

BUSINESS ENVIRONMENT SURVEY

2016 - 2017



Foreign Investors Association of Albania

**BUSINESS
ENVIRONMENT
SURVEY**

2016 - 2017

FOREWORD

This document is prepared by the Foreign Investors Association of Albania.

Its publication will highlight and address the overall business perceptions and main concerns that Foreign Businesses are facing in Albania.

We are aware that despite a lot of efforts made during the past years, the country needs to further improve its business climate, complete reforms in key areas and strengthen its institutions in general and the judicial system in particular.

FIAA has constantly offered opinions and recommendations to improve Albania's legislation in a number of vital areas, while communicating quite extensively with all major institutions like the Council of Ministers, Ministry of Economic Development, Tourism, Trade and Entrepreneurship, Ministry of Energy and Industry, Ministry of Finance. However, we believe we make a serious contribution in this process through the publication of this document to address in specific our concerns and propose respective recommendations for each area of interest.



We remain hopeful that the recommendations provided in this publication will have a wide acceptance and positively affect efforts to improve the business environment in the country.

We believe that working towards a better business environment encourages the investors to reinvest their earnings in the country and secure conditions that will attract new investors willing to invest in Albania as well as leading to better employment of Albanian citizens and to improve the economic growth of the country.

We are confident that the Government and other political parties will find a proper communication which will give more support for a better business climate in Albania.

**CHAIRMAN of FIAA
Silvio PEDRAZZI**

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PROFILE

FIAA BUSINESS ENVIRONMENT SURVEY

The Foreign Investors Association of Albania is the most important business association operating in Albania as a supporter and facilitator of foreign investments in the country. FIAA is a non-political and a non-profit organization that has been active in Albania for 17 years by representing the biggest shares of the foreign investors along with a high employment number.

FIAA represents the largest and most prominent businesses from Italy, Greece, Netherlands, France, Germany, Austria, Turkey, UK, US, Canada, Australia, China etc, operating in various sectors of Albanian economy such as banking and financial services, construction, mining, energy, oil, telecommunications, tourism and BPO-s.

FIAA's main mission is to contribute through an open and informal dialogue with the government and other institutions for a better investment climate and favorable socializing atmosphere in order to attract more foreign investors in Albania. FIAA cooperates closely with the Albanian Governments, as well as other national or international bodies for the improvement of the country's business climate.

SURVEY OBJECTIVE

The "Business Environment 2016" survey was conducted by the Foreign Investors Association of Albania (FIAA), in cooperation with its members. The main focus of this study was to gather feedback and opinions on the business environment in Albania. Survey results will help FIAA identify the problems and challenges faced by investors, which should be addressed for government policies in order to improve the business environment in the country.

This survey, implemented by IDRA Research & Consulting (www.idracompany.com) provides the Foreign Investors Association of Albania with insights on the business environment in Albania from a very special target group of CEOs or Administrators of some of the biggest companies operating in the country, along with their perceptions and attitudes towards various elements of the business environment, tax treatment, business trust, competition, judiciary system, etc.

