



# Investment in Albania 2017

**KPMG in Albania**



[kpmg.com/al](http://kpmg.com/al)

# Investment in Albania

**Edition 2017**

# Preface

Investment in Albania is one of a series of booklets published by KPMG member firms to provide information to those considering investing or doing business internationally.

Every care has been taken to ensure that the information presented in this publication is correct and reflects the situation as of March 2017 unless otherwise stated. Its purpose is to provide general guidelines on investment and business in Albania. As the economic situation in the country continues to undergo changes, further advice should be sought before making any specific decisions.

For further information on matters discussed in this publication, please contact Heris Jani, Managing Director.

Deshmoret e Kombit Blvd.  
Twin Towers Buildings  
Tower 1, floor 13  
Tirana, Albania  
Telephone: +355 4 2274 524  
                  +355 4 2274 534  
Fax:            +355 4 2235 534



[kpmg.com/al](http://kpmg.com/al)

# Contents

<b>General Information .....</b>	<b>7</b>
Geography and climate.....	7
Population and language.....	7
Infrastructure .....	8
Communications.....	10
Currency .....	10
Labor force .....	11
Political system.....	11
Opportunities created via EU-funding.....	11
Albania and NATO.....	12
Economy.....	12
<b>Opportunities for International Investors.....</b>	<b>20</b>
Protection and promotion of foreign investments.....	20
Privatization and investment opportunities.....	20
Profit and capital repatriation.....	25
Establishment of new business entities or acquisition of shares in existing entities .....	25
Branches.....	26
Representative offices.....	26
Concessions .....	26
Renewable energy.....	28
Banking and finance .....	30
International private law.....	31
<b>Company Law .....</b>	<b>33</b>
Rules applicable to all forms of business association.....	33

Limited liability company (“SHPK”).....	36
Joint stock company (“SHA”) .....	38
Other forms of business association.....	40
Commercial Register .....	42
<b>Real Estate .....</b>	<b>43</b>
Types of ownership over real estate.....	43
Evidence of title.....	44
Acquisition of real estate .....	44
<b>Accounting and Auditing .....</b>	<b>46</b>
Accounting.....	46
Auditing .....	48
<b>Taxation .....</b>	<b>51</b>
Tax system.....	51
Corporate tax.....	51
Taxation of individuals.....	55
Local taxes.....	57
Real estate tax.....	59
Value added tax .....	60
Customs duties .....	63
Excise duties .....	64
<b>Employment Regulations .....</b>	<b>66</b>
Legislation .....	66
Employment contracts .....	66
Working hours .....	67
Holidays.....	68
Medical check-ups .....	68
Healthy and safe working conditions.....	69
Termination of employment contracts.....	69
Foreign nationals working in Albania .....	70

<b>Foreign Nationals .....</b>	<b>71</b>
Legislative framework and general principles.....	71
Visas .....	71
Residence permits, residence certificates and residence cards .....	72
Work Permits .....	74
<b>Government Control.....</b>	<b>77</b>
Public procurement .....	77
Concessions and public-private partnership .....	79
Competition and antitrust regulations .....	80
Protection of intellectual property rights .....	81
Supervision of the Bank of Albania over the activities of banks and other financial institutions .....	83
Insurance companies and insurance intermediaries in Albania .....	85
Foreign exchange regime .....	86
International payments and transfers .....	86
<b>Appendix A: Bilateral Agreements.....</b>	<b>87</b>
<b>Appendix B: Double Taxation Treaties .....</b>	<b>89</b>
<b>Appendix C: Bilateral Social Security Agreements concluded by Albania .....</b>	<b>91</b>

# General Information

## Geography and climate

Albania is situated in South-Eastern Europe, in the western part of the Balkan Peninsula. It is bordered by Montenegro to the northwest, Kosovo to the northeast, the Former Yugoslav Republic of Macedonia to the east, and Greece to the south and southeast. It has a coast on the Adriatic Sea to the west and the Ionian Sea to the southwest.

Albania has a total area of 28,748 square kilometers and has 362 kilometers of coastline. The terrain is mostly mountainous, often covered with scrub forest. The average altitude of 708 meters is about twice as high as the European average.

The coastal lowlands have a typically Mediterranean climate with warm, dry summers and mild, wet winters; the highlands have a Mediterranean continental climate.

## Population and language

The population of Albania, as per information from the National Statistical Institute (INSTAT) as of 1 January 2017, is approximately 2.9 million. The population in urban areas is 53.5% while 46.5% live in rural areas. The capital of the country, Tirana, has a population of some 764,000 inhabitants. The average age of the population increased from 30.63 years in 2001 to 35.8 in 2013.

The population of Albania started to decline from 1990 onwards as a consequence of a massive emigration. It is estimated that around 500,000 people emigrated in the period 2001-2011.

Ethnic Albanians represent 82.6% of the population. The other recognized ethnic and cultural affiliations include Greeks with 0.9%, other 1% (Vlach, Roma (Gypsy), Macedonian, Montenegrin, and Egyptian), and unspecified 15.5%, according to statistics from the 2011 census).

Nearly 56.7% of the Albanian population adheres to Islam, Catholics comprise 10%, Orthodox 6.8%, atheist 2.5%, Bektashi 2.1%, other 5.7% and unspecified 16.2%.

The country's official language is Albanian, which is taught in schools and spoken in national institutions. The Albanian language belongs to the Indo-European language family and has its own specifics. It is spoken by approximately 7.4 million inhabitants of the eastern Adriatic coast in Albania and also in neighboring countries, principally in Kosovo, Montenegro and Macedonia. The official language was based on the northern Geg dialect at the beginning of the Albanian state until World War II, and since then has been modelled on the Tosk dialect.

The most commonly spoken foreign languages in the country are English and Italian.

## Infrastructure

### Roads and railways

The road system is mostly under construction and fairly underdeveloped. The country has some 18,000 kilometers of road, of which 7,450 kilometers comprise the main network. During the winter months, travelers may encounter snow and ice conditions on the roads throughout mountainous regions in northern Albania

Several international initiatives are being undertaken by the World Bank, the European Bank for Reconstruction and Development (EBRD) and others to improve and develop Albania's transport system. The so-called Durres-Kukes highway and tunnel is a connection to the Kosovo border. A limited highway connects Tirana with the north, south and east of Albania. The highway Tirana-Elbasan was completed in 2013.

Currently, the investment projects which aim at improving main and local roads in the country include: construction of Vloa Bypass, a highway of 29 kilometers bypassing the city of Vloa and facilitating the road traffic flow along the southern coast of Albania, and Rrogozhina bypass which will connect the ports of Durres and Vloa to the border with the Former Yugoslav Republic of Macedonia. Other important road infrastructure projects include the Adriatic – Ionian Corridor which is part of the Albanian North-South Road Corridor and which will connect the Montenegrin coast to the Greek coast, and the East-West Road Corridor (part of Corridor VIII) which links the Port of Durres to Macedonia.

The major priority in the transport sector for the Western Balkans is their full integration

to the Trans-European Transport Networks. Under this framework, the priority for Albania is the rehabilitation of the railway network which is run down and very poorly maintained. The total length of the main railway lines is about 420 km, whereas secondary lines and branches measure approximately 200 km. The immediate priority for the sector is the rehabilitation and construction of the Durres-Tirana railway segment and construction of the segment connecting the Durres-Tirana railway segment with the Airport that is anticipated to commence in 2017 and end in 2019.

Buses travel between most major cities almost exclusively during the day. Currently, there is a project for the construction of Tirana Public Transport terminal where all intercity and international buses will stop and passengers will be able to connect to urban buses, taxis, taxi-vans and a tram.

Rent-a-car agencies operate in Albania and offer competitive rates. Avis, Hertz and SIXT provide such services along with local rental companies.

A transport initiative is Ecovolis bike rentals in Tirana. Before it, Tirana was not considered bicycle friendly. As the results have been encouraging, the initiative will continue to spread in other cities such as Durres. A major project under development is the construction of a tram line in the city of Tirana which will be the first tram line in the country.

### Ports

Albania is accessible by several seaports. They are all located on the eastern side of the Adriatic and Ionian Sea. Albania is a mere 100 kilometers (60 miles) from Italy across the Adriatic.



**Durrës Port** is the main seaport of Albania with a capacity of 12 ships a day, located on the coast of the Adriatic Sea approximately 30 kilometers (in a straight line) to the west of Tirana. This facility can accommodate ships as large as 4,000 tons and is limited to vessels with drafts of 26.25ft (8 meters) or less. The rehabilitation of piers no. 7 and 8 is underway. This project, valued at EUR 40 million and co-funded by the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the European Commission and the Albanian Government, is expected to be completed in 2017.

Other ports in Albania are those in Vlorë, Sarandë and Shëngjini. They have direct connections with various ports in Italy and Greece.

Vlorë is located in the southern part of Albania on the Adriatic Sea. The **Vlorë Port** is the biggest port of the south serving as a transit way not just for Albania, but also Kosovo, Macedonia and Bulgaria, allowing for access of commercial ships and ferries. It is part of Pan-European Corridor VIII which links Albania, and more specifically Durres and Vlorë ports, with the Black Sea, Burgas and Varna.

