



Foreign Direct Investment Report

Albania 2011



United Nations
ALBANIA

REPORT ON FOREIGN DIRECT INVESTMENT IN ALBANIA, **2011**

May 2012



TABLE OF CONTENTS

ACKNOWLEDGEMENTS 07

EXECUTIVE SUMMARY 09

INTRODUCTION 11

CHAPTER I. FDI IN ALBANIA: RECENT TRENDS, MAIN FEATURES AND ROLE IN THE ECONOMY 13

- Slight decline in 2011 following years of expansion
- Characteristics of FDI inflows
- Main features of FDI stock in Albania
- Effects of FDI: the role of foreign affiliates in the Albanian economy

CHAPTER II. POLICIES AND MEASURES AFFECTING FDI IN ALBANIA 29

- Assessments of the business environment and the competitive position
- Measures to improve the investment environment
- FDI policy: the investment regime
- Investor satisfaction survey

CHAPTER III. THE ROLE AND IMPACT OF FDI IN ALBANIAN AGRICULTURE 43

- Main features of agriculture and agricultural policy in Albania
- Main trends and issues relating to FDI in agriculture in other transition economies and Albania
- Conclusions and policy recommendations: attracting and benefiting more from FDI in agriculture

REFERENCES 66

ACKNOWLEDGEMENT

The Report on Foreign Direct Investment in Albania 2011 was prepared by the Albanian National FDI Team (Ministry of Economy, Trade and Energy, Central Bank of Albania, INSTAT, AIDA (Albanian Investment Development Agency) and FIAA (Foreign Investors Association in Albania) in collaboration with UNCTAD and UNDP Albania.

It is mainly drafted by Gabor Hunya, an UNCTAD consultant, with substantial inputs from the Albanian FDI National Team and a special contribution on agricultural sector by Shkelzen Marku, a UNDP consultant.

The FDI national team members include Bashkim Sykja and Kujtime Stefani (Ministry of Economy, Trade and Energy), Diana Shtylla and Godiva Rembeci (Central Bank of Albania), Eneida Guria, Silvi Gruda and Geri Zaimi (Albanian Investment Development Agency), Elsa Dhuli (National Statistical Office), Marinela Jazoj (Foreign Investor Association in Albania), Diana Leka (UNDP, Albania),

Lida Llakmani and Altin Zeqo (Ministry of Agriculture, Food and Consumer Protection). The report was coordinated in every stage by Diana Leka of UNDP Albania and Astrit Sulstarova of UNCTAD, under the overall supervision and guidance of Masataka Fujita of UNCTAD, Enno Bozdo of the Government of Albania and Arben Rama of UNDP Albania. Significant comments were received from Padma Mallampally, an international FDI expert, Kalman Kalotay and Kee Hwee Wee of UNCTAD. The report further benefited from the comments and suggestions of Adrian Civici, Luljeta Minxhozi, Erjon Luci, and Altin Tanku.

Statistical support was provided by Besa Menzelxhiu and Dorin Rama. Special thanks for the translation of this report in Albanian go to Evis Cerga (Gjikondi). This report is an activity within the project Enhancing Regional Trade and Attracting more investment in Albania .

The financial support of “UN Coherence Fund” is gratefully acknowledged

EXECUTIVE SUMMARY

The rapid economic development and EU integration are high on the Albanian Government's agenda. The country's main policies over the past few years have resulted in a liberalized economic framework and improved conditions for doing business and for attracting FDI. Positive rates of economic growth were achieved in each year through 2008–2011. Albania had one of the highest rates of growth in Europe on average during this period and weathered the financial crisis relatively well.

Albania is ranked 18th among 141 countries according to UNCTAD's Inward FDI Performance Index for 2010, up sharply from the 68th place it occupied in 2005. This improved position reflects an investor-friendly business environment and opportunities opened up by the privatization of state-owned enterprises.

In terms of UNCTAD's Inward FDI Potential Index, Albania was ranked 81st in 2009 (the most recent year for which data are available), far behind other European countries. This low ranking was due to, among other things, poor infrastructure, and modest research and development activity. As a result of new public investments in the past four years important improvements have been made in the road infrastructure and the energy supply has become stable, but there are several other areas where improvements need to be made. The country needs further improvements in its FDI potential if it wishes to attract more FDI, especially greenfield investments by foreign transnational corporations (TNCs).

FDI inflows increased from one quarter to one third of the value of gross domestic capital formation from 2009 (€717 million) to 2010 (€793 million). It fell back again to one quarter in 2011 (€742 million) which can still be considered as a good result in the absence of major privatization deals. FDI fi-

nanced 62 per cent of the current account deficit in 2011, down from more 77 per cent a year before. Despite the 2011 decline, FDI is an important factor in Albania's economic growth and financial stability. But a more significant decline may reduce economic growth and make the country more vulnerable to external financing shocks.

Albania has applied a policy framework favorable to FDI, and has more recently introduced policies to support private-sector development in general. Measures are also underway for further improvements, including in the legal system and the new agency (AIDA) in charge of investment promotion.

Industrial sector (including manufacturing and mining) accounted for almost 50 per cent of the inflow of FDI in 2010 and 2011, with mining and metal working being the main recipients. Some labour-intensive industries such as wearing apparel and foot-wear have attracted a large number of projects with modest amounts of capital, mainly from Italy and Greece.

The degree of foreign-affiliate participation in the Albanian economy is similar to that in the Central European countries. The turnover of foreign investment enterprises (FIEs, i.e. enterprises with 10 per cent or more ownership by a foreign investor) represented 29 per cent of the country's total in 2010, and 51 per cent of the turnover in manufacturing. Both these shares are 1–2 percentage points higher than they were two years earlier. The turnover of FIEs is generated by three main economic activities, trade (24 per cent), manufacturing (21 per cent), and transport and telecommunications (18 per cent). In manufacturing, FIEs are most important in the tobacco industry, petroleum products and the production of metals in which they produce almost the total output of the country. As to employment in FIEs, the

highest number of workplaces has been established in affiliates in the production of wearing apparel and shoes as well as in electricity generation and telecommunications. High foreign participation is the result of favorable conditions for FDI in these industries in the country, but is also a sign of weaknesses in the domestically-owned part of the economy, including an underdeveloped local SME sector.

The entry of foreign investors on a significant scale into the financial and telecommunication services has increased the scope and efficiency of those services. Investments in the energy sector have stabilized electricity supply.

- Just like in the 2010 survey, three quarters of the respondents are quite positive about the initiatives undertaken by the Albanian Government in the areas of start-up and licensing, provision of working permits and employment regulation. About 40 per cent of the FIEs are by and large satisfied with the tax system and the employment regulations. The majority of companies are positive about the cost of labour, interaction with authorities, and linguistic as well as ICT related skills available in Albania.
- Most of the companies were growing in recent years, 56.6 per cent have more employees in 2010 than in 2008, 68.1 per cent have higher turnover and 66 per cent increased their market shares. In 2012, 57 per cent of the companies would increase employment while 35 per cent will keep it constant. About 85 per cent of the companies have positive expectations to increase their activities in Albania.
- Members of the foreign business community expect for the future that the Albanian Government further improves the business climate by simplifying administrative procedures, improving licensing and implementing the rule of law. They wish further improvements in tax administration and infrastructure. In particular, they identify as a hindrance to their businesses the relatively high level of the informality, the uneven enforcement of the tax laws to all businesses and difficulties to get proper invoices es-

pecially from micro and small enterprises.

FDI stock in agriculture represented only 0.3 per cent of the total FDI stock in Albania in 2010, and 2.1 per cent in food, beverages and tobacco manufacturing. Therefore, when formulating its policies towards FDI in agribusiness, including agriculture and related processing and service activities, the Government needs to focus on the development impact of such FDI, and not its volume, which is expected to remain limited.

Direct positive impact of TNCs in agriculture and related activities can be most expected in establishing highly productive and competitive farms and business networks. TNCs may incorporate the (semi-) commercial Albanian farmers into business networks, which in turn would contribute to employment opportunities and improved access to finance and markets for smallholder farmers. This involvement can result in technology transfer, training and knowledge sharing along with the enforcement of production standards.

Negative impacts may also emerge from TNC involvement in agribusiness if TNCs grab the land of smallholders, crowd out small producers from the local market and increase unemployment. Similarly, large supermarket chains may source cheaper products from abroad and make local producers and retailers redundant. In view of this possibility, provisional protection to local producers can be envisaged. Simultaneously, government policy could support the development of market-oriented farming, production networks and value chains based on the participation of local producers.

Foreign investors have an important role in the Albanian food processing industry in terms of turnover (22 per cent) and employment (16 per cent). They constitute the more productive segment of firms active in this industry and this advantage can be expected also of future projects. Albanian FDI policy may target specific investors interested in processing local agricultural products. The success of such efforts depends on improvements in the policy and institutional framework set for agribusiness.

INTRODUCTION

The aim of this report is twofold. One is to provide foreign investors, potential investors and interested experts with the most recent information on the development and impact of foreign direct investment (FDI) and related policies in Albania. The second is to help government authorities to understand better the potential and effective impact of FDI on the Albanian economy and use this information in their decision-making.

In this second report on FDI in Albania (following a pioneering report, UNCTAD and UNDP, 2010) all data have been updated and freshly analysed. For those features which did not change much (e.g. the role of privatization in attracting FDI) the reader may refer to the previous report. The current report has a new special focus, the situation of FDI and its development potential in agribusiness (including agriculture and the food, beverages and tobacco industry). The conclusions and recommendations relating to FDI in this sector have taken into account, among others, the liberal approach of the Government of Albania to foreign land ownership which may facilitate FDI.

The basic patterns of FDI in Albania are linked with its geography and economic structure. Albania is a small country with 2.8 million inhabitants, although not so small in its subregional context, the highly fragmented South-East Europe.¹ Its nominal GDP in 2010 at market exchange rate was almost €9 billion, three times more than that of Montenegro and 50 per cent more than that of the former Yugoslav Republic of Macedonia (but only one quarter of Croatia's). Size matters, just like the level of development and geo-

graphic position when it comes to attracting FDI. Small countries usually fall short in attracting large TNCs and industries producing for export markets of a mass scale. While this limits the extent to which it can compete with larger, (and similarly low-cost) host countries in attracting export-oriented FDI from a range of sources, Albania, with its cheap and motivated workforce, has good potential to become a production and services hub for exports to Italy and Greece. Similarly in agriculture not volume but specialization and Mediterranean conditions can provide a window of opportunity for exports to countries further to the North.

Rapid economic development and EU integration are high on the Government's agenda. The country's main policies over the past few years have resulted in a liberalized economic framework and improved conditions for doing business and for attracting FDI. Thanks to progress in economic transformation and a supportive external environment, economic growth was robust between 2000 and 2009. Albania achieved an average annual GDP growth of 6 per cent in this period. The slowdown in 2010 and 2011 was also less serious than in other countries of the region. Still, per capita GDP at purchasing power parity is only 25 per cent of the EU-27 average, less than of Bulgaria – the lowest-income EU member State.² Thus the room for catching up is wide and the potential role of FDI in transferring capital and technology invaluable.

Albania has weathered the financial crisis relatively well. Positive rates of economic growth were achieved in each year through 2008–2011. In fact the country had one of the highest rates of growth in

1 South-East Europe includes Albania, Kosovo (UNMIK), Bosnia and Herzegovina, Croatia, Serbia, Montenegro and the former Yugoslav Republic of Macedonia.

2 "GDP per inhabitant varied by one to six across the EU27 Member States," Eurostat Newsrelease, 94/2009.

Europe on average during this period. The reason for this remarkable result has been the lack of enforced rebalancing of either the current account or the fiscal deficits. Both these deficits are high in comparison with those of other European economies, but adequate inflow of foreign capital, a large part of which has been FDI, facilitated the financing of deficits. The impact of the international financial and economic crisis on Albania was also mitigated by the limited importance of the export channel to transmit the crisis to the country, and by Albania's relatively modest reliance on international financial markets. The monetary policy framework, careful banking supervision and the flexible exchange rate also had stabilizing effects.

In the previous FDI Report (UNCTAD and UNDP, 2011) it was expected that sluggish economic growth would go hand in hand with a slow-down of FDI inflows in 2010 and 2011. Fortunately this expectation proved to be false: in 2010, foreign investors in Albania were still in an expanding phase especially in the sectors they recently acquired by privatization or concessions. Both economic growth and FDI changed to lower gear in 2011, but despite a decline that went against the global as well as regional trend, FDI inflows to Albania in 2011 were higher than they were in 2009.

Under the given challenging circumstances it is all the more important that the Government of Albania embarks on

an economic policy with a strong emphasis on the training of workers, that is supportive of private sector development and international investment in the country. With respect to the latter, the aim is to attract more greenfield FDI in industries producing for export, those improving the economic infrastructure and those contributing to an increase in the technology level in the country. A liberal approach to land ownership of legal persons registered in Albania, be they domestic or foreign, allows investors to establish businesses in this sector. In this way, agriculture and food products may increasingly contribute to exports or decrease import dependence.

In the chapters that follow, this report first examines the experience of Albania with FDI, focusing on trends in FDI flows to the country, the importance of FDI flows for the country's balance of payments, main features and patterns of inward FDI and the relative importance of foreign investment enterprise activities in the Albanian economy. Chapter II first reviews the regulatory framework and business environment for FDI in the country and outlines policy options and measures that could contribute to the efforts of the Government to develop a more effective and targeted FDI policy, then it presents the results of a recent foreign investors' survey. In chapter III, the role and impact of FDI in agriculture and in agribusiness is analysed and policy conclusions drawn for that specific sector.

FDI IN ALBANIA

RECENT TRENDS, MAIN FEATURES AND ROLE IN THE ECONOMY

A. Slight decline in 2011 following years of expansion

While most countries in South-East Europe suffered from sharply declining FDI inflows in 2010, Albania received an

increased amount. After €717 million in 2009 (according to data that were revised by the Bank of Albania since the publication of the Albania FDI Report 2010 and UNCTAD's *WIR11*) inflows in 2010 amounted to €793 million (table I.1).³ In 2010 Albania had the second highest amount of FDI inflows among South-East European countries, after Serbia. In 2011 Albania attracted € 742 million FDI,

TABLE I.1.

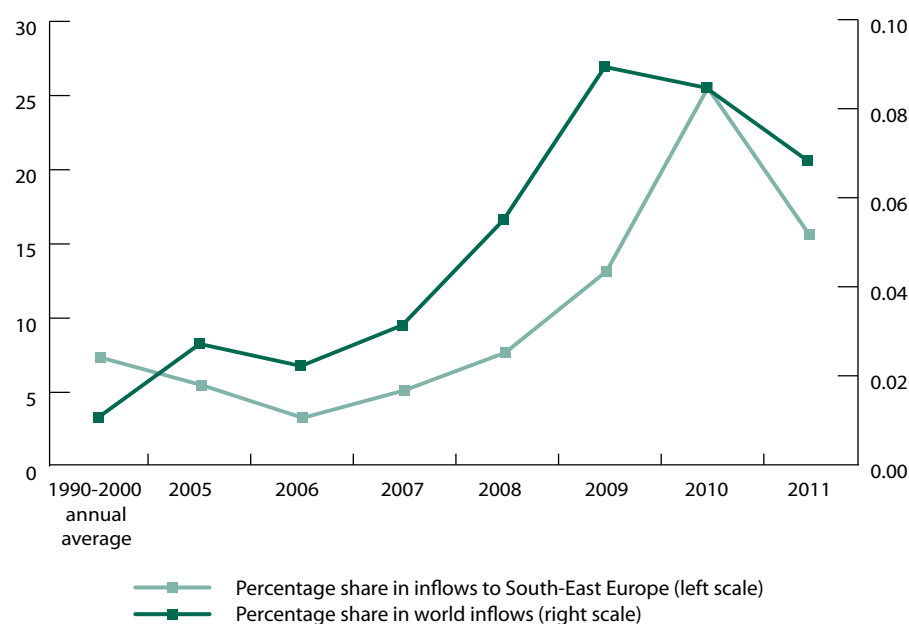
FDI inflows: world, South-East Europe and Albania, 2005-2011 (Millions of euro)

Host economies	2005	2006	2007	2008	2009	2010	2011
World	782 673	1 164 682	1 534 682	1 208 931	802 041	936 640	1 085 242*
South-East Europe	3 870	7 885	9 384	8 663	5 446	3 109	4 745*
Albania	213	259	481	665	717	793	742

Source: UNCTAD, *WIR11* and Global Investment Trends Monitor No.8 and Bank of Albania. *UNCTAD estimate.

FIGURE I.1

Shares of Albania in FDI inflows to South-East Europe and the world, 1990-2010



Source: Based on data from UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and Bank of Albania.

3 Flow data reported by the Bank of Albania (BOA) in the balance of payments are obtained from the annual FDI survey for the period 2008-2010. Data for 2011 are preliminary, based on monthly bank settlements and subject to later revision.

somewhat less than in the previous year. This decline went not only against the global recovery but also against the FDI upswing in the two largest South-East European countries, Croatia and Serbia.

The share of the FDI inflows of Albania in the world total remains marginal: it was below 0.1 per cent (figure I.1), even though inflows to Albania grew by ten times since 2000, according to UNCTAD data. The country's weight as a host to FDI in the South-East European region has, however, grown remarkably, especially between 2007 and 2010, when inflows to

South-East Europe declined while flows to Albania kept growing (table I.1, figure I.1). The FDI decline in 2011 reduced Albania's share both in global and in regional inflows.

Although the value of FDI flows to Albania is modest due to the small size of the host economy, its relative importance for the Albanian economy is rather high. The ratio of inflows to gross fixed capital formation (GFCF) increased from less than 10 per cent in 2006 to 25 per cent in 2009 and to as high as 33 per cent in 2010 (table I.2)⁴. The big leap in 2010 was not only

TABLE I.2

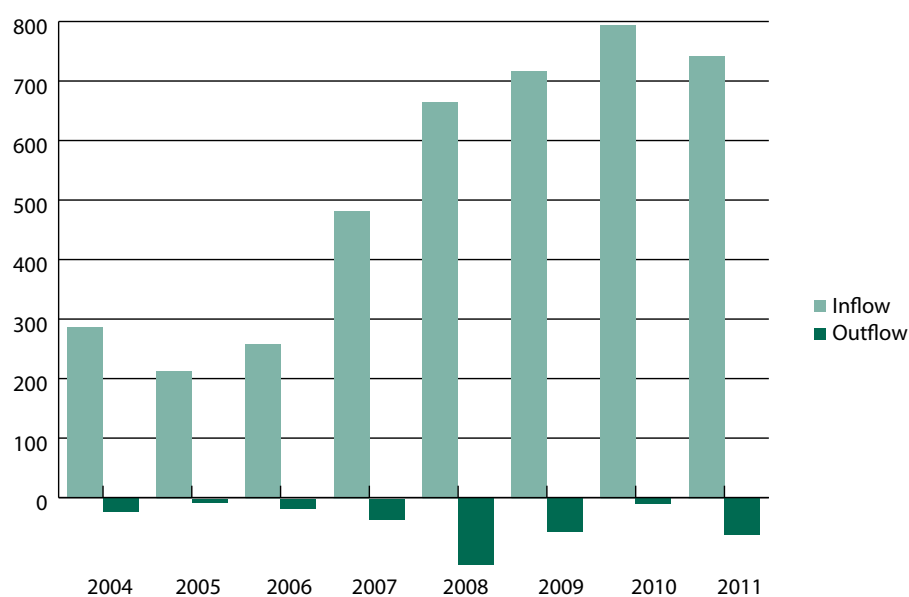
FDI inflows as a percentage of gross fixed capital formation, South-East European countries, 2004–2010

Region/country	2004	2005	2006	2007	2008	2009	2010
South-East Europe	16	16	24	33	27	22	13
Albania	13	9	9	16	21	25	33
Bosnia and Herzegovina	27	20	25	46	17	6	2
Croatia	12	17	27	33	32	19	4
Montenegro	..	..	..	..	56	208	130
Serbia	..	..	..	..	23	20	15
The FYR of Macedonia	34	10	37	43	28	11	17

Source: UNCTAD, *WIR11*, annex tables.

FIGURE I.2

Albania: FDI inflows and outflows, 2004–2011 (Millions of euro)



Source: UNCTAD, FDI/TNC database, based on data from the Bank of Albania.

4 FDI does not necessarily contribute to gross fixed capital formation and the compilation of the two data sets (for FDI inflows and for GFCF) follow different methodologies.

the result of higher FDI but also of a severe decline in GFCF. In 2011 when FDI declined and GFCF recovered, the ratio of the two went back to 25 per cent. Among countries of the region, only Montenegro has attracted more FDI relative to GFCF in 2010. FDI in Albania has stimulated economic growth, especially through projects in services and infrastructure. As a result, the overall investment rate of Albania relative to GDP (33 per cent) was much higher than the region's average (20 per cent) in both 2010 and 2011.

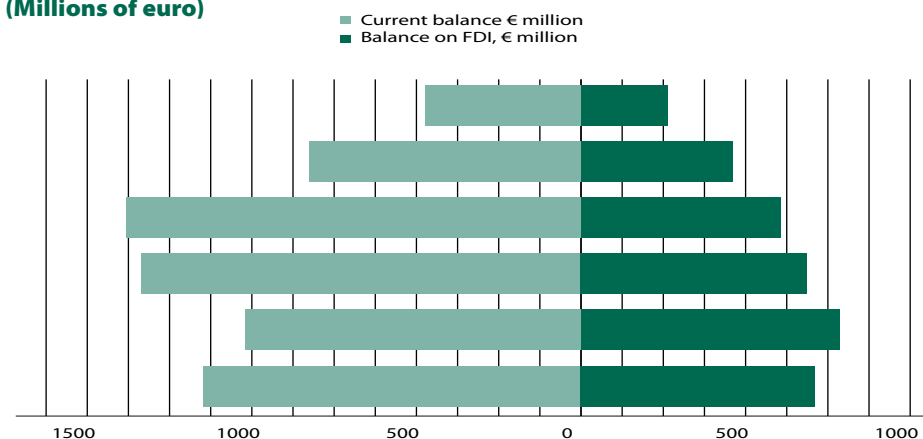
Although the analysis in this report fo-

cuses only on inward FDI, it may be noted that Albanian FDI to other countries has been modest over the past few years and especially low, amounting to €9 million in 2010 and €30 million in 2011 (figure I.2). Outflows of FDI from Albania targeted neighbouring economies, especially Kosovo and the former Yugoslav Republic of Macedonia.