METHODOLOGY

Timing of Survey:
December 2016 – January 2017

Sample Size:
70 Successful Interviews

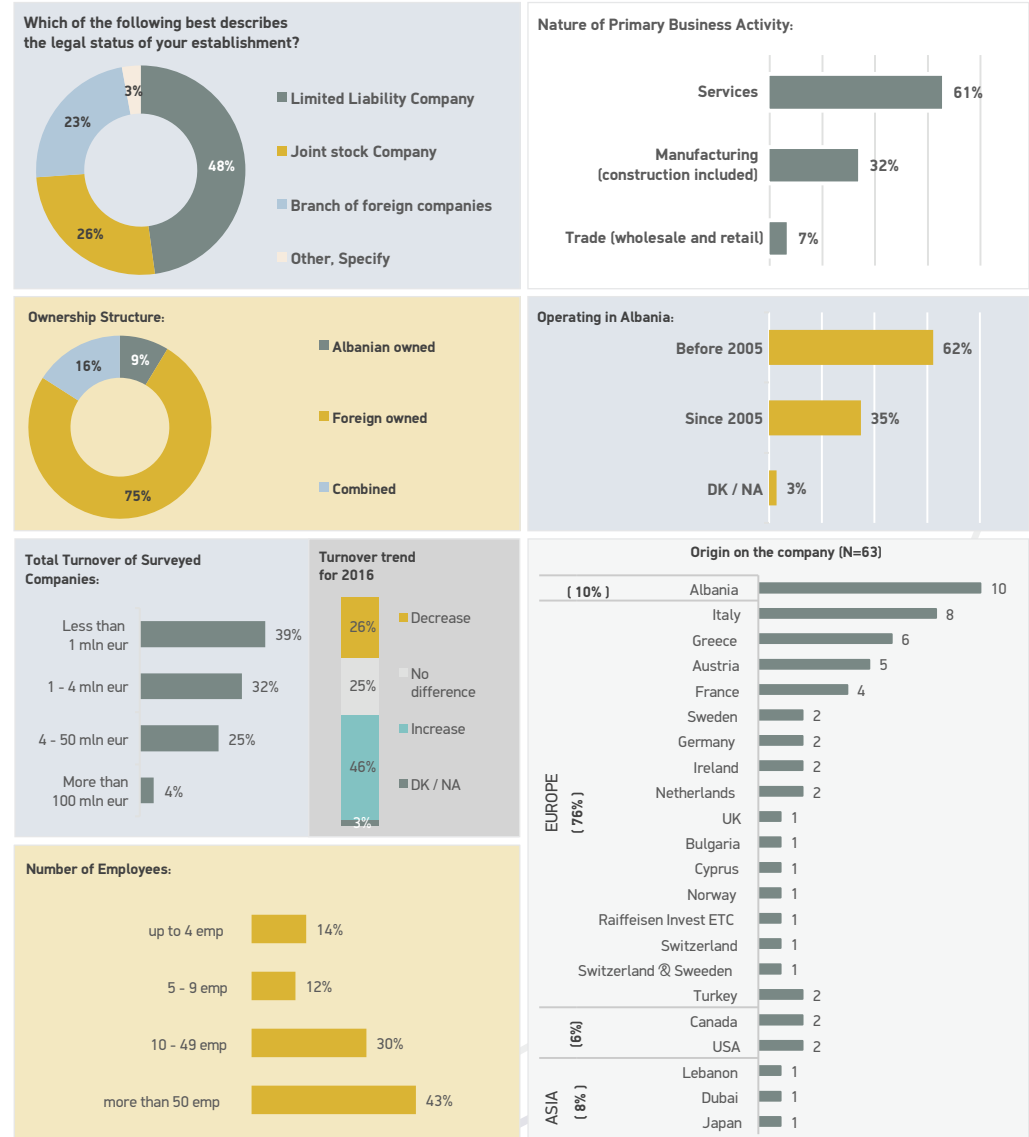
Survey Method:
Face to Face Interviews

TREATED ELEMENTS

- » BUSINESS ENVIRONMENT
- » COMPETITION AND INFORMAL SECTOR
- » BUSINESS TRUST
- » CONDITIONS OF DOING BUSINESS IN ALBANIA
- » OBLIGATORY MEMBERSHIP TO STATE CHAMBER OF COMMERCE
- » WHAT ACTIONS SHOULD THE GOVERNMENT UNDERTAKE TO IMPROVE THE BUSINESS CONDITIONS IN ALBANIA
- » TAX TREATMENT AND LEGISLATION
- » TAX INSPECTIONS AND AUDITS
- » JUDICIAL REFORM IN ALBANIA – INFORMATION & EXPECTATIONS
- » TRUST IN THE JUDICIAL REFORM
- » COMPETITION AND PRICE REDUCTIONS 2016 VS 2015
- » COMPETITION AND INFORMAL SECTOR 2017 VS 2015

GENERAL INFORMATION

PROFILE OF SURVEYED BUSINESSES



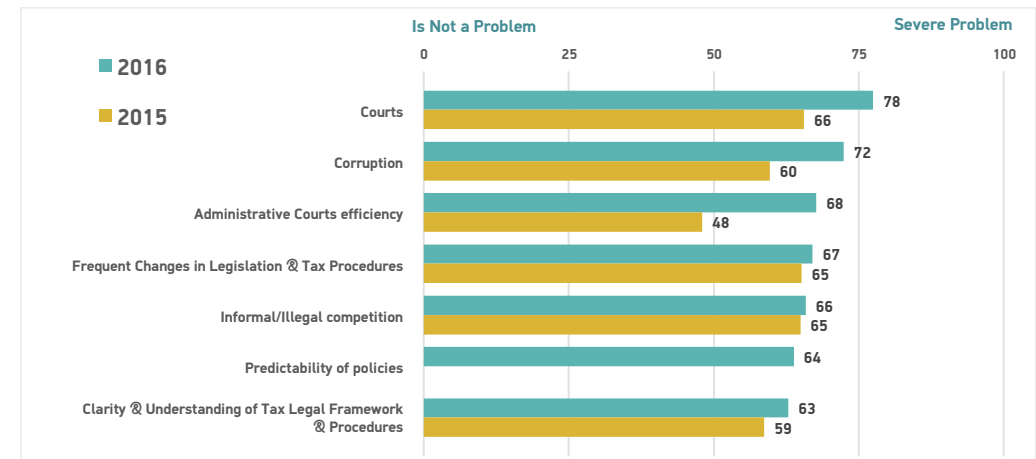
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PERCEPTIONS AND ATTITUDES

BUSINESS ENVIRONMENT OBSTACLES



HOW MUCH OF A PROBLEM EACH OF THEM POSES – TOP 7 OBSTACLES



“**Courts**”, continues to come up as the top problematic obstacle of the business environment in Albania with a score of 77 points out of 100. Despite the fact that courts figure once more the top problematic element of the business environment in Albania, according to interviewed foreign investors, courts are even more problematic today compared with previous year (77 points in 2016, compared to 66 points during the 2015 business environment assessment).