The **Port of Sarandë**, measuring 18,000 square meters, is the only one located in the south of Albania on the Ionian Sea. The area is expected to attract tourists from Greece. According to the new master plan, city facilities will be transformed to host passengers while shipping activities will be performed on the docks.

The **Port of Shëngjin** is located in the northwestern part of Albania on the Adriatic Sea. It is expected to serve the

north and northeast parts of the country as well as to expand commercial activities with Kosovo. The port's development will follow a master plan funded by the World Bank and the State and envisaged several investment stages.

## Airports

Albania has only one civil airport, Tirana International Airport (TIA), also known as Rinas Airport or Mother Theresa Airport. It is located 17 kilometers northeast of Tirana, approximately 20 minutes by car from the city center and operates 11 airlines to 18 destinations including Rome, Munich, Vienna, Istanbul, and Ljubljana. In 2015, 1.9 million passengers traveled through the airport, representing an annual increase of 6%.

The key market remains Italy, covering approximately 60% of the traffic to/from TIA.

In 2007, a new terminal was built and a shorter road was constructed. A bus to Rinas Airport departs every hour, day and night, from the National Museum on Skanderbeg Square, Tirana; tickets cost ALL 200 (approximately EUR 1.60). Alternatively, taxis are easy to arrange to and from the airport and a one-way trip would cost about EUR 20.

In 2016, the Albanian government and TIA signed an agreement marking a major step towards the development of air transport in Albania and the liberalization of international flights. The agreement gave the green light to Kukes airport being opened to international flights and other airports to be developed such as the ones in southern Albania, namely in Vlorë and Sarandë.

## Communications

### Fixed-line communications

Communications in Albania have developed considerably in recent years. The biggest company in the fixed line sector is Albtelecom (a former state-owned national operator). 76% of its shares are held by the Turkish telecom companies Çalik and Turk Telekom.

By the end of 2015, the number of fixed line subscribers was approximately 227,000 compared to 230,000 at the end of 2014. The overall phone density decreased by 17% in the last year due to the shift in favor of mobile phones.

### Mobile communications

Four mobile telephone companies currently provide services in Albania: Vodafone Albania, Telekom Albania (former Albanian Mobile Communications), Eagle Mobile which is the brand of Albtelecom, and Plus Communication. Currently, Vodafone Albania, Telekom Albania and Eagle Mobile operate under 4G network. In 2015, there were 4.7 million mobile subscriptions, exceeding considerably the number of the population. Based on publicly available information, Vodafone Albania has a 47.5% market share as of the end of 2015, followed by Telekom Albania with 32%, Albtelecom (Eagle Mobile) with 14% and Plus Communications with 6.5% of market share.

### Internet

At the end of 2015, there were an estimated 1.3 million internet users (both fixed and mobile) in the country. This is a vibrant market populated by different internet service providers whose rates

and service quality vary widely. Numerous investments are being made to improve the quality of services and transmission capacities in the internet field. Internet use is not widespread in rural areas, but is common in urban areas, especially in Tirana. There are numerous internet cafés in the bigger cities and fees amount to USD 0.7 – 1.5 per hour.

### Electronic payment methods

Credit and debit card use is gaining popularity, with an increasing number of consumer retailers accepting such a form of payment. Local banks offer online banking services, debit card services, and various forms of electronic payment for utility and telephone charges.

The Bank of Albania (BoA) operates two inter-bank payment systems: a large value payments system in domestic currency (Albanian Interbank Payment System, AIPS) and a retail payment system (Albanian Electronic Clearing House, AECH) to develop and maintain a national mobile infrastructure for electronic payments in the country. AIPS processes all systemically important payments in leks. Such payments include interbank payments and customer payments equal to or exceeding ALL 1,500,000.

### Currency

The official currency in Albania is the Albanian lek (ALL). The Bank of Albania has the exclusive right to issue banknotes and coins in the Republic of Albania. The lek is circulated in notes of ALL 100, ALL 200, ALL 500, ALL 1,000, ALL 2,000, ALL 5,000 and coins.

The value of the lek against foreign currencies is determined in the foreign

exchange market by its supply and demand. Official exchange rates for foreign currencies are quoted daily by the Bank of Albania for statistical and accounting purposes.

### Labor force

Approximately 67.3% of the population aged 15 and above comprised the country's labor force in 2015. While the Albanian labour force is generally highly skilled and well educated, wage levels in the country are significantly lower than those in Western Europe, creating a significant upside potential for labor-intensive investments. The unemployment rate in 2016 in the country decreased to 14.7% compared to 17.7% in 2015.

### Political system

Albania is a parliamentary republic. The current Constitution was adopted by referendum on 22 November 1998 and came into effect on 28 November 1998. It replaced the interim Constitution in place following the abandonment of the Marxist-inspired constitution in April 1991.

The national legislative body, a unicameral Assembly, is comprised of 140 members elected by proportional representation from 12 regional lists. They all serve a four-year term. The president is the head of state and commander-in-chief of the army. The current President is Bujar Nishani who was elected by the Parliament on 11 June 2012 for a five-year term.

Executive power rests with the Government.

Albania held a parliamentary election on 23 June 2013. The next elections are due in June 2017. The Socialist Party of Albania, with the majority of seats, and the Socialist Movement for Integration formed a coalition

government on 15 September 2013. The current Prime Minister is Edi Rama.

Under the new Law 115/2014 dated 31 July 2014 on the Administrative-Territorial Division of Local Government Units in the Republic of Albania, the country is divided into 61 municipalities grouped into 12 counties. The prefects are appointed by the Council of Ministers. Local elections are held every four years and, out of these, County Councils are elected. City mayors are directly elected by voters. The next local elections will be held in 2019.

### Opportunities created via EU funding

Albania participates in the Stabilization and Association Process (SAP). The development of political and economic relations between the European Union (EU) and Albania in the framework of SAP is facilitated through the Delegation of the European Union to Albania, which is a permanent diplomatic mission.

**Visa liberalization** for citizens of Albania traveling to the Schengen area has been in force since December 2010. Monitoring mechanisms by the EU Commission are in place over the progress made by Albania in the implementation of reforms introduced under the visa roadmap.

In June 2014, the EU granted candidate status to Albania. Becoming an EU candidate country has a number of political and economic effects for Albania. The next important step will be the opening of accession negotiations; however, this will depend on further specific and sustainable reforms in Albania and is subject to agreement from all EU Member States.

Pre-accession **financial assistance** is provided under the Instrument for Pre-Accession Assistance (IPA). Albania

has benefited from IPA components I – Transition Assistance and Institution Building and II – Cross-border Cooperation.

Under IPA II, Albania will benefit from EU assistance for 2014-2020 with a total indicative allocation of EUR 640 million. IPA II is envisaged to support the successful implementation of the reforms and investments needed for the integration process in the areas of rule of law, democracy, economic governance and public finances.

Albania will also receive support under the IPA multi-country programs and will participate in cross-border cooperation programs with neighboring Western Balkan countries and Member States and in transnational cooperation programs under the European Regional Development Fund.

Albania participates in the following EU programs: Seventh Research Framework Program; Entrepreneurship and Innovation under the Competitiveness and Innovation Framework Program; Lifelong Learning Program; Europe for Citizens; Culture; and Customs 2013.

Albania has also recently concluded or is in the process of concluding new agreements for a number of programs, including: Horizon 2020, Competitiveness of Enterprises and Small and Medium-sized Enterprises, Fiscalis 2020, Erasmus+, Creative Europe and Employment and Social Innovation.

## **Albania and NATO**

Albania together with Croatia joined the North Atlantic Treaty Organization (NATO) on 1 April 2009.

In order to become a NATO member, Albania undertook several reforms in

areas such as political, military and security-sector. Priorities were set to meet democratic standards, reduce corruption, fight organized crime, improve public administration, and enhance good-neighborly relations.

## **Economy**

### **Macroeconomic trends**

In the last few years, major changes have taken place in Albania leading to a significant economic shift as construction and services replaced agriculture and outdated industry as the main contributors to the gross domestic product (GDP). The macroeconomic landscape has been characterized by rising exports and an increasing trade gap financed by remittances, receipts from privatizations and concessions and foreign direct investments. The consequences of the difficult global economic situation after 2008, particularly the euro zone, continued to affect the Albanian economy. In 2012, the real growth in GDP, as per data from the Economist Intelligence Unit (EIU), stood at only 1.6%, significantly lower than the 2011 growth of 2.5%

The decrease was mostly caused by the slow foreign demand growth, increased risk premium in the financial markets, low level of consumption and investments, and decreased fiscal stimulus which in turn led to a weak aggregate demand.

The real GDP growth further decelerated in 2013 reaching a level of only 1.4%, reflecting the prolonged double-dip recession in the euro zone, in particular the weak economic activity of the two main economic partners of Albania, Italy and Greece. Nevertheless, the contraction of the Albanian economy was also fostered by

domestic factors as well, related to political uncertainty with respect to the elections in mid 2013.

In 2014, the real GDP growth registered a subtle increase reaching a level of 2%, a little higher than the 2012 rate.

