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IS ALBANIA ATTRACTIVE FOR FOREIGN DIRECT INVESTMENTS?

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Abstract

This paper will focus on the performance of foreign investments in Albania. We will focus on the opportunities that Albania offers to absorb foreign investments and we will try to make their forecasts in the coming years. The statistical data provided by the Bank of Albania will be basic data on FDI statistics. We will present a fiscal analysis about the facilities offered by our country compared with other regional countries. Attracting foreign investment, especially in sectors where Albania has great potential, will remain a priority for the future development of the economy. Energy, tourism, agribusiness, mining industry, are priority sectors for investment in Albania. However after the first quarter of the year 2014 observed a decrease of FDI. A Negative factor was the increase of the rate of income tax from 10% to 15%, the politic stability in Albania and also the FDI are transferring to countries where their economy is recovering.

Keywords: foreign direct investments, opportunities, attractive

1. WHY TO INVEST IN ALBANIA

Albania is located in a strategic position in Europe which is a positive factor for foreign direct investment, it has signed free trade agreements (CEFTA, EFTA and other countries), which create opportunities for access to a wider market, is a member of the IMF since 1991, the WTO since 2000, of NATO since 2009, and in 2006 Albania signed the Stabilization and Association Agreement (SAA) with the European Union.

2. MAIN AREAS WHERE CAN INVEST

There are different opportunities to invest in Albania in different sectors of industry. The most attractive ones are:

- Energy

According to the Partnership for Renewable Energy and Energy Efficiency, Albania uses only 35% of its potential. Hydro energy stocks accounted for about 3,000 MW. Potential annual production could reach 16,000 GWh.

Strategy, harmonized with EU legislation provides incentives to needed investments in the energy sector, the diversification of energy sources and increase energy efficiency.

Incentives in the energy sector provide:

- Exemption from Value Added Tax of machinery and equipment for all investments worth over 50 million All (400,000 EUR);
- Exemption from Value Added Tax on imported cement and iron for the construction of hydropower plants;
- Set fees for the purchase of energy from hydropower plants and the obligation of KESH to purchase for a period of 15 years.
- TAP project and related projects to open new opportunities in terms of economic development of Albania and the whole region.

- Tourism

The tourism sector in Albania has great potentials and efforts are being made to stimulate this sector. Albania has a gorgeous coastline that extends from Montenegro in Greece and a diversity of mountainous areas in land, suitable for ski resorts and lake tourism. The country has a host of cultural heritage centers Illyrian, Roman, Byzantine, Hellenistic, Ottoman, including the World Heritage Centre UNESCO - Butrint. All this turned the country into an attractive destination for tourist agencies and archaeological groups. From 2017 the reduced rate of value added tax, which applies to the supply of accommodation service in accommodation structures, according to the categories set out in tourism legislation is 6 percent. This change in legislation was made after a draft proposed in 2015 to promote the tourism sector and is expected to give positive effects to this sector. Also it is negotiated for construction of two airports in the south and one in the north of Albania. Another initiative is to clarify the marine insurance companies, on some maps where Albania results mined territory, which prohibits yachts and cruisers to stop the Albanian coast. On the other hand, the package is expected to contain a series of other mitigating measures, which is the reimbursement of social contributions during the off season. These measures come at a time when expectations are for an increase of 25 percent in the number of tourists in the tourist season and at a time when neighboring countries have Value Added Tax level ranging from 10% and more.

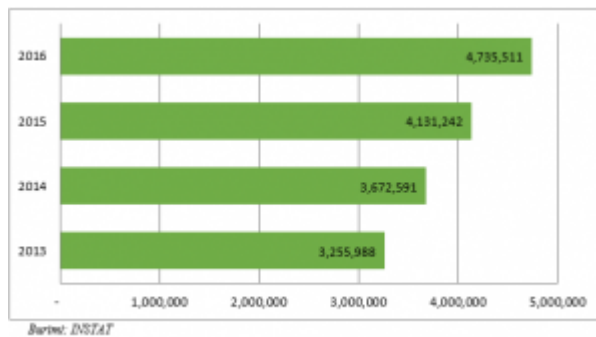
Most accommodation units do not have the right classification of accommodation structures. The absence of this process has led to a chaotic situation in the hotel market. Accommodation facilities using the distinctive signs (star) rating that do not match the real standards of the structure or the level of service they provide.