“**Corruption**”, follows as the second most problematic obstacle in the business environment which continues to have a general deterioration compared with last year (2015), with a score of 72 points out of 100 (compared with 60 points during 2015).

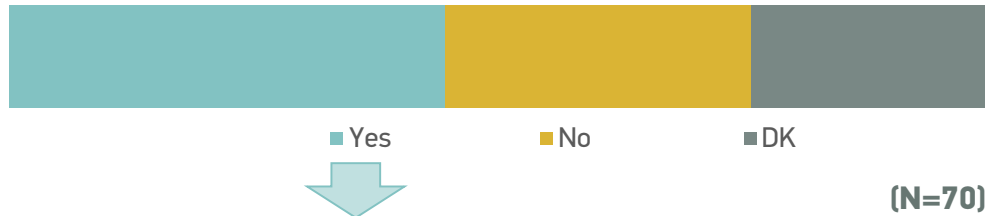
“**Efficiency of the Administrative Court**” is ranked as third most problematic obstacle with 68 points. In the case of the Administrative Courts (48 points during 2015), it should be mentioned that many of

the interviewed businesses during the first wave claimed not to have direct experience with this dimension (thus being unable to evaluate it), whereas today, current ranking comes after direct experience with this structure.

“**Frequent Changes in Legislation & Tax Procedures**” remains among the top obstacles in the business environment with 67 points compared with 65 points in 2015. Also the Informal / Illegal Competition, Predictability of Policies and Clarity & Understanding of Tax Legal Framework & Procedures remain in the list of the top problematic obstacles in the business environment respectively with (63 points) remains just as problematic as in 2015, for foreign investors operating in the country and so is (66 points, compared to 65 in 2015), seen similarly problematic, an indicator that government initiatives and overall fight on informality have yet to show an impact towards the decrease of this phenomenon.

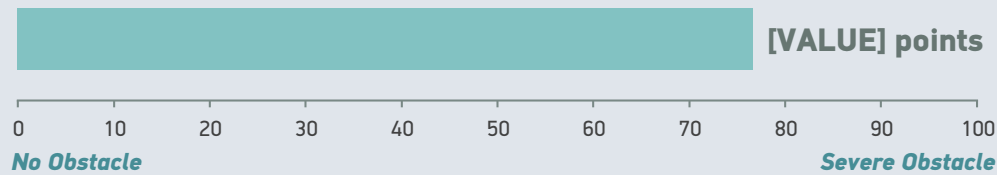
COMPETITION AND INFORMAL SECTOR

Does your business compete against unregistered or informal firms (whether unregistered, or registered but not completely formal, hiding part of activity or number of employees, etc.)



How much of an obstacle are the practices of competitors in the informal sector?

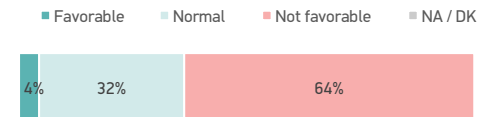
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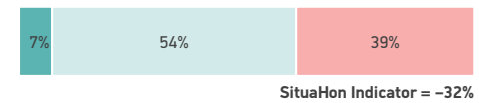
BUSINESS TRUST

CONDITIONS OF DOING BUSINESS

Are the conditions of doing business nowadays in Albania favorable or not favorable?



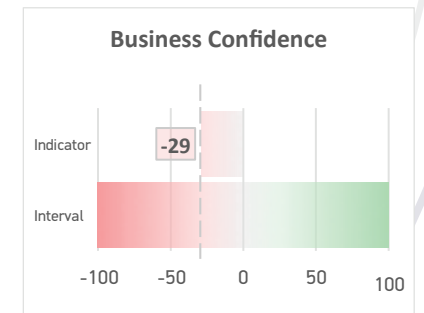
While taking into consideration the 2016 year, how would you evaluate the current business situation for your company?



While taking into consideration the coming year, how would you evaluate the situation for your company?



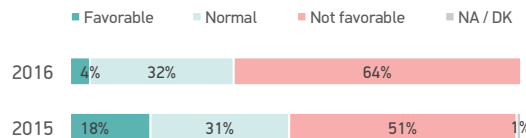
Business Confidence Indicator: It shows the geometric average between Current Situation and Expectations for near future. It can fluctuate between -100 (negative Situation and Expectations for all respondents) and +100 (positive Situation and Expectation for all respondents). Performance of establishment is evaluated in both the current/last half (situation) and in the coming half (expectations) and through this difference/balance this indicator is created.



