direct procurement applicable for contracts having a value below ALL 400,000
- ▶ design contest - the contracting authority selects, through a jury, in a contest, a study or project of an esthetical nature, which contract price exceeds the statutory limit of ALL 8 million.

Any decision, action or omission by the contracting authorities in a public procurement award procedure until conclusion of the contract or of the framework agreement is subject to appeal as to the legal conformity before the Public Procurement Agency and Public Procurement Advocate.



# Tax system



## Income tax and social contributions

### Personal income tax

Personal income tax is assessed in Albania in accordance with the Albanian Law no 8438, dated 28.12.1998 "On Income Tax". The law has been amended several times, the last amendment entering into force as of 1 January 2010. Pursuant to Albanian Income Tax Law individuals who are resident in Albania are subject to tax on their worldwide income. Nonresidents are subject to tax on income derived from Albania sources only.

The following individuals are considered resident for tax purposes in Albania:

- ▶ Individuals who have a permanent residence, family or vital interests in Albania.
- ▶ Albanian citizens serving in a consular, diplomatic or similar position outside Albania.
- ▶ Individuals who reside in Albania consecutively or non-consecutively for at least 183 days during a tax year, regardless of their nationality or country of vital interests. The calculation of the residence period in Albania includes all of the days of physical presence, including holidays. Residents of the countries with which Albania has entered into double tax treaties regarding income and capital may benefit from the provisions in such treaties.

### Taxable income

#### Employment income

Employed persons are subject to income tax on remuneration and all benefits received from employment. Employment income includes the following:

- ▶ Salaries, wages, allowances, bonuses, and other remuneration and benefits granted for services rendered in a public office or in private employment
- ▶ Directors' fees

#### Self-employment income

Self-employed individuals must register as individuals with the Commercial Register for tax purposes. Income derived by individuals from independent professional services and self-employment activities that generate more than ALL 2 million are subject to tax at a rate of 10%. The tax base equals the difference between total gross income and total deductible expenses.

Small businesses that generate annual turnover of up to ALL 2 million are subject to a fixed tax obligation that varies according to the type of business activity and the location of the business.

#### Dividends

Dividends received by individual shareholders or partners in commercial companies are subject to tax. Amounts received from redemption of shares or liquidation proceeds are taxed to the extent that they exceed the amount contributed in cash or in kind by the shareholders.

## Tax system

Interest from bank deposits or securities  
Bank interest and interest on securities, other than interest generated from government treasury bills or other securities, issued before the law "On income tax" entered into force in 1999, are included in taxable income.

### Royalties

Royalties (intellectual ownership payments) are considered to be income generated from the use of, or the right to use, literature, artistic or scientific works, including movies, tapes, radio records, patents or of trademarks, designs or models, secret formulas, technological processes and industrial, commercial or scientific information.

### Income from rentals and leases of real property and loans

Income from rentals and leases of real property and loans includes any periodic compensation in cash or in kind that an individual generates from the leasing of real estate and lending of replaceable items (for example, funds).

Income derived from transfers of ownership rights over immovable property. The taxation of income derived from transfers of ownership rights over immovable property is discussed in Capital gains section.

Income derived from transfers of quotas

or shares. The taxation of income derived from transfers of participation quotas or capital shares is discussed in Capital gains.

Income derived from gambling and other games of chance. The payer of income from gambling and other games of chance must withhold a 10% tax and remit it to the tax authorities within 24 hours after making the payment.

Employer-provided stock options

No specific rules in Albania govern the tax treatment of employer-provided stock options. Stock options are subject to personal income tax at the moment of exercise.

### Other income

Other forms of income include, but are not limited to, the following:

- ▶ Income from sponsoring (for example, individuals not registered with tax bodies receive sponsoring from different sources and use the sponsorship for artistic or sports activities).
- ▶ Income from professional activities, including teaching, training and publishing articles in newspapers if the beneficiary is not registered with tax bodies and if such activities are of a temporary or secondary character.
- ▶ Income realized from collecting and selling metals.

- ▶ Cash contributions to share capital. Such contributions are taxable if they have not yet been taxed or if no sufficient evidence exists that they originate from sources that are excluded from the scope of Albanian taxation or that they are exempt from tax for other reasons.

### Exempt income

The following types of income are exempt from personal income tax:

- ▶ Income received from obligatory and voluntary schemes for life, social and health insurance and allowances for families or individuals with no or low income.
- ▶ Awards up to the limit specified in the law, regardless of the source of the payment.
- ▶ Allowances received for diseases or disasters, up to 20% of the annual employment income earned by the recipient of the allowances.
- ▶ Benefits in cash or in kind granted to former landowners as remuneration for the dispossession required by the government for the public interest. This exemption must be proven by legal documentation explaining the nature of the income.
- ▶ Compensation for damages received from insurance companies.
- ▶ Income in kind, such as food

(antidotal), received from businesses that are allowed to pay such income under the law.

- ▶ Income excluded by international agreements approved by the Albanian parliament.
- ▶ Indemnities received by former political prisoners.

### Capital gains

#### Transfers of ownership rights over immovable property

Capital gains derived from disposals of real estate are subject to tax. The tax base equals the amount by which the sale price exceeds the acquisition cost. For real estate transfers, the sale price taken into account may not be less than the "reference price" for such property. For this purpose, the "reference price" is the objective value per meter in the relevant area, as indicated in the reference table published by the Albanian Institute of Statistics for the main Albanian cities.

#### Transfers of quotas or shares

Capital gains derived from transfers of participation quotas or capital shares include income from sales of quotas owned by partners in businesses or partnerships, income from sales of shares and income from sales or liquidations of businesses. The tax base is equal to the following:

- ▶ Shares: difference between the sales value of the shares and nominal value or the purchase value
- ▶ Capital participation quotas: difference between the sales value and nominal value or the purchase value
- ▶ Liquidation: difference between the sales value or liquidation value of a business and book value

Capital losses are not deductible for personal income tax purposes.

### Deductible expenses

Individuals earning less than ALL 800.000 can deduct expenses on social security, education loans and medical care.

### Rates

#### Employment income

For 2011, wages, salaries and compensation relating to employment are taxed at the rates set forth in the following table.

#### Monthly taxable income

Exceeding	Not exceeding	Rate
ALL	ALL	Rate
0	10,000	0%
10,000	30,000	10% of amount above ALL 10,000
30,000	-	10% of total taxable income

The tax is withheld by the employer and the employee is not required to file a tax return reporting this income.

### Other types of income

All other types of taxable income received by individuals are subject to personal income tax at the rate of 10%. The tax is settled mainly through the withholding tax mechanism, which is considered to be a final tax. For all income that has not been taxed at source, an individual must file a personal income tax return by the 30-th April of the following year.

### Social security contributions

Employers and employees contribute to a social security fund a percentage over the calculated monthly salary. The total contribution is 27.9%, out of which 16.7% is paid by the employer, and 11.2% is paid by the employee. The contribution consists of a social security contribution of 24.5% and a health security contribution of 3.4%. The contribution is calculated on the monthly salary, from a minimum amount of ALL 20,000 to a maximum amount of ALL 87,700. The contribution must be paid to the tax authorities by the 20-th day of the following month.

Self-employed persons must pay a contribution of 30% calculated on the minimum amount of salary, which is ALL 17,540.

## Payment procedures

### Tax on employment income

Employers must withhold personal income tax from wages and compensation paid, and they must pay the withholding tax to the tax administration by the 20th day of the following month. Employers must maintain records of payment in accordance with instructions issued by the Ministry of Finance.

### Tax on self-employment income

Self-employed individuals should file an annual personal income tax return by the 31st of March of the following year.