The role of guidelines can play every person who owns a foreign language, which has no necessary knowledge regarding techniques tourist driving records and does not have the knowledge required to present the destination or product. But the new project provides standardization and classification of accommodation facilities with the assistance of a foreign company.

The main policy goals in the field of tourism are:

- ✓ Assessing tourism as a strategic and priority sector of the economy
- ✓ Supporting tourism by creating favorable legal, economic and structural conditions for its development
- ✓ Ensure sustainable tourism development by creating the full framework of laws and regulations and implementing a coordinated planning process to protect and improve the environment and social structures
- ✓ Regular market placement of all economic operators in the field of tourism (agencies, tour operators, guides and host structures).
- ✓ Improvement of legislation will be accompanied by the improvement of data as the main tool for economic measurement of tourism
- ✓ Quality control and standards in hospitality facilities

The table below shows the number of foreign visitors who visited Albania for the period 2013-2016.



According to official data, the numbers of foreign visitors who visited Albania for the period 2013-2016 has increased considerably.

For investors, Albania is an attractive, growing market with a stable economic, political and legal structure as well as a liberalized economic framework and suitable business conditions.

In addition to the territorial factor there are many other reasons why investing in this sector:

1. Competitive labor cost

The average salary in Albania is one of the most competitive in the region

2. Young and educated population

57% of Albania's population is under the age of 35. Each year, more than 100,000 students enroll in Albanian universities. A large number of Albanian students enroll in European universities in countries such as Italy, Greece, Germany, France, etc. English, Italian and Greek are widely spoken languages while French and German are taught in school.

3. Competitive tax and incentives

Investment Sector Legislation in the Tourism Sector aims to promote Albania as an attractive tourist destination for both domestic and foreign visitors, supporting the development of sustainable tourism by ensuring that tourist service providers meet the demands of tourists in a healthy environment and safe, and respecting the needs of present and future generations of communities.

- Agriculture and food processing

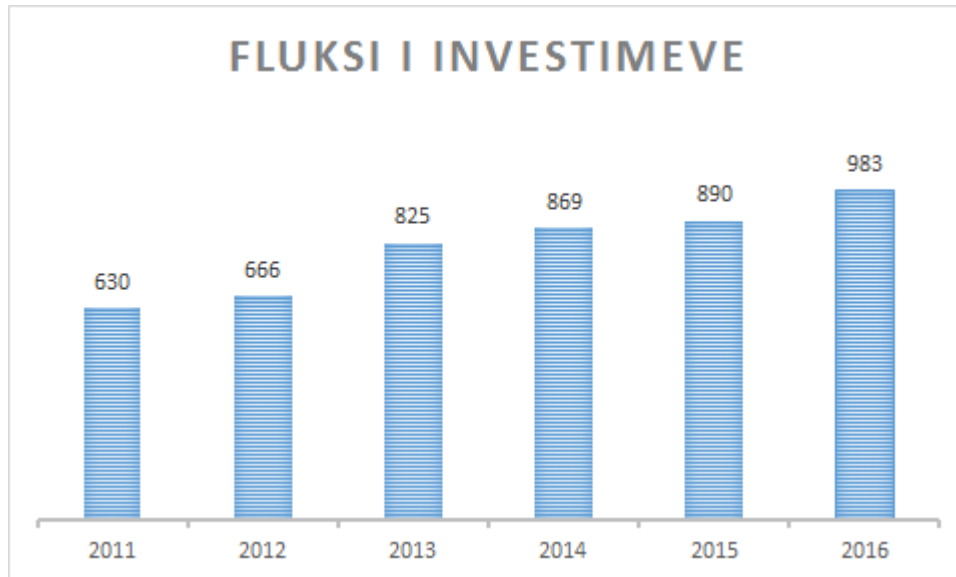
Agriculture is one of the major sectors and most important Albanian economy that employs 44% of the labor force and contributes 20% of GDP. This sector needs investment because it is facing the competition of imported goods. It is a challenge the absence of farms, lack of cooperation between producers and traders, marketing of products for export, lack of proper storage warehouses production, processing and packaging of food products, as well as irrigation and drainage systems. Fertile soil, mild climate, abundant water, high potential for export, employees trained and motivated are some of the advantages that Albania offers in this sector.