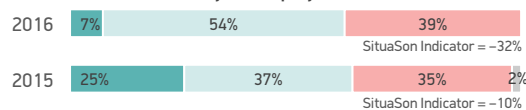
$$\text{Business confidence} = \sqrt{(\text{situation} + 200) \times (\text{expectations} + 200) - 200}$$

CONDITIONS OF DOING BUSINESS IN ALBANIA 2016

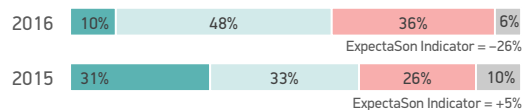
Are the conditions of doing business nowadays in Albania favorable or not favorable?



While taking into consideration the 2016 year, how would you evaluate the current business situation for your company?

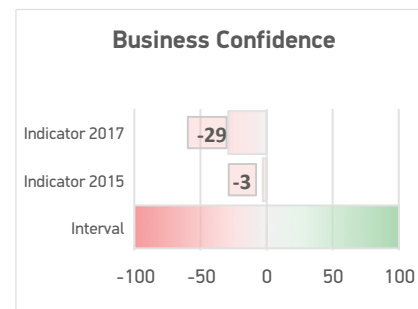


While taking into consideration the coming year*, how would you evaluate the situation for your company?



*During the 2015 study, survey took place mid-year and indicator was constructed based on the evaluation of past 6 months and expectation from next half year.

Business Confidence Indicator: It shows the geometric average between Current Situation and Expectations for near future. It can fluctuate between -100 (negative Situation and Expectations for all respondents) and +100 (positive Situation and Expectation for all respondents). Performance of establishment is evaluated in both the current/last half (situation) and in the coming half (expectations) and through this difference/ balance this indicator is created.



$$\text{Business confidence} = \sqrt[3]{(\text{Situation} + 200) \times (\text{Expectations} + 200) - 200}$$

» Conditions of doing business in Albania nowadays have majorly deteriorated, with over 64% of participants claiming that these conditions are not favorable (compared to 51% claiming alike in 2015). Only 4% of interviewed foreign investors actually claimed that these conditions are favorable (compared 18% in 2015), with the rest (32%) mentioning that business conditions today are just normal.

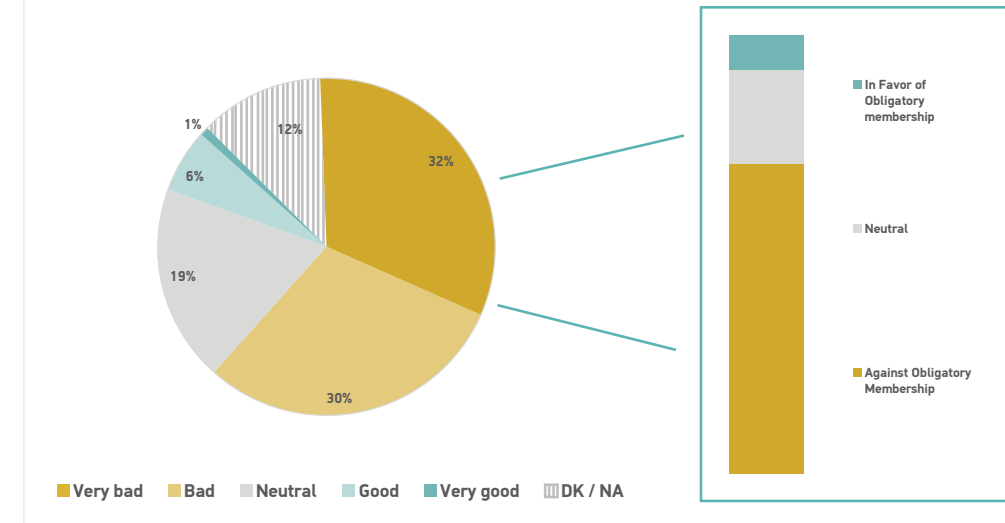
» While evaluating business operations during 2016, over half (52%) of foreign investors claimed the situation has been normal, whereas only 7% actually claimed the conditions were favorable. Rest (39%) consider business situation during last year (2016 fiscal year) for their company as not favorable.

» According to foreign investors and based on current situation results, BUSINESS CONFIDENCE INDICATOR has experienced a drop of 27 points, scoring a negative -29 points in the scale of confidence (compared to the total score of -3 points, during 2015), a clear indicator that situation of doing business today is unfavorable.

» Expectations for 2017 seem to stagnate with no significant difference from situation evaluated during 2016, an indicator that foreign investors rather conform to the idea of at least having a normal operation during 2017. On the other hand, a third of interviewed foreign investors (36%) do not just evaluate their specific business situation as unfavorable, but show pessimism about coming 2017, a year which is expected to be impacted by the Country's General Elections.

