

BUSINESS ENVIRONMENT

FOREIGN INVESTORS ASSOCIATION OF ALBANIA

2015 SURVEY



Foreign Investors Association of Albania

INTRODUCTION

FIAA profile

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 organisation that has been active in Albania for 15 years by representing the biggest shares of the foreign investors at about 1.5 – 2 billion Euros along with a high number of employment reaching 30,000 employees.

FIAA represents the largest and most prominent businesses from Italy, Greece, 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 processing.

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 favourable socializing atmosphere in order to attract more foreign investors in Albania. FIAA cooperates closely and has been able to often lobby with the Albanian Governments, as well as other national or international bodies for the improvement of the business climate, thus conveying the suggestions of its members.

FIAA is known for its special role as a networking instrument. It regularly brings together investors to discuss problems and suggest relevant appropriate solutions.

Survey Objectives

The "Business Environment 2015" survey was conducted by the Foreign Investors Association of Albania (FIAA), in cooperation with members of the association as well as other partners (such as Foreign Embassies and Chambers of Commerce), with main focus on gathering 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.idra.al) 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, fiscal treatment, government relations, competition, informality etc.

Methodology

Timing of survey:

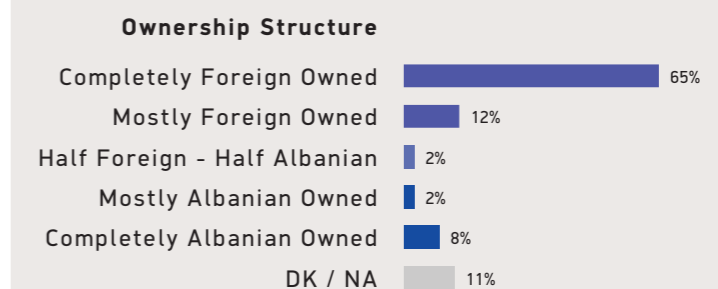
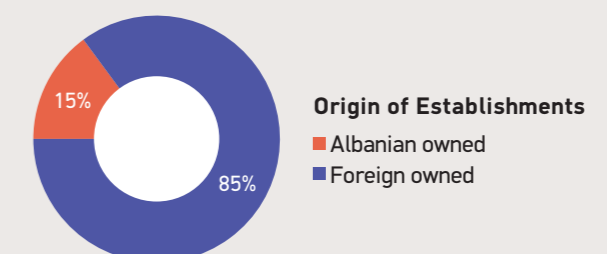
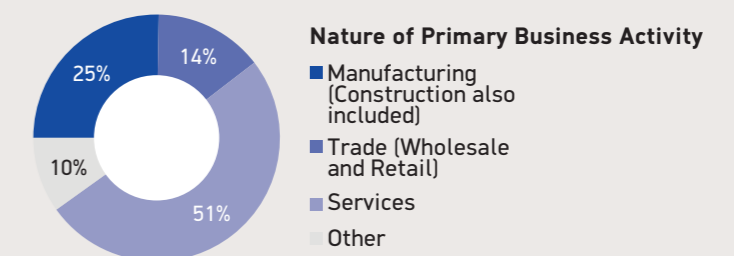
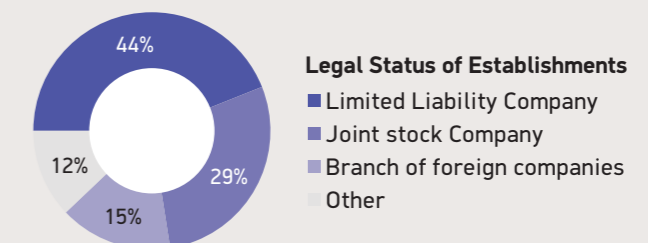
March – April 2015

Sample Size:

91 Successful Interviews

Survey Method:

Face to Face Interviews



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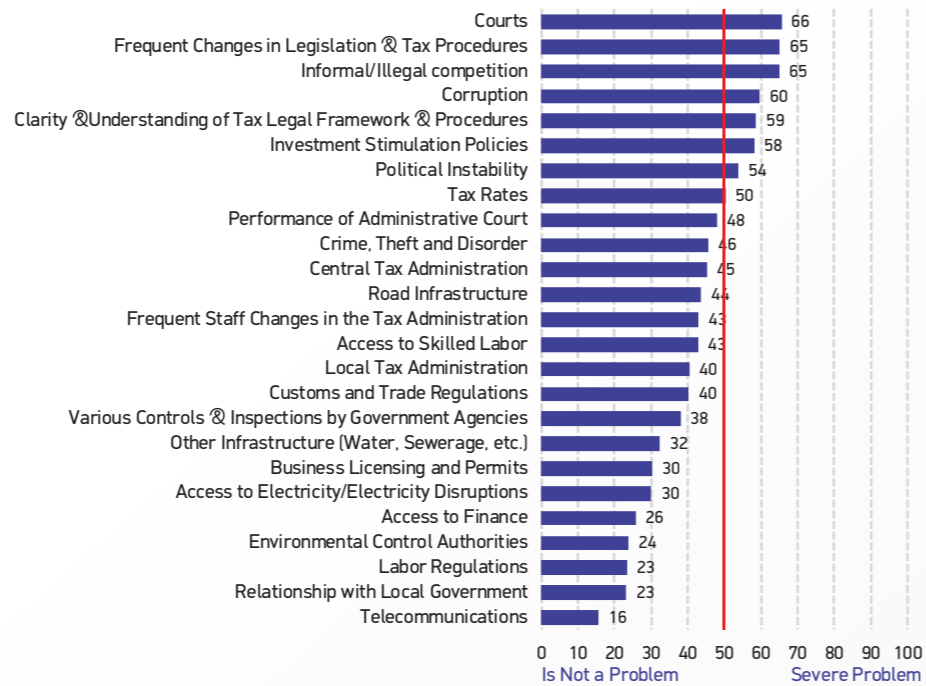
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PERCEPTIONS AND ATTITUDES

FIAA members were asked to assess a list of potential problems for the business environment in Albania. Each item on this list were evaluated on a scale from 1 to 5 where 1=Not a problem and 5=Big problem. For better visualization and understanding the scale was converted on a 0 to 100 scale where 0=Not a Problem and 100=Big problem.

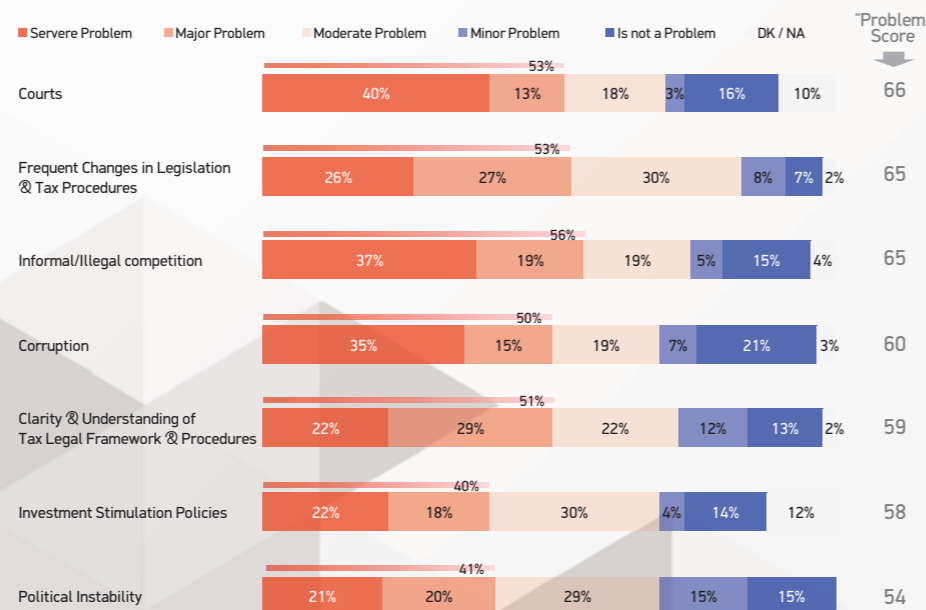
According to FIAA respondents, issues such as "Business Licenses and Permits", "Access to Finance", "Environmental Controls", "Labor Regulations" and "Access to Electricity and Telecommunications" are not problematic for Albanian Business Environment. These issues have score between 16 to 30 points on a 0-100 scale of problems.