The net balance of FDI inflows and outflows is positive and high. It financed about half of the country's current account deficit over the period 2006–2009 and as much as 77 per cent in 2010 (table I.3 and figure I.3). This was all the more

FIGURE I.3

Albania: Current account balance and FDI balance (net FDI) in 2006–2011
(Millions of euro)



Source: Based on data provided by the Bank of Albania.

TABLE I.3

Albania: external sector indicators, 2006–2011
(millions of euro and percentage of GDP)

Indicators	2006	2007	2008	2009	2010	2011
Current account balance	-471	-824	-1381	-1321	-1019	-1145
In per cent of GDP	-6.6	-10.5	-15.6	-15.2	-11.5	-12.5
Export of goods	631	786	917	751	1172	1406
In per cent of GDP	8.8	10.0	10.3	8.6	13.1	15.3
Balance on goods	-1659	-2104	-2431	-2304	-2083	-2242
In per cent of GDP	-23.1	-26.9	-27.4	-26.4	-23.4	-24.4
Export of services	1157	1421	1688	1771	1702	1747
In per cent of GDP	16.1	18.2	19.0	20.3	19.1	19.0
Balance of services	-32	19	69	174	182	135
In per cent of GDP	-0.4	0.2	0.8	2.0	2.0	1.5
FDI inflows	259	481	665	717	793	742
In % of GDP	3.6	6.1	7.5	8.1	9.0	8.1
FDI outflows	-8	-17	-55	-28	-5	-30
In % of GDP	-0.1	-0.2	-0.6	-0.3	-0.1	-0.3
Balance on FDI	250	464	610	689	784	712
in per cent of current account deficit	-53.1	-56.3	-44.2	-51.8	-77.4	-62.2

Source: Bank of Albania and INSTAT; 2011 GDP estimated at €9192.6 million.

important as the current account deficit grew three times between 2006 and 2008. 2010 marked a turnaround with a shrinking current account gap to 12 per cent of GDP (figure I.3) as a result of exceptionally good export performance coupled with modest import growth. According to preliminary results, in 2011 the current account deficit expanded again and 62 per cent of the deficit could be covered by FDI.

est research and development activity. As pointed out in chapter II, there have been rapid improvements lately in Albania precisely in those fields of infrastructure, such as energy supply and roads which had been identified as bottlenecks in international comparisons. Foreign companies have acquired concessions to develop these services and are improving their supply and thereby, conditions for further investments in the other sectors.

TABLE I.4

Albania's ranking according the Inward FDI Performance Index and the Inward FDI Potential Index, selected years

Indicators	1995	2000	2005	2009	2010
Inward FDI Performance Index	39	58	68	23	18
Inward FDI Potential Index	115	101	83	81	..

Source: UNCTAD, WIR11.

Note: The latest year for which data is available for some variables included in the Inward FDI Potential Index is 2009.

Albania ranks relatively high in terms of UNCTAD's Inward FDI Performance Index which measures FDI inflows relative to the size of the economy. In 2010, Albania was 18th among the 141 countries covered (table 1.4). This represents a rapid improvement from its position of 68 in 2005. In 2005, Albania was ranked next to Poland, now it is next to Chile which has one of the most FDI-oriented economies in the world (UNCTAD, *WIR06* and *WIR10*). The improved position is partly the result of rapid increase of FDI flows to the country, much of it in response to an improved business environment and opportunities opened up by privatization of state-owned enterprises.

The FDI Performance Index ranking achieved by Albania is better than the country's rank by the Inward FDI Potential Index. In the latter Albania ranked 81st in 2009 (the most recent year for which data are available), far behind other European countries.⁵ This low ranking was due to, among other things, to poor infrastructure, energy shortfalls and mod-

B. Characteristics of FDI inflows

1. FDI by form

FDI can take the form of equity investment, reinvested earnings and other capital covering mainly loans from the parent company. As Albania is at an early stage of FDI attraction, most of the FDI (almost 80 per cent in 2010 and even more in 2011) comes in the form of equity into new ventures and as capital increases in existing foreign investment enterprises (table I.5). Reinvested earnings account for about 20 per cent of the inflows while FDI in the form of other capital (mostly intra-company loans) is usually negligible and turned negative in 2009 and 2011. Repayment of intra-company loans usually happens when the parent company is in financial difficulties, which could have been the case with Greek investors in Albania.

Income of the foreign investors in Albania amounted to €81 million in 2011, down from €288 million in 2010. This considerable contraction may reflect some worsening in the business environment, like contraction of demand. Earnings of the foreign investors corresponded to more than 10 per cent of the FDI stock in the previous years (table I.6) and are likely to have fallen to a fraction of that in 2011. In

⁵ The Inward FDI Potential Index is based on 12 indicators including among others the level of development in general and of infrastructure in particular (UNCTAD, WIR02).

TABLE I.5

Albania: composition of FDI inflows by form, 2006–2011
(Millions of euro)

Components	2006	2007	2008	2009	2010	2011
FDI –Total	259	481	665	717	793	742
Equity	199	487	420	516	600	755
Reinvested earnings	0	0	182	229	186	64
Other capital	60	-6	63	-27	7	-77

Source: Based on data provided by the Bank of Albania.

TABLE I.6.

Albania: income payments on inward FDI and reinvested earning, 2008–2011
(Millions of euro)

Indicators	2008	2009	2010	2011
Direct Investment Income	197	321	288	81
repatriated income on equity	10	91	94	14
reinvested earning	182	229	186	64
income on debt	6	1	8	4
FDI stock(inward)	2040	2233	2640	.
FDI related income as per cent of FDI inward stock	9.7	14.4	10.9	.
Reinvested earning as per cent of FDI income payments	92.4	71.3	64.6	79.0

Source: Based on data provided by the Bank of Albania.

2008 and 2009, investors in Albania enjoyed a good profit rate, one of the highest among the South-East European countries (no data for 2011 are available). Among countries of South-East Europe and the new EU member countries of Central and Eastern Europe, it was surpassed only by those in the Czech Republic and Estonia, both of which have mature FDI projects which usually have higher income-generating capacities than new projects. Of the FDI-related income generated in Albania, 79 per cent was reinvested in 2011, up from 65 per cent in 2010. This is high in international comparison and is another characteristic of projects in an early, build-up stage.

2. FDI inflows by mode of entry and economic activity

Foreign investors enter a country in the form of greenfield investments or cross-border mergers and acquisitions (M&As). Based on data compiled by UNCTAD (box I.1) during 2003–2011, the number of greenfield projects in Albania was 84 (table I.7). It must be noted, however, that separate shops of a supermarket chain or

local branches of a commercial bank appear as separate investment projects. The year with the highest number of new projects was 2008 and with the lowest 2009–2011.

Thus a decline in new projects can be observed in the years of the global crisis. Also regarding the value of projects and the number of future jobs the largest commitments were made in the years 2006–2008 while very small amounts were attracted in the subsequent two years followed by a slight recovery in 2011.

Box I.1

Definitions and sources of the data on greenfield projects

Data on greenfield FDI projects used in this study are based on the information compiled by UNCTAD from fDi markets of the Financial Times Ltd. fDi Markets tracks all new investment projects in host economies and expansion of existing investments. While there is no minimum size for a project to be included, as a selection criteria for inclusion in this database an investment project has to create new direct jobs and new capital investment. Information sources to collate and validate those projects include Financial Times newswires, nearly 9,000 media sources, project data received from over 1,000 industry organizations and investment agencies, and data purchased from market research and publication companies. The data are cross-referenced against multiple sources and over 90 per cent of them are validated with company sources.

Source: UNCTAD, WIR10.

TABLE I.7.**Greenfield FDI projects in Albania: number, and commitments with respect to jobs and total investment, 2003–2011**

Year	Number of projects	Total number of jobs	Total investment (Millions of U.S. dollars)
2003	9	643	300
2004	7	428	141
2005	13	2 399	668
2006	11	2 196	2 346
2007	8	2 738	4 454
2008	16	3 139	3 505
2009	7	914	124
2010	6	320	68
2011	7	1 311	488
Total	84	14 088	12 094

Source: fDi markets, Financial Times Ltd (www.fdimarkets.com).

TABLE I.8**Albania: Number of greenfield FDI projects by business activity, 2003–2011**

Activities	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Extraction	2					1				3
Manufacturing	3	4	3	1	3	5		1	2	22
Electricity	1			1	3	2				7
Construction			1	1	1			1		4
Sales, marketing, retail	1	1	3	5		7	4	2	3	26
Transport, business services	2	2	6	3	1	1	3	2	2	23
Total	9	7	13	11	8	16	7	6	7	84

Source: UNCTAD, based on fDi markets, Financial Times Ltd (www.fdimarkets.com).

The largest number of greenfield projects was initiated in sales and marketing followed by transport and other business services (table I.8). Overall, the largest number of investment projects was in the services sector. The highest amounts of investment commitments were made in energy and the production of construction materials. The distribution of projects by clusters reveals that the highest number of them is in energy, construction and retail trade. Four projects are reported in the food beverages and tobacco industry but there were none in agriculture.

The largest investor, with the highest amount invested in greenfield projects

is Titan Cement from Greece which announced its second factory in 2011. Another large investor is Moncada Costruzioni (Moncada Energy Group) from Italy. The Italian food-store cooperative Conad received a competitor in the retail sector, the French Carrefour. 29 per cent of the greenfield FDI projects come from Italy, 7 per cent from the United States, 6 per cent from Greece, Turkey and Italy each. The largest new project announced in 2010 was Hidroelektra Niskogradnja from Croatia in the construction sector. Smaller projects in services came from Austria, Bosnia-Herzegovina, Serbia. In the oil sector there were two new projects announced, one by the exploration

and development company Sonoro from Canada and another by a company from Switzerland building pipelines.

FDI entry through cross-border M&As in a transition economy like Albania usually occurs through privatization of state-owned enterprises. There has been a considerable inflow of FDI to Albania through the privatization process, involving both privatizations of small and medium-sized enterprises (SMEs) in a number of industries, and the privatization of large enterprises in strategic industries (such as banking, telecommunications and energy), that have attracted participation by TNCs. It is mainly the privatization of the strategic-industry enterprises which has generated high FDI inflows in some years. In 2004–2008, 24 per cent of the total FDI came as a result of privatizations;

In 2011 FDI inflows increased only in the electricity and gas sector as well as in distribution and other services while it declined in all other activities, compared with the previous year. Some fluctuations over the six year period reflect important privatization deals like those in telecommunications. The privatization of the oil refinery complex ARMO for about €125 million was the main factor that led to a large increase of FDI in manufacturing in 2008. In later years FDI in mining of oil, gas and metal ores increased in the wake of concession granted to TNCs (see chapter II). The highest amount of FDI went into the services sector, most notably into financial intermediation. High FDI in financial services in 2008 was the result of the purchase of shares of Banka Popul-

TABLE I.9.

Albania: FDI inflows by main economic activity (millions of euro)

Activities	2006	2007	2008	2009	2010	2011
Agriculture, hunting, fishing	2	2	-54	-9	0	-
Construction	8	51	147	19	44	-
Industry ^a	69	56	369	300	394	351
Electricity and gas	0	4	2	143	88	103
Telecommunications	62	196	-61	84	97	67
Financial intermediation	30	136	167	120	138	110
Distribution, other services	88	25	95	59	33	111
TOTAL	259	480	665	717	793	742

Source: Based on data provided by the Bank of Albania.
a Defined as manufacturing, mining and quarrying.

in 2009 this share was as much as 26 per cent.⁶ There was no new privatization deal completed in 2010 and 2011. (See chapter II on the Government's privatization and concession policy and the main achievements.) The sectoral composition of FDI inflows to Albania underwent some important changes over the 2006–2011 period for which data are available. There was a rapid increase of investments in industry (including mining and manufacturing) initially (table I.9).

lore and Union Bank by foreign investors. Since then, FDI in finances has subsided most probably linked to the impact of the financial crisis in Europe.

The type of FDI Albania has received so far has been concentrated primarily in the production of services for the domestic market. But recent inflows went also into manufacturing, mining and energy, some of which also generated exports. From a balance-of-payments perspective, it would be advantageous for Albania to attract even more FDI which generates exports of goods and services in addition to that serving the domestic market.

⁶ Based on data provided by the Bank of Albania for FDI inflows and Ministry of Economy, Trade and Energy and Ministry of Finance for FDI inflows from privatization.

C. Main features of FDI stock in Albania

1. Size and composition of FDI stock

Inward FDI stock in Albania reached €2,640 million in 2010, according to the results of the Bank of Albania's (BOA's) most recent survey of foreign investment enterprises (FIEs) (box I.2). This level is 18 per cent above the level of the previous year and 45 per cent higher than in 2007. (The outward FDI stock of Albania amounted to €115 million in 2010 meaning practically no change against the previous year).

Among the more than one thousand FIEs in the BOA survey 77 per cent were majority foreign-owned in 2010. As to the size of the companies, 31 per cent were small and 19 per cent were of medium size. In a regional perspective, 73 per cent of the companies were registered in central Albania and the rest were distributed in the other prefectures of the country in almost equal percentages.

FDI stocks change due to new inflows, the termination of past investments and also as a result of exchange rate movements as national currency data are converted at the exchange rate on the last day of the

TABLE I.10.

Albania: composition of change in FDI stock, 2010 (Millions of euro)

Indicators	Position at end of 2009	Transactions	Price changes	Exchange rate changes	Other adjustments	Position at end of 2010
Direct investment in Albania	2,233	793	0	-58	-329	2,640
Equity capital and reinvested earnings	2,148	786	0	-57	-328	2,550
Other capital	86	7	0	-1	-2	90

Source: Based on data provided by the Bank of Albania.

year; in addition, further adjustments are made to represent changes in the value of the capital stock. In Albania inflows resulted in an increase in the stock value by €793 million in 2010, but the "other adjustments" item and exchange rate changes decreased the stock by €329 and €58 million respectively (table I.10).

Box I.2 Collection of data on FDI and activities of TNCs in Albania

FDI flow and stock data for the period 2008–2010 are derived from the Bank of Albania's annual survey of companies with at least 10 per cent foreign ownership. Flow data by activities for the survey run in 2011 (with data obtained for 2010) are estimated and are subject of revisions in the next FDI survey. Of the 2300 active FIEs in the business statistical register Bank of Albania managed to collect data for about 1060 FDI enterprises including the most important ones. The results allowed Bank of Albania to update the FDI flow statistics and to provide FDI stock data by various characteristics. Parallel to the Bank of Albania survey, INSTAT carries out a structural business survey (SBS) covering all active companies in the country. From the results of this survey it derives the data for the foreign investment enterprises to provide the statistics on the characteristics of foreign affiliates examined further below (section D).

Source: Bank of Albania.

Albania has the lowest FDI stock relative to GDP among the countries of South-East Europe (table 1.11) which is quite different from the relative size of Albania's inflows in the years since 2008. This is due to the fact that FDI in Albania is a very recent phenomenon and much of the stock has been accumulated over the past few years only, while the other countries have received FDI for a longer period of time. Albania has also had more rapid economic growth in recent years than its regional peers, which has lowered the magnitude of its FDI per GDP indicators.

TABLE I.11.

Inward FDI stock as a percentage of GDP in Albania and other countries of South-East Europe, 2004–2010

Countries	2004	2005	2006	2007	2008	2009	2010
Albania	11	12	15	23	22	29	37
Bosnia and Herzegovina	28	28	33	44	39	45	43
Croatia	31	33	56	77	45	57	57
Former Yugoslav Republic of Macedonia	41	36	42	46	42	48	48
Montenegro	..	..	..	..	74	124	138
Serbia	..	..	..	..	35	44	47

Source: UNCTAD, WIR11, annex tables.

2. FDI stock by main economic activities

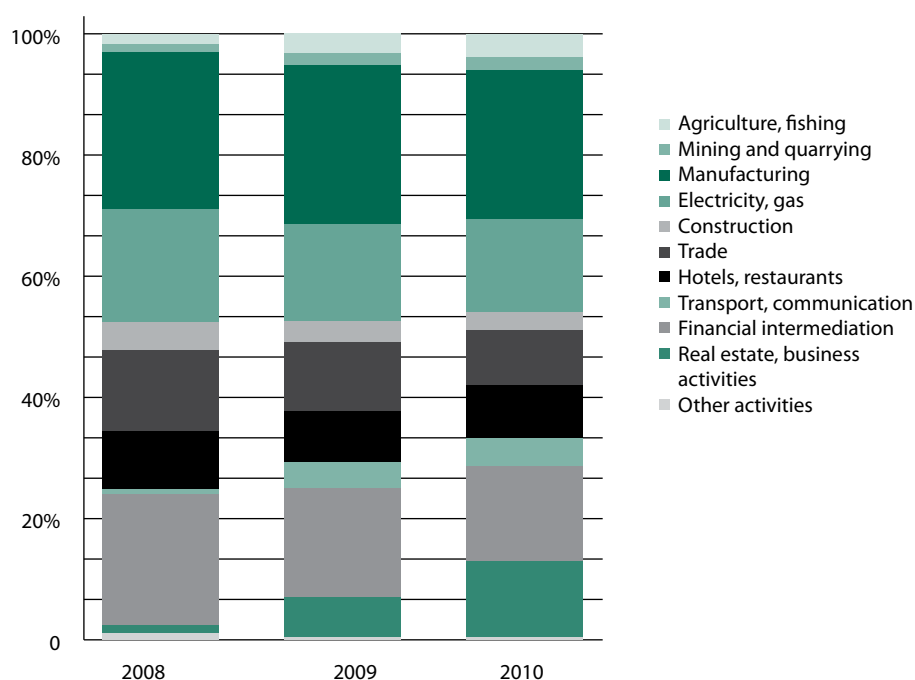
The composition of FDI stock underwent significant changes in the years 2008–2010. In 2008 the services sector dominated with 66 per cent of the total FDI stock; the share fell to 58 per cent in 2010. During the three years the FDI stock in services remained almost unchanged while it expanded in some other economic activities. The main beneficiary was mining. The share of mining sector FDI increased almost tenfold in three years from negligible to almost 13 per cent of the FDI stock. (This is the result of the concession policy of the Government, outlined below

in chapter II.) A similar development took place in the energy sector which increased its share from less than 1 per cent in 2008 to almost 5 per cent in 2010.

Telecommunications had been among the most dynamic service activities in Albania. They developed mainly via privatization and subsequent investments of foreign investors and to some extent through domestic investments. But FDI in this sector has subsided in more recent years and its share in FDI stock fell to 15 per cent in 2010. The first mobile operator in Albania was launched in May 1996 by Albanian Mobile Communica-

FIGURE I.4.

Albania: Inward FDI stock by main economic activity, 2008–2010 (percentage share)



Source: Based on data provided by the Bank of Albania.

tion (AMC), a state-owned company at that time. In 2009, 85 per cent of AMC's shares were sold to the Cosmote (Greece)-Telenor (Norway) Consortium. Vodafone Albania, an affiliate of Vodafone (United Kingdom) was the second cellular operator to be licensed in Albania in June, 2001. Eagle Mobile entered the market in October 2008 and the fourth mobile operator, a joint venture between Albanian companies and Kosovo Post & Telecommunication received its license in 2009. The fixed telephone operator Albtelekom sh.a. was privatized through sale of shares to Calik Enerji Telekomunikasyon (Turkey) and its partner Turk Telekom. Due to post-privatization investments and investment by the new entrant, the number of fixed-line telephone connections in Albania rose by 30 per cent to 360,000 subscribers and those of mobile phones more than tripled to over 4.16 million subscribers between 2005 and 2009. This level of mobile phone penetration is similar to that in developed countries such as Germany. With the spread of mobile internet the lack of fixed-line connections loses its importance.

The financial services industry has also undergone sweeping changes due to FDI. The entry of foreign banks in the 2000s and the takeover of domestic banks consolidated the banking system. By the end of December 2008, foreign capital in Albanian banking is estimated to have increased to ALL 50.3 billion or 91.8 per cent of the total (from 88.8 per cent in end-2007), while domestic capital is estimated to have fallen to ALL 4.5 billion or 8 per cent of the total (Bank of Albania, 2009). The largest foreign investors in banking in Albania are from Austria (Raiffeisen International Bank), Greece (National Bank of Greece, Alpha Bank Greece, Emporiki Bank of Greece), Turkey (Calik Sekei) and Italy (Banca Veneto, Intese San Paolo). In 2009, Greek banks controlled roughly 30 per cent of the market in Albania. United Bank of Albania is 4 per cent owned by the Government of Albania; Arab financial investors account for the bulk of the rest.

Overall, foreign banks appear to have had a positive influence on the efficiency

and stability of the banking system in the economy. They have strengthened risk management and corporate governance through a more efficient allocation of capital and increased competition, and have introduced more sophisticated financial services. As a result the banking industry has expanded rapidly, supporting economic growth, and non-performing loans declined until 2008. New and more up-to-date banking services have been introduced. However, the overall positive features by international banking standards do not satisfy all the needs of the Albanian economy yet. SMEs still have limited access to bank financing and there is need for improved credit guarantee schemes.

More recently, the transmission of the effects of the international financial crisis through banking relationships has raised concerns in Albania and other countries of South-East Europe. In Albania, however, the banking industry is in good shape not only due to its privatization and the involvement of foreign banks but also to monetary policy which provided timely support via two cuts in the central bank's interest rate and liquidity injection. Prudent supervision and regulation helped ensure that banks entered the crisis in good shape and could rely on substantial solvency and liquidity buffers. These were further boosted by foreign parent-bank support (IMF, 2010). But in 2010 and 2011 the share of non-performing loans grew and the amount of new loans to the business sector declined. Credit conditions have become tighter and the private sector has had difficulty meeting its obligations. Overall business sentiment deteriorated and the construction sector was forced to contract. New FDI in the banking sector is still substantial but significantly lower than before 2008.