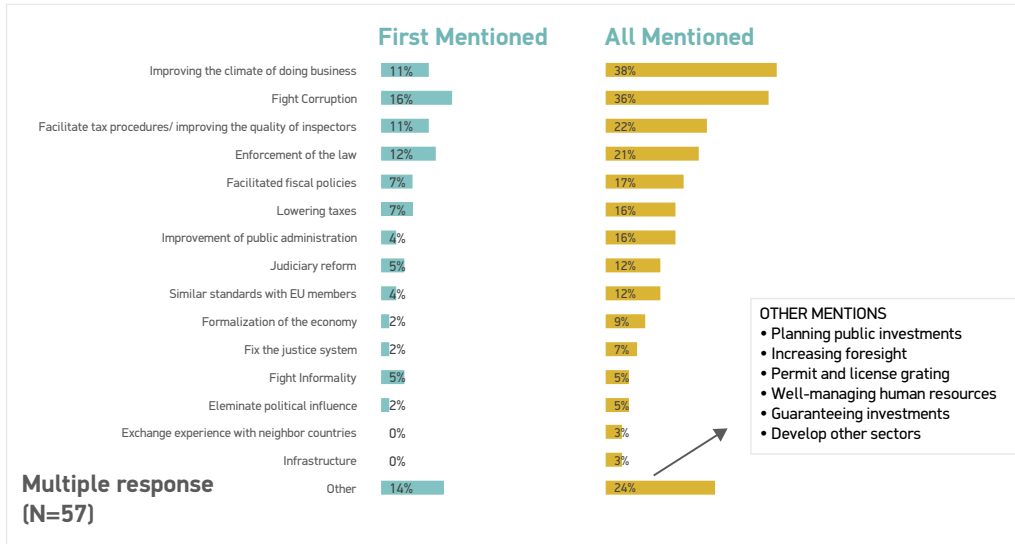
OBLIGATORY MEMBERSHIP TO STATE CHAMBERS OF COMMERCE

What is your opinion on the Proposed Draft Law of the Ministry of Economy for imposing an Obligatory Membership Model to all Businesses in the State Chambers of Commerce and Industry in Albanian Territory?



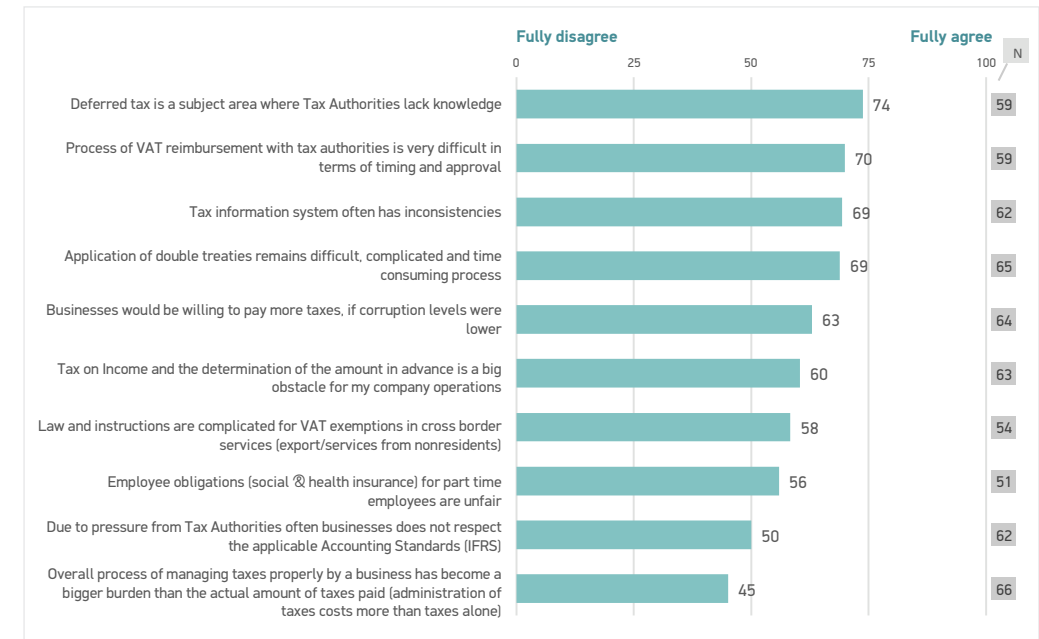
According to the FIAA respondents, 2 out of 3 interviewed foreign investors are against the proposed draft law of the Ministry of Economy for imposing an obligatory membership model to all businesses in the State Chambers of Commerce and Industry in the Albanian territory.

WHAT ACTIONS SHOULD THE GOVERNMENT UNDERTAKE TO IMPROVE THE BUSINESS CONDITIONS IN ALBANIA?



Foreign investors, when asked on what actions the government should undertake to improve business conditions in Albania have highly responded that issues like: Improve the Climate of Doing Business in Albania, Fight corruption, Facilitate Tax Procedures/improving the quality of inspectors and enforcement of the law are the most critical ones where work should focus.

TAX TREATMENT AND LEGISLATION



Foreign investors were presented with a series of statements in tax treatment and legislation related to some areas which seem to present obstacles. According to the respondents, the most problematic issues were related to:

- Deferred Tax is a subject area where the Tax Authorities lack knowledge.