Individuals earning income subject to personal income tax during the tax year must file a declaration with the tax administration of the relevant jurisdiction by the 30th of April of the following year, unless the tax liability has been settled through tax withholding.

### Foreign tax credit

Resident taxpayers may credit the foreign income tax paid in other countries on the income realized in such countries. The amount of the foreign tax credit may not exceed the amount of tax calculated for Albania.

**Table 1: Taxability of income items**

	Taxable	Not taxable	Comments
Compensation			
Base salary	X	-	(a)
Business travel expenses	-	X	(b)
Travel allowances	-	X	(c)
Directors' fees	X	-	-
Other items			
Self-employment	X	-	-
Personal ordinary income			
(interest and dividends)	X	-	-
Capital gain from sale			
of immovable properties	X	-	-
Capital gains	X	-	-
Royalties	X	-	-

a) Employment income includes the basic wage and all the permanent increments added to the basic wage, including a seniority bonus, and additional payments and allowances because of a strenuous job, distance from the workplace or special nature of the work or services, as well as other allowances. Further allowances include all income or remuneration arising from the individual's employment. All further allowances are taxed in the respective month in which they are added to the salary.

b) Business travel expenses must be substantiated by the relevant

service days inside or outside Albania and must be justified by the relevant travel documents, such as transport tickets and passports showing exit and entry stamps from Albania).

c) For travel within Albania, travel allowances include per diems not exceeding the limit of ALL 3,000 per whole service days and ALL 1,000 per half-service days. For travel outside Albania, the per diems may not exceed €60 per whole service days and €30 per half-service days.

**Table 2. Sample tax calculation**

The following is a sample tax calculation for a month in 2011. All amounts are in ALL.

Monthly gross remuneration	90,000
Withholding tax (income tax): (ALL 90,000 at 10%)	(9,000)
Social security and health insurance premium for the employee (11.2% of ALL 87,700)	(9,822)
Total of tax and social security premium	18,822
Monthly net salary	71,178

## Corporate income tax

### Introduction

Albanian companies are companies incorporated in Albania or have their place of effective management in Albania. Albanian companies are subject to corporate income tax on their worldwide income. Foreign companies are subject to tax on profits generated from activities performed through a permanent establishment in the country and on income from Albanian sources.

### Rate of corporate tax

The corporate income tax rate is 10%.

## Determination of taxable profit

### General

The assessment is based on the financial statements prepared in accordance with the local standards or International Financial Reporting Standards (IFRS), subject to certain adjustments for tax purposes as specified in the Albanian Tax Code and other supplementary legal acts.

All necessary and reasonable expenses incurred for the business activity that are properly documented are deductible, except for the following:

- ▶ In-kind compensation.
- ▶ Pension voluntary contribution payments other than the statutorily required social security contributions in Albania.

- ▶ Wages and salaries that are not paid through the banking system.
- ▶ Write-off of debts if all legal means for their collection have been exhausted.
- ▶ Expenses for technical, management and consultancy services are tax deductible if the payment of the service fees or the related WHT is made within the fiscal year in which the relevant services are rendered.
- ▶ Other types of expenses may be deducted up to a ceiling. These expenses include, but are not limited to, the following:
  - ▶ Representative and entertainment expenses are deductible up to 0.3% of annual turnover.

## Tax system

- ▶ Production waste and losses, including losses from impairment, are deductible to the extent provided by the relevant legislation.
- ▶ Sponsorships are generally deductible up to 3% of the income before tax and up to 5% for media-related sponsorships.
- ▶ Per diems are deductible up to ALL 3,000 per day for traveling inside Albania and up to €60 per day for traveling abroad.
- ▶ Interest is deductible only to the extent that the rate does not exceed the average interest rate published by Bank of Albania and that the amount of the debt does not exceed four times the equity. Such limitation does not apply to banks, insurance companies and leasing companies.
- ▶ Costs of improvements and maintenance are fully deductible in the year in which they are incurred to the extent that they do not exceed 15% of the remaining value of the asset.
- ▶ The deductibility of expenses paid in cash is limited to ALL 300,000.

### Inventories

The inventory valuation rules stipulated in the accounting law also apply for tax purposes. Inventory is valued at historical cost, which is determined by using the weighted-average, first-in, first-out

(FIFO) or other specified methods. The method must be applied consistently. Changes in the method must be reflected in the books of the company.

### Provisions

Companies may not deduct provisions, except for certain levels of provisions and special reserves specified by regulations regarding insurance companies and financial-service companies.

### Tax depreciation

Buildings are depreciated for tax purposes separately at the rate of 5%, using the declining balance method. Intangible assets are depreciated at the rate of 15% using the straight-line method.

Other assets are depreciated in group using the declining-balance method. The applicable rates are 25% for computers, information systems and software, and 20% for all other fixed assets.

### Thin capitalization rules

Thin capitalization restrictions apply, but are less stringent than in other countries (i.e. there applies a 4 : 1 debt to equity ratio). However, the ratio applies for all debts and is not restricted only to those from related parties, thus the effective thin cap ratio with respect to inter-company financing may be much lower and trigger excessive taxation.

### Relief for losses

Tax losses can be carried forward for three consecutive years. However, if a change of more than 25% in the entity's ownership occurs, the remaining tax losses are forfeited. Loss carrybacks are not allowed.

### Overseas aspects

Foreign direct tax on income and gains of an Albanian resident company may be credited against the corporate tax on the same profits. The foreign tax relief cannot exceed the Albanian corporate income tax charged on the same profits. If a company receives income from a country with which Albania has entered into a double tax treaty, other forms of foreign tax relief may apply, as stipulated in the provisions of the treaty.

### Groups of companies

Each company forming part of a group must file a separate return. The law does not provide for consolidated tax returns or other group relief.

### Compliance

The tax year is the calendar year. Companies must make monthly advance payments of corporate income tax by the 15th day of each month. Newly established companies involved in production activities are not required to make monthly advance payments for a

period of either six months or the period until the end of the fiscal year, whichever is shorter. Taxpayers that made monthly advance payments for the preceding year or for the current year of no more than ALL 10,000 are allowed to make quarterly advance payments.

The monthly advance payments for January through April are calculated based on the taxable income of the tax year before the preceding tax year. The monthly advance payments for May through December are calculated based on the taxable income of the preceding tax year. The tax rate for the calculation of the advance payment is 10% applied to 1/12 of the income. If the company demonstrates to the tax authorities that the taxable income in the current year will be substantially lower than the taxable income of the reference period, the tax authorities may decide to decrease the advance payments. When the tax authorities approve the taxpayers request for the reduction of the monthly corporate advance payments and at year end the corporate tax liability exceeds the amount of advance payments by more than 10%, then default interest is applied on the difference. If the tax authorities determine that the taxable income of the current year will be increased by more than 10% compared with the taxable income realized in the reference period, they may decide to increase the advance payments. Companies that generated

losses in the reference years make advance payments based on their taxable profit projections for the current year.

By 31 March, companies must file the annual tax return and pay the corporate tax due for the tax year less advance payments made.

### Penalties for non-payment or non-reporting

Companies not complying with the filing and payment deadlines described above are subject to interest and penalties. Late tax payments are subject to interest at a rate of 120% of the inter-banking interest rate, published by Bank of Albania. The interest is not deductible for corporate income tax purposes. Late tax liability payments and inaccurate tax return filings are charged with a penalty of 5% of the unpaid liability for each month of delay, capped at 25%. In addition, a penalty of ALL 10,000 can be assessed if the tax return is not filed by the due date. In case the unreported tax liability results from tax evasion, the penalty imposed will be 100% of the unpaid liability.