The slightly improved economic performance is attributed to the slight recovery in the euro zone, especially in Albania's dominant trade partner. The increased performance reflected the stronger domestic demand, showing that the Government was acting very cautiously with the medium term policy of fiscal tightening, launched in early 2014.

In 2015, the economic growth of 2.8% was driven mostly by domestic demand, in particular through a strong rebound in investments. Among the economic sectors, construction was the one with the highest annual growth of 14% following a post crisis recovery that started in the second half of 2014.

In 2016, the economic growth continued to rise reaching 3.2%, driven mostly by gross fixed capital formation, reflecting work on the largest scale gas project, the

Trans-Adriatic Pipeline (TAP), and exports of goods and services.

The current account balance increased from 10% of GDP in 2012 to 11% in 2013, reflecting the slowdown in economic growth and domestic demand and lower international commodity prices. It further widened in 2014 reaching 13% of GDP, reflecting the increase in imports. In 2016, the current account balance further widened to 12% of estimated GDP as compared to 11% in 2015, mainly as a result of sharp rise in imports of machinery and equipment used for TAP project.

Following the global economic downturn in recent years, the Bank of Albania has loosened its monetary policy in consistency with global interest rate trends and, to help stimulate economic growth by encouraging lending, investment and consumption, core interest rates have steadily reduced from 4.75% in 2011 to just 1.2% in February 2017. The latter marked the 17th cut since 2011.

In general terms, the level of financial intermediation in the country has seen substantial growth in recent years going from just 30% credit to the economy in

	2012	2013	2014	2015	2016
<b>GDP at market prices, EUR million</b>	9,674	9,891	10,217	10,406	11,259
<b>Real GDP growth (%)</b>	1.6	1.4	2.0	2.8	3.2
<b>Consumer price inflation (average in %)</b>	2.0	1.9	1.6	1.9	1.3
<b>Current-account balance, EUR million</b>	(986)	(1,068)	(1,301)	(1,115)	(1,350)

*Note: Apart from inflation, 2016 figure are estimated figures.*

*Source: Economist Intelligence Unit*

	2012	2013	2014	2015	11m2016
<b>Annual ALL Interest Rates - End of Period</b>					
<b>Deposits</b>	5.38	4.17	1.92	1.35	0.69
<b>Loans (weighted avg.)</b>	10.28	9.52	7.66	7.77	6.26
<b>T-bills</b>	6.37	3.66	3.33	2.40	2.47
<b>Core Interest Rate (%)</b>	4.00	3.00	2.25	1.75	1.25
<b>Amounts in ALL Billion - End of Period</b>					
<b>Deposits</b>	930.70	950	977	987	997
<b>Loans</b>	554.70	548	560	547	553
<b>Credit to economy (% of GDP)</b>	42%	40%	40%	37%	36%

Note a: Annual interest rates are stated for one-year deposits and loans in ALL and one-year T-bills.

Note b: Core interest rate for 2016 refers to the latest interest rate approved in February 2017.

Source: Bank of Albania and Economist Intelligence Unit

2007 to around 40% in 2014, indicating a strengthening of the financial system on the back of ample liquidity provided by notably high levels of savings. In 2015, despite continuous cut in the core interest rate, credit to economy incurred a subtle decrease reaching 38% of the GDP, mainly due to the decrease in lending to businesses. In 2016, despite the increase in loans, credit to economy subtly decreased to 36% on account of the increase in GDP level.

### Inflation

In 2013-2016, the inflation rate went below the minimum target rate set by the BoA, namely 2%, mostly due to the weak performance of demand and decrease in imported inflation. The subtle increase in inflation rate in 2015 reflects the higher tobacco excise duties and increased electricity tariffs, intended to cut the state-

owned energy sector losses. However, the inflationary effect of these factors, combined with a modest increase in external and domestic demand, was largely offset by lower international oil and other commodity prices.

A recovery in international energy and other commodity prices and increased domestic consumption are expected to increase inflation to an annual average of 2.8% in 2017-18.

### Exchange rate

For several years the Albanian lek was relatively stable against the euro; however, from 2009, the ALL depreciated against major foreign currencies, namely the euro and the US dollar.

This reached its peak during 2011, when one euro was worth an average of ALL 140.33. Such depreciation was

	2012	2013	2014	2015	2016
<b>Exchange rates - Period Average</b>					
<b>ALL/USD</b>	108.20	105.70	105.50	126.00	128.29
<b>ALL/EUR</b>	139.00	140.30	140.00	139.70	135.27

Source: Bank of Albania

mainly affected by the increased level of government expenditure and a general “euro-ization” tendency in the local market, with an increased number of transactions, especially in real estate, conducted in euro.

Meanwhile, the changes in ALL against the euro and US dollar in the period 2012-2014 reflect the difficulties in finding a solution to the euro zone crisis. During 2014, one euro and one dollar averaged ALL 140 and ALL 105.5, respectively. In 2015, the ALL continued to depreciate markedly against the US dollar and be relatively stable against the EUR, mirroring the trends in the exchange rate between the US dollar and the euro.

Since it depreciated markedly against the US dollar in 2015, ALL has remained broadly stable. The Economist Intelligence Unit expects that ALL will weaken further against the US dollar mirroring to some extent the depreciation of EUR. It is forecasted that ALL will be supported by a relatively high local currency interest rate and increased foreign currency remittances from Albanians working abroad as euro zone growth continues, although modestly, in 2017-18.

### Fiscal indicators

The consequences of the global economic crisis in Albania, although initially less severe than in neighboring countries, were underestimated and, as a result, the expectations for public revenue were overly optimistic. This situation eventually led to

lower than forecast revenues and increased budget deficits, accentuating the need to adjust spending plans.

The budget deficit widened in 2014 reaching almost 5% of the GDP. The increase is driven by significant payments of state arrears to private businesses. On the other hand, revenue increase by 12% mostly due to the increased tax rates and improved revenue collection.

In 2015, the budget deficit decreased by 20% in line with the government’s fiscal consolidation program aimed at curtailing public expenditure.

As per the Economist Intelligence Unit, the current government has managed to implement its medium-term strategy to restraint the budget deficit, by acquiring an SDR 295.4 million (US 414 million) extended fund facility from the International Monetary Fund (IMF) in February 2014.

In terms of public debt, based on IMF data, the government debt of Albania exceeded 60% of GDP, which is considered a relatively high ratio when compared to other emerging markets (average rate of 47%) and regional peers. In order to accommodate the rising level of public debt, in December 2012, the legislation on public debt was changed whereby the previous statutory ceiling on public debt of 60% of GDP was abolished.

The level of public debt increased by the end of 2012 reaching 62% of the GDP due to a shortfall in revenue and the need to place guarantees on behalf of the state-owned

power utility KESH, which was required to import larger than planned quantities of electricity. The public debt further increased in 2013-2014 amounting to 70% of GDP due to recognition of state debt in arrears in 2014.

The Government in office since September 2013 submitted to the European Commission its three-year (2014-2016) Economic and Fiscal Program whose main objective is to boost economic growth while gradually reducing public debt. The current Government has sought fund assistance from the IMF to lessen both budget deficit and public debt.

Throughout 2012-2013, exports generally increased reflecting the improvement in competitiveness of Albanian exports. Such improvement in exports is fostered by the low inflation and a modest return to growth in the euro zone following the recession in 2012-2013.

The situation changed in 2014-2016 with exports incurring a decrease. In 2015, the decrease is attributed mainly to the plunge of merchandise exports offsetting the increase in service exports. Exports have been adversely affected by a modest appreciation of the lek towards the euro, and sluggish growth in Italy and recession in Greece, the two markets that have been traditionally the economic partners of Albania.

	2012	2013	2014	2015	11m 2016
<b>In ALL million</b>					
<b>Total revenue</b>	330,382	327,178	366,721	379,206	368,310
<b>Total expenditure</b>	376,244	394,118	438,849	437,408	361,216
<b>Deficit</b>	(45,862)	(66,940)	(72,128)	(58,202)	(7,094)
<b>Public debt as % of GDP</b>	60	65	70	72	71

Note: 2016 data for public debt as % of GDP is an estimate and it refers to full year 2016.

Source: Bank of Albania and Ministry of Finance

	2012	2013	2014	2015	2016
<b>Exports of goods fob (USD million)</b>	1,124	1,395	1,241	857	774
<b>Imports of goods fob (USD million)</b>	3,984	4,028	4,170	3,402	3,727
<b>Trade balance</b>	(2,859)	(2,633)	(2,930)	(2,547)	(2,953)
<b>Coverage ratio</b>	28%	35%	30%	25%	21%

Note a: Coverage ratio is measured as the ratio of exports to imports.

Note b: 2016 figures are estimates.

Source: Economist Intelligence Unit



## Main origins of exports 2016

Country	% of total
Italy	55
Kosovo	7
Greece	4
Malta	4
<b>Other countries</b>	<b>30</b>

Source: Customs Authority of Albania

## Main origin of imports 2016

Country	% of total
Italy	29
China	9
Turkey	8
Greece	8
<b>Other countries</b>	<b>47</b>

Source: Customs Authority of Albania

As per the Economist Intelligence Unit, it is expected that a continuing increase in economic activity in Albania will attract more imports, driven partly by increased government spending ahead of the elections and the recovery in international oil and commodity prices. In addition, a recovery in world fuel and mineral prices will increase not only the value of imports but also that of exports, given that fuels and minerals are the second largest category of Albania's exports.