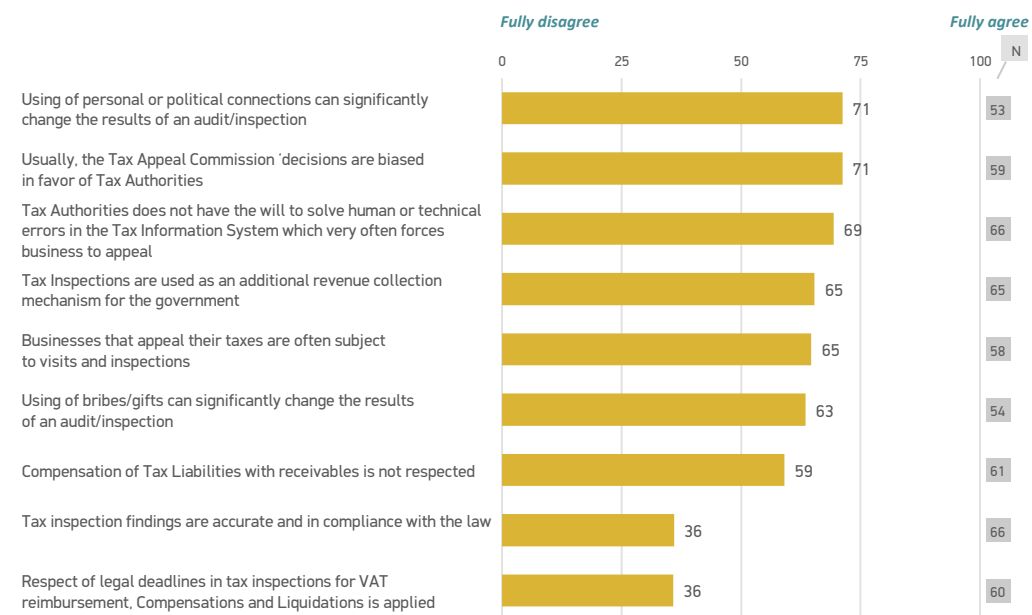
- Process of VAT reimbursement by Tax Authorities is still a challenging issue for foreign investors.

- The Tax Information System is considered to often have inconsistencies and the Application of Double Treaties still remains a difficult, complicated and time consuming process.

Other problematic dimensions related to tax treatment and legislation also include the law and instructions on VAT exemptions in cross-border services which is considered as complicated, as well as the Tax on Income and the determination of the amount in advance, which is still considered as a big obstacle for company operations.

In general foreign investors agree that they would be willing to pay more taxes, if corruption levels were lower and indicator of the prevalence of the human factor over what can be considered as more of technical dimensions (legislative/administrative) that have persisted as obstacles through the years, impacting the business environment in the country.

TAX INSPECTIONS AND AUDITS



Foreign Investors claim that when it comes to Tax Inspections and Audits, corruption seems to be the most present element faced by business and is considered as main “facilitator” for those who embrace it. Businesses also agree that, *Using of personal or political connections significantly changes the results of an audit/inspection. They also claim that Tax Appeal Commission decisions are biased in favor of Tax Authorities.*

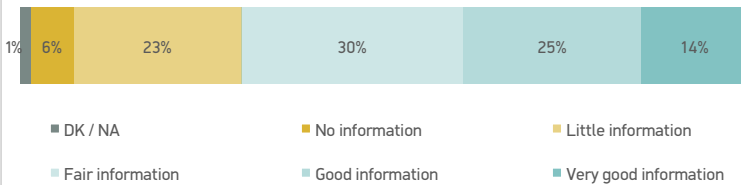
Foreign Investors also seem to disagree when asked if *Tax inspection findings are accurate and in compliance with the law* and do not generally believe that *respect of legal deadlines in tax inspections for VAT reimbursement, compensations and liquidations is applied properly (both with 36 points, out of 100, in the scale of agreement).*

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JUDICIAL REFORM IN ALBANIA

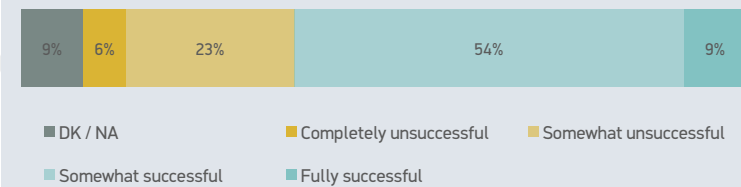
JUDICIAL REFORM IN ALBANIA – INFORMATION & EXPECTATIONS

How informed would you say you are in regard to the Judicial Reform implementation that is undergoing in Albania?



Foreign investors in Albania seem to be generally informed in regards to the implementation of the Judicial Reform, currently undergoing in Albania. About 14% claim to have "Very Good Information", followed by 25% having "Good Information" and 30% claiming to have a "Fair amount of information".