Business Environment Elements Assessment



"Courts", "Frequent changes in business related and Tax legislation" and Illegal (Informal) Competition are the top problematic issues of Business Environment, according to Foreign Investors. These three issues are evaluated with 66, 65 and 65 points respectively on the Problems' scale. More than half of the respondents have evaluated these issues either as "Sever problems" or "Major problems" for the business environment in the country. Other significant problems mentioned are; i) Corruption (60 points), ii) Clarity of Tax Legislation and procedures (59 points), iii) Investment Stimulation Policies (the lack of thereof) (58 points) and iv) Political Instability (54 points).

Most Problematic Business Environment Elements



BUSINESS TRUST

CONDITIONS OF DOING BUSINESS IN ALBANIA

More than half (51%) of the surveyed FIAA's members think that conditions of doing business nowadays in Albania are not favorable, while about 18% think that the conditions are currently favorable.

When asked specifically, about their own business, only 1 in 4 respondents replied that business conditions for their own business have been favorable in the first half of 2015. Comparatively 35% said that the conditions have NOT been favorable.

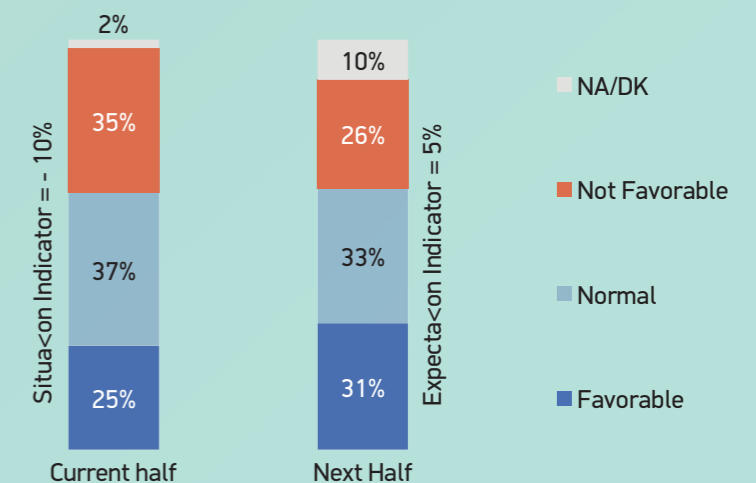
There is however a certain level of optimism for the next half of 2015. About 31% of respondents expect favorable conditions for their businesses. Still, 26% expect unfavorable conditions even for the next half of the year.

Business Sentiment

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



Legend: Favorable (Dark Blue), Normal (Light Blue), Not Favorable (Red), NA/DK (Grey)



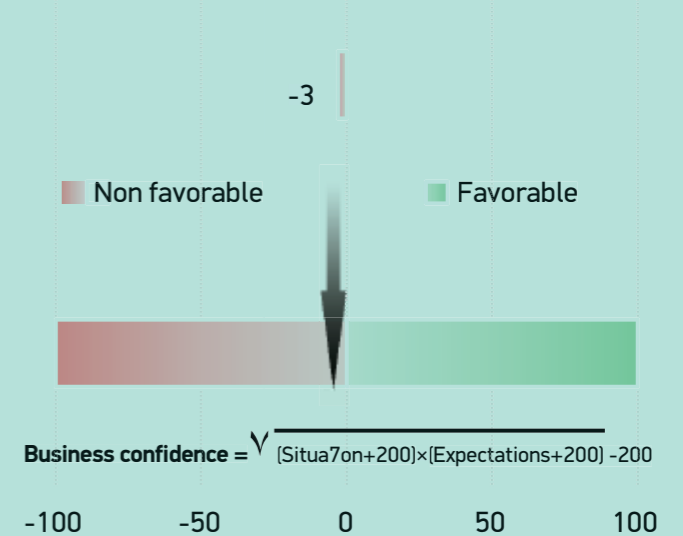
Business Confidence Indicator

On aggregate the **business confidence** is negative. It has scored -3 points on a scale from -100 to +100.