### Withholding tax on cross border payments

Based on the Albanian income tax law, all resident persons and branches or fiscal representatives of foreign entities are obliged to withhold tax on the payments of dividends, profit distributions, interest,

royalties, rents, technical services (including construction, assembly, installations and related supervisory work), consultancy and management fees when any of such amounts is paid to individuals and non-resident entities other than those registered for income tax purposes in Albania. Withholding tax applies also to capital gains realized by individuals or non-resident entities from the sale of shares to resident entities.

### Capital gains

Capital gains derived from the disposal of assets, including shares, are subject to tax at the standard rate of 10%. Capital losses are deductible for tax purposes. The law is not clear regarding the taxation of capital gains derived by a foreign company from the sale of domestic shares. However, the tax administration guidelines provide that such gains are subject to tax. They also provide that if the buyer is a domestic entity, it must withhold and pay the tax calculated on the net basis (sales price minus acquisition costs). If the buyer is a foreign entity, the relevant tax liability must be settled by the seller.

### Treaty withholding tax rates

Albania has signed tax treaties with several countries. The rates of withholding tax in Albania's tax treaties are described in the following table.

Table 3. Tax treaties

	Dividends %	Interest %	Royalties %
Austria	5/10	(a) 5	(b) 5
Bosnia Herzegovina	5/10 (a)	10	10
Belgium	5/10	(a) 5	5
Bulgaria	5/10 (a)	10	10
China	10	10	10
Croatia	10	10	10
Czech Republic	5/10 (a)	5	10
Egypt	10	10	10
Estonia	5/10 (f)	5 (b)	5
France	5/10 (a)	10	5
Greece	5	5	5
Hungary	5/10 (a)	0	5
Ireland*	5/10 (a)	7 (b)	7
Italy	10	5 (b)	5
Korea (South)	5/10 (a)	10 (b)	10
Kosovo	10	10	10
Latvia	5/10 (a)	5/10 (b)	5
Macedonia	10	10	10
Malaysia	5/10 (a)	10	10
Malta	5/10 (a)	5	5
Moldova	5/10 (a)	5	10
Netherlands	0/5/10 (c)	5/10 (d)	10
Norway	5/10 (a)	10	10
Poland	5/10 (a)	10	5
Romania	10	10 (b)	15
Russian Federation	10	10	10
Serbia and Montenegro	5/10 (a)	10	10
Singapore*	5	5 (b)	5
Slovenia	5/10 (a)	7 (b)	7
Spain	0/5/10 (e)	6 (b)	10
Sweden	5/10 (a)	5	5
Switzerland	5/10 (a)	5	5
Turkey	5/10 (a)	10 (b)	10
Non-treaty countries	10	10	10

a) The lower rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 25% of the capital of the payer. The higher rate applies to other dividends.

b) Interest on government and central bank loans is exempt from withholding tax.

c) The 0% rate applies if the beneficial owner of the dividends is a company that holds at least 50% of the payer and that has invested at least USD 250.000 in the capital of the payer. The 5% rate applies if the beneficial owner of the dividends is a company that holds at least 25% of the payer. The higher rate applies to other dividends.

d) The 5% rate applies to interest paid on loans granted by banks or other financial institutions. The 10% rate applies in all other cases.

e) The 0% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 75% of the capital of the payer; the 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) which holds directly at least 10% of the capital of the payer. The 10% rate applies to other dividends.

f) The lower rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 10% of the capital of the payer. The higher rate applies to other dividends.

Albania has signed a tax treaty with Germany, Kuwait and Luxembourg but these treaties have not yet entered into force.

\* The DTT with Ireland and Singapore recently entered in force shall be effective as of 1st January 2012.

## Other taxes

### Real estate transfer tax (RETT)

The acquisition of land and buildings in Albania triggers real estate transfer tax. For land, the tax amounts to 2% of the transaction price of the property, unless such price is lower than a reference price for that plot of land, in which case the latter would be taken in consideration. For buildings, the tax ranges between 100 ALL/m<sup>2</sup> and 2000 ALL/m<sup>2</sup>, depending on the municipality. Essentially, upon acquisition of a building or a unit thereof with the related land or ideal part of land, there will be imposed (i) the tax corresponding to the piece of land transferred as well as (ii) the tax related to the building or unit acquired.

The said tax is collected by the real estate registration office upon application for the registration of the transfer of ownership.

### Annual real estate tax

Real Estate Property Tax (REPT) is levied yearly on buildings and agricultural land, based on the property area/square meter. For agricultural land, the tax is in the range of 700 - 5600 ALL/hectare per annum depending on the land category, as determined by the Ministry of Agriculture. For buildings, the tax is calculated for each and every floor of the building over and below the ground, in the range of 5 - 200 ALL/m<sup>2</sup> per annum depending on the municipality where the property is located.

## Indirect taxation

### Introduction

Albanian Value Added Tax (VAT) generally applies to the following transactions:

- ▶ The supply of goods and services performed by a taxable person in Albania.
- ▶ Importation of goods into Albania, regardless of the status of the importer.
- ▶ Services purchased by taxable persons in Albania from service providers whose place of business is outside



Albania. Such services are subject to the reverse-charge mechanism.

### Liable persons

Any person (entity or individual) who makes supplies in the course of the person's independent economic activity is liable to VAT.

For domestic supplies and for services subject to the reverse-charge mechanism, the obligation to register for VAT purposes and charge VAT is triggered when annual turnover exceeds ALL 5 million, except for the supply of professional services, for which the threshold is ALL 2 million. The obligation to register is effective as from 1 January of the year following the year in which the threshold is exceeded. If the business begins during the year, the amount of the threshold taken into account is the portion of the annual threshold corresponding to the months of operation.

An option is available for entrepreneurs to register earlier or on the beginning of their economic activity.

Persons involved in import or export activities must register for VAT regardless of the amount of turnover.

### Group registration

The Albanian VAT law does not allow group registration.

### VAT representative

A business non-established in Albania that makes supplies of goods or services within the country must appoint a VAT representative to register for VAT if it is liable to account for Albanian VAT on its supplies.

The VAT representative, who must be resident in Albania, may act on behalf of the taxable person for all purposes related to VAT and is jointly responsible for compliance with all VAT obligations.

### Rates

The VAT standard rate is 20%. Reduced rate at 10% applies to the supply of medicines and medical care services. Exports of goods, international transport and services relating to maritime activities and supplies relating to international transport are zero-rated. The use of goods or services purchased or produced in the course of the business activity for private purposes constitute a taxable supply.

The following tables provide examples of exempt supplies of goods and services:

- ▶ Supply and rent of land and buildings
- ▶ Financial services
- ▶ Postal services
- ▶ Education services
- ▶ Hydrocarbon exploration operations

- ▶ Printing and sale of publications
- ▶ Media advertising
- ▶ Betting, lotteries and gambling
- ▶ Services supplied abroad

### Taxable event

A supply of goods or services is considered to be performed at the moment when a receipt is required to be issued or when goods or services are delivered. If the payment is made before delivery of goods or services, the moment of supply is the moment when the payment is made. Special rules apply to construction companies.

### VAT procedures

#### Declarations

The tax period is a calendar month. Purchase and sales ledgers should be submitted monthly by the 5th day of the following month. VAT returns must be submitted monthly by the 14th day of the month following the tax period. The deadline for VAT payment is the same as the deadline for the filing of VAT returns.

For a taxpayer that is newly registered, the first tax period begins on the date of the registration, as stated in the certificate of registration, and ends on the last day of that month.

VAT payable by a taxpayer for a tax period equals the VAT on the total taxable

value of supplies made during the tax period minus any input VAT allowed as a deduction.

### Deductibility and recovery of VAT

A taxable person may recover input tax, which is VAT charged on goods and services supplied to the person for business purposes. A taxable person generally recovers input tax by deducting it from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services supplied in Albania, VAT paid on imports of goods and VAT applied to reverse-charge services.