### Trade agreements

The Central European Free Trade Agreement (CEFTA), which currently includes Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Moldova, Montenegro and Serbia was signed in December 2006. In addition, another major trade agreement, the European Free Trade Association (EFTA)

framework agreement liberalizing foreign trade between Albania and the European Union entered into force in December 2009.

Albania's major trade agreements are with the following organizations:

#### WTO

Albania has been a member of the World Trade Organization (WTO) since 8 September 2000.

#### European Union

Prior to agreements between Albania and the European Community, since the year 2000 certain incentives have been granted with respect to Albanian products such as products of Albanian origin introduced as duty free in the EU market and agriculture products being subject to significant reliefs.

The Stabilization and Association Agreement between Albania and the European Community and its Member States entered into force on 1 April 2009.

### EFTA

According to the 1993 European Free Trade Association (EFTA) Agreement, trade with EFTA countries (Iceland, Liechtenstein, Norway and Switzerland) enjoys preferential terms and conditions which are almost identical with those in the Europe Agreement of Association.

### Bilateral Free Trade Agreements

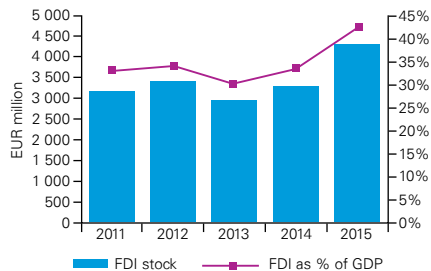
As of 19 December 2006, all bilateral trade agreements signed between Albania and countries in the region were transformed into a multilateral one, the Central European Free Trade Agreement, which currently includes: Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Moldova, Montenegro and Serbia. CEFTA's main objectives are, inter alia, to expand trade in goods and services and foster investment by means of fair, stable and predictable rules, eliminate trade barriers among the parties, provide appropriate protection of intellectual property rights in accordance with international standards and harmonize provisions on modern trade policy issues such as competition rules and state aid. It also includes clear and effective procedures for dispute settlement.

Albania is also party to a Free Trade Agreement with Turkey, which entered into force in May 2008. According to this agreement, Albanian industrial goods exported to Turkey benefit from no tariffs application, while the applicable tariffs for certain Turkish products were gradually reduced to zero within a period of five years.

## Foreign investment

Foreign direct investments (FDI) in Albania have been rising steadily since the early 2000s. Despite the global economic crisis, FDI in Albania continued to increase even after 2008. According to the latest available data of the United Nations Conference on Trade and Development (UNCTAD), the foreign investment stock as at end of 2015 reached a level of EUR 4,353 million representing an annual increase of 15%. Throughout the recent years, FDI stock stood at an average level of 35% of GDP. FDI have mostly been attracted by the various privatization initiatives of the Government in sectors such as banking, telecommunications, manufacturing, and increasingly energy, especially hydroelectricity.

### Foreign investments Stock in Albania, 2011-2015



Source: United Nations Conference on Trade and Development

In recent years, an important development in targeting investors has been the adoption of the Law on Concessions which aims to create a favorable framework for promoting and facilitating the implementation of privately financed concession projects in the development of infrastructure and public service areas in a wide range of sectors.

Apart from the uncertainty which characterizes the euro zone economic prospects, there are challenges in the investment climate in Albania including problems encountered in public administration, legal system, corruption, inadequate electricity supply and infrastructure. However, most of these problems are considered to have been reduced recently as most were subject to prerequisite conditions for gaining EU candidate status in mid 2014.

One of the important milestones in promoting foreign investments in the country was the approval of the new Law on Strategic Investments that came into force at the beginning of 2016. It is aimed at promoting and attracting strategic investments with significant capital implemented in economic sectors, which are considered strategic for the country development.

More specifically under this law, the strategic sectors include the following: energy and mines, transport, infrastructure of electronic communications and urban waste, tourism, agriculture and fishery, technology and economic development zones. The law determines a threshold for investment value and/or number of new jobs created for an investment in each of these sectors for an investment to be considered strategic and be supplied with an assisted and special procedure.

The law offers strategic investors promoting and supporting mechanisms, considering such investments of priority, and guaranteeing a series of measures, services and administrative facilities.

Some of these facilities in favor of the implementation of the strategic investments include:

- One-stop shop: the Albanian Investment Development Agency (AIDA) is the one-stop shop where strategic investors may take all necessary steps in terms of administrative procedures
- Priority administrative procedures: administrative procedures related to strategic investments, including here inter alia the issuance of licenses, permits, and authorizations, are processed through accelerated procedures by the public administration
- Support measures offered by the Albanian state: through state participation in strategic investments, support of investment through support infrastructure, use of state immovable properties, etc.

# Opportunities for International Investors

## Protection and promotion of foreign investments

### National treatment and most favored nation status

The Albanian Law on Foreign Investments provides for equal treatment of local and foreign investors in the Republic of Albania. Foreign investors in Albania can obtain the same assistance and use the same privileges and opportunities as granted by the law to local investors.

If a bilateral treaty, signed and ratified by the Republic of Albania, provides for more favorable investment terms and conditions for international investors, the citizens or legal entities of the respective contracting country will enjoy preferential investor treatment (“most favored nation status”).

### Protection of investments

The Republic of Albania is a party to 43 bilateral agreements for mutual protection and encouragement of foreign investment. Currently, there are six other bilateral agreements which are under negotiation process. In addition, Albania is also a party to 38 bilateral agreements for economic, trade and technical cooperation and five other agreements which are under negotiation process.

Albania is also a party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. Every Bilateral Investment Treaty has a standard clause providing that, in the case of a dispute between the Republic of Albania and a potential investor, this dispute shall be submitted before the World Bank’s International Center for Settlement of Investment Disputes. On these grounds, every investor in Albania has the opportunity to protect their investment if adverse legislation is adopted.

## Privatization and investment opportunities

The privatization of large-scale enterprises is advancing. The Government expects to privatize the state companies considered of strategic interest, such as oil national company Albpetrol, and it also plans to put up for sale the remaining public stakes in national fixed-line operator Albtelcom. In addition, the Government intends to fully privatize its assets in non-strategic sectors which are estimated to reach a value of EUR 5 million.

However, certain actions have already been undertaken in response to future privatizations, including concession projects such as the development, implementation,

and management of the national broadband network as well as the maintenance of major national road segments.

Several sectors in Albania still offer opportunities to access long-term gains that can come from investing in a fast-growing, low-cost economy with fairly untapped natural resources and a flexible workforce.

Some of the strategic sectors set out in the Law on Strategic Investments are presented in the following sections.

### **Agriculture**

The favorable climate and low-cost rural workforce make Albania a good investment destination in the agricultural sector.

Compared to other EU Member States, where the agriculture sector represents around 2% of GDP and 6% of the employment according to Eurostat, the agriculture sector in Albania significant and contributes the highest part to the GDP with an average annual contribution of 20% while it employs more than half of the workforce, according to INSTAT.

Although it is expected that the sector will develop quickly, it remains inefficient and labor intensive, dominated by small agricultural producers.

The number of enterprises operating in agribusiness has not changed significantly during the past years and averages about 2,000 enterprises.

The general level of interest in investing in this sector has been low, mostly due to certain issues faced by the sector such as: migration from rural areas, poor marketing of products, underdeveloped irrigation and drainage systems, poor technological and infrastructure level, weak organization of

the farmers, and low level of development of the processing industry. However, with the energy and road infrastructure rapidly improving or scheduled to improve in the mid-term, the sector looks more attractive. One of its selling points is that most of its agricultural products are generally free from artificial additives or pesticides, placing the country in a promising position to become an important producer and exporter of quality organic foods.

Some agriculture sub-sectors with a high potential for export and investment opportunities include: medicinal plants and herbs, vegetables, canned products such as olives/olive oil, fresh and processed fish.

### **Energy/power generation**

Currently, Albania relies almost entirely on hydropower generation to meet its rising electricity demand (comprising 98% of the total energy production), making it quite vulnerable to climate changes. The River Drin is the main source of electricity, providing about 90% of the domestic electricity generation.

In 2011, the weather conditions were characterized by a substantial drop in the level of rainfall, leading to energy production of 4.14 TWh, representing an annual decrease by almost 50%. In those conditions, the Government of Albania considered the integration of the energy system of Albania, almost entirely hydropower based, and that of Kosovo, coal power plant based, two complementary systems. Moreover, the importance of the energy system unification in both countries further increases with the construction of the interconnection line of 400 KV between Albania and Kosovo, which was approved late in 2013 and completed at end of 2015.

In 2016, the 110 KV connection line in southern Albania was completed. This is an important project which significantly increases safety and parameters of the power supply in the tourist area and southeastern Albania.

The main priority of the Albanian Government is for the country to become self-sufficient and be able to fulfill all of its energy needs. Eventually, the mid-term goal is to turn Albania into an important player in the regional energy market by exporting excess capacities.