Wholesale and retail trade became more important receivers of FDI in 2007 but their share in total FDI has declined in subsequent years. The European supermarket chains that dominate the retail sector in the new member states of the EU are just at an early stage of expansion in Albania. Besides the METRO Group (Germany), which has

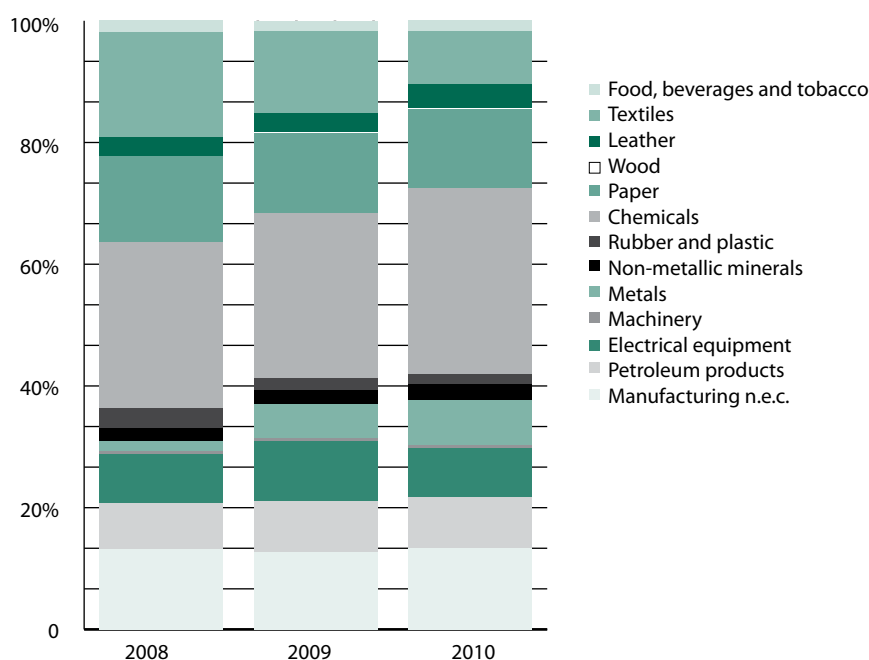
invested in a wholesale store in Albania, the Italian cooperative food store Conad is the most important foreign firm operating in wholesale and retail trade services.

Real estate activities by foreign affiliates are also marginal, accounting for only 2 per cent of the FDI. Slightly more noteworthy is the development of “other business activities” including consulting, IT and call centre services, with almost 4 per cent of the FDI stock in 2010. Business process and information technology services have undergone some growth since 2007 and may have good prospects, also in comparison with other countries in the region. Proximity to Italy and good Italian language skills in a growing section of the Albanian population enable the country to attract Italian firms to set up business support and call service centres. Pioneers in this respect include Italy’s Answer Group and Tele performance. More training of the labour force as well as better fixed-line telephone services have been identified as factors of key importance for further growth of business services. The hotels and restaurants industry accounts for only 1 per cent of the FDI stock, although the country has

good natural potential for attracting tourism. There is also very little investment in legal and consulting services, the presence of which would be necessary for investors. FDI in these services may expand as demand for them grows.

A detailed breakdown of the FDI stock in manufacturing reveals the dominance of capital intensive industries. The branch of manufacturing with the largest FDI stock is the production of non-metallic mineral products (construction materials) (figure I.5). It is followed by the petroleum products based on local natural resources. Another important investment target, the production of basic and fabricated metals, also uses local ores. A further industry with relatively high FDI is the production of food and beverages. This is based both on imported as well as on local raw materials. 16 per cent of the manufacturing FDI stock was invested in the production of textile and leather, labour intensive activities with good export potential. The higher-technology industries, like the production of electrical machinery and vehicles are almost entirely missing not only among the investment targets but also in the Albanian economy as a whole.

FIGURE I.5.
Albania: Inward FDI stock in manufacturing by industry, 2008-2010 (percentage share)



Source: Based on data provided by the Bank of Albania.

3. FDI stock by country of investor

As is usual with small countries, Albania receives an exceptionally large part of its FDI from a neighbouring country – in its case, Greece (table I.12 and figure I.6). FDI from Greece accounted for 27 per cent of the FDI stock in 2010, fifteen percentage point less than three years before. A deep debt crisis in Greece which challenged the financial stability of the largest companies and banks is likely to have played a role here. It is also important to note that FDI in Albania has diversified to activities where Greek investors do not have firm-specific advantages. Greek FDI focuses on telecommunications and financial intermediation where the capital stock even declined since the foreign takeover. It is due to the fall in Greece's FDI that the share of EU members has declined in the Albanian FDI stock from almost 80 per cent in 2006 to 67 per cent in 2010; FDI

they are also present in the services sector, mainly in financial intermediation, finance is still under-represented in Italian FDI in Albania, compared with FDI from other major investor countries. Another peculiar feature of Italian investment is that there are many small- and medium-size firms among the investors.

Austria is the third most important source country with 14 per cent in 2010 following an increase of six percentage points since 2007. Almost all of the Austrian investment is in the banking sector, mainly as a result of the purchase of the Savings Bank of Albania by Raiffeisen International, the largest bank in Albania with 30 per cent of the banking assets in the country (2009). Canada is fourth in the ranking of investing countries in 2010, partly due the Bankers Petroleum Ltd., a Canadian-based oil and gas exploration and production company developing large oil and gas

TABLE I.12.

FDI stock in Albania by region/home country, 2005–2010 (Percentage of total)

Region/country	2005	2006	2007	2008	2009	2010
Developed countries	85	88	82	81	82	82
European Union	78	79	70	69	70	67
of which:						
Austria	5	9	8	9	10	14
Germany	3	3	3	3	3	3
Greece	55	53	42	34	30	27
Italy	12	11	12	16	16	15
North America	6	7	4	5	7	12
of which:						
United States	4	4	4	4	2	1
Developing countries/regions	12	10	16	16	16	15
Africa	0	0	0	0	0	0
South America	-	-	-	-	-	-
Asia and Oceania	12	10	16	16	16	15
Lebanon	3	2	2	2	2	1
Turkey	6	6	8	9	10	11
South-East Europe	3	2	2	2	2	1
International Organizations	0	0	1	1	1	1

Source: Based on data provided by the Bank of Albania

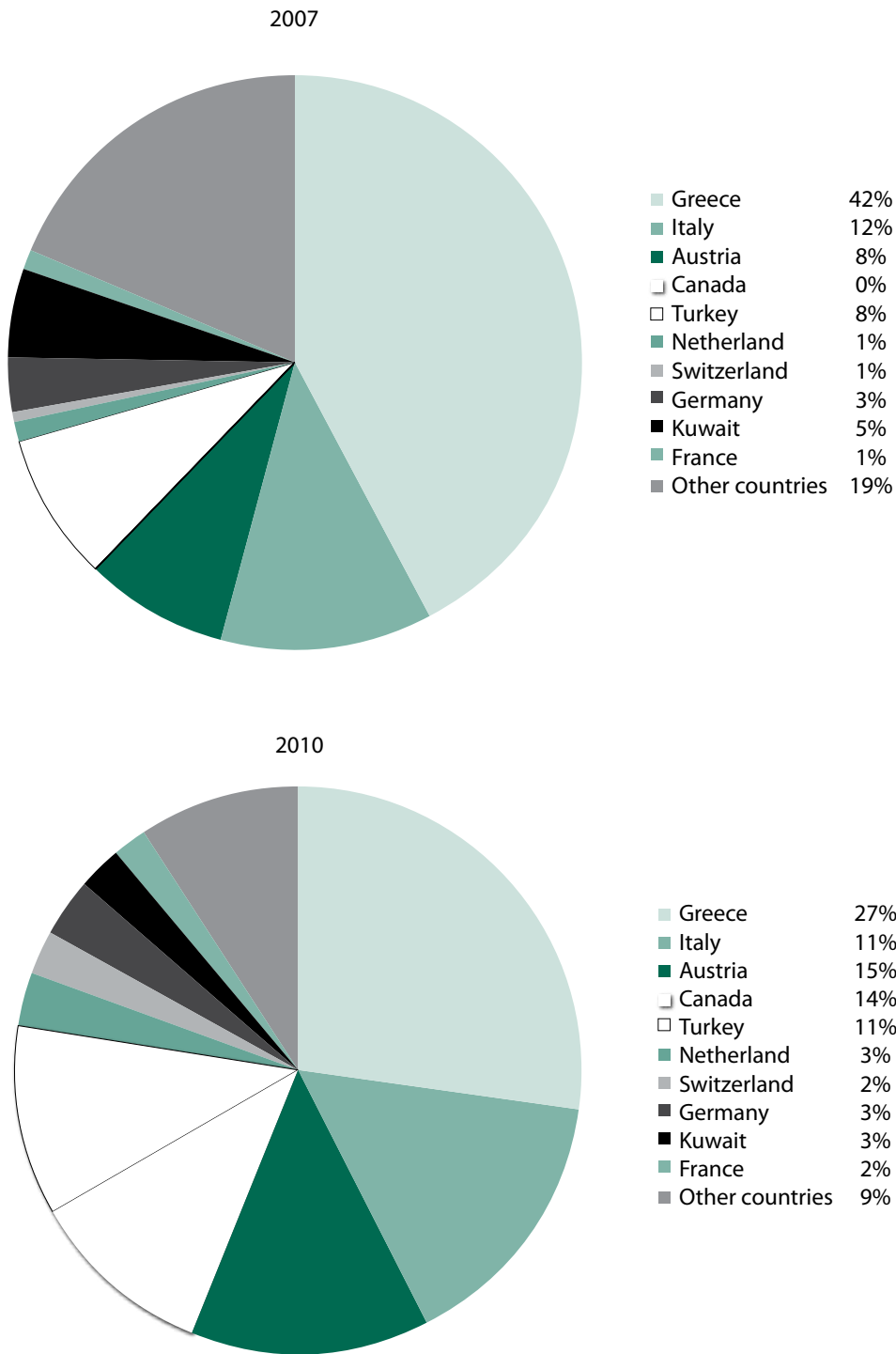
from Turkey has replaced it.

The second largest source-country for FDI in Albania is Italy, with 15 per cent of the stock in 2010, gaining three percentage points in three years. Investments originating from Italy focus mainly on manufacturing and construction. While

reserves in the country. The importance of Turkish investors has also increased, to 11 per cent in 2011 from 8 per cent in 2007. Investors from Turkey are present in a number of activities. German, Dutch and Swiss investors that normally rank among the first five in importance

FIGURE 1.6.

Albania: geographical breakdown of inward FDI stock by source country, 2007 and 2010



Source: Data provided by the Bank of Albania.

in other countries of Central and Eastern European countries play a marginal role in Albania. Their limited presence could be due to the relative lack of investment opportunities in medium- and higher-technology manufacturing.

Due to financial instability in the

main source economies of FDI in Albania, efforts are necessary to diversify to new sources of FDI. But the country may also benefit from an eventual capital flight from Greece if companies leave that country due to diminishing demand and increasing tax burden.

D. Effects of FDI: the role of foreign affiliates in the Albanian economy

This section looks at some important features of foreign affiliates with at least ten per cent foreign ownership, called foreign investment enterprises (FIEs) (box I.3), with a view to understanding their contribution to the Albanian economy.

There was an important increase in the share of FIEs in the Albanian economy between 2007 and 2010 (figure I.7). This change was most pronounced for investment and turnover while in terms of employment the increase was small. This is especially the case in manufacturing employment where the share of FIEs stagnated, while it increased in turnover.

Box I.3 Data on foreign investment enterprises

Data on foreign investment enterprises have been gathered by Albania's INSTAT in the framework of its Structural Business Survey (SBS), which closely resembles that of the Bank of Albania (BOA) survey for FDI statistics (see box I.2.). Both cover enterprises with 10 per cent or more ownership by a foreign investor (FIEs). Data are grouped by economic activities according to NACE (Nomenclature Générale des Activités Économiques dans les Communautés Européennes) classification at the two-digit level. However, the coverage by economic activity is only partial, and excludes enterprises active in agriculture, financial intermediation, education, health, and cultural activities. Data were weighted in the same way as other SBS data; thus comparability is achieved which allows calculating the share of the foreign investment enterprises (FIEs) in the Albanian economy by various indicators covered by the SBS.

Source: INSTAT

The **number of FIEs** is marginal relative to the total number of enterprises: only 2.1 per cent of the total number of active enterprises in 2010 had foreign investment (figure I.7). This is nevertheless more than two times higher than in 2007. The share is larger in manufacturing (5.3 per cent in 2010). In some activities the number of enterprises is small in absolute terms but a larger than average proportion of them is FIE. FIEs account for a high proportion of companies in the extraction of petroleum (more than half), in the production of other transport equipment, electrical machinery and petroleum products, as well as in the electricity and gas sector (more than one third, figure I.8). These are the activities with very high capital intensity where SMEs, usually domestically owned, are

rare. In other activities like retail trade or hotels and restaurants local SMEs are numerous and dominate.

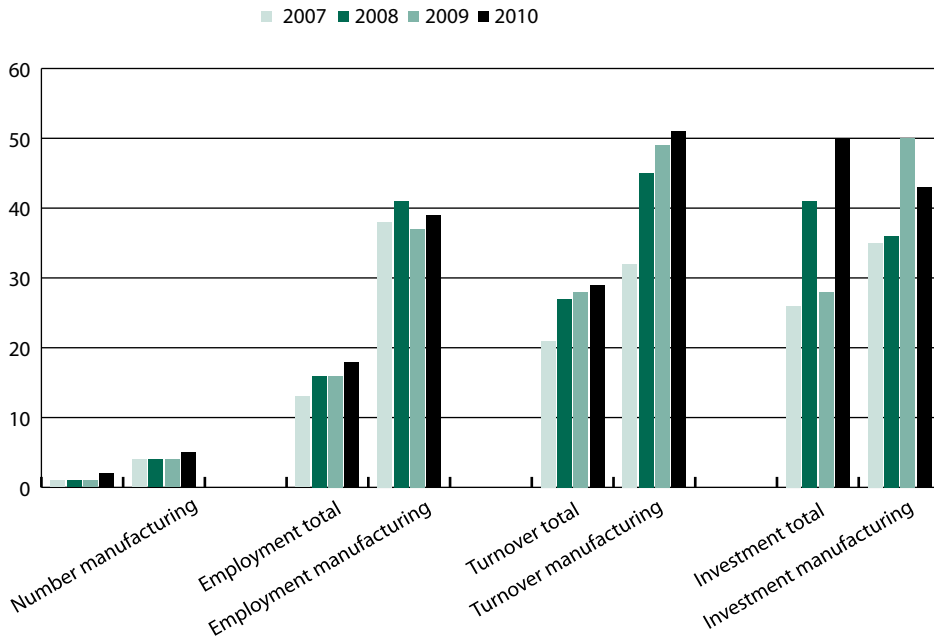
The share of FIEs in the Albanian economy is much higher in terms of all other indicators than in the number of enterprises (figure I.7). This reflects the fact that the foreign affiliates are much larger in size; they have many more employees and higher turnover per enterprise than the domestically-owned companies. Larger size and more economic power may add positively to the domestic economic structure but may also result in unequal competition with domestic firms, especially SMEs. The sectoral composition of foreign affiliates differs from that of Albanian enterprises. The main distinguishing feature is the high percentage of foreign affiliates in the manufacturing sector despite a relatively small share of manufacturing in total FDI stock.

As to **employment**, the share of FIEs is 18 per cent for the economy as a whole, but much more (39 per cent) in manufacturing (figure 1.7). Their share in employment is relatively small compared with the share in turnover which is a sign of the higher labour productivity of the foreign sector. More FDI can result in higher turnover and labour productivity but not necessarily in higher employment. The lead of the foreign sector in terms of labour productivity is more pronounced in capital-intensive industrial activities like non-metallic minerals, basic metals and general machinery. All these positive features of the foreign sector support an FDI-oriented government policy in manufacturing. FDI in this sector can be particularly development-augmenting. Crowding out is not a danger as domestic companies are absent from or play a limited role in several industries. But uniform regulation must be in place to ensure fair competition and the recognition of competition rules.

The **turnover** of foreign affiliates represents 29 per cent of the total, but in manufacturing, it is much higher, at 51 per cent (figure 1.7). Both shares are higher by 1–2 percentage points than they were two years earlier. The overwhelming part of the turnover of FIEs is generated by four main economic activities, manufacturing, transport and telecommunications, con-

FIGURE 1.7.

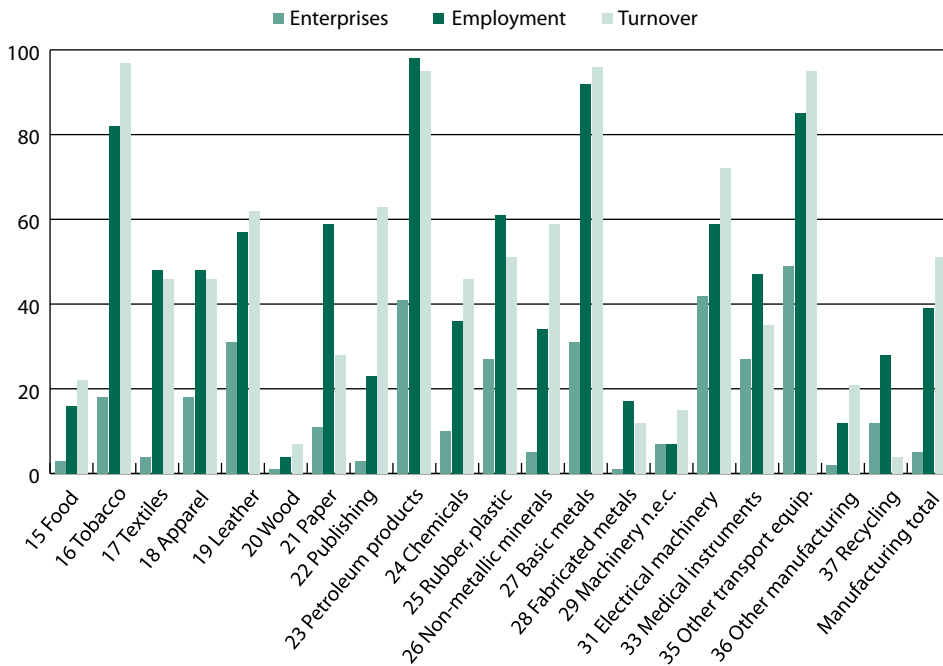
Share of foreign investment enterprises in the Albanian economy, total and in manufacturing in terms of number of enterprises, employment, turnover and investment expenditure, 2007–2010 (Per cent)



Source: Based on data from INSTAT.

FIGURE 1.8.

Share of foreign investment enterprises in manufacturing in Albania by NACE 2 digit industry, in terms of number of enterprises, employment and turnover, 2010 (Per cent)



Source: INSTAT, structural business survey (SBS).

struction and trade. As to manufacturing the FIEs are most important in the tobacco industry, petroleum products, basic metals and other transport equipment where they produce almost the total output of the country (figure I.8). To a large extent this is the result of the privatization and concession policy of the Government.

The investment activity of foreign affiliates amounts to half of the value of total investments in in Albania (figure I.7). Investment expenditures per unit of turnover are higher in the FIE sector than the average for the Albanian economy as a whole. Increased investment due to the greater propensity of foreign firms to invest is a clear advantage derived from FDI. Investment is especially high in telecommunications following foreign takeovers. The share of FIEs in manufacturing investments is smaller than their share in investments in the economy as a whole in 2010. Also, the investment propensity of FIEs in manufacturing tends to be lower than that of the foreign sector taken as a whole. The latter can be a danger for the future when production costs rise and technological development are needed. FDI policy and promotion may target foreign manufacturing companies well established in the Albanian economy to carry out modernization, follow-up investment and upgrade the competencies of local affiliates.

In conclusion,

- Foreign investment enterprises have high significance in the Albanian economy in terms of production, employ-

ment and investment activity.

- FDI improves labour productivity and the propensity to invest which may increase international competitiveness. However, high foreign participation in certain sectors and industries is also a sign of weaknesses in the domestically-owned part of the economy, including an underdeveloped local SME sector.
- Foreign investment enterprises in Albania have an uneven distribution across the economy. Although they drive some reindustrialization in the country, their involvement in activities with higher technologies is still weak.
- The labour productivity gap between foreign affiliates and domestic companies is relatively small in the manufacturing industries pointing to a relatively similar level of technology used by foreign affiliates as compared with domestic firms.
- The policy conclusion is that conditions for higher value-added FDI have to be put in place. This requires higher standards of training and the improvement of competencies of human resources. Infrastructure development is another precondition for further FDI in manufacturing and recent improvements in roads and energy supply are a welcome step in that connection. But local infrastructure may still be deficient and therefore industrial parks should become operational to provide high-standard services for incoming investors.



POLICIES AND MEASURES AFFECTING FDI IN ALBANIA

With the start of the reform processes towards a market economy in the 1990s, Albania embarked upon a transformation of the political, economic, legal and institutional framework of the economy. The Government has implemented a series of structural reforms including among others, land reform, reform of the financial system, price liberalization, and privatization etc. Almost all state-owned companies were privatized, including telecommunications and banking. The country is now characterized by an open economy, with a liberal trade and investment regime. Attracting higher levels of FDI is still a challenge for the country. The reform process continues and aims at improving further the business and investment environment through the reduction of various legal and administrative barriers to doing business and improving the physical infrastructure. This chapter first gives an overview of recent assessments of Albania's business environment and international competitive position, then outlines the main features of the Government's policy to improve the business environment and finally, it provides an overview of the FDI regime in Albania.

A. Assessments of the business environment and the competitive position

*European Commission - Albania 2011 Progress Report*⁷

Albania fell short of receiving the status of a EU accession country mostly based on political reasons. The Report states that overall progress was made in establishing a functioning market economy. But it adds that Albania needs to commit itself to further structural re-

forms, among other things by bolstering economic policy governance, enhancing labour market performance and protecting property rights. Shortcomings were identified because the planned privatization programme was delayed, the pace of reforms to facilitate market entry and exit slowed, and weaknesses in the rule of law particularly in contract enforcement and property rights persist. Widespread corruption was found to have a negative effect on the business environment. At the same time, the Report recognizes that good progress has been in facilitating business registration and business licensing procedures as the National Licensing Centre extended its services network to cities beyond Tirana. Progress was also noted to have been achieved in the areas of regulatory reform and the regulatory impact assessment system.