The following list provides examples of items of expenditure for which input tax is not deductible (this list is not exhaustive).

- ▶ Expenditure on fuel unless the payer is a company that purchases the fuel for trading purposes and the gasoline is used solely for carrying on a taxable economic activity
- ▶ Expenditure on trips and per diems, hotel accommodation and recreation activities, in the course of an economic activity
- ▶ Expenditure on cars, unless the business activity is the acquisition of the cars for resale or unless the use of cars is the only economic activity (for example, renting,

taxi services, and ambulances)

- ▶ Expenditure relating to publicity and promotional articles

### Partial exemption

If a supply of a good or service is used partly for purposes of taxable supplies and partly for exempt supplies, the taxable person may not deduct input tax in full. This situation is known as "partial exemption". The calculation of the amount of input tax that may be recovered is made on a pro-rata basis by using the following formula:

$$\text{Amount of relevant input VAT} \times \frac{\text{taxable turnover} + \text{exports}}{\text{taxable turnover} + \text{exports} + \text{exempt supplies}}$$

The pro rata VAT calculation is tentatively based on the preceding calendar year's results. It must be adjusted by 31 January of the following year if the difference between the tentative ratio and the actual ratio is more than 20%.

### Capital goods

Capital goods are items of capital expenditure that are used in a business over several years. Input tax is generally deducted in the VAT year in which the goods are acquired. The amount of input

tax recovered depends on the taxable person's partial exemption recovery position in the VAT year of acquisition. However, the amount of input tax recovered for capital goods must be adjusted over time if the taxable person's partial exemption recovery percentage changes during the adjustment period.

Capital goods adjustment applies for a period of five years. The adjustment is applied each year following the year of use. It is applied to 1/5 of the total input tax. The adjustment may result in either an increase or a decrease of deductible input VAT, depending on whether the ratio of taxable supplies made by the business has increased or decreased compared with the year in which the capital goods were acquired.

### Write-off of bad debts

Taxable persons who have not received partial or total payment for taxable supply may claim the VAT charged as input tax if such debt remained outstanding for more than six months, the amount has been written-off and a court has declared the debtor as insolvent.

### Refunds

Albania refunds VAT incurred by VAT-registered persons. Non-established businesses may not obtain refunds of VAT incurred in Albania. Taxpayers making

## Tax system

exempt supplies only cannot claim a refund of the input VAT incurred in the course of their business activities.

A taxpayer may claim a VAT refund if both of the following conditions are satisfied:

- ▶ The taxpayer carried forward the relevant amount as a VAT credit balance in the following three consecutive months.
- ▶ The amount claimed exceeds ALL 400,000.

The taxpayer must file a "Request for Refund" form, prescribed in the VAT law, with the relevant tax office. The tax office must verify the fulfillment of the refund conditions and approve the refund within 30 days.

## Incentives

A special incentive applies for the new capital investment allowing taxpayers to defer the payment of VAT on the importation of machinery and equipment, regardless of the type of their economic activity. The VAT payment may be deferred for up to 12 months from the moment of importation. For projects with an investment implementation phase of longer than 12 months, deferral of VAT is extended on fulfillment of requirements set out by the Ministry of Finance of Albania.

## Penalties

Based on the Albanian Tax Procedures Law (No. 9920, dated 19 May 2008), noncompliance with the VAT filing and payment deadlines is subject to the same penalties and default interest applicable to corporate income tax. (See page 52)

In addition, noncompliance with the requirement to register or to update the status of registration data triggers a penalty of ALL 25,000.

Improper administration of sales and purchases books and documentation is subject to a penalty of ALL 50,000.

The failure to issue a VAT fiscal invoice for the whole amount of the transaction is subject to a penalty of 100% of the undeclared and unpaid tax liability apart from the penalties determined.

Criminal offenses carried out by taxpayers are penalized under the Criminal Code.

These offenses relate to certain situations, including, but not limited to, the following:

- ▶ Taxpayers willfully engaging in fiscal evasion
- ▶ Taxpayer not paying taxes to the state budget
- ▶ Taxpayers destroying and concealing important tax documents and information.



# Financial reporting and auditing



## Financial reporting

### Method of accounting

Albanian financial reporting and tax legislation follow on the accrual method of accounting. Cash basis is not allowed for accounting and tax purposes.

### Sources of accounting principles

The law no. 9228 dated 29 April 2004 "On Accounting and Financial Reporting" defines the legal framework and the accounting standards applicable for financial reporting purposes. According to the law, there are two sets of accounting standards applicable in Albania: the National Accounting Standards and the International Financial Reporting Standards. The National Accounting Standards are enacted by the National Council of Accounting, whereas the International Financial Reporting Standards are translated into Albanian from the original standards enacted by the IASB. Albanian translation of IFRS is constantly updated by the National Accounting Council and is posted in its website.

The following companies are required to apply IFRS/IAS:

- ▶ Commercial companies listed on the stock exchange as well as their affiliates subject to account consolidation;
- ▶ Commercial banks, financial institutions, insurance and reinsurance companies, as well as other companies that are licensed to perform financial activities; and

All the other companies that simultaneously, in the last two years, fulfilled the following thresholds:

- Turnover equal or more than ALL1.25 billion
- Average number of employees of more than 100

All other companies may choose to apply either the National Accounting Standards or the IFRS/IAS.

### Fundamental concepts

The accounting concepts and principles followed in Albania are: going concern, accrual basis, matching concept, prudence, consistency, substance over form, historical cost, true and fair presentation, non-offsetting of assets against liabilities or income against expenses, unless otherwise expressly prescribed by governing accounting rules.

### Disclosure

The financial year in Albania coincides with the calendar year and ends on 31 December. Enterprises prepare annual financial statements by 31 March of the following year. The companies may prepare consolidated financial statement however there is no statutory requirement for the companies in Albania to prepare and submit consolidated Financial Statements since capital market is not regulated in Albania. Annual financial statements which are prepared in accordance with NAS are prepared in a prescribed format issued by the National Council of Accounting. They consist of a balance sheet, an income

statement, a cash flow statement, a statement of changes in equity and notes. Alongside the financial statements the company should prepare the notes to the financial statements which should present information about the basis of preparation of the statements and accounting policies adopted with regard to significant transactions and events. They should also contain disclosures, which are required by applicable financial reporting framework but not included elsewhere in the main financial statements, or which are relevant and necessary for fair presentation of the accounts.

### Reporting and filing requirements

In general, companies are required to submit annual financial statements (together with the corporate income tax return) to the Tax authorities by 31 March of the following year. In addition companies need to submit their annual financial statements to the National Registration Center the latest by 30 June of the following year.

Banks (including branches of foreign banks), insurance companies, pension funds and investment funds and other financial institutions should follow the special guidance and laws issued by the Bank of Albania and the Financial Supervisory Authority

### Books and records

All companies in Albania are obliged by the Law on Accounting and Financial

## Financial reporting and auditing

Reporting to keep accounting books and records and to prepare annual financial statements. The law on accounting and financial reporting regulates the requirements for the comprehensiveness and reliability of the accounting systems; the contents, preparation and publication of the annual financial statements, the persons who prepare the annual financial statements and their eligibility to perform such a task.

The Law defines the accounting documents and the form of accounting and the frequency of the stocktaking process. According to the Article 17 of the Law all the accounting records and the supporting documentation should be retained for a period of 10 years after closing of the financial year they relate to.

## Auditing

### Audit requirements

The law on Statutory Audit and the Profession of Chartered Certified Auditors and Certified Accountants No 10.091 Date 5 March 2009 regulates and defines the thresholds for statutory audit.