It shows the geometric average between Current Situation and Expectations for near future. It can fluctuate between -100 (negative Situation and Expectation 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.

Business Confidence



Out of 91 interviewed FIAA members, 65 (71%) are aware of the National Economic Council, while 26 (29%), have never heard of this structure before.

FIAA members aware of the National Economic Council (65) were asked to evaluate the work of this council.

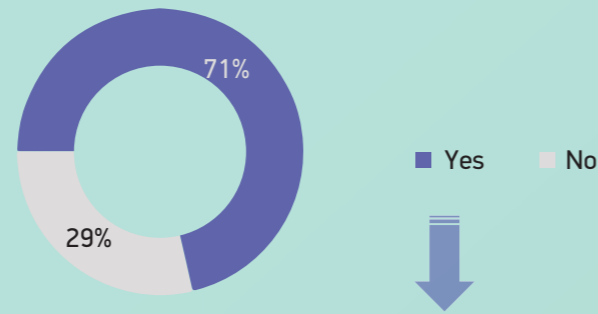
Over 65% feel Neutral towards the work done by this council while about 1 out of 3 interviewed FIAA members split between a positive (15% Good) and negative (11% Bad and 6% Very Bad) evaluation.

Only about 22% of interviewed FIAA members are aware of the Council of Investments, or of any plans related to the establishment of this structure in Albania (Council of Investments was officially established about a month after these interviews took place.)

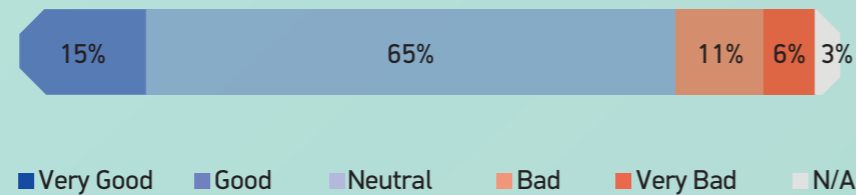
Over 78% in interviewed FIAA members have never heard of this structure before and are unaware of its functioning duty to bring together businesses, government and financial institutions in order to address investment barriers and facilitate their climate.

National Economic Council & Council of Investments

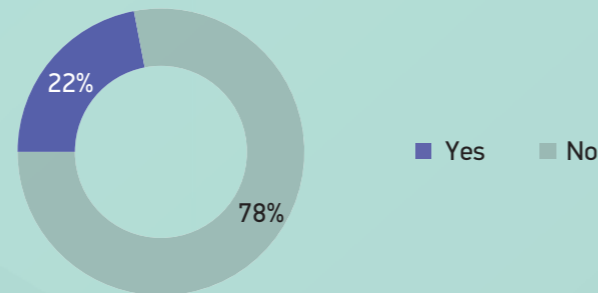
Have you ever heard about the National Economic Council? N = 91



