In cooperation with

Foreign Investors Association of Albania

German Economic Team

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POLICY BRIEFING ALBANIA

Improving the Business Climate – Boosting Investment. Proposals from International Investors in Albania

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Structure

- Motivation
- Approach and methodology
- Selected recommendations
- Final remarks and outlook

Motivation

Background

- Business climate in Albania has improved over the last decade
  - Strong performance in digitalizing public services and reforming judicial system
  - Strong FDI inflows over the last decade
  - As a result: FDI stock increased from 32.5% of GDP in 2014 to 60.3% in 2022
- However, several areas of the business climate can still be enhanced through reforms

Purpose of this Policy Study

- Present results of a survey and interviews with international investors in Albania
- Highlight challenges faced by business
- Put forward recommendations to tackle the identified challenges

Approach and methodology

Sample

- International investors in Albania
- Members of FIAA, DIHA and German AHK

How was the study prepared?

- Companies replied to a structured questionnaire
- Analysis of feedback by GET
- Expert interviews
- Preparation of recommendations

Structure

- Each case has the same underlying structure:
  - Responsible government institution: who is the counterpart?
  - Problem statement: what is the problem for businesses?
  - Past reform/measures: what has already been done?
  - Recommendations: how can the problem be solved?

Recommendations in the field of taxation	
Tax-1	**Legal uncertainty and tax compliance**
Tax-2	Tax audits
Tax-3	**Prepayments of corporate income tax (CIT)**
Tax-4	Tax appeal mechanism
Recommendations in the field of data privacy and cybersecurity	
Data privacy & cybersecurity-1	Implementation of data protection regulation
Data privacy & cybersecurity-2	Security of Albania's broadband network
Recommendations related to private sector development	
Private sector development-1	Financial support schemes
Private sector development-2	AIDA as the main partner of foreign investors
Private sector development-3	Export promotion
Recommendations concerning general law	
General-1	Property rights and land ownership
General-2	Public consultation

Legal uncertainty and tax compliance

Problem for companies

- Companies face significant time and financial costs in meeting complex tax requirements
- Constant revisions and unclear rules create uncertainty, leading to penalties and interests for late payments
- Example: law 9920/2008 amended 25+ times; law 29/2023 already changed 3 times in one year

Past reform measures and achievements

- Amendment to the Article 10 of law 9920/2008 in 2016
  - Requires all relevant decisions issued by the tax authorities to be published
- Medium-Term Revenue Strategy (2024–2027)
  - Focuses on revenue mobilization, administrative reforms, and fighting tax evasion
  - Does not address the need for a new tax procedures law

Legal uncertainty and tax compliance

Policy recommendations

1. Enforce the publication of decisions
    - » Ensure systematic and regular publication of all relevant decisions
        - Gradually clarifies uncertainties in the interpretations in tax norms
        - Enables to recognise contradicting norms for certain cases, that were not foreseen during the law-making process

2. Introduce a tax code
    - » Aligns with international best practices to create a unified framework
    - » Standardises and consolidates tax procedures in a framework

Prepayments of corporate income tax

Problem for companies

- Companies are required to make corporate income tax advance payments based on their profits from the previous two years
- However, companies often face challenges when requesting reductions to these prepayments due to lower current-year profit
- In addition: no clear format and appeal rights for submitting requests
- This leads to cash flow problems, making it harder for businesses to cover operating costs and leads in the worst case to business closure

Past reform measures and achievements

- Law 29/2023 ("On Income Tax"): allows businesses to request lower prepayments if they can prove reduced profitability
- Instruction 26/2023: further outlines the arguments taxpayers can present (e.g. declines in sales and purchases)

Prepayments of corporate income tax

Policy recommendations

1. Strengthen submission process for tax reduction requests (instruction 26/2023)
   - » Clearly define the submission format (preferably e-filing)
   - » Establish clearly defined timelines for submitting, evaluating, and approving requests
   - » Require clear explanations for denied requests

2. Clarify right to appeal
   - » Ensure the law 9920/2008 “On Tax Procedures” explicitly state that companies have the right to appeal CIT prepayment
   - » Introduce faster appeal procedures with shorter deadlines

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Implementation of data protection regulation

Problem for companies

- Insufficient enforcement of data protection laws by the Information and Data Protection Commissioner (IDP)
- As a result, international companies hesitant to entrust Albanian firms with handling sensitive data
- Impedes the development of the BPO and ICT sector