Specifically the following entities need to have their financial statements audited by a Chartered Certified Auditors:

a) Any commercial companies, regardless of their form, which prepares their

financial statements in accordance with International Financial Reporting Standards (IFRS);

b) All joint stock companies regardless of whether they apply the National or International Accounting Standards for financial reporting;

c) Limited liability companies, which implement national accounting standards for financial reporting and at the end of the accounting period, exceed at least two of the following indicators:

▶ At the end of the relevant accounting period total assets reaches or exceeds ALL 40 million.

▶ The turnover from economic activity in that accounting period reaches or exceeds ALL30 million.

▶ Has, on average, 30 employees during the accounting period

### Statutory auditors

The Law on Statutory Audit and the Organization of the profession of Chartered Certified Auditors and Certified Accountants (The Audit Law) provides for:

- ▶ objectives and principles of auditing;
- ▶ professional standards on auditing applicable in Albania;
- ▶ obtaining of ACCA and CA certificates;
- ▶ rights, obligations and responsibilities

of registered auditors;

- ▶ scope of activity of the Institute of Certified Chartered Accountants (IEKA) in Albania.

The profession of auditors is characterized by self-regulation and independence within the limits set by the law and professional standards. The Audit Law provides that an audit should be carried out in compliance with International Standards on Auditing, according to which an auditor should issue an independent opinion on whether the financial statements of a company present fairly, in all material respects, its financial position and the results of operations and changes in cash flows in compliance with NAS or IFRS.



# Labour law



## Labor relationships

The Labor Code is the backbone of the Albanian labor law framework, whereas a large variety of other legislative instruments (decisions of council of ministers, instructions, regulations) complement it in the regulation of employment relations. Albania's Labor Code governs the contractual rights and obligations of employees and employers. Employment in Albania works on the basis of collective agreements, depending on the sector concerned. These are contracts between the parties involved, individual employers, employers' organizations and trade unions.

To work in Albania, a foreign national must possess:

- ▶ A work permit issued by General Directorate of Immigration Policies, under the Ministry of Labor, Social Affairs and Equal Opportunities. The work permit does not guarantee the foreigner a regular stay, but it constitutes a recommendation for the issuing of the residence permit.
- ▶ A residence permit issued by the Department for Border and Immigration, under the General Directorate of State Police. As a general rule, the residence permit for employment purposes is issued for the entire duration of the employment relations.

The labor and social insurance aspects of the employment of foreign individuals in Albania are governed by the domestic labor and social insurance laws unless otherwise is provided for in international

treaties to which Albania is a party.

## Employment conditions

The minimum age for employment in Albania is 16. However, during their school break, children aged from 14 to 16 may perform minor jobs that are not detrimental to their health or upbringing.

Employment remuneration can be negotiated in ALL or in a foreign currency. However, the actual payment is usually performed in ALL, i.e. the ALL equivalence of the stipulated salary, as some imperfections of the social security and tax systems do not allow effective salary payment in foreign currency.

The guaranteed minimum wage is the minimum hourly rate paid to an employee. Since 2009, this has been fixed at ALL 18,000 for normal working time (i.e. 174 hours per month), and ALL 103 per working hour.

## Employment contracts

Employment relations are governed by the employment contract, which is an agreement entered into between the employer and the employee that sets out their respective rights and obligations. The employment contracts may be either oral or written, and it may only be changed with the agreement of both parties. Any change to the written contract to the detriment of the employee should be concluded in writing.

The following are the different types of employment contracts available:

- ▶ Definite term contract;
- ▶ Indefinite term contract;
- ▶ Collective contract;
- ▶ Part-time employment contract;
- ▶ Domestic employment contract;
- ▶ Probationary contract.

As a general rule, an employment contract is entered into for an indefinite term. The signing of a definite-term contract should be justified by objective reasons relating to the temporary nature of the work for which the employee will be hired. If duration is not precisely determined by the parties entering into the employment contract, it shall be treated as an indefinite-term contract.

A written employment contract has to contain details such as:

- ▶ identity of the parties;
- ▶ place of work;
- ▶ a general description of work;
- ▶ date of commencement of work;
- ▶ in the case of a fixed-term contract, its duration;
- ▶ amount of paid leave;
- ▶ period of notice for terminating the contract;
- ▶ components of remuneration and its payment date;
- ▶ hours of the normal working week; and

- ▶ the collective agreement in force.

Employment contracts can be terminated only on the grounds explicitly listed in the Labor Code, such as:

- ▶ mutual consent;
- ▶ expiry of term (in case of definite term contracts);
- ▶ objective reasons beyond the control of parties (death, serious illness of the employee, etc.);
- ▶ unilaterally upon prior written notice of either the employee or the employer (provided that respective causes are present);
- ▶ disciplinary dismissal.

### Organization of working time

The Labor Code defines working time as the period during which the employee is at the employer's disposal. The code also ensures that every employee is entitled to:

- ▶ a minimum daily rest period of 11 consecutive hours per 24-hour period;
- ▶ a rest break, where the working day is longer than six hours;
- ▶ a minimum uninterrupted rest period of 24 hours for each week;
- ▶ normal weekly working time of 40 hours (50 hours if overtime is included);
- ▶ paid annual leave of at least 4 weeks.

### Termination

Both the entrepreneur and his or her employees have to stick to the established notice periods. The regular termination notice period, after the probation period, is one month during the first year of work, two months for two to five years of work, and three months for more than five years of work. During the probation period each party may terminate the contract by notifying the other party at least five days in advance. Exceptions to the termination rules are valid only if there is a compelling reason to do so. Where employment relations are terminated due to factors not attributable to him or her, the employee is entitled to a seniority bonus, and a compensation for untaken leave and unpaid wages.

Special bans on dismissal are in place where: the employee is serving his military service; is benefiting from payment of temporary disability at work from the employer or the social security for a period up to one year; is on leave granted by the employer.

### Staff welfare

Albanian legislation requires businesses to meet a variety of social rules contributing to staff welfare. The Labor Code sets out employees' rights in relation to non-discrimination, gender equality in the workplace, health and safety at work, maternity leave,

harassment, etc. Employers who breach these obligations face penalties.

### Non-discrimination

To ensure the right of foreign citizens to work in Albania, employers are not allowed to discriminate against foreign nationals (especially from EU countries) when recruiting, making staff redundant or regarding any other working conditions.

The Labor Code prohibits employers from discriminating on the grounds of race, color, gender, age, religion or belief, political convictions, national or social origin, family connections, physical or mental disability, which prejudices the individual's right to equal employment or treatment. Employers are further required to make reasonable accommodation at work for workers with disabilities.

### Gender equality

Employers must treat men and women equally, particularly as regards access to employment, working conditions, promotion and pay.

### Health and safety at work

Employers are responsible for providing a safe and healthy working environment for workers. The Labor Code lays down rules regarding the protection of safety and health of workers. These include general

principles concerning the implementation of preventive measures to guard against accidents at work and occupational diseases, consultation, balanced participation and training of workers and their representatives.

Employers are obliged:

- ▶ To ensure the safety and health of workers in every aspect related to the work, primarily on the basis of the specified general principles of prevention, without allocating the workers any financial costs'
- ▶ To evaluate the occupational risks, inter alia, in the choice of work equipment and fitting out of the workplaces, and to make provision for adequate protective and preventive services;
- ▶ To keep a list of, and draw up reports on, occupational accidents;
- ▶ To take the necessary measures for first aid, fire-fighting, evacuation of workers and action required in the event of serious and imminent danger;
- ▶ To inform and consult workers and allow them to take part in discussions on all questions relating to safety and health at work;
- ▶ To ensure that each worker receives adequate safety and health training throughout the period of employment.

Albania's social security pays benefits for

absences due to illness or work accidents, in some cases supplemented by employer contribution. When the employer has failed to register the employee with the social security, he or she will face all expenses the latter has made as a result of the accident or occupational disease, as well as damages arising from non registration.