*EBRD Country Assessments 2011: Albania*⁸

The main findings include:

- Progress in European Union approximation has slowed down. Internal political infighting has prevented the passage of important laws and reforms and has not allowed the country to gain candidate status.
- Road sector reforms have advanced. International financial institutions have provided important support to the building of new roads and upgrading infrastructure.
- Sales of state-owned assets should be concluded. The completion of planned privatizations would not only bring much-needed revenue to the Government, but would also signal its commitment to market-oriented reforms. This could trigger substantial foreign direct investment (FDI) inflows in the coming years.

⁷ European Commission, Albania 2011 Progress Report, Communication from the Commission to the European Parliament and the Council, p. 27.

⁸ Available at: <http://www.ebrd.com/downloads/research/transition/assessments/albania.pdf>

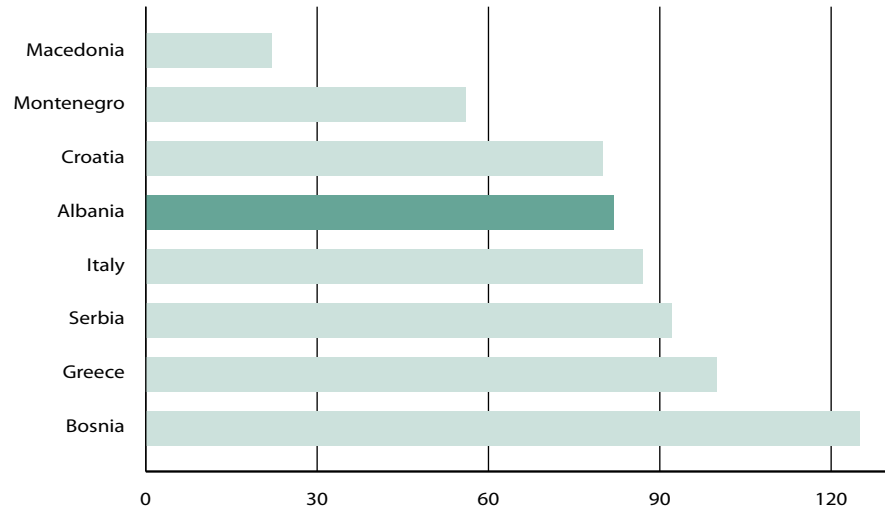
World Bank, Doing Business 2012⁹

In the 2012 global ranking of countries by the ease of doing business, Albania is in the 82nd position, with a performance slightly below that of the previous year. Albania ranks in the middle of the group of the Western Balkan countries and ahead of Italy and Greece (figure II.1). In terms of the ten main areas comprising the doing

business indicator there is a large difference. The country has higher ranking in Protecting Investors (16), Getting Credits (24), and Starting a Business (61) (figure II.2). It has a worse position in Registering Property (154), Getting Electricity (152), Paying Taxes (152) and is the lowest in the global ranking in Dealing with Construction Permits (183/183).

FIGURE II.1.

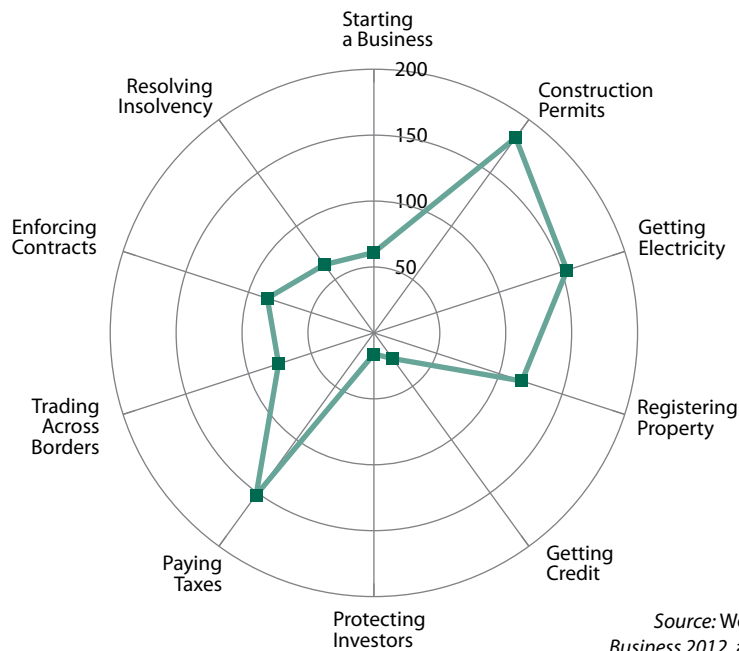
Ease of doing business ranking of Albania and its peer economies



Source: World Bank and IFC, *Doing Business 2012*, available at: <http://www.doingbusiness.org/rankings>

FIGURE II.2

Albania's ranking by the main indicators of Doing Business, 2012

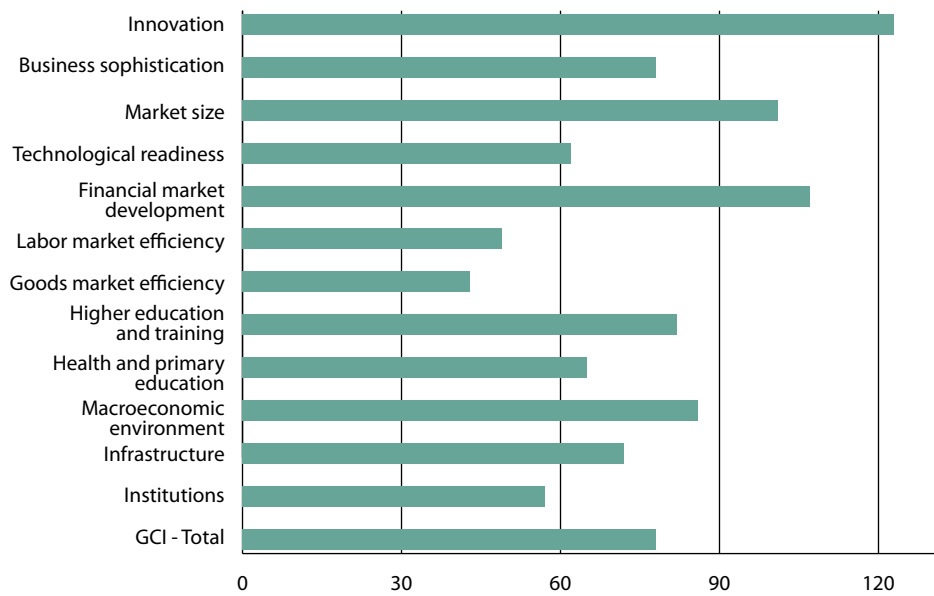


Source: World Bank and IFC, *Doing Business 2012*, available at: <http://www.doingbusiness.org/rankings>.

9 World Bank and IFC, *Doing Business 2012*, Economy Profile Albania (Washington D.C.: World Bank, 2012).

FIGURE II.3.

Albania's competitiveness ranking by major areas



Source: World Economic Forum, *Global Competitiveness Report 2011–2012*.

World Economic Forum - Global Competitiveness Report 2011–2012

B. Measures to improve the investment environment

Albania is included in the group of countries which are, according to the World Economic Forum's *Global Competitiveness Report 2011-2012*, in the second phase of development of competitiveness, called the "phase of economic-efficiency driven" growth. Albania's competitiveness has been steadily improving in recent years: its ranking by competitiveness rose from the 96th position in 2009 to 88th in 2010, and in 2011 Albania moved up ten places to reach the 78th position among 142 countries of the world. The country improved its performance across the board, reflecting a modest strengthening in basic requirements, efficiency enhancement and innovation factors, as shown in its ranking in major areas of competitiveness (figure II.3). The components with the highest ranking are goods market efficiency (43) labour market efficiency (49), and institutions (57). The country's overall competitive performance, however, continues to be dragged down by poor innovation (123), financial market development (107), macroeconomic environment (86), higher education and training (82). Companies surveyed for this report identified as the most problematic factors hindering competitiveness the access to financing, tax rates, corruption and tax regulation.

Being aware of the country's problems in terms of the business environment and to improve the competitiveness of the country and to make it an attractive place for foreign investors, the Government of Albania has undertaken a comprehensive reform programme. As a foundation for its economic policy, it has introduced policies to support private sector development. It has undertaken a comprehensive regulatory reform. The core of the measures consists in the reduction of administrative burden and cost of doing business. The steps taken during the years 2006–2011 are outlined based on information provided by the Ministry of Economy, Trade and Energy.

Business registration: Since 2007 the registration of a business is made in one day at the National Registration Centre (NRC) for less than €1 and the number of steps for starting a new business was reduced from ten to five. Within one day, in a single application, the new business can register online to satisfy the requirements relating to taxes, health insurance, and labour.

Licensing procedures: The licensing procedures in different sectors of economy have been simplified through the launch-

ing of the Business Licensing Center in July 2009. As a result, many requirements for licences were abolished and a broad simplification of the licensing procedures has been completed in many sectors including mining, hydrocarbons, public works, health, agriculture and the environment.

Public Procurement: The public procurement has significantly been improved in the last few years. Aiming at improving government effectiveness, transparency and strengthening the rule of law, Albania has established an e-procurement system that won a UN Public Service Award in 2010. This system handles now all procurements over \$4000 in value and has cut procurement costs and increased competition.

Taxation: Tax reform has streamlined and modernized the taxation regime, improved collection, and reduced the scope for discretion and tax evasion. Tax policy is based on the philosophy of lower taxes and extended range of tax-payers. The country introduced a 10 per cent flat corporate and personal income tax as of 2007. Also, social security contributions were streamlined; currently they represent 28 per cent of the gross wage (16.7 per cent paid by the employer, and 11.2 per cent paid by the employee). Law No. 9975 of 28 July 2008 further simplified taxation reducing the number of national indirect taxes (other than the VAT) from 23 to 7 by eliminating and consolidating a number of taxes while transforming others to fees. The remaining national taxes are: road tax, environmental tax, port tax, mineral rent tax, stamp tax, tax for registration of casinos and gambling, and tax on fishing activities. As a result of the tax reforms, fiscal revenues have increased at a higher rate than GDP and the number of taxpayers became broader.

Trade policy: An appropriate trade policy facilitates the integration of the Albanian economy into the regional market of South-East Europe which can compensate for the country's small size by opening up the prospect of serving a market of about 50 million people. Integration is fostered by trade liberalization, supporting exports and encouraging FDI. The Government has taken action to harmonize

the Albanian legislation with international trade rules and with the European Common Commercial Policy. Since becoming a WTO member in September 2000 Albania has implemented the full liberalization of its import-export regime for goods. Further trade policy steps will be achieved with the elimination of all non-tariff barriers to trade.

The *Stabilisation and Association Agreement* (SAA) with EU signed on 1 December 2006 contains an interim free trade agreement with the EU which came into force on 1st April 2009. This agreement, an important step on the way to EU membership, is expected to open new opportunities for the development of the country.

Since January 2004 Albania has completed and started to implement a full network of *free trade agreements* in the South-East European region with the former Yugoslav Republic of Macedonia, Kosovo, Serbia and Montenegro, Bulgaria, Romania, Bosnia and Herzegovina, Croatia and the Republic of Moldova. That was followed by the liberalization process and the adoption of a joint agreement on free trade. The Central European Free Trade Agreement (CEFTA) 2006 was signed by all parties listed above and has been fully operational since November 2007. This agreement is not a formal transformation of the network of the individual free trade agreements into one, but reflects a higher level of trade opening and regional cooperation among the countries in the region. The liberalization policy has continued with the free trade agreement between Albania and Turkey, and with the free trade agreement of Albania with European Free Trade Association (EFTA) states.

Industrial parks and free zones. Among the tools of investment facilitation in the country are industrial parks and free zones the setting up of which has been initiated by the Government. The legal basis for the development of these economic zones is the Law no. 9789, dated 19.07.2007 "On the establishment and operation of economic zones", which regulates the establishment of economic zones and related matters. The selection of the "developer" of the economic zones is based on the criteria defined in the law 9663, dated De-

ember 18, 2006 “On Concessions.” Concession to the developer is mainly in the BOT form (build-operate-transfer) for a period up to 35 years and under a nominal fee regime of 1 €.

The free trade zones and industrial parks are being established near ports, airports or at the crossroads of international transport. Economic zones are proposed by the Ministry of Economy and approved by the Council of Ministers on a case-by-case basis. Investments expected in the economic zones are estimated to be over 100 million €. Investment will be mainly greenfield except in the industrial park of Elbasan which will be of the brownfield type in the premises of a closed-down enterprise. As of 2010, the Council of Ministers had approved nine economic zones, one of which, in Vlorë, has the status of a free zone. The rest have the status of “Industrial Park” and are located in Koplik (Shkodër), Shëngjin (Lezhë), Vlorë, Elbasan, Spitalle (Durrës), Shkodër, Laknas (Tiranë) and Lezha. The park in Vlorë will start functioning soon and for the one in Shëngjin the development contract is signed and operations are expected to start also. The industrial parks may be used for manufacturing, agro-processing, trade and supporting activities. The development agency AIDA will serve as a “one-stop-shop” for the licensing of tenants in the economic zones.

Aside from policy reform and measures to facilitate business, a critical issue for firms is the extent to which existing laws and regulations are implemented and enforced. Albania has made considerable efforts to improve the investment climate by enacting large numbers of new laws and regulations (in accordance with requirements for EU accession). However, where laws are incomplete (lack implementation regulations) or inconsistent with each other, a gap can emerge between the formal legal structures and actual implementation practices which tend to undermine the rule of law and increase uncertainty for businesses (World Bank 2010a). Clarity is also needed on the processes for enacting new laws and regulations and for reviewing the efficacy of existing ones.

Regulatory reform to improve transparency and predictability of Albania’s

laws and regulations includes the establishment of the Regulatory Impact Assessment (RIA) system, the Inspection System Reform and the establishment of the Electronic Registry of Business Legislation. The *Regulatory Impact Assessment system* is the basic institution to improve the quality of regulations and their impact on businesses. The *Inspection System Reform* is among the most complex reforms undertaken so far. The Horizontal Law on Inspection Nr.: 10433 Dt.: 16.06.2011 contains the general principles of inspection, the establishment of the central inspectorate for inspection and sharing of roles among institutions. The *Electronic Registry of Business Legislation* was established in the end of 2010. Its aim is to initiate consultation over draft acts, and also on acts that are in force in order to improve their quality.

In order to *forestall corruption*, control systems have been put in place in the customs administration and in the offices controlling state expenditure. Also, the tax administration and audit processes have been revised to reflect international standards. They are organized along clear administrative lines working as deterrents for tax officials to engage in corruption. Nevertheless, the informal sector in the economy is still significant, and that facilitates tax evasion.

Privatization has been an important part of Albania’s reform process and an important tool to attract foreign investors (see also chapter I). The privatization strategy approved by Law No. 8306 dated 14 March 1998 aimed among others at the attraction of strategic investors, stimulation of the economy through the efficient use of human and natural resources and guaranteeing the stability of ownership. No limitations on the participation of foreign investors have been applied in the process of privatization. Foreign investors are allowed 100 per cent ownership of privatized enterprises. Although it is facilitated by the law, the State has not maintained control on companies using the so-called “golden share”. The most important privatization deals, after 2000 (according to METE) include:

- in 2001, the privatization of the Commercial Bank by its sale to the Calik

- Group of Turkey for US\$10 million;
- in the same year, the privatization of 85 per cent of the shares of the mobile telephone company AMC by their sale for US\$85.6 million to Cosmote (Greek OTE Group),
- and the licensing of the second mobile telephony operator, Vodafone for US\$30.1 million;
- in 2004, the privatization of the Savings Bank by its sale to the Raiffeisen Bank of Austria for US\$124 million;
- in 2007, the privatization of 84 per cent of the shares in Albtelekom by their sale to Calik Enerji Telekomünikasyon for € 120 million;
- in 2008, the oil refining company ARMO was privatized by its sale to the consortium The Refinery Associates of Texas, Anika Enterprises SA, Mercuria Energy Group Limited for €126 million;
- in 2009, 76 per cent of the electricity distribution operator DSO was privatized by its sale for €102 million to CEZ of the Czech Republic;
- in March 2009, the package of shares owned by the State in the AMC company, 12.6 per cent of the capital, was sold for €48.2 million;
- In 2012 the privatization of Albpetrol started.

The privatization process has almost come to an end with only a few large and a number of small cases remaining. The large companies for sale include Albpetrol, the country's sole oil extraction company, for which Parliament approved the Law Nr. 10490 "On the definition of the form and structure of privatisation formula of the company ALBPETROL Sh.a" in December 2011. Currently most of the existing oilfields administered by Albpetrol JSC are given for exploration and production through petroleum agreements. The main holder of the agreements is Bankers Petroleum Ltd., a Canadian-based oil and gas exploration and production company focused on developing large oil and gas reserves. Bankers operates and has the full right to develop the Patos-Marinza heavy oilfield, has a 100 per cent interest in the Kuçova oilfield, and a 100 per cent interest in Exploration Block F. For other assets owned by Albpetrol and not included in the petroleum agreements finding the ap-

propriate privatization path is in progress. The Government has hired the Washington-based law firm Patton Boggs to advise the sale of Albpetrom.

In addition, the Government is trying once again to sell its stake in the insurance company INSIG, for which two previous tenders had failed. In preparation for a new privatization attempt, the authorities removed the minimum bid requirements at the end of June 2011, and are expected to call a new tender in the coming months. (Two years ago, American Reserve Life Insurance Company agreed to buy a 61 per cent stake in INSIG for 41 million €, but withdrew later due to the financial crises.)

The privatization of the Albanian Government's minority stake (16 per cent) in the fixed telephone operator Albtelecom went through an auction on 15 March 2012. Also, in 2012 procedures will start for the privatization of the remaining shares of DSO and ARMO.

Further, the Government plans to privatize some of its remaining assets in the hydropower sector. Four hydropower plants (Ulez, Shkopet, Bistrice 1 and Bistrice 2) have been put up for sale and their auction is announced for June 2012. In addition, the Government announced its intention to privatize nearly 1,300 of its remaining (mostly small) state-owned enterprises, some of which are former military establishments .

Public-private partnership (PPP) has been regulated by the legislative package under Law No. 9663, dated 18 December 2006 "On Concessions". Amendments to this law should enable increased transparency, effectiveness and fairness when signing concessionary agreements. Concessions, including to foreign firms, have been implemented by the Government in different sectors like energy, mining, airport infrastructure and the management of water-supply and communal sewage systems.

Concessionary projects in the energy sector aim at increasing the production of electricity to almost twice the current level and at the diversification of energy resources to renewable energy. The strategy of the Government for increased *elec-*

electricity supply security is the exploitation of the power potential in the country which has not been utilized yet. This is foreseen to be realized mainly through private investments and concessionary contracts for PPPs, including with TNCs. The Ministry of Economy, Trade and Energy has signed 114 concessionary contracts for the construction of 327 hydro power plants with a total capacity of 1400 MW with an investment value of 1.7 billion €. 43 of them are in the production phase, 40 are in the construction phase and the process of signing and negotiation of further concessionary contracts continues in.

As part of the energy stability programme, the Government of Albania completed the construction of a new 97 MW oil fuelled power plant in Vlora with a value of about 80 million € that has become operational and started power generation in 2012. In addition, licences have been given to a number of private investors to construct wind farms with a total installed capacity of around 1500 MW foreseeing an investment of around 1.5 billion €. Meanwhile Albania is moving towards a regional energy market and participation in regional power exchanges. Inter-state interconnection lines have become operational connecting Elbasan-Tirana and Tirana-Podgorica. Additional investments on two submarine cable lines with Italy and interconnections between Tirana-Prishtina, Tirana-Skopje lines will eventually close the bypass regional electricity transmission involving Albania.

In the mining sector, existing projects include Albanian Chrome Sh.p.k. (ACR) that operates in Bulqiza the largest chromium mine and the ferrochromium plant in Elbasan. In a new project, Kurum Energy, Resources and Metallurgy Sh.a. (a subsidiary of Kurum Holding A.S. of Turkey) and Sichuan Jiannanchun International Group Ltd (a major Chinese group) have signed with the Albanian Government a concession agreement on the exploration and exploitation of Kalimash and Vlahne zone chromite deposits and the establishment of copper enrichment facilities in northern Albania in April 2010. The concession rights enable the locally established company of the above investors, Illyria Minerals Industry Sh.a (IMI), the acquisi-

tion for a term of 35 years a 6 million-ton chromite and copper ore deposit which is located in the area of Albania bordering Kosovo. The new company is expected to produce about 210,000 tons per year of chrome.

In the petroleum industry, the Government has agreements on exploration and production of oil and gas with companies like Islandrockall JV. and Australian Beach Petroleum Ltd, Capricorn Albania Ltd, an affiliate of Cairn Energy company, Petromanas Albania GmbH, Banker Petroleum Albania, and Sky Petroleum. Further agreements exist for the production and development of existing oil and gas fields with Bankers, Stream Oil & Gas, Sherwood International Petroleum and IEC Visoka.

Developing the country's transport infrastructure is another priority goal of the Albanian Government. Aided by donor funding and working in partnership with the private sector, it has greatly developed and rehabilitated the road network to increase efficiency and capacity and improve both regional and continental transport links. The main highway currently stretches from the port of Durres on the Adriatic coast to the Kosovar border and when fully completed reaching Pristina, will be around 250km in length. The construction of Corridor VIII linking the port of Durres with the Former Yugoslav Republic of Macedonia is under construction, just like the North-South axis linking Montenegro with Greece through Albania. In just a few years, the country will be linked with its mainland neighbours by high quality roads facilitating transport and trade.