Past reform measures and achievements

- Albania adopted law 124/2024 "On the Protection of Personal Data" in December 2024
  - It is aligned with the EU's General Data Protection Regulation (GDPR)
  - It gives individuals greater control over their personal data
  - It defines new obligations for data controllers and processors, introducing the principle of data protection "by design" and "by default"
  - It mandates comprehensive compliance measures, including risk assessments, certifications and regular training

Implementation of data protection regulation

Policy recommendations

1. Strengthen the capacities of IDP
   - » To enable IDP to effectively enforce the new law, it is crucial to ensure it has sufficient resources at its disposal

2. Further refine the legislative framework
   - » Draft by-laws to the new law “On the Protection of Personal Data” that provide a clear roadmap for enforcement
     - Draft by-laws that establish transparent procedures for imposing penalties
     - Ensure broad stakeholder consultation before adopting the by-laws

3. Foster closer collaboration between IDP and the private sector
   - » Chambers of commerce and business associations can support companies with guidance regarding the implementation of the new law, by offering
     - templates, timelines and practical examples
     - training sessions to build up the necessary capacities

Overview of the recommendations

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Export Promotion

Problem for companies

- Lack of governmental export promotion activities
- Lack of institutions and comprehensive approach to export promotion
- Existing efforts biased towards promoting tourism

Past reform measures and achievements

- The Albanian Investment Development Agency (AIDA) improved the dissemination of export-related information through its website
  - Together with German GIZ, AIDA e.g. published an export guide in 2017
- The Business and Investment Development Strategy (BIDS) 2021–2027
  - Prioritises export promotion and aligns with EU frameworks like the SME Strategy and the Common Regional Market Action Plan
- The Ministry of Economy, Culture and Innovation (MEKI) committed to adopting the Export Promotion and Facilitation Programme by December 2025

Export Promotion

Policy recommendations

1. Extend the current scope of export promotion services
   - » AIDA should offer additional information, training and advisory materials to exporters
     - Updating and extending the existing export guide from 2017 would be a suitable initial step
   - » AIDA should increase the Albanian presence in trade fairs for manufacturers
     - It is also important to clearly outline to firms the selection criteria for participation in promoted trade fairs

2. Ensure the upcoming export promotion programme is in line with companies' needs
   - » Before approving the Export Promotion and Facilitation Programme, MEKI should ensure that it includes input from the private sector

3. Cooperate closely with the Ministry of Europe and Foreign Affairs
   - » Increase the effectiveness of economic diplomacy and efficiently use the Albanian embassies to promote the exports of Albanian goods

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Property rights and land ownership

Problem for companies

- Companies face delays in projects and lose investment opportunities, especially in tourism and infrastructure, due to unclear land ownership
- The State Cadastre Agency (SAC) often has outdated or incorrect records, causing discrepancies between actual land boundaries and official records
- This problem also reflected the International Property Index (2024): Albania ranks 82nd/125 globally and 20th/25 in Central Eastern Europe and Central Asia

Past reform measures and achievements

- **Law 111/2018 "On Cadastre":** established the State Cadastre Agency as the central institution for property registration
- **Law 20/2020 "On the finalization of the transitory processes on property":** repealed seven prior laws to streamline property-related processes
- **E- Albania platform:** in late 2023, transitioned 71 SAC services online, introducing fast-track for urgent applications

Property rights and land ownership

Policy recommendations

1. Digitalise cadastre records
   - » Conduct a nationwide audit of cadastral records (use GIS & 3D mapping technologies)
   - » As this a complex task, a good roadmap for digitalisation should be developed
     - Secure necessary infrastructure (GIS & 3D mapping technologies)
     - Allocate sufficient financial and human resources
     - Prioritise state property records to facilitate brownfield investment & economically significant regions (tourism areas)
     - Track SAC's performance to ensure transparent progress
2. Resolve overlapping and disputed ownership claims
   - » Allocate specialised units within SAC to mediate disputes and use fast-track judicial processes where appropriate
   - » Provide regular progress updates for transparency

Final remarks and outlook

Observations

- Albania has made significant improvements in its regulatory framework
- The speed of reforms creates uncertainty, with companies struggling to keep up with regulatory changes and feeling left out of the process
- Enforcement of new regulations remains a challenge

Outlook

- Great potential for Albania to intensify FDI attraction:
  - Clear case for nearshoring investment
  - Substantial opportunities for IT- and business process outsourcing (BPO)
  - Much room in the tourism sector
- Priorities for government policy:
  - Stronger enforcement of regulations
  - Ensure effective involvement and communication with companies

About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.
**Advisory activities in Belarus are currently suspended.*

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