Albania actively supports voluntary dialogue between employers and employees, and associations representing them. Employers must consult staff representatives on certain issues, e.g. when planning collective redundancies.

### Labor protection

During pregnancy and maternity leave, female employees are protected by measures such as breaks during working hours, special working conditions, and complete ban on working 35 days before giving birth and 42 days thereafter, prohibition of night work, protection against dismissal.

### Monitoring of working conditions

The State Labor Inspectorate is responsible for enforcing the provisions of labor legislation, the collective contract and employee's protection at work. In particular, the inspectorate is responsible for enforcing the provisions on the protection of employees in the

exercise of their profession, the duration of work, pay, safety, hygiene and welfare, and the employment of children, minors and women.

Employers are obliged to:

- ▶ Immediately notify the Inspectorate on all accidents at work and professional diseases;
- ▶ Provide the Inspectorate with all the necessary data related to the implementation of labor legislation;
- ▶ Report to the Inspectorate, on a yearly basis, on the number of employees and the address of activity.

The Inspectorate may take the following sanctions:

- ▶ Issue a warning - in the event the employer has breached provisions on working hours, rest days, official holidays, payment of compulsory social and health security contributions for all employees, and the conditions of health and safety at work.
- ▶ Impose a fine - should the employer fail to correct the breaches within the time limit ordered by the Inspectorate, the latter may issue a fine reaching up to 50 times the amount of the minimal pay.
- ▶ Order the suspension of work - should the employer breach the provision relating to: (i) the duration of work and rest periods; (ii) night work and the protection of minors and pregnant

women at work; (iii) the issuing of foreign citizens with work permits; (iv) the registration of employees with the Employment Office.

## Other obligations

The Law on Stimulation of Employment, which aims at pursuing general policies to sustain a full productive and freely chosen employment, sets out certain obligations of employers related to the stimulation of employment, including:

### Duty to report

The employer must report to the relevant employment office every vacancy in his enterprise, within 7 days of its arising. Such a report must specify the age, education, professional preparation and skills required for the job.

In the event of an impending bankruptcy, the employee must report to the relevant employment office, once he/she becomes aware of the bankruptcy, and no later than the expected date of activity closure.

The National Employment Service in cooperation with the State Labor Inspectorate monitors the implementation of the above obligations.

### Obligation to stimulate employment

The employer must register with the

relevant employment office every employee he/she hire to fill the vacancies at his/her disposal. The employer is entitled to fill the vacancy with the candidates being submitted by the employment office or with other suitable candidates that he/she may freely choose.

### Notification in case of collective redundancies

When employers dismiss staff, they must follow certain rules depending on the number of dismissals. The Labor Code defines 'collective redundancies' as the termination of employment relations by an employer, for reasons not related to the employee, where the number of redundancies, over a period of 90 days, is, at least:

- ▶ 10 in establishments employing up to 100 workers;
- ▶ 15 in establishments employing more than 100 but less than 200 workers;
- ▶ 20 in establishments employing more than 200 but less than 300 workers; and
- ▶ 30 in establishments employing more than 300 workers.

Any employer contemplating collective redundancies must hold consultations with the workers' organization with a view to reaching an agreement. The employer is to provide the workers'

organization with all relevant information during the course of the consultations and, in any event, is to notify the workers of the following in writing:

- ▶ the reasons of redundancies;
- ▶ the number to be made redundant;
- ▶ the number of workers normally employed; and
- ▶ the period during which redundancies are to be effected.

The Labor Code lays down the procedure to be followed:

- ▶ The employer notifies in writing the Ministry of Work, Social Affairs and Equal Opportunities on the conclusion of the consultations with the worker's representatives.
- ▶ Collective redundancies take effect at the earliest 20 days after the notification; the Ministry of Labor, Social Affairs and Equal Opportunities this period to seek solutions.

An employer in breach of the above procedures is liable to pay his/her employees a compensation up to 6 monthly wages.

## Pension fund law

According to Albanian law, pensions form a part of the general social security system and their regulation is incorporated in the law on Social

Security. The Albanian pension system is a public-private mix. Payment of pension installments and the granting of pensions and compensations are structured on two main benchmarks:

### Compulsory pension

All individuals are entitled to pension insurance accumulated in the state's Pension Fund. This is a compulsory insurance granting benefits for old-age, disability and death grants, based on the principle of inter-generational solidarity.

### Voluntary pension

Voluntary pension insurance is regulated by Law on Voluntary Pension Funds. Under this law, an employer may establish a occupational pension plan for his/her employees, by entering into a contract with a managing company. The employer may undertake to pay

contributions for the occupational pension fund on behalf of his/her employees. Such contributions are considered as paid by the employee. The employer may not discriminate among his/her employees in relation to participation in the pension fund, which should be open to all.

The occupational pension plan is to be approved by the Financial Supervisory Authority, which checks compliance with the relevant legal provisions.

The employee may continue to be a participant in the pension fund, even after terminating his/her employment relation.



# Investment incentives



## National regime

The Albanian law on Foreign Investments provides that foreign investments in Albania are not be subject to a prior authorization. Such investments are treated on the basis of no-less-favorable treatment than similar domestic investments, with the exception of investments in real estate. In all events, foreign investments benefit an equal and impartial treatment as well as complete protection and security. In addition, foreign investments benefit no-less-favorable treatment than that ensured by the provisions of international law.

## Priority of international treaties

Albania has concluded bilateral treaties for encouraging and mutual protection of investments with the most WTO member states as well as with other countries. These treaties introduce the principles of the Most Favored Nation and the principle of the national regime for all investors from the other country. In case of conflict between the provisions of the treaties with the domestic legal provisions, the treaties' provisions have priority over domestic law.

## Law on foreign investments

By virtue of the Law on Foreign Investments, a foreign investment is any investment in the Albanian territory owned directly or indirectly from a foreign natural or legal person, which

consists of:

- ▶ real estates and movable property, tangible or intangible, or any other ownership right;
- ▶ stock and shares in commercial companies;
- ▶ loans, obligations in cash or obligations in an activity having an economic value and which are connected to an investment;
- ▶ intellectual property, including literary, artistic, technical-scientific works, sound registrations, inventions, industrial projects, topographies of integrated circuit, know-how, trade marks, designs and trade names;
- ▶ any other right recognized by law or contract as well as any license or permit granted in accordance with the law.

Aiming at encouraging foreigners (either physical persons or legal entities) willing to invest in Albania, the law provides considerable guarantees to them, consisting of:

- ▶ removal of prior authorization from the government and the opening of all sectors to foreign investment;
- ▶ removal of limitations in the share of foreign participation in Albanian companies as 100 percent foreign ownership is possible;
- ▶ protection of foreign investments from direct or indirect expropriation or nationalization measures, except for special cases defined by law in the interest of public use.

## Investment incentives

- ▶ right of foreign investors to expatriate all funds and contributions of their investment, in kind;
- ▶ granting of most favorable treatment to investors in accordance with international agreements to which Albania is a party;
- ▶ judicial protection of foreign investors with respect to the legal rights related to their investments. Foreign investors may bring disputes before an Albanian court, or refer the case to arbitration. The relevant provisions governing domestic and international commercial arbitration are incorporated in the Albanian Code of Civil Procedure.

The foreign investment law amendment of 2010 granted a positive discrimination to foreign investors including the energy area in the event of disputes. Accordingly, the Government through a Decision of the Council of Ministers, provides for the substitution of the foreign investor by the Albanian state in a civil dispute with third private parties, in the event when, because of court disputes with such parties, is judicially burdened the implementation of the foreign investment or the exercise of the economic activity deriving or related to it. Such special state protection may also include the taking over, by the Albanian state, of the obligations imposed by the Albanian court on the foreign investor, for the

benefit of the other party.