If Yes, how would you rate the work of this Council? N = 65



Have you ever heard about a structure called the Council of Investments? N = 91



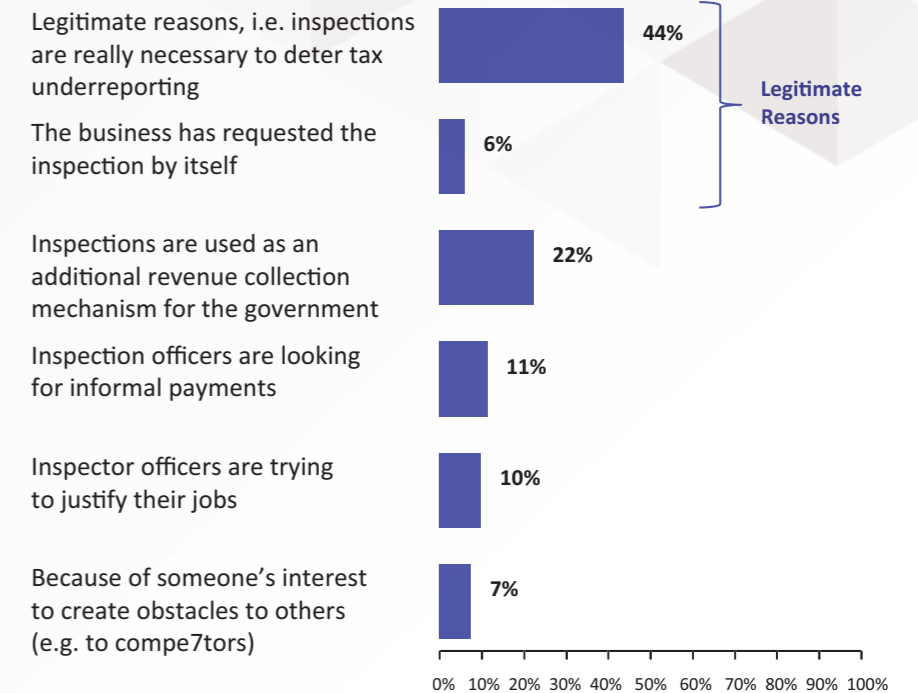
TAX TREATMENT

TAX Inspections / Audits and the Reasons they Happen

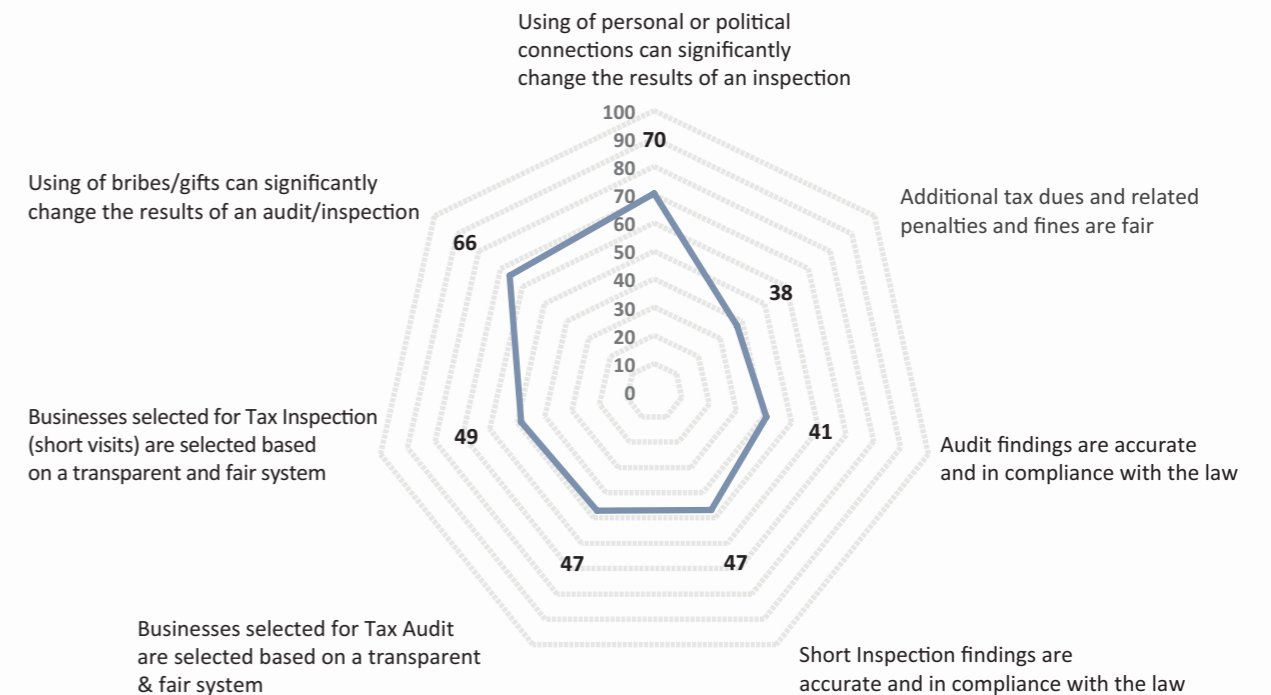
The perception of FIAA members is that only about half of tax inspections and audits happen for legitimate reasons, while bribes along with political connections are a game-changer when it comes to tax audit findings or dealing with tax penalties and fines.