With its Adriatic coastline and close proximity to North Africa and the Middle East, Albania is strongly positioned as a regional hub for maritime trade. It has four major *seaports* – Durres, Vlora, Saranda and Shengjin, with Durres accounting for by far the largest volume of freight, around 75 per cent of the nation's total. Albania is modernising the transport links from its ports to various places in mainland Europe and is simultaneously increasing the capacity of its ports to cope with increasing volumes as well as improving their ef-

efficiency levels. In 2009, a 35-year concession contract was awarded to British-Swiss Zumax AG group to build a container terminal for ships in south-western Albania. Construction is expected to be completed in four years, providing a terminal with three-million container annual capacity. It is anticipated that over 4,000 companies will make use of the containers when the harbour becomes active in the form of a free-trade zone. Donor funding is aiding much needed modernisation programmes at Port Saranada whilst at Durres Port concession contracts will be awarded for the construction of a container terminal and of cement storehouses in an effort to open it up to foreign companies. Recognising the value of its port infrastructure, the Government has a development agenda to better meet increasing needs and demands. It is expected that FDI will play a huge role in this thriving sub-sector.

There has also been heavy investment in *air transport*. Tirana's Mother Teresa Airport has undergone significant modernisation and expansion in the last decade and is the most successful concession operated by a consortium of Hochtief Airport, Deutsche Investitions- und Entwicklungsgesellschaft mbH and Albanian-American Enterprise Fund in a Build-Own-Operate-Transfer (BOOT) contract for a duration of 20 years. In 2009, the airport served 1.4 million passengers, 180 per cent more than in 2005 and the number of international air operators increased from seven to 18. An Air Traffic Management Plan in association with Lockheed Martin, which is valued at around US\$50 million, will see the completion of a new air traffic control centre. To date Mother Teresa Airport has attracted internationally recognised airlines such as British Airways, Lufthansa and Austrian airlines. Though successful, a drawback of this concession agreement is that it gives the concessionaire a monopoly on all international traffic which is an impediment to developing smaller airports with international services such as Kukes and potentially Saranda to serve the growth of tourism in Southern Albania.

ICT infrastructure is another key factor for sustained growth. Over the

past decade Albania has upgraded its ICT infrastructure substantially. The ICT sector is growing rapidly, making it one of the country's most dynamic industries. In recent years government measures have been introduced through the Crosscutting Strategy of Information Society that aims to bring Albania up to speed in the digital age. Government legislation has liberalized the telecoms industry, bringing it into line with the EU regulatory framework for communications, which encourages competition. In 2007, the National Agency for Information Society (NAIS) was set up, aiming at accelerating the development of information society and e-government services. Having in mind that broadband networks and services can contribute to economic growth and increased competitiveness, one of the main targets of the Albanian Government is the building of a national broadband network which will provide Internet to all public schools, academic institutions, government agencies and the Albanian citizens in general. Currently, the Minister for Innovation and ICT are working to prepare the National Broadband Plan with the support of ITU.

As a result of technological development Albania succeeded in increasing substantially the availability of e-services across most basic government services. Almost 80% of the basic services at the central government level are currently accessible as e-services at first or second level of sophistication, while more than 50% of G2B services are provided in interactive levels of sophistication.

Mobile telephony access has improved and now it ranks among the best in the region. The growth of the sector was spurred by the introduction of market competition through a third mobile phone operator in 2008, Eagle Mobile, and a fourth company, an Albanian-owned one, Plus Communication SH. a. in 2010. The number of mobile telephony users reached about 5.2 million by the end of 2011 compared with 4.2 million in the end of 2010. This constitutes a penetration rate (number of users per 100 inhabitants) of 185 (140 in 2010), which is higher than the average level of the EU countries. A reduction in

mobile telephony tariffs in recent years has been achieved as a result of regulatory measures (number portability to be mentioned here) implemented by the Authority of Electronic and Postal Communications (AKEP) as well as higher competition in the market.

The internet usage has increased year by year. The number of households having access to internet is about 161 000 or approximately 22% of the households, and more than 90 % of them have broadband connection. During last 2-3 years the number of SMEs with a broadband connection has almost doubled. The number of broadband connections (fixed and 3G-USB/modem) per 100 inhabitants is about 6.2 compared to 3.7 by the end of 2010. The Global Information Technology Report 2011-2012 of the World Economic Forum shows that Albania moved up 19 places regarding to Network Readiness Index compared to previous report.

Despite the fact that the Albanian ICT sector was developed much in the last few years, there are still important objectives to be achieved such as country-wide internet coverage and a faster and more reliable network infrastructure. The main issues to be covered are the low penetration of fixed lines and internet, relatively low density of PC ownership, relatively high costs of internet access and services, low level of awareness of the benefits of the use of information and communication technologies, and the digital gap between urban and rural areas and in comparison to other countries in Europe.

Albania's efforts to strengthen the institutional arrangements and measures for promoting FDI are supported by cooperation and technical assistance from international organizations such as EC, UNDP, World Bank/FIAS, UNCTAD etc. One such successful initiative has been the "lead generation" exercises organized by Albinvest (the FDI promotion agency, predecessor of AIDA) with support from the EC-UNDP Trade Liberalization and Promotion Project which targeted potential investors and provided them with relevant information.

C. FDI policy - the investment regime

In 1993, Albania adopted a legal framework for FDI which was subsequently improved. The main characteristics of the current investment regime are:

- The Albanian economy is open to all investors. Prior authorization for investments is not required. As a rule, all sectors are open to foreign investment. The law guarantees equal and impartial treatment. Investment by both foreign and domestic investors is permitted on the same terms.
- The Law on Foreign Investments states that foreign investments may not be nationalized or expropriated, except in special cases defined by law and when in the public interest. In these cases procedures must take place without any discrimination and with compensation equal to the real market value.
- Investors in Albania are entitled to judicial protection of the rights related to their investment. The parties to a dispute may agree to submit disputes for consideration by an arbitration institution. In the event of a failure of such arbitration, foreign investors have the right to submit the dispute to an Albanian court or to the Arbitration Court in Tirana. In the event of a dispute regarding discrimination, transfer of assets, or indirect expropriation of foreign investment by the Government, the investor may submit the dispute to the International Centre for Settlement of Investment Disputes (ICSID). Ratified international agreements have legal superiority over domestic legislation in Albania in matters relating to FDI.
- Foreign investment enterprises registered in Albania as legal entities are allowed to own every type of land.
- Companies investing in Albania have the right to employ foreign citizens.
- Funds related to investments may be transferred outside the country in a convertible currency calculated with

the exchange rate for current transactions on the day of the transfer. Transfer of such fund can, however, be restricted for non-payment of taxes or not meeting obligations and by judicial decisions.

- Albania has 40 bilateral investment agreements in force on reciprocal basis.

Access to land in Albania is reported as a major problem for particular foreign investors due to various factors, including among others the lack of ownership documents, overlapping claims, and unpredictable court decisions. To respond to this reality and to facilitate the entry of foreign investors, the Government of Albania passed Law Nr. 10316, dated 16.09.2010 “On some additions to the Law Nr. 7764, date 02.11.1993 “On Foreign Investments”. This has awarded special state protection to certain categories of foreign investors that in the process of investing encounter problems with property ownership, due to claims on property titles by third parties. This protection will be provided temporarily for a period of four years or until the electronic register on property title is completed. The special state protection is provided for the foreign investments in public infrastructure, tourism, energy, or agriculture on real estate made available to the investor by the Albanian Government itself, and when the expected investment is worth more than 10 million €s.

Albanian legislation does not provide specific *incentives for foreign investors*. Foreign companies as well as domestic ones benefit in the same way from incentives offered in different laws. Incentives are regulated by Law No. 9374, dated 21 April 2005, on state aid, and amended by Law No. 10183, dated 20 October 2009 on the implementation of important projects. The law on state aid is valid for all production and service sectors and all measures undertaken by the national and local governments, as well as by other subjects acting on behalf of the State, and benefits all enterprises, except for those in agriculture and fishing. Incentives provided include the following:

- Investors that build plants for the production of energy with an installed capacity of over 5 MW, through the use of liquid or hard burning materials as

well as investors who rehabilitate existing plants, may benefit from the exemption of the customs tax on imported machineries and equipment used for capital investments. Such investors may also be reimbursed on the customs and excise tax they paid for the import of the fuel, used to produce energy (Law No. 8987, dated 24 February 2002 “On the creation of facilitating conditions, regarding the establishment of new plants for the production of energy”);

- Currently, importers of machinery and equipment may benefit from postponement of VAT payment for up to two years if machinery and equipment are used entirely for the importer’s economic activity taxable by Law No. 9856, on some amendments to the law on the value added tax, dated 26 December 2007. However, the Government has declared its willingness to amend again this Law by mid-2012, eliminating the VAT for such machineries and equipment.

A new law, No. 10303, dated 15 July 2010 approved by the Albanian parliament establishes AIDA (*Albanian Investment Development Agency*), which is designated as the national investment promotion agency (IPA). The agency started operation a year later and is becoming a key player in the attraction of FDI into the country. According to the law, the Government has assigned the following tasks to the agency:

- to facilitate and support direct investment in Albania, through the identification and promotion of investment opportunities, offering services and support to existing or potential investors;
- to increase the competitiveness of small and medium-sized enterprises, enabling the renewal and improvement of products and services and the technology they use, offering mechanisms to increase their technical capacity and skills renovation; to promote and support exports of goods and services by providing support services and providing financial assistance to exporting companies, and export promotion.
- The agency conducts all activities and takes all necessary initiatives to support

private-sector development and improve the business climate, helping private companies at all stages of their economic activity, as well as intermediating with investors and state authorities. Special attention will be given to redressing shortcomings in monitoring and assessment of investment projects, managing relations with clients, and services provided after the establishment of foreign investors, among others.

D. Investor satisfaction survey

The opinion of investors has been tested during December 2011 – January 2012 by a survey targeting all foreign investors in the various sectors of the Albanian economy. The investigation was led by AIDA, under the guidance of UNCTAD and in close cooperation with the Foreign Investor Association in Albania (FIAA) and UNDP. The aim was to find out the FIE executives' opinion/perception about the business environment in Albania and about their development objectives. The research team obtained 66 answers from a non-representative sample of foreign investment enterprises (FIEs), at least 60 valid answers for each question.

The main characteristics of the sample are as follows:

- more than half of the responding firms were established before 2005; the rest are of most recent origin;
- 60 per cent of the responding companies were established as greenfield investments, while the rest were brown-field investments;
- except for four companies, all respondents are majority foreign owned;
- companies were established by foreign investors from 18 home countries, with the most numerous being established by firms from Italy, Greece and Austria;
- regarding the main economic activities, 21 of the respondent companies are providers of ICT services, nine were in financial services, and the remaining in mining, construction and other indus-

tries; while only one company active in agriculture responded.

- 28.6 per cent of the respondents are micro enterprises with less than nine employees, 35.7 per cent are small enterprises with employment between 10 and 49 persons, 12.5 per cent are medium-size companies with employment of 49-250 persons and 21.4 per cent have more than 250 employees.
- 83 per cent of the companies are based in Tirana, and the rest are spread all over the country.
- The survey covers about 10 per cent of the foreign affiliates in the country which is a good degree of representation for such surveys.

The FIEs were asked about their rate of current satisfaction with key characteristics of the business environment and government policies compared with their expectations before initiating FDI in Albania (figure II.4). Some positive opinions were expressed:

- Just like in the 2010 survey, three quarters of the respondents are quite positive about the initiatives undertaken by the Albanian Government in the areas of start-up and licensing, provision of working permits and employment regulation.
- Companies are positive about the cost of labour, interaction with authorities, and linguistic as well as ICT related skills available in Albania.
- 40 per cent of the FIEs are by and large satisfied with the tax system and the employment regulations.
- 85 per cent of the companies have positive expectations to increase their activities in Albania.
- Most of the companies were growing in recent years, 56.6 per cent have more employees in 2010 than in 2008, 68.1 per cent have higher turnover and 66 per cent increased their market shares. In 2012, 57 per cent of the companies would increase

FIGURE II.4

Investor satisfaction survey: responses to the question “having invested in Albania, how is your experience thus far against your expectations?”

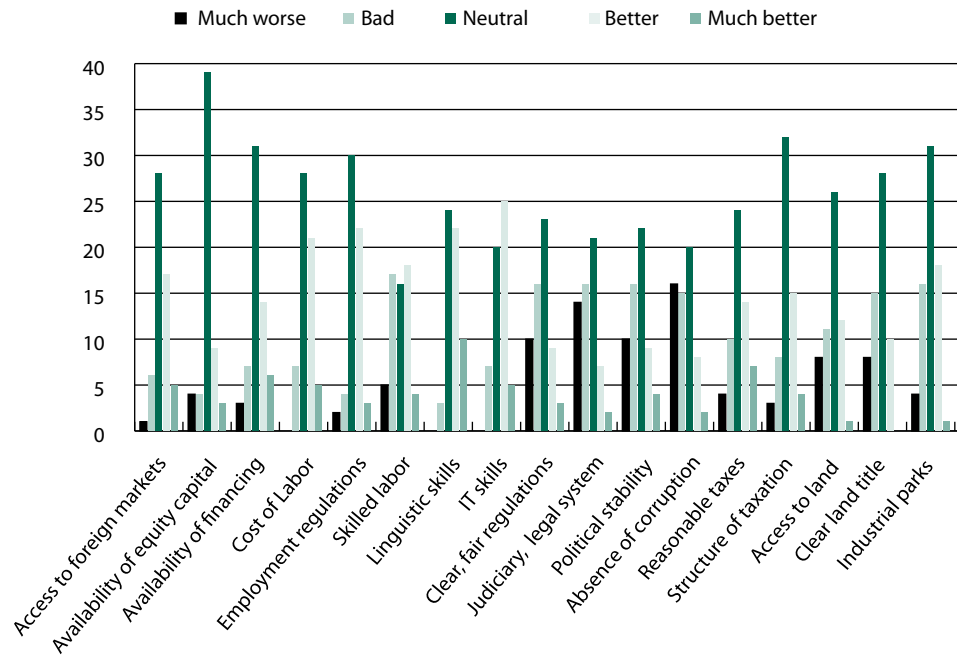
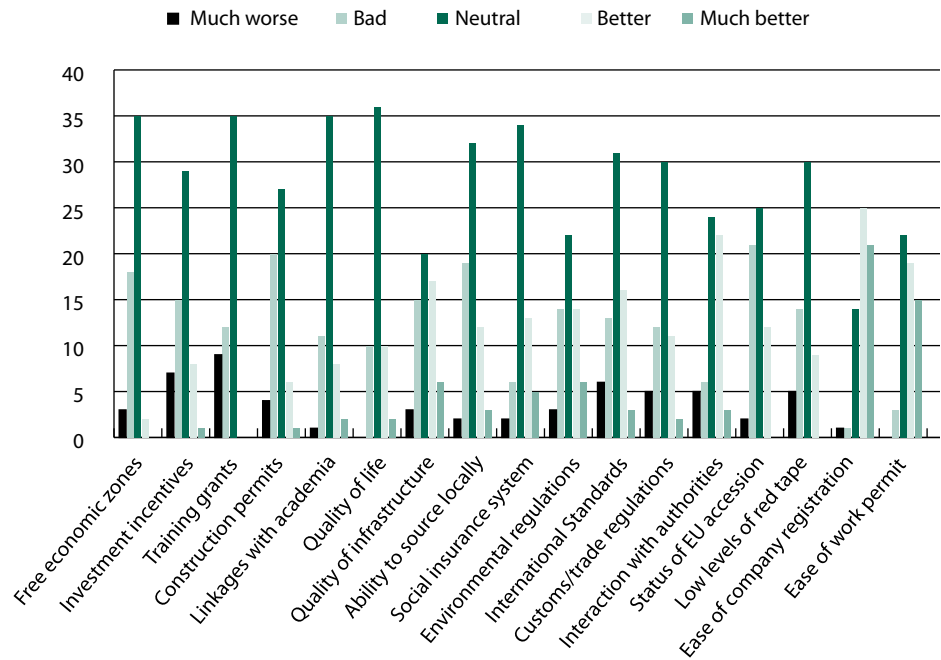


FIGURE II.4. CONTINUED



Source: AIDA/FIAA/UNDP survey on foreign investment enterprises

employment while 35 per cent will keep it constant.

More negative opinion (disappointment) was expressed in the following areas:

- Progress of accession to the European Union;
- functionality of judiciary;
- corruption;
- land ownership rights;
- ability to source locally;
- provision of planning and construction permits;
- lack of functional industrial or economic zones.

The survey also asked about the activities FIEs undertake in Albania. As to innovation, FIEs rely mostly on imported technology and do not undertake R&D in Albania. Only 25 per cent of the companies have invested in R&D, while more than 72 per cent have not allocated resources to technology innovation or get at least occasionally involved in R&D projects. Of those companies involved in R&D projects, 32 per cent do this in cooperation with one or more other FIEs and 22 per cent of them cooperate with universities. About 54 per cent of the FIEs have invested in regular market monitoring. Also, 85 per cent of them have strategic plans for the coming years. Investments would be financed by own resources in 56 per cent of the cases and only 25 per cent through bank financing.

Trade and networking relations are characterized by a predominance of imported inputs and domestic sales. This indicates the local market orientation of the companies in addition to poor export orientation. But export orientation certainly differs among FIEs in different economic activities.

Another set of questions asked companies about the main obstacles they face. The answers reveal that the majority of the foreign investors can rely on adequate financing and find enough workforce for their activities. They are quite divided as to the availability of skilled labour which can be translated into a demand for better education and vocational training. Another problem area is clarity and fairness of laws and regulations as well as the functionality of judiciary and of the commercial legal sys-

tem. Conditions of market access were found satisfactory but the interaction with authorities less so. Cumbersome communication with authorities was stressed also in the written comments.

Members of the foreign business community expect for the future that the Albanian Government further improves the business climate by simplifying administrative procedures, improving licensing and implementing the rule of law. In their view, post registration processes especially should be further simplified, helping avoid bureaucracy, and strengthening the competence of public agencies. They wish for further tax incentives, better tax administration and improvement of existing infrastructure. They identify as a hindrance to business the unwillingness of authorities to enforce the tax laws with all businesses as they find it very difficult to get proper invoices from small businesses. In their opinion, mostly, the smaller domestic companies do not register all workers and turnover and get in this way an unfair competitive advantage by avoiding taxation. They find that enforcement and transparency in tender procedures would help overcome corruption. Further policy recommendations include the abolition of VAT for imported machinery and a simplification and functional improvement of the land registry.

As regards the role of AIDA and government support, it is strongly recommended by the FIEs surveyed that AIDA be an active player and a collaborator with foreign companies, helping them to expand their activity in Albania. Also, AIDA should transmit all the issues raised by investors to public institutions and provide feedback. AIDA should continue to promote investment opportunities and to support existing and potential investors through active interaction.

Finally, FIEs reconfirmed that selecting Albania as a business location basically depends on stability of economic policy, governance integrity (lower corruption), reasonable taxation, clear land ownership and availability of skilled labour.



THE ROLE AND IMPACT OF FDI IN ALBANIAN AGRICULTURE

A. Main features of agriculture and agricultural policy in Albania

1. Production trends and natural conditions

Agriculture is one of the largest and most important sectors of the Albanian economy. The economic activity “agriculture, hunting and forestry” is the largest employer (44 per cent) and the second largest economic sector by value added (19 per cent) (table III.1). Agricultural employment has declined rapidly, but it is still very high in international comparison. The sector’s share in value added has declined in the last five years less rapidly than in the second half of the 1990s.

Despite the progress made during the last years, overall agricultural productivity in Albania is lower than in the agricultural sectors of its neighbours and the rest of Europe and lower than the average of the Albania’s economy as shown by the sector’s higher share in terms of employment than in terms of value added (table III.2). But since 2005 the decline in the share of employment is more rapid than of value added which indicates improving labour productivity.

Albania is the most agriculture-oriented country in the Western Balkans (table III.2). The share of agriculture in value added is around or below 10 per cent in all the other Western Balkan countries but the former Yugoslav Republic of Macedonia with its share somewhat higher than 11

TABLE III.1

Share of agriculture in the Albanian economy, 1996–2009 (Per cent)

Year	Value added	Employment
1996	36.6	70.3
2000	25.5	71.8
2005	20.6	58.5
2009	18.8	55.2
2010	20.3	55.3

Source: calculated on the basis of the INSTAT data.

TABLE III.2.

Share of agriculture in value added and employment in the economies of the Western Balkans, 2009 (Per cent)

	Albania	Bosnia & Herzegovina	Croatia	The former Yugoslav Republic of Macedonia	Montenegro	Serbia
Value added	18.8	8.8	6.7	11.6	10.0	10.5
Employment	55.2	2.7	13.9	18.5	6.2	23.9

Source: wiiw database, www.wiiw.ac.at, and INSTAT for Albania.

per cent. In terms of employment Bosnia & Herzegovina and the former Yugoslav Republic of Macedonia have lower shares than in terms of value added, indicating that their agriculture is not labour intensive (These are mountainous countries where extensive animal husbandry dominates over crop production). In the other countries employment shares are higher than value-added shares, similarly to Albania. It is not the present productivity but the potential for increased productivity that may make investment in this sector favourable throughout the region.

Agricultural land (about 1.1 million ha) covers about 39 per cent of the surface of Albania, of which 699,000 ha or 63 per cent is arable land and area suited to permanent crops (fruit trees) and the rest is forest area. Land use is quite stable with the broad land-cover categories changing relatively little during recent years. During the last 15 years, the agricultural land area decreased by 1.4 per cent, especially due to the expansion of urban areas on former agricultural land (mostly in areas surrounding Tirana and other major cities) while some of the unused land has been turned into pastures.

Albania has three main agricultural zones according to broad climatic conditions, slope and elevation. The coastal lowland area is mainly flat with higher production capacity and appropriate for Mediterranean crops. The hilly middle part has fruit trees, some field crops and pastures for animal husbandry. The mountain areas are fit for animal husbandry (especially sheep and goats), various fruit and nut trees and medical and aromatic herbs. About 43 per cent of the total arable and permanent crops land is in the coastal lowland areas with high production capacity, about 34 per cent is in hilly areas and about 23 per cent is in the mountainous areas. Due to geographical and physical conditions as well as high fragmentation, the agricultural land is distributed into areas that are rather small for the cultivation of grains and other crops requiring large fields. The space for large fields in the plains is limited, which can curtail the interest of big investors in that area. Overall agricultural production has increased slight-

ly during the last ten years, especially in fruits, vegetables and livestock.