The country's recent draft National Energy Strategy covers up to 2019 and describes plans to diversify Albania's energy system by fostering the development of renewable energy generation assets (such as solar, small hydropower plants, wind and biomass) and thermal power plants.

The state hydropower plants (HPPs) continue to be the main contributor to energy with around 70% of the total energy being produced by state HPPs and the rest by the private HPPs.

During the past years, investments in the sector have aimed at improving the transmission and distribution network and decreasing the losses in the distribution network. In addition, several measures are undertaken to increase the receivables collection rate

The country has unused renewable sources of energy such as sun and wind. Currently, solar energy is only used for heating whereas the wind energy is completely unexploited. The highest potential for wind energy is along the Adriatic coastline. A number of local and foreign investors are licensed to study the wind energy production in the country. Up to 2020, the government aims at having 20% of the energy produced from wind sources.

Several fiscal incentives are designed to encourage new means of power generation. Companies investing in the construction of energy plants using renewable sources (such as water and wind) are entitled to an exemption from customs duties on the import of machinery and equipment needed for the construction of such plants. For investors in non-renewable sources, this exemption applies if the plant has an installed power capacity of more than 5 MW.

### **Tourism**

Albania has yet to become a major tourist destination rivaling neighbors like Greece and Croatia although the country is characterized by numerous national parks, mountains, and protected nature reserves, ancient villages and ruins and a relatively well-preserved 611 kilometer-long coastline.

Aside from its coastline, Albania is rich in lakes which constitute not only important ecological sites but also a separate segment for the tourism sector. The potential for the development of a wide range of year-round tourism activities is reinforced by the prevalence of a hilly and mountainous landscape which makes up almost two-thirds of the country's surface area.

Cultural tourism offers good prospects as well, given Albania's ancient past and the existence of a large number of archaeological centers and sites, castles and fortresses, and various historical, cultural and religious objects.

Infrastructure issues have plagued the sector historically; nonetheless, it has grown at a significant pace during the last few years and seems poised to continue this pace in the future. Statistics from the World Travel and Tourism Council indicate that the total contribution of travel and tourism to

GDP, including its wider economic impacts, is forecast to rise during the forthcoming years so as to reach around 29% of GDP in 2021. Interestingly, however, tourism continues to be mostly represented by small, locally-owned operators with little to no significant involvement of foreign investors.

Investments in the tourism sector are regulated by the Law on Tourism in Albania which sets out the possibility for state assistance to private entrepreneurs for projects in this sector. Such assistance may be provided by the National Tourism Agency in the form of grants, loans or tax exemption.

### **Mining sector**

Albania is rich in extractable mineral resources, including chromium, copper, nickel and coal. The quality and quantity of chromium is particularly high and it is worth noting that prior to 1990 Albania was the world's third-largest producer and is today the only European country with significant reserves of this mineral.

The mining industry in Albania has been undergoing privatization and the Government has also offered concessions for construction and operation in this sector. At present, Albania's coal and nickel mines are privatized, while the three largest copper mines are being operated via a 30-year concession contract. Other mines operated under concession contracts include the chromium mines of Bulqiza, Katjel, Pojska, the copper mines of Lak Rosh and Karme and the bitumen mine of Selenica.

The strategy for the development of the mining industry in Albania has prioritized the increase in production and processing of such minerals as chromium, copper and

nickel in order to raise their competitive advantage in domestic and foreign markets; the addition in production range and processing of other minerals such as bituminous sands, olivinites, basalts, and decorative stones; and the introduction and further application of modernized technologies in mining and mineral processing.

### **Crude oil and gas**

Oil production in Albania began in 1928 and has continuously increased since then. The country is endowed with one of the largest onshore oil fields in Europe, Patos-Marinza. Albania has high on- and offshore oil bearing potential and offers good opportunities for oil and gas exploration via a favorable legislative framework aimed at attracting foreign, qualified companies in the development and production of oil and gas from existing oil fields. In recent years, the production of crude oil has been increasing and, as per the latest statistics, it reached a volume of about 1.4 million tonnes in 2014 as compared to just 0.4 million tonnes in 2004.

According to the Albanian National Agency of Natural Resources, land-based geological reserves of oil are estimated at about 260 million cubic meters and of these 54 million cubic meters are considered recoverable reserves; however, the economic feasibility of extracting these reserves is still under consideration. Geological oil reserves at sea are estimated to be 200 million cubic meters of which about 50 million cubic meters recoverable reserves.

Gas exploitation for industrial use started in 1963 in Bubullime (in the Kallm area). Later, in 1964, a natural gas resource in Divjake was found, followed by the discovery and

use of other natural gas resources such as Frakulla (1972), Finiq-Krane (1974), Ballaj (1983), Povelca (1987) and Delvine (1989).

Natural gas historically was an important element in supplying the Albanian market with energy; however, its current contribution is low due to minimal production levels.

Meanwhile, imports via international pipelines are currently impossible due to the lack of connectivity of the Albanian gas network to the international gas network system. Studies carried out so far have aimed at identifying different ways of connecting Albania with the European gas network. In this regard, the Trans Adriatic Pipeline (TAP) project has started aimed at opening the new so-called Southern Gas Corridor to Europe for natural gas from the Caspian Sea region. It will transport gas via Greece and Albania and across the Adriatic Sea to Southern Italy and further to Western Europe.

The country's gas reserves have continuously decreased since 1985, reaching a minimum level in the early 1990s due to the lack of new discoveries and the lack of investments in existing resources.

To date, the Government has licensed various international companies for the development and production of oil and gas (such as Bankers Petroleum, Stream Oil & Gas, Sherwood, IEC Visoka and others), in addition to having issued several hydrocarbon agreements for hydrocarbon exploration on-shore and off-shore. Currently, there are also several ongoing negotiations for the exploration of new blocks on land and at sea.

Early in 2014, Petromanas Energy, an international oil and gas company,

announced the discovery of oil reserves in an onshore block in Albania in which it holds 25% interest, with the remainder held by Shell.

## Telecommunications

The largest and most important provider of fixed-line telephony in Albania is Albtelecom. In recent years, however, a growing number of alternative providers has been established and licensed by the Electronic and Postal Communications Authority (EPCA). As per data provided by EPCA, alternative providers served around 20% of subscribers in 2015.

On the other hand, the mobile telephony market is shared among Vodafone Albania, Telekom Albania, Eagle Mobile, and Plus Communication. In total, these operators in 2015 had 3.4 million subscribers, representing a yearly increase of 1% compared to 2014 and a penetration rate (number of subscribers per 100 inhabitants) of 119%.

Mobile telephony is becoming a competitive market with operators continually offering tariff reductions to pre-paid and post-paid customers and providing internet services through mobile handsets and modem cards for PCs to all customer segments.

According to statistics from EPCA, the number of internet users with access to fixed broadband lines increased to 242,870 in 2015 (207,000 at the end of in 2014, 183,000 at the end of 2013). The internet penetration rate through fixed broadband in Albania increased to 8.5% in 2015 (compared to 7.4% in 2014) which is still far below the developed countries' average of 72%, as per statistics of the International Telecommunications Union.



During 2015, 80 registered operators offered internet through fixed broadband and other related services locally. The main operator is Albtelecom, which has been very active in the provision of internet access recently. As per statistics of EPCA, in 2014 Albtelecom continues to be the major player in this market, representing 40% of the market followed by Abcom with 21% in terms of number of subscribers.

On the other hand, the situation is quite different for internet through mobile broadband 3G and 4G where users reached 1.3 million in 2015 representing a substantial annual increase of 43%.

The information and communication technology infrastructure in the country continues to be inadequate and underdeveloped. The demand increase has outpaced the modest progress in the telecommunications infrastructure leading to an increased necessity for further upgrades and improvements.

The Albanian Government has placed a special focus on the development of the telecommunications sector and related infrastructure. In this regard, considerable progress has been made in recent years regarding e-government, the creation of online services conducive to business activities and the introduction of reforms to improve the regulatory regime.

Areas for further development encompass new technologies such as LTE, DSL, cable TV and WiMax.

### **Profit and capital repatriation**

Foreign investors can freely transfer, and purchase to transfer, foreign currency abroad after any corporate taxes due, including withholding taxes, have been duly paid. The following may be transferred:

- Income generated through an investment
- Compensation against expropriation of investments for state needs
- Liquidation quotas upon termination of the investment
- Proceeds from the sale of an investment
- Sums received as a result of enforcement proceedings.

This right may also be exercised by foreign individuals working in the country with respect to their remuneration, as well as those who have obtained a permanent residence permit and are registered as sole traders or participate in a co-operative, in an unlimited partnership or as unlimited partners in a limited partnership, after the payment of all taxes due.

### **Establishment of new business entities or acquisition of shares in existing entities**

The Albanian Law on Entrepreneurs and Commercial Companies provides for the establishment of entities with foreign participation or for the acquisition of shares in local entities. Such companies must take the form of entities under the Albanian Law on Entrepreneurs and Commercial Companies. There is no limitation on the share participation of foreign legal entities and individuals.

Under the Albanian Law on Entrepreneurs and Commercial Companies, the following entities may be set up and have foreign investor participation:

- Unlimited partnerships
- Limited partnerships
- Limited liability companies

- Joint-stock companies
- Sole entrepreneurs.