Only about 1 in 3 surveyed businesses thinks that tax audit findings are accurate and in compliance with the law. Additional tax dues or related penalties and fines are generally not fair according to them. Meanwhile, businesses with different fields of activity seem to agree with each other over the fact that through the introduction of bribes or political connections, the results of an audit or inspection can significantly change.

What percentage of tax inspections happen for the following reasons?



Overall Opinion on TAX Inspections and Audits



0 = Fully Disagree

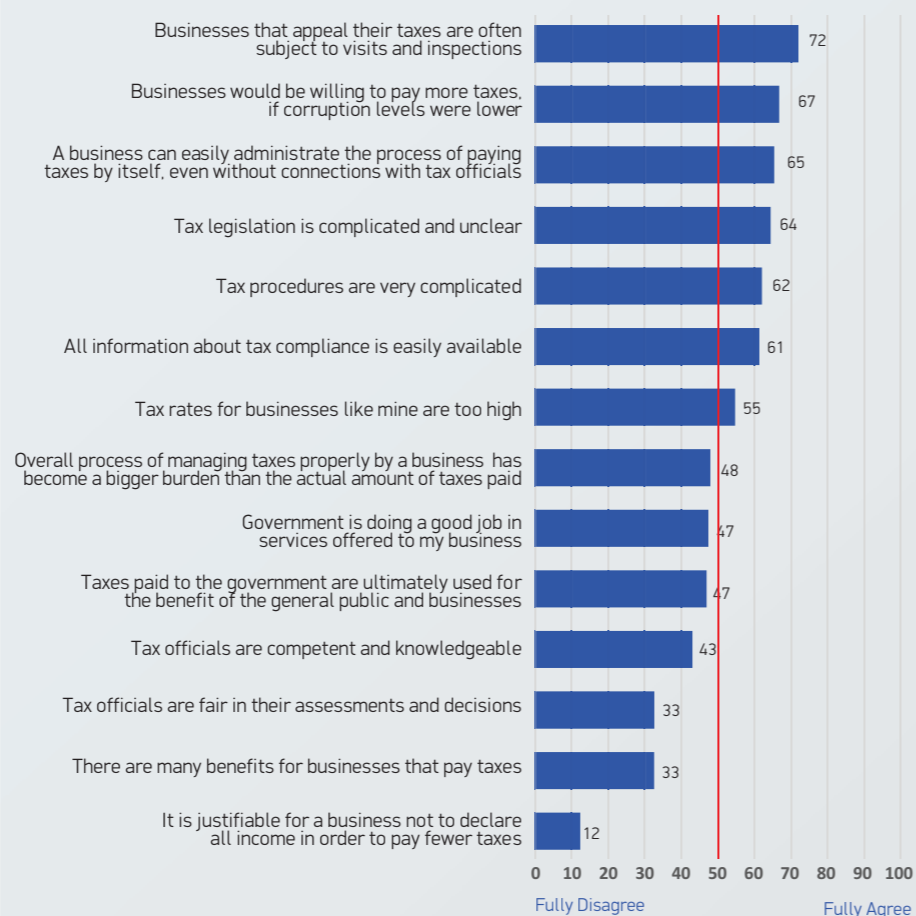
100 = Fully Agree

In terms of tax compliance, foreign investors believe it is not hard to administer the process of paying taxes by themselves (and are in fact equipped with all necessary capacities of doing so), but at the same time agree that tax legislation and tax procedures are often complicated and unclear. Foreign investors also show a high level eagerness to comply with tax legislation, but have not yet seen any notable benefits from paying taxes.