Livestock is the most important agricultural subsector in Albania, representing about 52 per cent of the total value of the agriculture production in 2011, followed by field crops with about 31 per cent and then fruit trees with about 17 per cent. The number of livestock has decreased during 2001–2011, the strongest decrease being observed in the category of cattle, including cows, while the number of pigs has increased by more than 50 per cent. However, livestock production has significantly increased (3–5 per cent annually; 2.3 per cent in 2011) as a result of improved production techniques, improved breeding, feeding and overall animal health care: honey production increased to 134 per cent in 2010 compared to 2000; while egg production and meat production rose by 52 per cent and 25 per cent respectively within the same period. As regards milk production, it has shown only slight increase, with fluctuations during the whole period.

Fruit production was the fastest growing branch of agriculture in 2000–2011 both in terms of area cultivated and total yields, with its share increasing from 10 per cent to 16 per cent. In recent years, farmers are becoming more interested in fruit tree plantations and vineyards. Fruit trees are cultivated by almost 80 per cent of farmers. Even in 2011, a very particular year characterised by long periods of drought, there was an increase in fruit production by about 6 per cent as compared to 2010.

Field crops have shown significant fluctuations both in area cultivated and volume of production and their share in Albania's agricultural production declined from 34 per cent in 2000 to 32 per cent in 2011. Within field crops, potatoes, fodder crops and vegetables (especially through the greenhouse vegetable production) had the highest growth in the past ten years. The main factors that have stimulated the increased use of greenhouses are the market demand and the high potential incomes per unit area of the vegetables produced. The area cultivated for fodder has

increased while area cultivated for cereals has dropped by about 16 per cent during 2001–2011. This reduction reflects the low competitiveness of the Albanian farming conditions related to these crops due to the small farm size, land fragmentation, and limited mechanization.

2. Land ownership, farm size, and the market for land

Foreign producers can access agricultural land in Albania by registering a company in Albania; that allows them to buy or lease land in the same way as domestic entities. Although ownership of agricultural land by foreigners is not restricted, it is very limited due to open issues related to ownership rights, fragmented farm size and the problems of land market.

In terms of ownership, about 80 per cent of the agricultural land is privately held by farmer families. Small family farms dominate, with an average farm holding size of about 1.2 ha¹⁰ and many of them have several plots (an average number of 3.9 parcels per farm). 41 per cent of the farms have less than 1 hectare, 43 per cent have 1–2 hectares, and 11 per cent have 2–5 hectares, while the average size of a parcel is 0.3 hectare. This extreme land fragmentation hinders modern production and the access of new investors.

About 138,000 ha are owned by the State, of which about 108,000 are administered by communes and municipalities. The publicly-owned land is potentially more easily accessible for investors than privately owned land. But conditions of such land are not good as most of it is located in the hilly and mountain areas, is characterized by a relatively low soil quality, location far from the urban centers and poor access to infrastructure and irrigation. Out of the 108 thousand hectares of publicly-owned land, only about 25,000 hectares are in larger parcels (blocs) of more than 10 hectares. About 20,000 ha are foreseen for the compensation of pre-communist land owners and the rest, of

low fertility, has been passed under the administration of the local governments to be used for rent or concession.

A substantial part of Albanian farming remains predominantly subsistence oriented with most of the agricultural products destined for home consumption and providing little incomes to rural families. As a result, only 40 per cent of field crop production, about 57 per cent of fruit trees and grapes, 65 per cent of the livestock products and a low percentage of the farm-processed products reach the market. Since 2000, a slow process of consolidation of agricultural land has been taking place in the country. In particular, land renting has contributed to a slight reduction of the subsistence farming and an increased efficiency of consolidated farms.

Also, a tendency for farm specialization is noticed, in line with the evolution of market demand and opportunities for raising productivity. Increasing consolidation and specialization is taking place in the fruit and vegetable sectors and is also evident in the livestock sector. The number of larger cattle farms, with livestock of more than five heads up to 50 heads, has almost tripled since the year 2005, which marks a drastic change in the sector. Also, the number of commercial-size flocks of sheep and goats has increased rapidly.

The farm consolidation process is negatively affected by the aging farming population and the reduced interest of youth in engaging in farming activities. Data from various surveys show a steady reduction in the skills of the agricultural labour force through ageing, migration, and lack of opportunities for education and training of new entrants. The number of young people in the agricultural labour force and among farm holders is decreasing.

10 Compared with an average of about 5 ha for Central and Eastern European countries and 27 ha for Western Europe (World Bank, 2007).

TABLE III.3.

Albania: number of active enterprises, total and in agriculture and fishing, 2010

Sector	Total	Albanian	Foreign	Joint venture	Juridical persons	With more than 4 employees
Total economy	100,687	97,763	1,719	1,205	19,824	9,121
Agriculture & fishing	1,702	1,679	4	19	357	111
Agriculture	964	..	..	..	276	86
Fishing	738	..	..	..	81	25

Source: INSTAT.

ing. Many young people do not take over the subsistence farms of their parents and give up their farm activities, and move to the towns or emigrate¹¹. However, recent economic decline in the most frequent target country for emigrants from Albania, Greece, is encouraging people to return to Albania, bringing back advanced farming know-how and some financial capital. In 2011, benefits were introduced to help returnees integrate into agricultural and agri-business activities. All the beneficiaries had to pay the land property tax and register in the social insurance schemes in order to receive the benefits.

Very few farms are in corporate form, being most probably the larger and more modern ones. The enterprise register includes more than a hundred thousand active enterprises in 2010, of which 1 per cent was in agriculture (table III.3). Only four enterprises are foreign-owned while 19 are joint ventures between Albanian and foreign companies. Assuming that foreign investments are not in the form of family farms but of firms, the number of foreign investors is really very limited. Agricultural firms are mostly small, only 8.9 per cent of them have at least five employees.

11 The number of young farm holders under 40 years old decreased from 43,000 (11.4 per cent) in 2004 to 23,800 in 2008 (6.7 per cent). In 2008 more than 50 per cent of farm holders were above 55 years old, and 30 per cent – above 65 years old. Only 33 per cent of the farm holders have upper secondary or tertiary education, and 48 per cent have lower secondary education; only 30 per cent of the farmers have agricultural education mostly those who accomplished agriculture vocational high schools in the past.

The Government of Albania, with the support of donor projects has improved the legal framework and the administrative capacity of the land administration and land management system. The World Bank funded Land Consolidation Project in 2001-2007 encouraged land consolidation in selected pilot communes by subsidising transaction costs and technical assistance to facilitate market-based land transactions and conducting a policy study on land consolidation. Progress was hampered by the lack of a law on land consolidation, high transaction costs, and the high error rate in land ownership information. Nevertheless, the project supported 189 land transactions resulting in a consolidated land mass of 94 ha. In 2010, with the support of FAO and Albania's MAFCP a new project started, aiming at developing a national strategy for land consolidation based on voluntary participation of land-owners and stakeholders.

The land cadaster has surveyed the whole agricultural land and identified the owner in the majority of cases. Land administration is still facing many problems, such as completion of land registration and administrative regulation of land ownership rights (mainly issuance of ownership titles), resolution of conflicts on land property, development of a land market for agricultural use, good management of privatized land and increase in the effectiveness of its use, operation of publicly owned land, among others. Disputes occur mostly near urban areas or other more valuable parts of the country. Farmers could obtain their land titles in the undisputed cases but refuse to do so due to fees

TABLE III.4.

Albania: share of agriculture and food products in foreign trade (Per cent)

Trade	2000	2005	2009	2010	2011
Imports CIF	22.3	17.6	17.3	17.5	16.9
Exports FOB	10.3	8.2	7.3	5.8	5.7
Trade balance (exports - imports)	25.9	20.7	20.5	23.9	23.3

Source: INSTAT.

they have to pay and the long procedures they would have to follow.

With no land title in the farmer's hand, the land market and leasing cannot function officially.¹² Factors constraining the development of a formal rural land market include the perception of land as a social safety net; unresolved and conflicting claims to land; perception of land registration as time consuming and costly; and weak credit markets. In the absence of a functional land market the access of foreign enterprises to agricultural activities is especially hindered.

3. Agricultural trade and trade policy

Albania has a large trade deficit in agricultural and food products, as exports amount to only about 10 per cent of imports. The share of this product group in imports is quite stable in recent years (2005-2010) at around 17 per cent, while its share in exports is fluctuating at about 6–8 per cent (table III.4). One fifth of the total Albanian foreign trade deficit is due to this sector. Between 2005 and 2009, the trade deficit in agri-food products increased by 58 per cent; it worsened especially in 2007 and in 2010, due to falling exports of some agricultural products and rising imports. In addition, the trade deficit in these products in recent years has been negatively influenced by increase of

import prices which was higher than the increase in prices for Albanian exports. The causes for the negative trade balance include also high production costs, high fragmentation of the offer, weak value chain and market organization as well as poor quality management.

The best Albanian agri-food export items are niche market products which require labour-intensive production methods, such as medical and oleaginous herbs, seeds and fish. Albania is one of the important suppliers of certain herbs such as sage thymus, and others. In addition, in recent years the country has started exporting fresh vegetables and fruits (especially early-season vegetables and fruits).

Food producers import the majority of raw materials for their processing industry. The domestic meat-processing industry relies largely on imported raw meat (mainly from Brazil and Argentina). Also, cereals, wine, vegetable oil and certain exotic fruits are imported on a large scale. However, due to increased local production, fruits and vegetables that can be produced in the country (e.g. apples) are imported almost entirely only in the off-season for domestic production.

The highest proportion of total Albanian exports of basic agricultural products is accounted for by the group "medicinal and oleaginous plants," with 36.6 per cent in 2011, going mainly to Germany and United States. The value of exports of this product group increased in 2011 by 49 per cent, compared to 2010. Exports of "raw hides & skins of bovine/equine animals" increased by 4.4 per cent in 2011, although their value still constituted 14 per cent of the total of the exports and the exports of tomatoes went up three times.

¹² As of 2007, less than 2 per cent of the rural households had sold land on the formal market since the start of the privatization, and only 3.6 per cent rented their land. However, there is evidence that the informal market in rural land is more active. Estimation shows that 6 per cent of the households' farms leased land and the total farm size is slowly increasing, suggesting that landowners informally transact land among themselves.

In 2011, around 73 per cent of exports of agricultural products went to the EU markets, while 17 per cent went to the CEFTA2006¹³ countries and 10 per cent to the rest of the world. Around 57 per cent of Albania's imports of agricultural products originated from EU countries, 14 per cent from CEFTA2006 countries and 29 per cent from the rest of the world. A sharp increase (56 per cent) in the volume of trade with CEFTA2006 countries has been observed in 2010 (compared to 2009) with exports increasing by 59.6 per cent and imports by 55.4 per cent.

In 2010, Italy was the main destination for exports of basic and processed agricultural products, with 39 per cent of the total, followed by Germany (21 per cent), Greece (15 per cent) and Austria (11 per cent). A similar situation was present on the import side, where Italy is again the main originating country for both basic and processed agricultural products, with 28 per cent, followed by Greece (25 per cent). As a novelty in 2011, exports to Lithuania, Hungary and the Czech Republic increased at a remarkable rate. Neighbouring Western Balkan economies, especially Kosovo, the former Yugoslav Republic of Macedonia, Montenegro and Serbia, are starting to become more important in Albania's trade in agricultural products, also in the context of free trade agreements signed by these countries.

Despite recent developments, Albania's exports of processed agriculture products are low, mainly because of the lack of technology such as modern storage facilities, packaging and labelling of processed products. The most significant deficit generating products include, on the one hand, beverages and tobacco, in which Albania has limited scope for present or future production and, on the other hand, product groups where Albania could develop an efficient industry, like dairy products, sheep and goat meat, fruits and nuts, as well as vegetables. Import substitution is a valid objective just like an export expansion in selected niches of products (UNDP, 2005a). The entry of foreign investors

could facilitate this process, in food processing, and they may increase the export capacities of the whole agri-food sector.

Currently Albanian trade policy in the field of agricultural products (WTO, 2010) complies with commitments of Albania to (i) the World Trade Organization, (ii) Stabilization and Association Agreement between Albania and the European Union (SSA), (iii) Free Trade Agreement with CEFTA2006, and (iv) Free Trade Agreement between Albania and Turkey. Albania became member of WTO in 2000 and the SSA with the EU entered in force in April 2009.

Albania implements a liberal regime in international trade of agricultural and food products, the main characteristics of which are as follows: (i) a simple tariff system composed of 5 scales of tariffs of the most favoured nation in trade (MFN), 0, 2, 5, 10 and 15 per cent, only on *ad valorem* basis; (ii) not implementing "tariff-quotas" to most favoured nation; (iii) application of seasonal tariffs for a group of products; (iv) implementation of a single value-added tax system; (v) the excise tax applies to a group of agricultural products; (vi) in its trade regime of the most favoured nation in trade Albania does not use fiscal incentive or supporting schemes for the import and export of agricultural products and does not provide state aid, with the exception of promotion of technology transfer and innovations (being an allowable state aid measure); (vii) applies import licensing system in full compliance with the GATT 1994 agreement for licensing of imports that is performed by the National Licensing Center. Under its WTO commitments, Albania has bound all agricultural tariff lines and does not maintain tariff quotas (WTO, 2010). Phytosanitary or health certificates are required for certain imports and importers of certain products must be licensed. Albania did not reserve the right to apply the special safeguard mechanism to any agricultural product upon its accession to the WTO. Albania has also not notified any export restrictions to the WTO under Article 12.1(b) of the Agreement on Agriculture. It has notified the WTO that for the period 2000–2008, it provided no export subsidies.

13 Albania, the former Yugoslav Republic of Macedonia, the Republic of Moldova, Montenegro, Serbia, and Kosovo (UNMIK).

Being a CEFTA2006 member, Albania has liberalized in 2011 its trade with CEFTA members, effective 2012. An Additional Protocol to the Agreement on the Amendment of and Accession to the Central European Free Trade Agreement was signed among Albania, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, the Republic of Moldova and Serbia on more liberalised concessions in trade of agricultural products in late 2011 and early 2012. In addition, Albania is implementing a free trade agreement with Turkey (which entered into force on May 2008) and with EFTA countries. In all free trade agreements the liberalization of imports and exports is determined depending on the degree of sensitivity: (i) for a group of products customs tariffs are eliminated; (ii) for a group of products tariff quotas are applied; (iii) other products are not subject to liberalization; thus, for them, the implementation of MFN tariffs continues. Quota management is conducted by the General Directorate of Customs relying on the principle “first come, first served”. As the foreign trade regime is no hindrance to export development, foreign investors may target the Albanian agri-food business with the aim to produce for the regional market.

4. Agricultural policy of the Albanian Government

The Ministry of Agriculture, Food and Consumer Protection (MAFCP) is responsible for policy development and implementation in the agriculture sector. The MAFCP is also responsible for developing draft laws and regulations; providing advice and training; undertaking analytical and development studies; as well as providing public service activities such as irrigation and drainage, and extension services; agricultural research and laboratory control; breeding services; analysis of agricultural policies; and marketing services. A newly established Payments Agency (Agency for Agriculture and Rural Development), under the MAFCP is charged with implementing agricultural policy measures, including the administration of funds from the state budget and the EU's Instrument for Pre-accession Assistance in Rural Development (IPARD) financing,

as well as analysis and evaluation-related work. Approximation with EU law will also require the strengthening of a Rural Development Directorate in the MAFCP as the IPARD Managing Authority which must be accredited by the EU and will be responsible for developing the policies and programmes for the use of rural development funds.

There are two main strategic documents of the Government that are related to agriculture and rural development: the “Agriculture and food sector strategy 2007–2013 (AFSS)” and the “Cross-cutting rural development strategy for 2007–2013 (CCRDS)”, prepared by the MAFCP and approved by the Council of Ministers. Two other important relevant documents are the “National strategy for development and integration 2007–2013 (NSDI)” which contains short and middle term objectives for all sectors including agriculture and the Medium-term Budget Programme, which identifies programmes, objectives and activities that are scheduled within the Government's fiscal plan. The main law governing the sector is Law No. 9817 of 22 October 2007 on agriculture and rural development.¹⁴

The AFSS lays out the Albanian Government's programme for the sector, in line with the overall objective of moving towards integration into the EU. The AFSS is the agricultural component of the National Strategy for Development and Integration (NSDI). It sets out five strategic priorities: increased financial support for farms and agro-processing businesses; improved management of irrigation and

14 Both the Law and the CCRDS are based on four principal EU regulations: Council Regulation (EC) No. 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD); Council Regulation (EC) No. 1234/2007 of 22 October 2007 establishing a common organization of agricultural markets and on specific provisions for certain agricultural products; Council Regulation (EC) No. 1782/2003 of 29 September 2003 (consolidated version) establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers; and Council Regulation (EC) No. 1290/2005 of 21 June 2005 on the financing of the common agricultural policy-CAP.

drainage of agricultural land; improvements to the marketing of agricultural and agro-processing products; increased level and quality of technologies, information, and knowledge of farmers and agro-processors; and better quality and safety of agricultural and agro-processing products. In addition, certain strategic subsectors have been identified for priority development: fruit growing (including olives) and viticulture; horticulture; livestock; and industrial processing of fruits, vegetables, milk, and meat.

The CCRDS provides guidelines on the objectives and activities for the implementation of each of four main axes as follows:

- Axis 1: Improving competitiveness of agriculture, agribusiness and forestry, including: (i) modernization and restructuring of agriculture; (ii) increase of value added and quality in production and processing; (iii) sustainable and efficient forest management; (iv) increase of competence level and employment.
- Axis 2: Preservation of cultural landscape and environmental protection, including: (i) preservation of landscape in less favoured areas; and (ii) environment-friendly agricultural practices.
- Axis 3: Improving quality of life in rural areas and promotion of diversification, including: (i) creation of employment opportunities in rural areas; and (ii) improvement of the quality of life in rural areas.
- Axis 4: Participatory rural development, including support for: (i) preparation of local development strategies; (ii) setting up and starting operation of platforms for rural innovation; (iii) setting up and strengthening local action groups' (iv) implementation of the local development strategies; (v) promotion of the cooperation among regions; and (vi) development of international cooperation.

Albania's Partnership Agreement with the EU was adopted in November 2007 and Albania submitted its application as a candidate country in April 2009. This

stipulates the main priorities for the future development of agricultural policy. In the short term, the priority is to improve and enforce the law on food in line with EU standards, strengthen the food safety system and related control systems, and improve the phyto-sanitary and veterinary legislation and practices. Once the status as candidate country is adopted by the EU, Albania will have access to IPARD. For the real use of the funds under IPARD, Albania has still to fulfil certain requirements according the Instrument for Pre-accession Assistance (IPA) regulations: (i) the finalization and approval of a National Regional Development Plan (NRDP) and (ii) the strengthening and certification of the Managing Authority and the Agency for Agriculture and Rural Development. For that purpose, the EU is financing several capacity building projects to support MAFCP in strengthening its capacities and aligning its structures with IPARD requirements. In addition, in the medium term, Albania is expected to develop strategies for land use, creating a land market, rural development, and diversifying farm activities in order to enhance agricultural competitiveness. The Government's Economic and Fiscal Strategy for 2011–2013 targets the further approximation of legislation in the field of food safety to that of the EU including the monitoring and control of food products in line with EU standards.

Domestic support to the agricultural sector takes two main forms: measures to stabilize the market during unsustainable market conditions, and direct payments to producers. Domestic support must conform to the following criteria: (i) it should not have the effect of supporting prices at the producer level; (ii) the support given to a specific product should not be more than 5 per cent of the total value of annual production of such a product; and (iii) total support that is not product-specific should not be more than 5 per cent of the total value of agricultural production during the respective year.

Direct subsidies for agricultural production started in 2007 with a total of about \$5 million, and were increased to \$8 million in 2008 and to \$10 million in 2009 and 2010. The amount diminished

to about \$7 million in 2011 but about \$11 million is foreseen for 2012. Government support started with payments for establishment of new orchards and vineyards and has subsequently been extended to fixed payments per head for cows and sheep, as well as payments for bee hives, intensive snail breeding, olive oil production, and planting of certain vegetables. National payments were provided for new orchards and vineyards and further for the development of food safety, animal health, post-production handling activities, land management etc. For the purpose of good animal breeding practices ear tagging of animals has been introduced. Some of the policy instruments that involve financial assistance or incentives to farmers are loan and grant schemes offered through the payments agency for investments in production technologies, post harvesting and marketing and interest rate subsidies for private bank loans. In addition, the Mountain Area Development Agency (MADA)¹⁵ facilitates improved access to finance for farmers and agribusinesses through its Credit Support Facility (a credit guarantee instrument) and provides grant financing and technical support for the strengthening of key value chains and improvement of market linkages for mountain farmers and agribusinesses.

In 2011 the support for agriculture financed 16 support measures on a national scale (box III.1) and five measures for the less favoured areas. In addition to the previously existing tools it established a guarantee fund for loans taken for agro-industry activities as well as for export-oriented agricultural activities at 50 per cent of the principal for loans up to \$250,000.

Developing greenhouse horticulture is seen in the AFSS as one of the most efficient ways to increase production. The year 2012 is the fourth year when greenhouses are subsidized. The criteria are in compliance with advanced technologies i.e. the plastic sheets used in the green

house should be long life ones and respect modern parameters. Placement of drip irrigation systems has been part of subsidies schemes since 2009. Support for the olive oil industry is given only for those producers that produce quality extra virgin oil. The support to conversion in organic

Box III. 1.