Also, investors in Albania are entitled to judicial protection of the rights related to their investments. Parties to a dispute may agree to submit claims for resolution by an Albanian court or by domestic/ international arbitration institutions. Provisions on domestic and international commercial arbitration are incorporated in the Code of Civil Procedure.

## Investments in real estate

### Restrictions on the acquisition of property

Currently foreign investors cannot freely acquire real estate property in Albania, expect for acquisition of buildings sites, upon completion of the approved construction and equaling at least three times the value of the land. Also, foreign individuals can only acquire residential units, but not land.

Nevertheless, it is a common practice, for foreign investors to acquire real estate in the country, by setting up a local subsidiary to be used as the acquisition vehicle. Indeed, a local subsidiary is considered as a domestic entity, regardless of the origin of its shareholders, and as such can become owner of real estate property in Albania.

Nevertheless, the SAA provides for progressive adjustment of the legislation in this area to ensure, by 1 April 2016, no less favorable treatment for EU nationals than accorded to Albanian nationals.

### Lease of real estate property

Foreigners can freely lease real estate property, in accordance with the relevant provisions of the Civil Code and sectoral legislation. The Albanian Civil Code provides for no minimum period requirement for rental or lease agreement (s) but the maximum period is 30 years unless otherwise provided by specific laws.

### Registration of real estate in Albania

Based on Law no. 7843 "On Registration of Real Estate" land and buildings should be registered with the related register. These registers are open to the public. The register of real estate contains all the data of the real estate such as: identity of the owner, encumbrances and in rem rights established, date of registration and the relevant notarial deed or other title as well as plans that show the location of property. Any contract or other instrument enabling the aforementioned transactions should be filed with the competent Real Estate Registration Office (RERO) within 30 days from its execution. The initial

registration of a real estate property transaction is subject to the temporary registration regime. The RERO shall record the act of temporary registration, for forty-five (45) consecutive days. During this period any interested person can file with the office any claim or request for correction of eventual mistakes. If no claim is submitted within the aforementioned period or any claim submitted is settled in agreement between the parties, the said acquisition title will be classified as permanently registered.





- ▶ decision of its members/general assembly;
- ▶ start of bankruptcy proceedings;
- ▶ court decision (compulsory liquidation);
- ▶ failure to carry out any commercial activity for two years and to notify the suspension of activity to the National Registration Center;
- ▶ other cases set out in the statute.

## Bankruptcy

The aim of the insolvency proceeding is the settling, in a collective manner, of the debtor's obligations through liquidating all his or her assets and distributing all his or her revenues or, in the event of a reorganization plan, through reaching of another agreement, aimed at preserving the activity.

Insolvency proceedings can be opened in respect of the assets of any legal entity or natural person, including simple partnerships.

The insolvency proceedings may only be opened by means of an application by the debtor or his or her creditors. Tax authorities may also submit an insolvency application against a legal person.

When submitting an application, a creditor must demonstrate that he or she

has a legitimate interest for the opening of the insolvency proceedings, while the court must find the grounds sufficient and convincing. Grounds for opening insolvency proceedings are:

- ▶ inability to make payment – i.e. if a debtor is not in a position to meet the payment obligations on their due date; and/or
- ▶ over-indebtedness – if a debtor's assets no longer cover the existing obligations, and, after an evaluation of his or her assets, there is no possibility that the business will be continued.

The financing of the insolvency proceedings is to be secured, until the court reaches a decision. Therefore, the application is rejected if the debtor's remaining assets are not sufficient to cover the costs of the proceedings.

If the above conditions are met, the court takes a decision on the opening of the proceedings, which is made publicly known through information organs designated for official notifications by the court.

### Participants in the proceedings

The court is responsible for the procedural course of the insolvency proceedings. It has special powers and duties at the opening stage of the proceedings. The court decides,

inter alia, about: (i) the opening the proceedings; (ii) the interim security measures; and (iii) the appointment of an insolvency administrator. The court is also responsible for supervising the insolvency administrator.

The insolvency administrator is a licensed expert in the economic field, independent of both debtors and creditors. With the opening of the insolvency proceedings, he or she acquires the power to administer and dispose of the debtor's assets.

The Bankruptcy law also gives the creditors considerable influence over the insolvency proceedings, through:

- ▶ the creditors' meeting – the basic organ of self-administration by the creditors. The creditors' meeting is convened and conducted by the court. All secured creditors, all insolvency creditors, the insolvency administrator and the debtor are entitled to take part. The creditors' meeting decides, in particular, on how the assets are to be realized;
- ▶ creditors' committee – the central supervisory organ of the creditors. It is appointed either by the creditors' meeting or by the court.

The insolvency debtor is the owner of the assets which are to be realized and against which the insolvency creditors' claims are directed. He or she is in

principle liable with his entire assets. For the entire duration of the proceedings, the debtor remains the owner of his assets and responsible for his obligations.

### Effect of the opening of proceedings

The opening of the insolvency proceedings causes the debtor's right to administer and dispose of the assets constituting the insolvency assets to pass to the insolvency administrator. This not only covers the assets belonging to the debtor at the time when the proceedings are opened but also the further assets acquired by him during the proceedings.

### Admission of claims

The insolvency claims are taken into consideration only if and in so far as the insolvency creditor claims his right by lodging the insolvency claim. The court invites all insolvency creditors to lodge their insolvency claims with the insolvency administrator.

At the examination hearing, the court conducts a purely formal examination of the claims which have been lodged. The insolvency creditors who have lodged a claim, the insolvency administrator and the insolvency debtor are invited to attend. Should neither the administrator nor a creditor oppose a claim, it is deemed to be established.

### Reorganization proceedings

The debtor and the insolvency administrator are entitled to submit a reorganization plan. The creditors' meeting may also instruct the administrator to prepare such a plan. Arrangements of the reorganization plan, may differ from the relevant provisions of the Bankruptcy law.

After the plan is submitted, it is initially examined by the court, which, in case of a favorable outcome, forwards it to the creditors' committee (if any), the debtor, and to the insolvency administrator for comments. The courts also sets a hearing date for discussion and voting. Insolvency creditors who have lodged claims, preferential creditors, the insolvency administrator, the debtor and the employees' representative organ are invited to attend. If the plan is accepted by the necessary majority of the creditors, it is then confirmed by the court.

Once the judicial confirmation becomes final, the effects laid down in the reorganization plan come into force in favor of and against all the parties, and the court decides the closure of the insolvency proceedings.

### Winding up proceedings

If no reorganization plan is submitted,

the insolvency assets are realized by the insolvency administrator. The proceeds are distributed by the insolvency administrator in accordance with a distribution list, containing all insolvency claims to be taken into account in the distribution.

### Closure of the proceedings

After the final distribution has been carried out, the insolvency proceedings are officially closed, and the decision is made publicly known. The creditors can assert their remaining claims against the debtor without restriction, and the debtor is given back the power to administer and dispose of his or her assets.