- The mining sector

Albania is a country rich in mineral resources. Search, exploitation and processing of minerals constitute important components of the Albanian economy to generate a substantial income. Minerals used and processed in the past and which continue to be a source of profit are chromium, iron, copper, coal, etc. The mining industry is privatized and the government encourages foreign investment in this sector in cooperation with local businesses.

3. Foreign Direct Investment Flow (FDI) in Euro Million

The FDI inflow in Albania has maintained a positive growth trend over the years. For 2016, referring to Bank of Albania data, Albania has absorbed more foreign investment than last year, maintaining this trend. Specifically, from the value of EUR 890 million in 2015, the FDI inflow in 2016 amounted to 983 million Euros. Foreign companies invested in the Albanian economy 10.5 percent more than a year earlier.



Source: Bank of Albania

The Albanian Government has approved the new Law on Strategic Investments in the Republic of Albania. This law aims to promote and attract strategic, domestic and foreign investment in the sectors of the economy, identified by this law as strategic sectors, through the establishment of favorable, facilitating or accelerating administrative support procedures and services to investors. The Albanian Investment Development Agency, according to this law, is the administrative structure responsible for providing services to the investor through a "unique window". AIDA plays the role of the assistant agent and follows all the administrative procedures up to the realization of the investment project.

The focus for the future development of the Albanian economy will remain in attracting FDI with attention to sectors where the Albanian economy has untapped potential in terms of natural resources and in the development of sectors that are still undeveloped as tourism, energy renewable, infrastructure, agribusiness and services.

Albania has a liberal legal framework regarding foreign investment which is designed to create a favorable climate for investment. Albania has signed a series of bilateral agreements on protection of investments with different countries like England, France, Germany, Italy, Austria, Switzerland, United States of America, China, Russia, Israel, Turkey, Serbia, Egypt, Majlazia, Cyprus, Kuwait, etc.,

As we see at the graph, the growth of foreign investment has fallen since Year 2015. In the first quarter of 2014, the value of foreign investments amounted to 193 million EUR, while in the same period a year earlier, they amounted to 115 million EUR and up years in March performance was positive.

The decrease of foreign investment starts in the second quarter of 2014, reaching 144 million EUR, as half of the previous 12 months which recorded 271 million.

The reason makes you think that the foreign investors do not see the economic situation in Albania attractive than before. This is partly true, as the increase of foreign investment flow in the country came at a time when most European countries and North Africa experienced a financial contraction in.

Now that the situation in these countries is going to improve, it is logical that a portion of the reduced investments in Albania as there are EU countries that attract larger amounts of funds.

Also negative impact is the increase of the rate of profit tax and withholding tax which in 2014 grew by 50%, from 10% went to 15%, thus making that Albania will not be the country with the lowest rate in the region.

It is important to emphasize here the political stability which leaves much to be desired.

4. Conclusions

Albania is experiencing an economic development and the foreign direct investments have taken an important place in the Albanian economy. Albania has been attractive for foreign investors and the preferred areas have been energy, tourism, agriculture and mining sector. However there is a reduction of growth in FDI from the first quarter of 2014. It looks like the foreign investors do not see the economic situation in Albania attractive than before. The increase of foreign investment flow in the country came at a time when most European countries and North Africa experienced a financial contraction in. Now that the economic situation in these countries is going to improve, there are EU countries that attract larger amounts of funds. Also negative impact is the increase of the rate of profit tax and withholding tax which in 2014 grew by 50%, from 10% went to 15%, thus making that Albania will not be the country with the lowest rate in the region. (In Kosovo is 10%, Macedonia 10%, Montenegro 9 %, Serbia 15%, Bosnia & Herzegovina 10%, Bulgaria 10 %, Rumania 16%). The frequent change in legislation is a negative factor in the growth of foreign direct investment because it creates ambiguous and confusing situations. It is important to emphasize here the political stability which has been a negative factor lately.

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