Albania: the 16 national support measures for agriculture

1. Planting of fruit trees (apple, pear, plum, cherry, peach, hazelnut, strawberry), of olives and citrus, no less than 0.4 ha for individual farmers and not less than 1 ha for groups of farmers, 50 per cent of the project eligible costs, but no more than 3,100 €/ha.
2. For establishing new vineyards with a surface of not less than 0.5 ha for individual farmers and not less than 1 ha for groups of farmers, 50 per cent of the total project eligible costs, but not more than 4,600 €/ha.
3. Drip irrigation on intensive orchards, citrus, olives, 50 per cent of the total project eligible costs, but not more than 2,300 €/ha.
4. For protection of olive groves from the olive fly, 125 €/ha.
5. For certifying bio-agricultural products from cultivated plants : (i) for production targeting the domestic market, not more than 50 per cent of the certification costs, and not more than 125 €/farm/year; (ii) for production for export, 50 per cent of the certification costs, but not more than 540 €/farm/year.
6. For saplings produced for "autochthonous" varieties of grape "Kallmet", "Debinë" and "Vlosh", seed-plot with a surface of not less than 0.3 ha, 9300 €/ha.
7. Establishing wells for irrigation of orchards, citrus and olive trees, 50 per cent of the total project value, but not more than 775 €/well.
8. Providing new plastic sheeting for establishing new tunnel greenhouses, 0.2 ha and more, 2,300 €/ha/greenhouse.
9. For greenhouses with technical heating for vegetable production - for changing the type of heating system from oil to solar, 11,600 €/ha.
10. Mushroom production, 50 per cent of the equipment and installation costs, but not more than 3,900 €/ha.
11. Payments of 77 €/head for livestock farms with more than 10 lactating cows, but not more than 30 head; in addition only those farmers that invoice buyers when they sell milk are eligible.
12. The payment of €3.8 per head for sheep, for farmers with more than 50 head which are tagged; only farmers that invoice buyers when they sell their milk are eligible.
13. The payment of €3.8 per bee hive, for farmers who own more than 50 bee hives.
14. Intensive breeding of snails, 50 per cent of the plot value for one ha, but not more 3,880 €/ha.
15. For producing extra virgin olive oil: 0.8 €/liter;
16. Support through interest rate subsidies for loans in the agro-processing and also for loans taken during 2008 by companies that collect, store and process agricultural and livestock products, production and trade associations in agriculture which are registered based on the Law No. 8088, date March 21, 1996 "On the Reciprocal Cooperation Companies", up 15,500 €, but not more than 50 per cent of the interest rate and not for more than three years.

Source: Ministry of Agriculture, Food and Consumer Protection, Albania.

15 MADA is implementing two programmes (i) Sustainable Development Rural Mountain Areas – SDRMA 2007-2013; (ii) Mountain to Market Programme – MMP 2009-2014) funded by the United Nations International Fund for Agriculture Development (IFAD), OPEC Fund for International Development (OFID) and the Government of Albania.

farming is another policy associated with subsidies that traditionally pay a premium to converted farms. In 2012 the premium will be paid based on number of organic crops and their planted area.

An agricultural land tax is defined as a property tax collected and managed by the local government. In order to promote investment in fruit trees and orchards, the land planted with fruit trees is excluded from the land tax for a period of five years from the date of plantation. The payment of agricultural land tax is a condition for benefiting from public subsidies as well. Regular invoices for milk sold have to be submitted to get the grants.

The most important form of financial support is an interest rate subsidy covering 70 per cent of the interest fee for investors taking loans for five years for storage and processing, agricultural machineries, cooling tanks for milk, fisheries and processing of sea food. Another instrument, which will be used in 2012 is providing interest-free loans (using a counterpart fund available at the Agency for Agriculture and Rural Development) for activities such as: the purchase and installation of processing and sorting lines for nuts, hazelnuts and pomegranates; the establishment of green houses for nuts nurseries; construction or modernization of livestock stabs and installation of auxiliaries; the purchase and installation of refrigerator rooms; the purchase of agricultural machineries.

Another important part of agricultural policy is to encourage the legalization and formalization of agriculture. The Government has lowered the VAT from 20 per cent to 14 per cent for farmers who sell through the formal trading system. It also encourages cooperation among farmers by initiating a new law on cooperation which has been approved on April 2012.

For several years, Albania has applied a reduction of the amount of the obligatory social contribution for all persons who are self-employed in agriculture. The payment of the social contribution is obligatory in Albania for employed persons above 16 years old but for self-employed persons in agriculture it is a fixed amount significantly lower than in other sectors, while

providing the same benefits from the social security system as to all the other secured persons. A government contribution to the social security system is provided as compensation for the reduced individual contribution of farmers.

In order to support producers' access to markets, the Government supported the establishment of regional wholesale markets in the main agriculture production areas (in Vlora, Lushnje, Korce, Gjirokaster, Shkoder, Kukes and Berat) during the period 2004–2009. In addition, the MAFCP supported the establishment of new communal slaughterhouses to improve food safety and consumer protection.

Other activities which are fully encouraged by the government are those of land consolidation and land market development. In 2010 the law "For the use and exploitation of uncultivated land" was approved. The owners keep their ownership rights, while their land is leased to third persons by local government bodies. Also the law 'For establishment and functioning of the structures for land administration and protection' was approved. In 2011 important laws were approved also on propagating material, on fertilizers and on veterinary services.

Agriculture is not seen as a main stumbling block for Albania on the way to becoming a candidate for EU membership but it is also clear that there are major shortcomings in development of the sector. The 2011 European Commission report notes: "Some progress was made in the area of agriculture and rural development. Progress in setting up structures for the implementation of rural development was made. However, the capacity to carry out analyses, as well as to design and implement rural development policies remains weak. There has been some progress, albeit uneven, in the area of food safety, veterinary and phytosanitary policy. The operational capacity of the National Food Authority was significantly enhanced and there were improvements in the legislative framework on food safety and veterinary issues. Overall capacity and inter-service cooperation and definition of competencies remain weak" (European Commission, 2011). The report also sums up some

of the regulatory bottlenecks that have to be addressed not only for the sake of the “Candidate” status but also for the sake of making the Albanian agriculture more competitive.

Meanwhile Albania has to make significant adjustments in order to meet EU standards and to adopt and implement the *acquis communautaire*. In the field of common agricultural policy (CAP), this means, for example, harmonizing legislation in the areas of food safety, veterinary, phytosanitary, the free movement of animals and agricultural products, administration and control of payments, etc. The experience of the new member states has shown that particular effort and investment will be needed to meet the *acquis* in agriculture. Various EU funded projects (mainly in the context of IPA) are now helping Albania prepare for accession, while familiarizing the authorities and other relevant organizations with the methods used to implement EU support measures.

The Albanian agricultural legislation is only partly harmonized with the *acquis* as yet. While relatively good progress has been made as regards food security and veterinary legislation, the harmonization of the legislation regarding Common Market Organizations is still lagging behind. However, Albania does not expect any problems in the coming years in adopting the remaining *acquis communautaire* and it will be able to implement in full the *acquis communautaire* only upon its accession to the EU.

The Ministry of Agriculture is expected to revise the agriculture and rural development strategies and finalize the rural development plan which will provide the basis for adoption of policy measures in agriculture and rural development. The legislation in the field of food safety is actually partly harmonized with the *acquis* and a National Food Authority has been established, as a key institution responsible to control the food safety situation in the country. The legislation in this field is mainly based on the “Food Law”, “Veterinary Law”, “Plant Protection Law” and other legislation in related areas.

As a further achievement in aligning with EU structure and institutional development, public extension (advisory) services in Albania are established and function in all regions and administrative levels of the country. At the central level, the extension service is under the Directorate of Extension Service, Science and Agricultural Information (DESSI) in the MAFCP, which is responsible for strategy formulation, and management and organization of this service at the national scale¹⁶. The five Agricultural Technology Transfer Centres (ATTC) are also part of central structure. Their main tasks are as follows: introducing new methods, inputs and technological packages; conducting on farm research and testing based on problems raised by farmers in respective regions; training technical expertise to extension service staff and farmers; demonstration of new technologies of animal breeding; and preparing and publishing extension materials intended to specialists and farmers. The current level of efficiency of service organizations remains low and their capacities need significant improvement. Only a small number of farmers refer to the extension services for information and advice on seeds, crops, pest control, livestock breeding and difficult access to finance, which hampers the farm modernization and growth.

B. Main trends and issues relating to FDI in agriculture in other transition economies and Albania

Agriculture is a specific area for FDI, the peculiarities of which need attention when formulating related policies in Albania. While foreign land ownership is restricted in some countries, in others the role of agricultural FDI is fairly controversial. The size of FDI in agriculture is usually small but it may have important impacts, especially in developing economies (UNCTAD, *WIR09*).

¹⁶ There are also three Regional Extension Coordinators as part of the Ministry's Extension Section responsible for coordinating and monitoring the district level extension plans, training programs and on-farm-research activities within their regions.

Global FDI in agriculture is on the rise, with annual FDI flows to world agriculture tripling to an average US\$3 billion between 1989–1991 and 2005–2007. However, the ratio of FDI in agriculture to total FDI remains low, with inward FDI stock in agriculture being just US\$32 billion. Moreover, TNCs in food processing and retail trade also invest in agriculture and contract farming. The latter is a non-equity form of involvement where a foreign supermarket or food processor buys crops from farmers through an arrangement establishing price, quantity, quality and other specifications. Including processing and marketing, FDI in agribusiness is a multiple of what is invested in agriculture in a narrow sense. For instance, after a rapid rate of growth in the early 2000s, FDI flows in the food and beverage industry alone exceeded US\$40 billion in 2005–2007.

FDI in agriculture has also increased in the new EU member states and South-East Europe, reaching a high of 1.2 per cent of the inward FDI stock with € 917 million in Serbia (table III.5). In Turkey, €32 million or 0.8 per cent of the FDI went into agriculture in 2009, after a similar amount

in 2008 following almost none in the previous years. Foreign investors in Turkish agriculture came mainly from the Middle East and targeted cattle raising (Deloitte, 2010). FDI in agriculture jumped in 2008 in Serbia, especially in the country's rich Northern farming region, reaching the highest share of total FDI stock among countries in the region. Not only agricultural investors but also financial investment firms are trying their chances there.¹⁷ FDI inflow to Serbia's agriculture amounted to €15 million in 2007, increased to €38 million in 2008 but subsided to €11 million in 2010 (data from the National Bank of Serbia). This suggests that interest in agricultural FDI had a one-time peak related to an international food-price hike and did not continue in subsequent years.

FDI in agriculture increased in the new EU member states following accession, in most countries also as the share of the total FDI stock. Some of the conditions for FDI in agriculture were liberalized although land ownership remained restricted in most of those countries. Foreign land ownership is usually strongly regulated as part of agricultural policy in

TABLE III.5.

FDI inward stock in agriculture, hunting and forestry in selected new EU-member states and countries of South-East Europe, 2009

Host country	€ million	per cent of total
Bulgaria	182	0.5
Czech Republic	156	0.2
Hungary	385	0.6
Poland	587	0.5
Romania	467 a/	1.0 a/
Slovakia	71 b/	0.2 b/
Albania	7	0.3
Bosnia and Herzegovina	11	0.2
Croatia	90	0.4
The former Yugoslav Republic of Macedonia	31 c/	1.0
Serbia	917	1.2

Source: wiiw database relying on national statistics, www.wiiw.ac.at

a/ Data are for 2008, and include fishing.

b/ Data are for 2008.

c/ Data are for 2008.

17 "Investors eyeing Balkan farms as long-term play", Reuters, 1 November 2010.

TABLE III.6.

FDI inward stock in the industry “Food products, beverages and tobacco,” in selected new EU-member states and countries of South-East Europe, 2009

Host country	€ million	Per cent of total
Czech Republic.	2,607	3.0
Hungary	1,757	2.6
Poland	7,656	5.9
Romania	2,060	4.1
Slovakia	725	2.0
Albania	51	2.3
Bosnia	31	5.8
Croatia	602	2.3
The former Yugoslav Republic of Macedonia (2007)	174	6.8
Serbia	54	5.4

Source: wiiw database relying on national statistics, www.wiiw.ac.at.

most countries, so as to keep land in the possession of peasants and rural families. In EU members no discrimination can be made between the rights of foreign and domestic natural or legal persons. Member states restrict foreigners' access to agricultural land by tying land ownership to local residency, education in farming and livelihood from farming. In accession countries and some new member states, various transitory restrictions may apply (Bojnec, 2011).

Ownership of agricultural land by foreign natural persons is restricted in the former Yugoslav Republic of Macedonia except by inheritance, but foreign citizens are free to rent land. Legal persons are free to own or rent land without restriction. In Croatia both natural and legal foreign persons face restrictions which are expected to stay for seven years after EU accession. In Turkey legal domestic persons and natural and legal foreign persons are not allowed to own agricultural land. This is the most restrictive practice which favours domestic family holdings. Among the new EU members, Hungary applies restrictions similar to those of Turkey which will be replaced by restrictions that conform more to EU rules if this derogation to the accession treaty cannot be upheld after 2012. Romania does not restrict land ownership of legal persons thus foreigners register companies under Romanian law which can then own land. This regulation is similar to the one in Albania.

The share of FDI in agriculture pre-

sented in table III.5 correlates with the openness of the land market and the availability of agricultural land. Under the most liberal regimes, the maximum share in FDI is only about 1 per cent, reached in countries with good farmland and open policies towards foreign land owners like Romania, Serbia and the former Yugoslav Republic of Macedonia. Based on this experience one cannot expect more than a two or three times increase of the agriculture sector FDI in Albania even if conditions further improve.

While FDI in agriculture proper is usually limited, it is more widespread in the food, beverages and tobacco industry (table III.6). The share of the latter in the FDI stock is between 2 per cent and 6 per cent in the new member States of the EU and South-East European region. In Albania it amounts to 2.3 per cent of the FDI which is among the lowest in the region.

It has been argued that in transition economies, FDI plays a key role in creating strong and sustainable productivity growth (Konig, 2009). Large foreign investments in the food industry and input supply industries can create productivity gains and institutional innovations throughout the food chain, with important spill-over effects on domestic companies and on farms, and thereby rural households. This conclusion is challenged by others (Swinen and Van Herck, 2010) who point out that retail chains are often reluctant to use local suppliers or they push down certain prices below the level needed to cover costs.

The governance of modern supply chains is characterized by the use of high standards to ensure quality and food safety throughout the chain and consequently high levels of vertical coordination. Potential concerns have been voiced “related to the distribution of rents and the exclusion of farmers in modern supply chains and policies” leading to the recommendation that “governments can help farmers to integrate in modern supply chains and benefit from the economic opportunities that this development offers” (Konig, 2009). In the more economical(ly) advanced transition countries, such as the new member States of the EU, foreign investment in agri-food industry have been one of the, if not the, main engine behind productivity growth, quality improvements, and enhanced competitiveness in the agricultural sector. Farmers benefited substantially through vertical spillover effects and overall the inflow of FDI in the food industry and the associated pressure on the domestic firms to restructure has led to important changes in the agricultural supply chain” (Swinnen and Van Herck, 2010).

In Albania also, foreign affiliates in the food, beverages and tobacco industry are much more significant than in agriculture production (table III.7), though subject to large fluctuations depending on the size of the sample. According to the latest data for 2010, 3.3 per cent of the enterprises active in the food industry have foreign investors (73 firms). They produce 22 per cent of the turnover with 16 per cent of the employees in the industry. This shows that foreign affiliates are larger in size than the domestic companies in the industry and that they have higher labour productivity than the domestically-owned firms.

This is the first attempt of the MAF-CP to collect information on individual foreign TNCs active in Albanian agri-business. Although such information is still incomplete, it is expected to be improved in the coming years. A recent survey by the MAFCP identified 16 companies with foreign investment (table III.8)¹⁸. The invested capital is small,

except for five cases where it is equal or exceeds one million euro. (Data on invested capital are not available for another five companies). The largest project is the flour mill Atlas Sh. a. in Tirana owned by Loulis Group of Greece and two Albanian businessmen. Companies with FDI are widely spread among the various sub-sectors of agriculture without any concentration related to the field of activity. They cover those areas where local conditions are favourable for production and exports, such as fruit, vegetable, and tobacco. Most investors are of Italian and Greek origin, a trend that does not deviate from FDI in other sectors.

Nine out of the 16 companies listed in table III.8 answered a questionnaire about their activities in February 2012. They are among the largest investment projects in agriculture and agri-business as to capital investment. Still, they are all SMEs with employment between 10 and 85 persons. Three of them are 100 per cent foreign owned and three are majority foreign owned; four were established by Greek and three by Italian investors. Their activities are focused on processing agricultural products that are predominantly of Albanian origin. Only one of them exports the majority of its output and another three have some export activity, mainly to countries in the region.

As to the reasons for investing in Albania most of the companies mentioned local market opportunities. At the same time they voiced dissatisfaction related to the quality, quantity and price of local raw materials as well as unfair market competition. These remarks underline the need for institutional development and better market organization. As to specific items of the agricultural policy, some investors mentioned the subsidies for planting fruit trees which have positive impact on raw material supply; problems with reimbursing VAT were mentioned as the main source of dissatisfaction. As to the future, companies do not expect improved business prospects in 2012 and the next, only in the longer run. This suggests that they expect declining rates of economic growth and household consumption in Albania and in some neighbouring countries in the short and medium-term.

¹⁸ None of these companies participated in the investor satisfaction survey the results of which are presented in chapter II. D.

TABLE III.7.

Albania: share of foreign affiliates in food, beverages and tobacco industry (Per cent)

	Enterprises	Employment	Turnover	Investment
2007	1.1	12.7	22.0	11.4
2008	0.6	16.3	30.8	27.6
2009	0.7	13.9	23.3	13.8
2010	3.3	15.8	22.0	15.4

Source: INSTAT.

TABLE III.8.

Companies with foreign capital in Albanian agriculture and agri-business

Nr	Name of business	Home country	Location of business	Field of activity	Year of establishment	Amount of investment (euro)
1	MIKA Sh. a. Korca	Greek	Korce	Tobacco collection and processing	1996	About 650,000
2	Nikolaos & Thimi Sh. p. k.	Greek	Korce	Collection and processing of animal skins	2011	More than 50,000
3	Solisima Sh.a	Greek	Korce	Fruit processing	1996	About 4,500,000
4	Kristo & Zguri Sh. p. k.	Greek	Korce	Snail collection and processing	2000	More than 20,000
5	Ledmarke Sh. p. k.	Italian	Fier	Vegetable production and processing	2011	About 70,000
6	Green-farm Sh. p. k.	Italian	Lushnje	Production of flowers and decorative trees	2007	About 1,000,000
7	Korporate	Italian	Kavaje	Vegetable production, collection and export	2011	n.a.
8	Toni SH.PK.	German	Rrogozhin, Kavaje	Dairy	2001	n.a.
9	Atlas Sh. a.	Greek	Tirana	Flour production	1995	About 11,500,000
10	ALB-MINES Sh. p. k.	Turk	Vore, Tirane	Flour production	2004	n.a.
11	Mozzarella Sh. p. k.	Italian	Tirane	Milk production and processing	2000	n.a.
12	Agrotal Sh. a.	EBRD 30 per cent (Albanian partner 70 per cent)	Kavaje	Olive production	2009	n.a.
13	GALE Sh.p.k	Italian	Vlore	Coffee processing	2010	About 200,000
14	Agrofruit Sh.p.k	Greek	Korce	Fruit processing	2009	About 800,000
15	Vessa Sh.p.k	Italian	Kavaje	Leather processing	1995	About 4,500,000
16	Meggle Albania Sh.p.k	German	Rrogozhine	Dairy	2010	About 2,050,000

Source: MAFCP, Albania.

C. Conclusions and policy recommendations: attracting and benefiting more from FDI in Albanian agriculture

General considerations

Albania has a liberal approach to trade and investment in agriculture. But full liberalization of domestic markets and international trade may not solve all the problems (FAO, 2003). Such reforms do not ensure the most efficient use of natural and genetic resources for agriculture. Market distortions would continue to disrupt agriculture and limit the potential welfare benefits. This is due to the specific conditions of agriculture: stocks of key products are necessary to protect against weather-related shortfalls in production and against extreme price fluctuations. Reducing risk for businesses often goes hand in hand with reducing competition. TNCs have privileged access to information, to capital and to political power, all of which help to limit competition by creating barriers to entry. Public policy should take steps to increase the bargaining power of domestic producers, generally much smaller, by providing them subsidies and exercising market control.

In order to facilitate investment in the agri-food industry, the Government should invest in rural infrastructure, education and R&D in the agricultural sector. Beyond that the Government should implement policies that facilitate the integration of farmers in modern supply chains. Practical recommendations¹⁹ with respect to such policies include:

- Governments can help to reduce the transaction costs that processing and retail companies face when contracting with small farmers by investing in rural infrastructure and in intermediary institutions (creation of farm associations and collection points).
- Governments could enhance competition in the food processing sector.
- Governments should help (small)

¹⁹ Based on Swinnen and Van Herck (2010).

farmers to increase their bargaining power vis-à-vis processors, retailers and input suppliers by taking measures to increase the transparency of contracts, provide assistance in dispute settling arrangements, provide market benchmarks for price negotiations, provide training for farmers in their rights/obligations as contractors and invest in quality control centers to ensure correct payments for quality in the chain.

- Governments should also facilitate the supply of rural credit to farmers, which makes them able to make the necessary investment to produce the high quality output that is demanded by the modern supply chains.
- In case of a crisis and increasing food prices, governments should provide targeted income support for the most vulnerable sections of the population (including e.g. cash transfers, nutrition programs, and programs for the sick and elderly), rather than providing subsidies to farmers or imposing price controls and tariff measures. Where food subsidies are unavoidable, they should be temporary and targeted on the poor (through for example vouchers or food stamps).

Development issues

A broadly-based economic development of Albania needs the mobilization of resources for investment in agriculture which is the largest employer in the country. Agricultural development has an economic aspect, a social aspect, as well as an environmental sustainability aspect. The agri-food sector is also responsible for a very large part of the foreign trade deficit of the country which is a drag on the balance of payments. The present study comes to the conclusion that it is possible to narrow the productivity gap of Albanian agriculture vis-a-vis the more advanced countries and improve the foreign trade balance of the country by domestic and foreign investment and by institutional development in the sector.

In the last 20 years, the main source of agricultural growth in Albania was to-

tal factor (land, labour and capital) productivity growth. Macroeconomic stability and economic liberalization lead to reallocation of resources from less profitable (cereals) to more profitable activities (horticulture, fruit trees and livestock), which allowed agriculture to generate growth with low rates of investment. However, in order to sustain the growth of the agricultural sector, Albania has to gradually move from a “total factor productivity growth model” caused by post-transition reallocation, towards models based on increased investments in physical and human capital, knowledge and technology.