According to your opinion, the implementation of the JusSce reform in Albania will be:



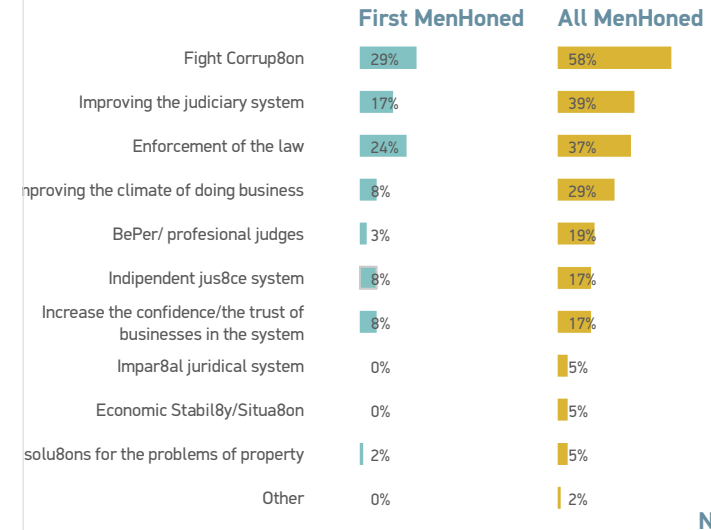
Over 2 out of 3 foreign investors believe that the justice reform in Albania will have some success, though only 9% actually claim the reform will be "Fully Successful" (whereas 54% believe the reform will be "Somewhat Successful").

Foreign investors in Albania seem to be generally informed on the implementation process of the Judicial Reform, currently undergoing in Albania.

According to FIAA Respondents, 2 out of 3 foreign investors believe that the justice reform in Albania will have some success, though only 9% actually claim the reform will be "Fully Successful".

JUDICIAL REFORM IN ALBANIA – EXPECTATIONS

Which are the top three (3) points that you expect from the implementation of the JusSce Reform in Albania which would help to improving the conditions of doing business in the country?



The Fight on Corruption seems to be the top (58%) expectation foreign investors have from the Judicial Reform.

Improvement of the Judiciary System (39%) as well as the Enforcement of the Law (37%) are some other important dimensions that are expected to improve and subsequently become effective in tackling the phenomenon of corruption, leading towards a more enabling climate of doing business in the country (29%).

Additionally, the reform should lead to an independent justice system (17%), with better and more professional judges (19%), both dimensions that will increase the confidence and trust of businesses in the system.

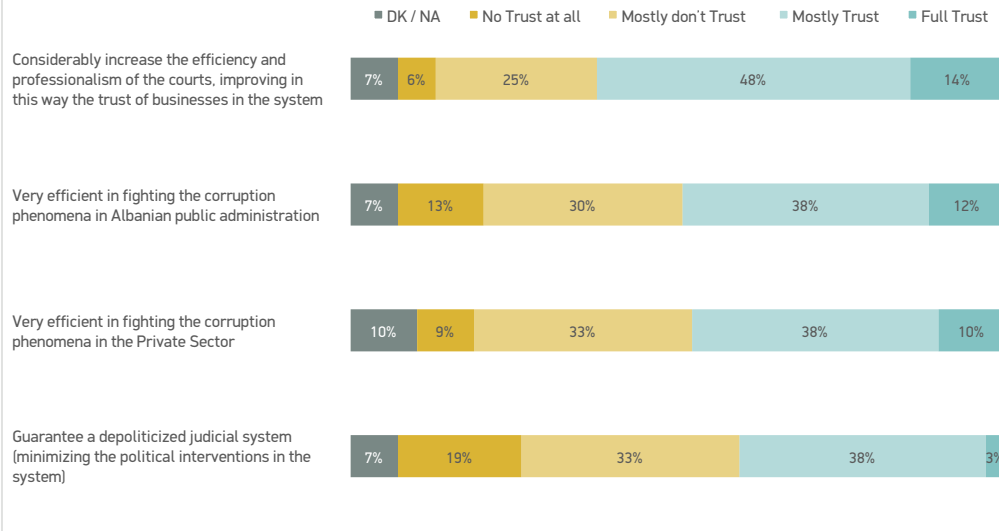
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TRUST IN THE JUDICIAL REFORM

Now I am going to read you some statements in regards to the Judicial Reform in Albania. We want to know your opinion in the extent of trust you have each of the statements, in a scale from 1 through 4, where 1 means "No Trust at All" and 4 means "Full Trust".



Foreign investors' trust in the Judicial Reform is relevant in various aspects. As previously mentioned, it is generally believed that the reform will be successful up to a certain extent, but talking about full success is yet an unlikely outcome.

Foreign investors generally believe that the implementation of the Judicial Reform in Albania will considerably increase the efficiency and professionalism of the courts, thus improving in this way the trust of businesses in the system. Over 2 out of 3 foreign investors show trust, though only 14% actually claim to "fully trust" this outcome, whereas 48% ("mostly trust") prefer to believe that there will be success in this regard.