Generally, no prior permission from governmental institutions is required for the establishment of an entity of the above types, except for cases involving banking or insurance activities, investment or private pensions' funds.

### Branches

Foreign legal entities may register branches in the Republic of Albania. Branches are entered in the Commercial Register at the National Business Center.

Though part of a foreign company, branches are considered independent and therefore must keep separate accounting books and prepare balance sheets. However, registered capital is not required for the establishment of a branch.

### Representative offices

Under the Albanian Law on Entrepreneurs and Commercial Companies, a foreign investor can have a representative office in Albania. The representative office must also be registered with the National Business Center and have a legal representative empowered by the company to manage the representative office. However, such an office is not entitled to perform commercial activities.

### Concessions

Under the conditions of the Law on Concessions and Public Private Partnerships, which regulates the terms for granting concessions and entering into a public private partnership, the state authorities may grant concessions or enter into a public private partnership for certain

objects or activities which are exclusive state property or subject to sovereign state rights. The law has been effective from 25 May 2013 as amended.

### Trade licenses/permits

An additional license is required for performing economic activities in certain areas. The Law on Licenses, Authorizations and Permits in the Republic of Albania and its sub-legislative acts set forth the provisions on the licensing regime. The National Business Center (NBC) is the institution which processes the issuance of licenses and permits. The NBC is also entitled to issue directly licenses and permits except for those whose issuance involves the material activity of other public authorities. In the second case, the procedure for obtaining the license or permit is a two-step one with the NBC controlling, in the first stage, the documents submitted by the applicant, and, in the second stage, the competent authority verifying the fulfillment by the applicant of specific legal requirements for the license or permit to be granted.

The NBC provides a multipurpose electronic database that enables the processing of requests for licenses and permits. This database is accessible online and publishes previously issued licenses and permits.

A license/permit is generally required to operate in the following sectors:

- Tourism
- Construction
- Fuel trading
- Energy
- Fishing

- Telecommunication
- Radio and broadcasting
- Education
- Trading in pharmaceutical and medical products
- Hospitals, diagnostic centers, laboratories
- Road and maritime transport
- Games of chance and hippodromes
- Property evaluation
- Mining

### **Licensing regime in electronic communications**

Public electronic communications in Albania, save for radio and television broadcasting and communication equipment used for national security purposes, are governed by the Law on Electronic Communications effective from 25 June 2008. The Electronic Communications and Postal Authority (ECPA) is the competent body which supervises the legal regulatory framework in the electronic communications sector.

Under the Law on Electronic Communications, public electronic communications services may be provided, under general authorization, by any legal entity or entrepreneur who meets the general requirements set out in the law, after first notifying the ECPA.

Where legal entities want to use frequencies from the Frequencies Usage Plan for the purposes of carrying out electronic communications, they have to obtain an individual authorization from ECPA. ECPA issues the individual authorization in accordance with the

National Frequencies and Frequencies Usage Plan as well as with the law requirements. The individual authorization is issued for a term not longer than 15 years.

The ECPA may decide to hold a tender procedure for issuing the frequencies in a specific band upon completion of the public consultation process and approval from the competent ministry. In such a case, the commencement of the services, term of authorization and the number of operators is determined by the respective Minister.

Radio and TV broadcasting services are regulated by the Law on Audiovisual Media in the Republic of Albania effective as of 3 April 2013. The Audiovisual Media Authority (AMA) is the competent regulatory authority for radio and TV broadcasting services and other supporting activities in this sector. All networks which require use of radio and television frequencies as well as provision of audio and audiovisual broadcasting services based on such networks are licensed by AMA.

The Law on Audiovisual Media also regulates radio and television operators (operators offering audio and audiovisual media services). AMA issues licenses/authorizations to legal entities and individuals registered to perform audio and/or audiovisual services.

The license/authorization term is up to 15 years and the request for its renewal must be made 90 days before the termination of the license/authorization term.

### **Licensing regime in the energy sector**

The energy sector in Albania is governed by the Law on Electric Energy Sector No. 43, dated 30 April 2015, and the Law on Renewable Energy Resources No. 183/2013 dated 2 May 2013 as

amended. The main regulatory body of the Albanian energy sector is the Energy Regulatory Authority (ERA), which is responsible for the issuance, amendment and revocation of licenses for activities in the energy sector. The licensing procedures are governed by the Regulation of ERA on licensing, amendment, full/partial transfer and renewal of licenses.

In general, the law requires an individual license for the specific energy activity, such as generation, transmission, trading, wholesale and retail public supply, supply of electricity of qualified customers and distribution of electricity.

No license is required for:

- Construction of a direct line for transmission or distribution of electricity
- Generation of electricity by self-producers not connected to the electricity grid or connected to the electricity grid with an installed power up to 1 MW. There are restrictions on the transfer of a license or any assets used for the licensed activity without obtaining prior approval from ERA.

Any local or foreign legal entity, fulfilling the requirements of the law, is eligible to receive a license for the activities listed above. The term for each license issued by ERA is as follows:

- For generation of electricity up to 30 years
- For transmission of electricity up to 25 years
- For distribution of electricity up to 30 years
- For wholesale public supply of electricity up to 5 years

- For retail public supply of electricity up to 5 years
- For supply of electricity to qualified customers up to 5 years
- For trade of electricity up to 5 years

The license term may be extended only if the licensee has applied for extension at least six months prior to the expiration of the initial license term.

In accordance with the Law, ERA upon a licensee's request or at its own discretion may decide to fully or partially transfer any license.

## Renewable energy

In February 2017, the Albanian Parliament approved the Law on the Incentive for the Use of Renewable Sources which repealed the Law on Renewable Energy Sources (RES) dated 2 May 2013.

The new Law aims to partially harmonize the legislation with EU Directive 2009/28/EC as well as with the changes and abrogation of EU Directives 2001/77/EC and 2003/30/EC.

The purpose of the new Law is to:

- Promote the production of renewable energy
- Reduce the import of organic combustibles
- Stimulate the development of the energy market from renewable sources in the region
- Increase the diversification of the use of energy and boost energy security
- Provide incentives for the development of rural areas by improving the energy supply.

### **An action plan for renewable energy**

The Ministry of Energy is obliged by the new Law to draft, in cooperation with other agencies, a National Action Plan for the sources of the renewable energy. This National Action Plan is to be approved by the Council of Ministers and revised every two years.

### **National support measures for renewable energy producers**

According to the Law, producers of electricity from renewable energy sources asserted with priority are entitled to the incentive measures in the form of a bonus as an increase in the reference price of the produced energy. This incentive is granted through a competitive bidding.

Based on the Law, the Ministry of Energy shall draft proposals on different incentive measures that may be granted to producers of renewable energy.

#### *Support through the Incentive Agreement (Model Agreement for the price difference)*

The support to producers under this kind of a standard Incentive Agreement set out in the new Law is based on a variable bonus calculated as a difference between the price based on which the producer has been awarded in the competitive bidding processes for granting of the bonus (established price) and the market price of the energy (reference price).

The beneficiaries of the scheme are selected through a competitive bidding process opened for all the producers of the renewable energy except for any specific case as presented by the Law.

The competitive bidding process may be limited to specific technologies if the

bid open to all the producers may lead to distorted results.

The Model Agreement is proposed by the Minister of Economy and approved by the Council of Ministers.

The Operator for the Renewable Energy prepares an application form to be used by the producers in the competitive bidding process.

The maximal duration of the Incentive Agreement is 15 years.

#### *Incentives for small producers of renewable energy*

The Incentive Agreement model is not applied to small producers of renewable energy having an installed capacity of 2MW or 3 MW for wind energy. The Agreement is not applied in case of demonstrative projects.

The purchase price from sources of renewable energy having an installed capacity of 2MW is established by the ERA as per the methodology approved by the Council of Ministers taking into consideration the internal market price and the regional regulated markets plus a bonus for the promotion of the renewable energy.

### **Operator of Renewable Energy and Certificates of Origin issued by ERA**

The Operator is responsible for the billing and collection from each power supplier of the payments for the renewable energy for all the categories of the producers asserted with priority as applied to customers.

The Council of Ministers determines the Operator which acts as Operator of Renewable Energy. The Operator is responsible for the signing and

administration of the Incentive Agreements. The Operator is also responsible for the payment of the amounts due to the producers asserted with priority. The Operator must keep detailed data on the incentives granted to producers throughout the duration of the agreements. The details of the calculation of the bonuses granted to producers are published each year by the Operator.

The ERA must issue a certificate of origin for each unit of energy generated from an implant for the production of renewable energy. The certificate must contain data as specified in the Law and is issued upon the fulfillment of certain conditions. The Authority must keep an electronic register with the certificates.

Based on the Law, also recognized are those certificates issued by an EU Member State or another country member of the Treaty of the Energy Community.

### **Financing of renewable energy sources projects**

WeBSEFF, the Western Balkans Sustainable Financing Facility, is a financing facility under which the European Bank for Reconstruction and Development (EBRD) provides credit lines to partner banks in the Western Balkans to on-lend to businesses and municipalities wanting to invest in energy efficiency and small-scale renewable energy projects.