There is limited geographic area for agricultural production and thus, specialization is essential. Albanian agriculture has some comparative advantages in the production of various fruit and vegetables, most notably in the production of apples, pomegranates walnuts, chestnuts, olives, grapes, figs and cherries as well as cauliflowers, broccoli and dry beans. The utilization of these advantages needs more investment and a favourable economic environment. In this regard, two in-depth studies have been carried out by the MACFP aiming to identify and define effective support measures for the development of the olives, nuts and pomegranate value chains in Albania.

Resources for investment in the development of agriculture and agribusiness may be available in Albania as there has been rapid capital accumulation in the economy in the past several years based on both domestically-raised and migrant resources. Capital has gone mainly in real estate, hotels and restaurants as well as financial activities, not into agriculture and agribusiness where profits may be lower and risks higher. Policies are necessary to reduce risk and safeguard competition to make agriculture and related activities more attractive for investors.

The current level of investment at farm level is modest and one of the main reasons for that is poor access to credit. The banking sector in Albania has developed steadily during the past 15 years. However, most bank loans are extended

to businesses in urbanized areas while the farmers’ access to credit remains very limited. In the last two years only about 1 per cent of total loans went to agriculture; thus most of the investments by the small and medium agricultural producers were made using their own resources. The two main bottlenecks remain the lack of collateral from farmers and the high risk related to agricultural activities perceived by banks. In order to increase investments, the Government should seek ways and instruments to facilitate access to credit for agricultural producers. Despite the available liquidity and a saturated urban credit market, most banks are still reluctant to lend to agriculture and related businesses due to high perceived risk. Also, most agricultural businesses have difficulties to find the collateral required (about 120–140 per cent of loan amount). Based on successful experience, it is necessary to develop and extend the credit guarantee facility and to introduce insurance instruments for agriculture.

International donors supported by local experts have built up substantial knowledge of various segments of the agricultural production and the agribusiness value-chains in Albania. They have identified the main problems in the supply chain disruptions and the inadequate points of public services, but accumulated knowledge has only partly been utilized and more coordinated implementation of the policy advices is necessary. A recent study prepared by the Mountain Area Development Agency (2011) provides a deeper analysis of a possible development niche for the mountain areas.

It concludes that “Albania has a comparative advantage in production of chestnuts, walnuts, hazelnuts and pomegranate. These are all high value crops which can generate a significant income for rural farmers even from relatively small parcels of land. If farmers organize themselves into producer associations, production can be clustered within specific locations and overcome some of the problems associated with fragmentation of land related to: mechanization; provision of advisory service; GLOBAL G.A.P (Good Agricultural Practice) certification and collection of harvested produce.”

Framework conditions to be improved

Various constraints to competitiveness need to be overcome to increase Albania's competitive advantage in agricultural production, against a backdrop of increasing regional competition and the need to harmonize with EU legislation and standards. Advancing corporatization, land consolidation and farm growth are important preconditions for the expansion of market oriented production and for foreign investors to participate in the sector. Important aspects of improving the policy framework include: (i) increasing the stability of support measures in agriculture (as the agriculture sector is slow to respond to frequent policy changes and adoption of new policy priorities and orientations is more difficult than in other sector); (ii) strengthening the capacity and transparency of the control institutions, especially as regards food safety, veterinary and phyto-sanitary control; (iii) strengthening the capacities of institutions responsible for the management of agriculture support financing measures; (iv) improving capacity building and support mechanisms.

The main problems of Albanian agriculture include low productivity, land fragmentation, unorganized value chains, inefficient phyto-sanitary services. A major part of these shortcomings are linked to the low efficiency of public services. Notably, the land property issues and farms that are too small remain key factors behind inefficient farming and low productivity and incomes. Land fragmentation imposes severe hurdles to improving efficiency, such as large transaction costs, inefficient allocation of inputs, and difficulties in adopting technologies with scale economies, such as tractors and harvesting equipment.

All investment in agriculture especially those involving foreign businesses are more secure if they are supported by land ownership and a functional land market. Factors constraining the development of a formal rural land market include the functioning of land as a social safety net; unresolved and conflicting claims to land; perception of land registration as time consuming and

costly; and weak credit markets. A formalization and activation of a land market is strongly needed to increase efficiency and agricultural incomes. It would be a major support to land consolidation of the highly fragmented agricultural sector and the entry of foreign capital. Encouraging the land rental market is likely to be the easiest way to facilitate this. Favourable to foreign investors, the country does not restrict land ownership of companies registered under Albanian law, regardless of their ownership.

More active policies and instruments need to be developed for increasing the security of land titles, reduction of land transaction costs, improving the efficiency of the land registry system and imposing tax on land especially on fallow land. Land prices are low and thus, if land becomes widely accessible investors can be attracted. By that, demand for land may grow and push land prices up. It must be ensured that investors do not get interested in buying cheap land without improving production on it.

Food safety and quality control

Factors influencing growth in agriculture can be improved in Albania, especially in quality terms. Progress in this relates to the know-how of farmers, the farming methods they use and their input of technology. Improvement in farming skills can be achieved by better schooling (especially vocational education) and the implementation of research results.

Improving the quality of products represents an important potential source of growth. High agricultural imports and low exports suggest that Albanian farmers still face difficulties in meeting the quality standards of their competitors and limited development of supply chains. Particularly grading, packaging, food safety and marketing represent an important potential source of sector growth. They can enable farmers to participate in modern supply chains (for example, agro-processors, supermarkets and export markets) necessitating value standardization, compliance with food safety and quality standards, and regularity of supply.

Taking advantage of increasing trade opportunities will require Albania's agri-food producers to improve the quality and safety of their products to comply with stringent EU requirements. As regional and EU markets become increasingly exposed to higher quality, safer, moderately priced agricultural and food products, Albanian producers and exporters will encounter increasing difficulties in placing their products. The sector will face similar competitive pressures in the domestic market as safer, higher quality imports at lower prices become available, reducing the cost of the food basket and hopefully pushing the local industry to become more competitive. Significant public and private investment is needed to improve food safety and quality, particularly in new equipment and infrastructure and modern quality control systems.

Stricter enforcement of food safety standards is to be conducted in a phased approach combining financial assistance and incentives for compliance, in a way that helps, not hurts, the sector, and lays the foundations for adoption of EU-required standards. This will include developing plans to coordinate the activities of enforcement agencies to avoid duplication of inspections and ensure integration of control plans and laboratory activities.

Significant efforts are required to strengthen food safety control structures in line with EU requirements. Basic elements of the official control system needed in the domestic market are in place but need to be strengthened. Inconsistent enforcement of existing food safety legislation is allowing the continuation of illegal practices, and discouraging private investments in the development of a sustainable network of modern facilities. First priority should be the enforcement of the Law on Veterinary Services and on Phytosanitary Services and empowering the inspectorates.

During the transition period, insufficient cooperation and coordination between control bodies has increased complexity and has created overlapping and omissions in inspection procedures and law enforcement. The establishment of the National Food Authority is expected to

bring significant improvement in the field. However, there will be need to further improve cooperation between National Food Authority staff, national veterinary services, municipal veterinary services, public health services, the road police and the border guards.

There is need to improve quality standards and certification, especially for meat, dairy, fruits and vegetable products. Inspectors need to carry on their functions in order to ensure that every food business operator complies with food safety and quality standards. As yet there are no Minimum Technical Requirements (MTR) on quality, and no compulsory standards for most agriculture products. The standards for individual products established by the Department of Standards are voluntary ones and certification by the standards is not free of charge. At least in order to increase the number of export producers, farmers have to be encouraged to apply standards.

The importance of the certification by international standards is necessary not only for export producers. Only about 50 farmers producing fruits and vegetables have been certified for EurepGAP (common standard for farm management practice), and there is no information on the number of farms certified with GLOBAL.G.A.P. The processing industry is aware but not sufficiently knowledgeable about the EU standards. In most cases, the companies in need of implementing or introducing a new standard use private consultants but there is need for a certification too. Spontaneous market forces are not going to push for an application of quality MTR for fruit and vegetables produced for the domestic market without government initiative. In the future, supermarket chains can become a strong factor for spreading standards and quality MTR.

Albania needs to make significant improvement in the quality of seeds and planting material, especially for fruits and vegetables. Certification schemes have been set up but efficient control and monitoring is necessary. Under the present law, farmers can either buy from authorised suppliers or produce by themselves the propagation material. In the first

case, there is at least some documentary control on imported seeds and periodical controls by the Seeds and Plants Institute (on quality of seed and seedlings) and by the MOAFCP. Phytosanitary inspection should control the safety of seedlings and other self-produced propagation material. The documents provided by registered Albanian nurseries are generally sufficiently complete, but full traceability of propagation material is not ensured even for imports. Also, the existing fruit mother blocks should be regularly controlled for quarantine diseases, so that the actual compliance of the propagation material produced in Albania to the certification normative can be ensured.

Capacity building

There is a need to build strong institutions for agricultural growth that can respond to the needs of farmers who are engaging in new activities such as livestock and fruit production, implementing new techniques and technologies, and seeking better access to financing. Improving the capacities and efficiency of public institutions remains a key challenge, especially as regards the advisory services, professional education, food safety and hygiene control and institutions dealing with the management of public investments and support schemes in agriculture sector. While the capacities in terms of the two last categories have been improving in recent years, the advisory services and professional education are still significantly lagging behind in efficiency.

Advisory services have an important role to play in improving farmers' access to financial opportunities, including future funding from the European Commission's Instrument for Pre-Accession in Rural Development (IPARD). In addition, in order to better support farmers in their access to markets, significant capacity building of advisory services employees is required.

Besides improvement in the capacities of the public advisory staff, an improvement in the performance and efficiency of the Agriculture Technology Transfer Centers (ATTCs) is required. Most of their actual research does not reach the

producers due to missing linkages between the service chains. They need to be better linked with the regional advisory services and local information centres, providing them with higher quality information and training on new and improved technologies, techniques and methods. In addition, agriculture information centres at local levels need to be better equipped with the necessary facilities (including IT facilities) and supplied with relevant information on improved input use and technologies.

Increasing competitiveness

Future growth in Albanian agriculture will most probably come from intensification of production, through commercialization of farms, and a focus on high-value products. It is difficult to determine whether increased yields are a result of improvements in inputs and technology or a combination of factors, but increases in productivity suggest that modernization of the sector is taking place and there is room for more.

Various sectoral studies suggest that Albania should focus more on its apparent comparative advantage in the fruit and vegetables sub-sectors where it performs well compared with neighbouring countries (in contrast to cereals where it performs poorly). Major opportunities for growth in the agriculture sector are widely judged to be in high value crops such as fruit and vegetables; livestock products (especially milk and lamb); agro-processing; and certain niche products that exploit Albania's relatively significant agricultural labour force (herbs and medicinal plants, olive oil, honey, organic food production). These are all areas which could be promoted among potential foreign investors.

The modernization of Albania's rural and agricultural sector will need to see many subsistence-oriented farms leave the agricultural sector altogether for more profitable opportunities in the off-farm sector. This would free up land for viable farming operations to continue to scale up and commercialize, increasing the overall productivity of assets in the sector. A business-oriented agriculture is also more capable of integrating foreign investments.

While some successful farms may absorb extra labour, much of the rural labour force will need to find other occupations. There are potential links to be exploited between agriculture, agro-processing, tourism and the environment. Tourism is a relatively fast-growing sector in Albania, suggesting that agro-tourism and associated sectors such as traditional food products are a potential growth area, with strong linkages to environment quality.

Future EU integration is the main driving force for institutional and legal development in Albania. While this is a valid long-term goal, deviation from EU requirements can be justified for developmental purposes. Parallel with the EU integration process, Albania should ensure that its agricultural policies and reforms remain appropriate for its own challenges and its own current situation. Albania faces very different challenges in the agricultural sector from those faced by EU members, such as the need to increase productivity, improve quality, and strengthen marketing. Therefore, agricultural policies need to be appropriate for the challenges currently facing the sector, rather than an overly hasty adoption of EU's CAP principles that are aimed at addressing the different problems of EU farmers.

Albania's agricultural support programmes are already relatively non-distorting, providing a good starting point for aiming toward the future compliance with the CAP. But it will be many years before Albania has to fully align its support policy and instruments to the CAP. The Government should take a carefully considered approach to aligning its policies with the CAP to ensure that they are suitable under the Albanian context.

Value chain development

Albania's agri-food chains are developing, but vertical integration and consolidation is still extremely limited; only the producers of vegetables, fruits and milk are somewhat better organized. Stronger policy and technical support is needed in order to reach a higher level of organization of all value chains. Much of the implementa-

tion of technological know-how depends on the organization and interaction of farmers. This can be improved by self-organization, by public policy and by other members of the agri-food value chain (input providers, food companies, retailers).

In addition, policies and support measures need to be more tailored to the specific challenges of different value chains and different regions. While areas that are more prosperous can benefit from improved agricultural policies and infrastructure, less organized value chains and poorer and remote areas will require a greater emphasis on non-agricultural policies-such as public services, social assistance and appropriate infrastructure.

In the coming future, much of the problem for farmers will stem from the high concentration of retailers vs. low concentration of farmers which leads to the conclusion to stimulate farm concentration and cooperation and apply regulation to their benefit, monitoring for fair competition among retailers (Konig, 2009). Integration of agricultural producers into the business chains of TNCs coming to the country is an important potential source of technology and know-how. At the same time some protection of local value chains and producers needs to be put in place.

FDI related policies

Comparison with other countries indicates that the amount of FDI in the Albanian agri-business is limited. In agriculture it could be doubled to about 1 per cent of the FDI stock and in the food, beverages and tobacco industry to 5 per cent. These are not really high amounts from a balance-of-payments point of view. Thus, it is not the amount of agriculture-related FDI that should guide government policy but the expected developmental aspects.

In food processing the role of FIEs is already significant in terms of output and employment. TNCs have set up the more productive segment of firms in the industry, as INSTAT data and the result of the investors' survey confirm. To gain more benefit from productivity and spillovers.

Albanian FDI policy should target potential investors interested in processing local agricultural products.

Foreign investors have just a limited number of specific features which make the task of attracting them different from what attracting investors in general would need. TNCs with larger capital base may be less risk-aware than small investors, but they have higher demands on transparency and legislative stability. Thus policy improvements formulated as framework conditions for the agricultural sector as a whole are even more necessary to attract foreign investors.

A positive development impact of FDI in the agri-food sector is a complex issue necessitating simultaneous action in the public and the private spheres. On the one hand, government initiative is necessary to improve the institutional conditions for private initiative, creating an enabling business environment for both foreign and domestic investors. On the other hand, domestic and foreign capital can make some of the necessary investments and improve firm level efficiency. Support and control mechanisms have to be provided by independent agencies, usually public ones, but some of the services can be provided by the private sector and main players in the value-chain can also be expected to organize some of the relevant institutions.

The direct positive impacts of TNCs can be expected in terms of establishing highly productive and competitive farms and business networks. The indirect economic impacts of TNCs on agricultural production at the micro-economic level can lead to the more intensive involvement of the (semi) commercial farmers into the business networks of TNCs, which in turn contribute to employment opportunities and improved access to finance and markets for smallholder farmers. TNCs' involvement can contribute to technology transfer, training and knowledge sharing along with the enforcement of production standards.

Negative impacts may also emerge, if powerful TNCs grab the land of smallholders and although they improve productivity they drive out small producers

from the local market and increase unemployment. In view of this possibility, gradualism of market opening and provisional protection to local producers can be of advantage. Simultaneously, government policy should support the development of market-oriented farming, production networks and value chains based on the association of local producers.

When retailers and food producers enter a new country they build up their procurement and distribution systems. They usually take their business models and try to fit the local suppliers into it. They apply high standards for suppliers and are rather rigid in terms of quality and price. Local agricultural producers have to comply with these standards in order to be included in the supply chain, while they are price takers. If they do not have the capacity, as is usually the case, investors import the major part of their inputs. Imports cannot be excluded but measures to support to local suppliers can be implemented. Government policy and farmers' associations may mitigate the contact between agricultural producers and the retail and food producing companies. The entry of large international retail chains is still in its early stages in Albania and those organizations do not yet have dominance. The Government should foster its policies towards increasing competitiveness of the local products, strengthening of local value chains and enhancing local sourcing in this sector.

REFERENCES

- Bojniec, Stefan (2011). "Land markets in the EU candidate countries of Croatia, Former Yugoslav Republic of Macedonia and Turkey," Centre for European Policy Studies (CEPS) Factor Markets Working Paper, No. 1, September.
- Cela, R., Marku, S., and Imami, D. (2010). "Review of agriculture and agricultural policy in Albania" (Chapter 2), in *Agriculture in the Western Balkan Countries*, Leibniz Institute of Agricultural Development in Central and Eastern Europe (IAMO), volume 57, pp. 37-62.
- Deloitte and Republic of Turkey Prime Ministry, Investment Promotion Agency (2010). *Turkish Agriculture Industry Report*. <http://www.invest.gov.tr/en-US/infocenter/publications/Documents/AGRICULTURE.INDUSTRY.PDF>.
- European Commission (2011). *Enlargement Strategy and Main Challenges 2011-2012, Conclusions on Albania*, Com (2011) 666 final (Brussels: European Commission).
- European Commission (2010). *Enlargement Strategy and Progress Reports 2010*. (Brussels: European Commission), November.
- FAO (2003). *Trade Reforms and Food Security: Conceptualizing the Linkages*. Rome: FAO.
- Görg, H. and Greenaway, D. (2001). "Foreign direct investment and intra-industry spillover: A review of the literature," Research Paper No. 37, University of Nottingham.
- Holzner, Mario (2010). "Albania: Part of a Greek tragedy?" in Vladimir Gligorov, Peter Havlik, Michael Landesmann, Josef Pöschl and Sándor Richter (eds.), *Crisis Is Over, but Problems Loom Ahead*, wiiw Current Analyses and Forecasts: Economic Prospects for Central, East and Southeast Europe, No. 5, February 2010. Vienna: Vienna Institute for International Economic Studies.
- Hunya, Gábor (2010). "FDI in the CEECs hit hard by the global crisis," wiiw *Database on Foreign Direct Investment in Central, East and Southeast Europe, 2010*. Vienna: Vienna Institute for International Economic Studies.
- IMF (2010). "Albania—2010 Article IV Consultation, Preliminary Conclusions of the Mission," March 10. Washington, D.C. <http://www.imf.org/external/np/ms/2010/031010.htm>.
- IMF (2010a). *World Economic Outlook: Recovery, Risk and Rebalancing*. Washington, D.C.: IMF.
- Konig, G. (2009), "The impact of investment and concentration among food suppliers and retailers in various OECD countries", paper presented at the VIth global forum on international investment, OECD, 7-8 December.
- Marku, S. and Treska, T. (2008), "Policy issues related to development of rural and less-favoured areas – the need for renewed concepts and approaches," in *Review Economicus*, No3, European University of Tirana, pp. 75-89.
- Marku, S. (2008). "Rural development in Albania – the need for new approaches," in *Review Economy and Transition*, Albanian Center for Economic Research, Tirana, pp. 71-84.
- Marku, S. (2008). "Development of micro, small and medium enterprises in rural mountain areas of Albania," in *Proceedings of the International Conference on Economic & Social Challenges and Problems, 2008*, Economics Faculty, University of Tirana, pp. 261-271.
- Ministry of Agriculture, Food and Consumer Protection (MAFCP) (2007). *Agriculture and Food Sector Strategy 2007-2013*. Tirana.
- MIGA (2006). *Investment Horizons: Western Balkans*. Washington, D.C: World Bank Group/ MIGA.
- Mountain Area Development Agency (MADA) (2011). *Feasibility of Government of Albania's Support to Upgrading the Value Chains for Walnuts, Chestnuts, Hazelnuts, Almond and Pomegranate*. Tirana.
- OECD (2010). *South East Europe - Investment Reform Index 2010: Monitoring Policies and Institutions for Direct Investment*. Paris: OECD.
- Republic of Albania (2011). *Economic and Fiscal Program 2011-2013*. [Please provide information on the ministry or department that produced the document, and the place of publication and/or website details].
- Swinnen, J. and K. Van Herck (2010). *Policy Response to Challenges in Agriculture and Rural Development in the Europe and Central Asia Region: Sharing Experience and Enhancing Cooperation in the Region*, LICOS Centre for Institutions and Economic Performance, Catholic University of Leuven.
- UNCTAD (WIR02). *World Investment Report 2002: Transnational Corporations and Export Competitiveness*. New York and Geneva: United Nations.
- UNCTAD (WIR06). *World Investment Report 2006: FDI from Developing Countries and Transition Economies – Implications for Development*. New York and Geneva: United Nations.
- UNCTAD (WIR09). *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development*. New York and Geneva: United Nations.
- UNCTAD (WIR10). *World Investment Report 2010: Investing in a Low-Carbon Economy*. New York and Geneva: United Nations.
- UNCTAD (WIR11). *World Investment Report 2011: Non-equity Modes of International Production and Development*. New York and Geneva: United Nations.
- UNDP (2005). *ANE Strategic Plan for 2005: Support for Trade Regulation and Trade Promotion*. <http://www.trade.undp.org>
- UNDP (2005a). "Marketing and distribution chain study," EU Cards Project No 2004 / 084-899, <http://www.trade.undp.org>
- World Bank (2007). "Albania: strategic policies for a more competitive agriculture sector," Report No. AAA 18-AL, Washington, D.C.
- World Bank, (2007a). "Albania: urban growth, migration and poverty reduction: -Apoverity assessment," Report No. 40071-AL, Washington D.C.
- World Bank (2010). *Investing across borders 2010, Indicators of foreign direct investment regulations in 87 countries*. Washington, D.C.: World Bank.
- World Bank (2010a). *Albania: The New Growth Agenda, A Country Economic Memorandum*. Washington D.C.: World Bank.
- WTO (2010). *Albania Trade Policy Review 2010: Reaping the benefits of reform and liberalization*. Geneva: WTO.