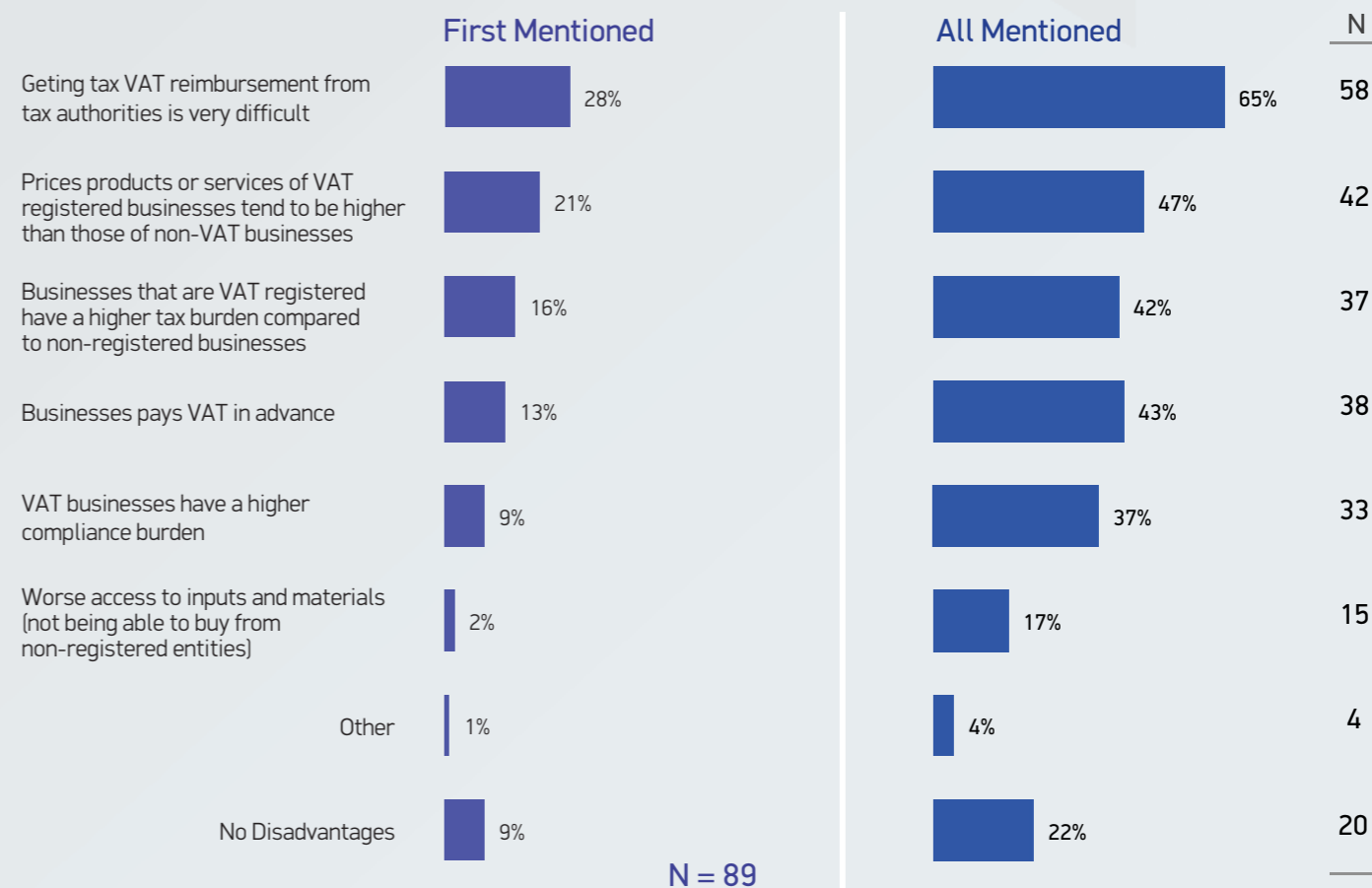
Foreign businesses operating in Albanian often feel under pressure by the Tax authorities, whether in the case of a possible tax appeal (directly followed by an increase of inspections/ audits), or when it comes to tax collection and the government seeing these big businesses as 'low-hanging-fruit' in this regard. It is also telling, than when talking about corruption, FIIA respondents would in general be willing to pay more taxes if corruption levels were lower.