Albania is one of the countries which benefits from the second phase of the program, i.e. WeBSEFF II, a new EUR 75 million credit line facility launched in October 2013.

The EU supports WeBSEFF by providing grant aid worth EUR 11.1 million. It is used for investment incentives to borrowers

which have successfully completed their WeBSEFF investments. It furthermore funds a team of experts to help local banks and their clients in identifying and optimizing viable projects.

WeBSEFF II provides grants of up to 20% of the loan principle for RES projects, upon their completion and on the basis of verification by an independent energy expert.

### **Banking and finance**

The banking and financial system structure in Albania consists of commercial banks, non-banking financial institutions, representative offices of foreign banks, foreign exchange offices, savings and loan associations and unions.

Pursuant to the Law on Banks in the Republic of Albania ("Banking Law"), an Albanian bank must be established in the legal form of a joint-stock company issuing only nominative shares with a fully paid-up minimum registered capital of ALL 1 billion. Banking activities in Albania may be performed only upon obtaining a bank license issued by the Bank of Albania. A bank or branch of a foreign bank must obtain a certificate of deposits' insurance, before starting to conduct banking activities.

A foreign bank registered in another country may perform banking activities in Albania only upon opening a branch in Albania and obtaining a license issued by the BoA.

An Albanian bank has the right to open branches or agencies in or outside the territory of the Republic of Albania, as well as representative offices outside the territory of the Republic of Albania.

Non-banking financial institutions are legal entities other than banks which are subject to registration in a special register kept by the BoA. They must be established and organized pursuant to the Law on Commercial Companies. Pursuant to the Banking Law, the Bank of Albania determines the rules for licensing, supervision and functioning of these institutions, taking into consideration the specifics of their financial activities.

## International private law

### International Private Law Code (IPLC)

The rules of the IPLC regulate the terms and conditions concerning the choice of applicable law in private legal relations, which have an international element.

### Competence of Albanian courts and other authorities

The competence of Albanian courts is exclusive only if it is explicitly provided for. For example, Albanian courts have exclusive competence on lawsuits concerning:

- Ownership title and property rights over real estate situated in Albania
- Legal status of legal entities registered in the Republic of Albania
- Claims regarding industrial property, where the patent or trade mark has been issued or the registration made in the Republic of Albania
- Claims regarding the enforcement of executive titles in Republic of Albania.

Where the dispute is outside the exclusive competence of the Albanian courts, any such action may be submitted to a foreign

court or arbitration by an agreement in writing between the parties.

### Applicable law

The legal status of legal entities and branches of foreign companies is regulated by the law of the state in which they are registered. Therefore, the legal status of legal entities and branches of foreign companies registered in Albania shall be subject to Albanian law.

Since ownership rights over movable and immovable property are regulated by the law of the state within whose territory they are located, Albanian law shall be applicable to property located within Albania.

Contracts, including employment contracts, are regulated under the law chosen by the parties.

However, the choice of applicable law for an employment contract must not deprive the employee of the protection under the mandatory rules of the law, which would be applicable in the absence of choice of applicable law. In the absence of choice of applicable law, the employment contract is governed by the law of the state in which the employee usually works, even if they are temporarily employed in another state.

Unfair competition and the restriction of competition are regulated by the law of the state in whose territory the interests of competitors or consumers are damaged or may be damaged.

### Recognition and enforcement of foreign awards in Albania

Decisions and other acts of foreign courts and authorities, including courts of arbitration, may take legal effect in Albania through their recognition and/

or enforcement subject to the terms and conditions of the Albanian Code of Civil Procedures (ACCP) and the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

According to the ACCP, decisions and other acts of foreign courts may be recognized and enforced if the foreign court has been competent according to the Albanian law to issue the act subject to enforcement, and its recognition and enforcement does not contradict public order policy in Albania.

The New York Convention, to which Albania is a party, provides rules for enforcement of foreign arbitration awards in contracting states.

### **Procedure for enforcement of foreign court judgments and arbitration awards**

The procedure for enforcement of a foreign court judgment or an arbitration award starts upon the filing of a claim with the competent Court of Appeal. Attached to the claim must be a copy of the foreign act verified by the court or by the arbitration which has issued it and a certificate of the foreign court or arbitration that the decision has become final. These documents must be translated into the Albanian language by a certified translator and certified by the Albanian Ministry of Foreign Affairs. If the documents are submitted by the legal representative of the interested person, the respective power of attorney empowering the legal representative must be filed as well.

The Court of Appeal examines whether all pre-conditions for recognition and enforcement of the foreign act are fulfilled. However, the Albanian Court of Appeal does not review the case on its merits.



# Company Law

The primary law governing the formation, operation, transformation and termination of companies is the Law on Entrepreneurs and Commercial Companies, effective from 21 May 2008 as amended.

There are four forms of business association in Albania under the Law on Entrepreneurs and Commercial Companies:

- Unlimited partnership (shoqeri kolektive, SHK)
- Limited partnership (shoqeri komandite, SHKM)
- Joint-stock company (shoqeri aksionare, SHA)
- Limited liability company (shoqeri me pergjegjesi te kufizuar, SHPK)

All types of business association are recognized as legal entities. The founders may participate in one or more companies provided that the law does not prohibit such participation. Founders may be Albanian or foreign companies and/or individuals. Irrespective of the nationality of its founders, each type of company is considered to be Albanian.

The most usual forms of business association for foreign investors are the limited liability company (SHPK) and the joint-stock company (SHA).

## Rules applicable to all forms of business association

### Articles of Incorporation and Articles of Association

The adoption of the Articles of Incorporation and Articles of Association is an initial step in the establishment of a company.

In general, the Articles of Incorporation and Articles of Association must include the following:

- Name of the business entity
- Identity of partner/shareholder
- Type (cash or in-kind) and amount of partners' or shareholders' contributions
- Head office address of the company
- Management and representation of the company
- Scope of the company's activities
- Duration of the activity, if any.

In cases when a partner or a shareholder intends to make an in-kind contribution, the Articles of Association must state the name of the contributor, the full description of the in-kind contribution, its monetary value, and the grounds for the contributor's rights.

In the case of a joint-stock company, the in-kind contribution must be valued by one or more experts appointed by the court. The report of the expert/s must contain a full

description of the in-kind contribution, the method of valuation, the valuation and its consistency with the share of the capital or the number, the nominal and issuing value of the shares being subscribed for by the contributor.

## Registration

Under the Law on the National Business Center, all the entrepreneurs and commercial companies which carry out business activities in Albania must register with the Commercial Register held by the National Business Center of Albania. An application for registration must be submitted to the NBC within 15 days from the beginning of the business activity. Any other application for another mandatory registration must be completed within 30 days from the change of registered data. The application form is to be accompanied by the required original or authenticated documents. The documents must be drawn up in accordance with the legislative requirements and must be presented in the Albanian language. Provided that all the documents required by the law are in compliance with the legal requirements, the registration is completed within 24 hours from the application and the certificate is issued accordingly. Registration procedures could be suspended if the documents filed for them are not consistent with the legal requirements. The NBC notifies the applicant of the decision about the suspension and a request for a correct or complete application is to be submitted within 21 calendar days of the notification date. The registration may be lawfully denied when the application is not consistent with the legislative requirements, is not complete or correct, or when the data required to be registered are different from the data held in the Commercial Register.

The Law on the National Business Center prescribes the general mandatory documents for the registration of the above-mentioned subjects and the additional documents for each of them.

The documents required to register a new business entity with the NBC are as follows:

- Application form (standard form) filled-in, signed and filed by the legal representatives of the company or by an authorized person with a power of attorney
- Articles of Incorporation and Articles of Association
- Resolution on appointment of the management bodies of the company
- Documents reflecting the capital disbursement (when the contributions are in cash, the bank statement or the notary public deposit deed is necessary and, when the contributions are in-kind, the report of an expert is requested), when applicable.

## Announcement of the annual financial statements

All forms of business associations under the Law on Entrepreneurs and Commercial Companies are obliged to present their annual financial statements for the previous financial year to the Commercial Register.

## Termination of business associations

There are several grounds for the termination of a company:

- Expiration of the term of the company or other grounds/circumstances provided for in the Articles of Association

- Resolution by the shareholders/partners of the company adopted by the qualified majority prescribed by the law or the Articles of Association
- Resolution of the respective district court for declaring the company insolvent
- Transformation of the company in certain cases
- Termination by a resolution of the court in cases provided by the law (e.g. where the company pursues objectives against the law).

When one of the above occurs, the company undergoes liquidation proceedings unless an insolvency procedure has already been initiated. The company loses its legal status being deleted from the Commercial Register.

### **Transformation of business associations**

Chapter 9 of the Law on Entrepreneurs and Commercial Companies regulates mergers of two or more companies, demergers into two or more companies, and transformations whereby the type of the company changes.

The applicable provisions specify and classify the types of business transformations, the procedure for execution of the transformation, and the rights and obligations of the companies and their partners/shareholders.