About half of interviewed foreign investors claim to trust that the implementation of the Judicial Reform in Albania will be very efficient in fighting the corruption phenomena in the Albanian public administration, as well as in the private sector. Difference between trustfulness and distrustfulness among survey participants for reform outcome is very slight, an indicator that foreign investors are skeptic, but also like to believe that the reform will be successful.

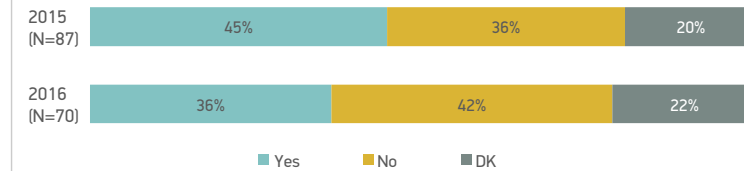
Meanwhile skepticism is even more evident in the least trusted case of the reform guaranteeing a depoliticized judicial system (thus, minimizing the political interventions in this system).

COMPETITION

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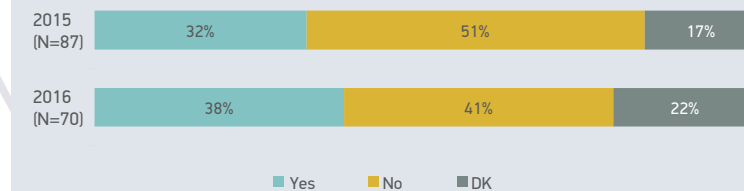
COMPETITION AND PRICE REDUCTIONS

In 2016 (2014) fiscal year, has your business reduced prices of its main products/ services in response to price reductions by its domestic competitors?



Although price reductions by domestic competitors seem to be less of an issue for foreign investors (36%), at least compared with a year ago (45%), prices seem to have taken a hit, when thinking about foreign competition.

In 2016 (2014) fiscal year, has your business reduced prices of its main products/ services in response to price reductions by its foreign competitors?



About 38% of interviewed foreign investors claim to have reduced prices, due to price reductions of competition outside of the Albanian market. An increase of 6 (38% compared to 32% in 2015) points is noticed in this regard, although it should be mentioned that there are less foreign investors claiming to compete with foreign counterparts, during this wave of study.

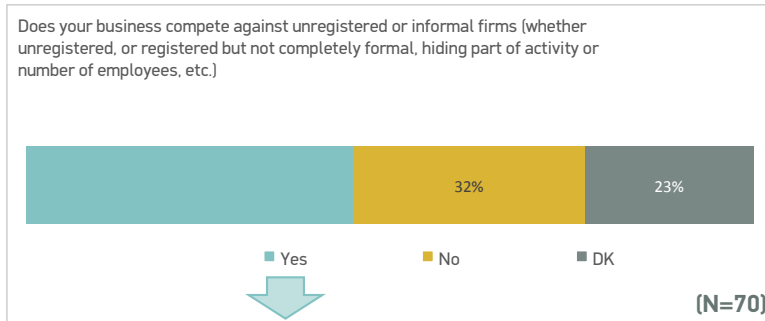
2016 vs 2015

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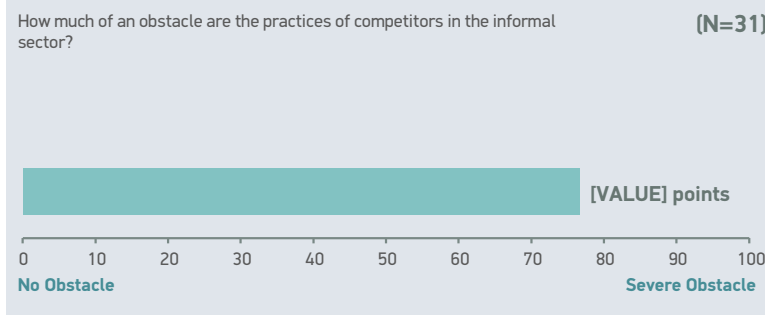
COMPETITION AND INFORMAL SECTOR

2017 vs 2015



■ Almost half (45%) of interviewed foreign investors claim to compete against unregistered or informal firms (whether unregistered, or registered but not completely formal, hiding part of activity or number of employees).

■ Foreign investors competing with informal (or part informal) firms were also asked to describe how much of an obstacle the practices of these competitors are in their everyday activity. On a scale from 0 to 100, where 0 means No Obstacle and 100 means Severe Obstacle, participants answers scored 77 points, considering these practices as a Major Obstacle, in their business operations.



Almost half (45%) of interviewed foreign investors claim to compete against unregistered or informal businesses (whether unregistered, or registered but not completely formal, hiding part of activity or number of employees).

Foreign investors competing with informal businesses (or partly informal) consider these practices as a Major Obstacle.





Foreign Investors Association of Albania