## Abbreviations

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<b>ALL</b>	Albanian Lek	<b>IFC</b>	International Finance Corporation
<b>BOA</b>	Bank of Albania	<b>IFRS</b>	International Financial Reporting Standards
<b>CPI</b>	Consumer Price Index	<b>IHD</b>	Investment for Health and Development
<b>EBRD</b>	European Bank for Reconstruction and Development	<b>INSTAT</b>	Institute of Statistics
<b>EFTA</b>	European Free Trade Area	<b>MFN</b>	Most-Favored-Nation
<b>EIB</b>	European Investment Bank	<b>NLC</b>	National Licensing Center
<b>EPO</b>	European Patent Organization	<b>NRC</b>	National Registration Center
<b>EU</b>	European Union	<b>PCT</b>	Patent Cooperation Treaty
<b>FDI</b>	Foreign Direct Investment	<b>SAA</b>	Stabilization and Association Agreement
<b>FSA</b>	Financial Supervisory Authority	<b>SEE</b>	South Eastern Europe
<b>GATS</b>	General Agreement on Trade in Services	<b>SHA</b>	Joint Stock Company
<b>GDPT</b>	General Directorate of Patents and Trademarks	<b>SHPK</b>	Limited Liability Company
<b>GMT</b>	Greenwich Mean Time	<b>TSE</b>	Tirana Stock Exchange
<b>IBRD</b>	International Bank for Reconstruction and Development	<b>UAA</b>	Utilized Agricultural Land
<b>IDA</b>	International Development Association	<b>VAT</b>	Value Added Tax
<b>IEKA</b>	Institute of Certified Chartered Accountants	<b>WIPO</b>	World Intellectual Property Organization
		<b>WTO</b>	World Trade Organization

## Websites

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The following is a list of websites containing information, documents and data used for the preparation of this material:

[www.instat.gov.al](http://www.instat.gov.al).

[www.mppt.gov.al](http://www.mppt.gov.al)

[www.seetoint.org](http://www.seetoint.org).

[www.bankofalbania.org](http://www.bankofalbania.org).

[www.ec.europa.eu/economy\\_finance](http://www.ec.europa.eu/economy_finance)

[www.icfi.biz](http://www.icfi.biz)

[www.wto.int](http://www.wto.int).

[www.web.worldbank.org](http://www.web.worldbank.org).

[www.winne.com](http://www.winne.com)

[www.mete.gov.al](http://www.mete.gov.al).

[www.ebrd.com](http://www.ebrd.com)

[www.budde.com.au](http://www.budde.com.au)

[www.amf.gov.al](http://www.amf.gov.al).

## Economic performance statistics

The following table presents leading indicators of the Albanian economic performance from 2001 to 2010:

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Real GDP growth (%)	7.9	4.2	5.8	5.7	5.7	5.4	5.9	7.5	3.31	3.82
GDP (ALL million)*	583,369	622,711	694,097	751,022	814,797	882,209	967,670	1,089,293	1,151,020	1,229,023
Year-end inflation based on CPI	3.5	1.7	3.3	2.2	2	2.5	3.1	2.2	3.7	3.4
Unemployment rate (%)	16.4	15.8	15	14.4	14.1	13.8	13.54	13.04	13.84	13.53
Exports of goods FOB (EUR million)	343	359	396	487	530	629	786	917	782	1,168
Imports of goods CIF (EUR million)	1,480	1,589	1,643	1,849	2,111	2,430	3,043	3,582	3,265	3,327
Trade balance FOB/CIF (EUR million)	(1,137)	(1,231)	(1,247)	(1,362)	(1,581)	(1,802)	(2,257)	(2,665)	(2,483)	(2,159)
FDI (EUR million)	230.7	141.4	156.9	278.4	212.6	258.6	481.1	665.1	696.4	831.5
BoA reserve assets (EUR million)	(161.7)	(30.4)	(88.5)	(233.7)	(124.8)	(206.6)	(148.6)	(191.9)	32.0	(178.8)
Gross official reserves (EUR million)	827.7	799.2	814.8	1,013.6	1,204.2	1,364.9	1,455.5	1,664.6	1,642.6	1,904.1

Source: INSTAT and Bank of Albania.

\*2009 - Semi final; 2010 - IMF estimation

## Trading partners

The following table shows Albania's major trading partners from 2001 to 2010.

### Exports - FOB (% of total)

Countries	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Italy	70.6	72.4	74.9	73.0	72.4	72.8	68.1	61.8	62.8	51.0
Greece	13.0	12.6	12.8	12.0	10.5	9.5	8.3	8.8	7.4	5.5
Kosovo	-	-	1.7	4.6	4.1	3.8	4.8	6.6	6.9	6.2
Turkey	1.0	1.0	0.8	1.9	1.7	1.3	2.3	1.9	0.6	5.7
Switzerland	1.5	0.2	0.3	0.1	0.1	0.1	0.1	0.4	1.2	4.2
Spain	0.1	0.3	0.1	0.1	0.1	0.1	0.2	0.2	1.2	3.5
Macedonia	2.3	1.5	0.7	1.3	1.6	1.6	2.3	2.9	2.8	1.7
Other	11.5	12.1	8.7	7.1	9.5	10.9	14.0	17.5	17.2	22.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: INSTAT

### Imports - CIF (% of total)

Countries	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Italy	31.9	34.5	33.5	32.5	29.3	28.1	26.8	26.5	26.1	28.6
Greece	25.7	21.7	20.0	18.5	16.4	15.7	14.6	14.6	15.5	13.1
Germany	5.9	5.6	5.7	6.2	5.5	5.7	5.5	6.1	6.5	5.5
France	0.9	1.1	1.1	1.6	1.2	1.0	1.1	1.2	2.1	2.2
Croatia	1.3	2.2	1.5	1.3	1.2	1.4	1.0	1.0	1.0	2.0
Turkey	6.1	6.1	6.6	7.1	7.5	7.6	7.3	6.0	6.4	5.6
Macedonia	1.2	1.1	0.8	1.0	1.2	1.6	1.9	2.2	1.8	1.6
Russia	1.3	2.6	2.8	2.8	4.0	4.1	4.1	4.4	2.7	2.2
USA	1.1	1.7	1.0	1.5	1.4	1.0	1.2	1.3	1.5	1.5
Other	24.6	23.4	27.0	27.5	32.2	33.9	36.5	36.8	36.4	37.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: INSTAT

## Import and export statistics

The following tables show Albania's principal imports and exports by economic activity groups from 2001 to 2010:

Imports - CIF	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Food, beverages, tobacco	287	324	326	360	371	434	493	596	566	584
Minerals, fuels, electricity	203	204	195	196	254	337	509	641	469	527
Chemical and plastic products	122	139	151	178	214	269	320	370	386	398
Leather and leather manufactures	31	39	49	48	45	53	63	56	52	60
Wood manufactures and articles of paper	37	49	52	60	69	88	108	122	132	144
Textile and footwear	207	233	238	248	259	285	318	322	300	317
Construction materials and metals	183	203	216	240	315	389	482	552	505	533
Machineries, equipments and spare parts	351	340	357	437	499	490	637	790	745	641
Others	59	57	59	81	86	84	114	132	110	121
<b>In EUR million</b>	<b>1,480</b>	<b>1,589</b>	<b>1,643</b>	<b>1,849</b>	<b>2,111</b>	<b>2,430</b>	<b>3,043</b>	<b>3,582</b>	<b>3,265</b>	<b>3,327</b>

Source: INSTAT

Exports - FOB	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Food, beverages, tobacco	31	34	33	40	43	50	57	59	57	68
Minerals, fuels, electricity	7	10	10	20	28	47	121	166	156	326
Chemical and plastic products	4	2	3	3	6	5	6	10	12	12
Leather and leather manufactures	12	16	10	11	10	12	16	14	12	19
Wood manufactures and articles of paper	12	12	16	13	17	20	25	29	26	35
Textile and footwear	225	232	256	296	307	345	381	397	366	404
Construction materials and metals	30	35	46	71	84	107	124	183	98	231
Machineries, equipments and spare parts	12	10	14	19	22	24	32	37	37	49
Others	12	9	8	12	14	19	23	21	18	25
<b>In EUR million</b>	<b>343</b>	<b>359</b>	<b>396</b>	<b>487</b>	<b>530</b>	<b>629</b>	<b>786</b>	<b>917</b>	<b>782</b>	<b>1,168</b>

Source: INSTAT

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