VAT reimbursement from tax authorities is also judged as very difficult and over 65% of interviewed participants believe it to be the top problematic issue experienced by legit TAX paying businesses in Albania, especially when these businesses compete against the majorly problematic informal sector of the market that has less or no actual tax burden.

Overall Opinion on TAX Inspections and Audits



Disadvantages of VAT Registered Businesses



COMPETITION

About half of interviewed foreign investors in Albania, claim to have reduced prices of their main products / services during 2014, due to price reductions by their domestic competition. The situation is less so while looking at the same situation, but this time due to price reductions by their foreign competition, with over 50% claiming not to have done so.

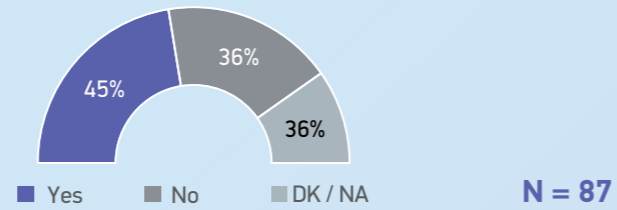
This is a clear indicator of the Albanian market's lack of stability and of the struggles experienced by domestic businesses during 2014, consequently leading to price drops of their products / services.

Besides these economic struggles, over a third of interviewed foreign investors claim to actually compete against unregistered or informal firms and rate the practices of these informal competitors as a Severe Obstacle with 85 points on a scale 0 to 100.

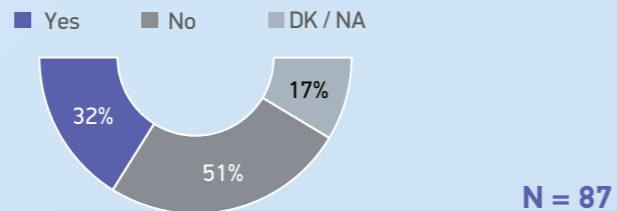
The informal sector of the market is seen as a major issue experienced by foreign investors in Albania, but is often placed on a secondary level (according to further comments of interviewed participants) in the chain of issues due to the fact that other head elements (that consequently allow the existence of the informal market) need to be assessed and dealt with first, thus bringing also an end to the informal sector as well. The government is to be held responsible in the fight against informality, as much as in creating a fair and equally competitive business environment in Albania, according to interviewed foreign investors.

Competition and Price Reductions

In 2014 fiscal year, has this establishment reduced prices of its main product in response to price reductions by its DOMESTIC competitors?

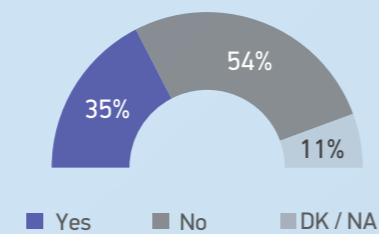


In 2014 fiscal year, has this establishment reduced prices of its main product in response to price reductions by its FOREIGN competitors?

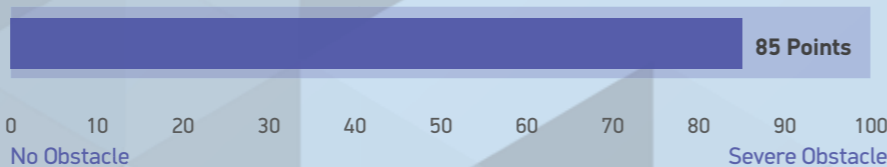


Competitors and Informal Sector

Does this establishment compete against unregistered or informal firms? N = 89



How much of an obstacle are the practices of competitors in the informal sector? N = 31



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