Prior to adopting a resolution authorizing a transformation, companies must draft a transformation draft agreement, depending on whether initially there is one or more participating company. It must specify the names and head offices of the participating companies, share exchange ratio, terms and conditions of the intended transformation, as well as the obligations

of the participating companies with regard to the transformation. The content of the transformation draft agreement must be in compliance with the mandatory requirements of the Law on Entrepreneurs and Commercial Companies.

The transformation draft agreement must be reviewed by an independent expert appointed by the legal representatives of each of the companies involved in the transformation.

The review of the transformation draft agreement by the independent expert is not obligatory if all shareholders of the companies participating in the transformation express their explicit written consent that no audit of the transformation is performed.

The legitimate representatives of a limited liability company or a joint-stock company are required to adopt a report on the transformation. The report must contain a detailed economic and legal explanation of the terms and conditions of the transformation, as specified in the transformation draft agreement.

The report and the transformation draft agreement must be announced at the Commercial Register with the National Business Center simultaneously by each participating company and at least 30 days prior to the date of the General Meeting which will vote on the resolution for transformation.

The transformation draft agreement must be approved by the General Meeting of Shareholders of each of the companies involved in the transformation. The resolutions must be adopted by a qualified majority of three-quarters of the capital.

The transformation enters into force from the date of its registration into the

Commercial Register with the National Business Center.

The Law on Entrepreneurs and Commercial Companies also outlines simplified transformation procedures, provided that certain conditions are met.

When all participating companies are solely owned and the sole owner of their capital is one and the same person, the transformation is performed on the basis of a resolution adopted by the sole owner. The rules regarding: (i) the appointment of an independent expert, (ii) the reports to be prepared by the legal representatives of each participating company, and (iii) the approving resolution by the General Meeting of Shareholders/Partners do not apply.

### **Insolvency**

A company is considered insolvent when it is unable to meet its monetary obligations or in the case of over-indebtedness. The company's management body must file an application with the relevant district court for the commencement of insolvency proceedings. The application may also be filed by any creditor of the company.

If there are grounds for an insolvency procedure, an insolvency administrator must be appointed by the court. Immediately upon appointment, the insolvency administrator represents and manages the current affairs of the company, collects its receivables and converts its assets into cash and subsequently distributes the cash to the company's creditors, unless a restructuring plan is adopted by the creditors and the competent court.

1 The English word "share" does not explain the difference between a share in a SHPK and a share in a SHA. The most important differences are that the share in a SHPK is not freely transferable and is not necessarily of equal value, while the SHA can issue only shares of equal value and these are more easily transferable. In addition, the shares of a SHA are securities. For simplicity, shares in a SHPK will be referred to as a "quota."

### **Liquidation**

The liquidation procedure, in contrast to insolvency, is voluntary, except for liquidation by a court decision in cases provided for by law, and it is initiated in the case of expiration of the term of the company as set out in its Articles of Association, or with a resolution of the partners/shareholders.

The General Meeting of Shareholders (or the Partners in a SHPK), must appoint a liquidator. The latter is responsible for inviting the company's creditors to claim their receivables through announcement at the Commercial Register with the National Business Center. After the satisfaction of the creditors' claims, the remaining assets are distributed to the partners/shareholders, but not before thirty days have elapsed from the date of announcement of the second notice to the creditors at the Commercial Register. When all liabilities of the company have been settled and the remaining assets distributed, the liquidator applies for deregistration of the company from the Commercial Register.

### **Limited liability company ("SHPK")**

The SHPK is a commercial company whose shareholders' liability is limited to the unpaid portion of their shares<sup>1</sup>. A SHPK is liable to its creditors only to the extent of its own assets.

This form of enterprise is convenient for small and medium-sized business activities because of the advantages it offers over the other types of business associations:

- The minimum capital required is relatively low – ALL 100

- Shareholders' personal assets are protected from business debt because their liability is limited to the amount of their contribution into the capital. By contrast, unlimited partnership partners are liable to creditors with their entire property
- The SHPK avoids the higher publicity requirements and the complex incorporation procedures applicable to a SHA company.

Because of these advantages, the vast majority of foreign-owned companies operate in this legal form.

The Albanian SHPK resembles the German and Austrian "GmbH" (Gesellschaft mit beschränkter Haftung), the French "SarL" and the English private company limited by shares.

### Formation

A SHPK can be formed by one or more persons. The Albanian Law on Entrepreneurs and Commercial Companies does not provide for a minimum or maximum number of shareholders in a SHPK. It should be taken into account that a large number of shareholders will make the company's management cumbersome, since all important decisions must be taken by a majority of shareholders representing 75% of the SHPK's capital.

The specific formation rules applicable to the SHPK are:

- The founders must appoint administrator(s) for the company. The administrator does not necessarily have to be a SHPK shareholder, Albanian citizen or resident
- The Articles of Incorporation and Articles of Association must be drawn

up and filed with the Commercial Register.

### Capital

The statutory minimum capital of a SHPK is ALL 100. The capital of the company is divided into quotas and the size of each shareholder's quota determines their rights and obligations concerning the company. It is possible for the quotas of the individual shareholders to be of unequal value. The quotas of shareholders in a SHPK are not securities.

One of the main characteristics of the SHPK is related to the transfer of shareholders' quota. The transfer of quota from one shareholder to another is unrestricted but the transfer to a third party might be subject to other shareholders' consent or pre-emption right only if the company's Articles of Association provide for such restrictions.

### Management

The SHPK is managed by the General Meeting of Shareholders (the sole owner in the case of a sole partner SHPK) and by the appointed administrator(s).

Each SHPK must hold at least one General Meeting of Shareholders each calendar year (Annual General Meeting). It is usually convened at the administrator's discretion, but it can also be convened upon the written request of shareholders whose quotas amount to at least 5% of the company's capital.

Apart from the Annual General Meeting, the administrator may convene additional meetings commonly referred to as Extraordinary General Meetings. An Extraordinary General Meeting must be called immediately when, according to

the annual financial statements or interim financial reports, the company's assets cannot cover the due obligations within the following 3 months, or if the company intends to sell or otherwise dispose of assets with a value higher than 5% of the company's assets as per the last annual financial statements. There is no limit to the number of General Meetings a company may hold each year.

The General Meeting is the company's highest management body. It is empowered to make key strategic and executive decisions regarding the company. The shareholders are authorized to decide on the admission and expulsion of shareholders, the appointment of administrator(s), a capital increase or reduction, approval of the annual report and balance sheet, the distribution of profits and others.

The day-to-day management of a SHPK is conducted by at least one administrator. The administrator represents the SHPK in court and in dealings with third parties. They are financially liable for damages caused to the company. For example, in the case of over-indebtedness or insolvency, the administrator must file an application initiating insolvency proceedings. If the administrator does not perform their duty, they may be held liable for damages to both the company and its creditors.

### **Distribution of profits**

Shareholders cannot claim their quota back while the company is in operation. They are only entitled to receive profits in proportion to their quota, unless otherwise agreed by the shareholders.

### **Joint-stock company ("SHA")**

The capital of a joint-stock company is divided into shares, with shareholders, individuals or legal entities which are not liable for the company's commitments and which personally bear losses only to the extent of any unpaid parts of the shares in the basic capital they subscribed.

The company's name is preceded or immediately followed by the words "Joint-Stock Company" ("Shoqëri Aksionare") or the initials "SHA."

The Albanian SHA resembles the French "Societe Anonyme," the German and Austrian "AG" (Aktiengesellschaft) and is similar to the English public company limited by shares.

### **Formation**

A SHA is incorporated by individuals or legal entities whereby all persons who subscribe for shares into the capital of the new company decide to constitute the company and adopt its Articles of Incorporation and Articles of Association. A SHA may also be formed by a single individual or legal entity.

The SHA is registered in the Commercial Register with the National Business Center by filing its Articles of Incorporation and Articles Association and other documents evidencing that:

- Its capital is fully subscribed
- A portion of the value of each share stipulated by the Articles of Association, but not less than 25% of the nominal or issuing value, has been paid
- The administrator/s or, respectively, the Administration Council and Supervisory Council have been appointed, and

- The remaining requirements of the law have been fulfilled (e.g. banks, insurance and investment companies have to obtain the necessary licenses granted by the Albanian authorities).

## Capital

### *General rules*

The statutory minimum capital of a SHA with no public offerings is ALL 3,500,000 and ALL 10 million for companies with public offerings. A higher statutory minimum is required for credit and financial institutions, investment companies, insurance and health insurance companies.

The capital of the company is divided into shares. The SHA may issue ordinary and preference shares. An ordinary share entitles its holder to one vote. Preference shares may provide a guaranteed or additional dividend or a specified share in the company's assets in the case of liquidation. Non-voting shares cannot represent more than 49% of the company's capital.

The SHA must set up a reserve fund mainly to cover losses. At least 5% of the company's profit must be set aside until the fund's assets reach at least one-tenth of the company's registered capital.

### *Increase of capital*

A company's capital may be increased in one of the following ways:

- Issuing new shares
- Increasing the nominal value of shares already issued, or
- Converting debentures into shares.

The resolution to increase the capital must be taken by the General Meeting of Shareholders.

The Articles of Association may empower the administrator/s to increase the company's capital up to a specified amount. Under this provision, new shares may be issued within five years from the date of the company's incorporation. A resolution which allows for the issuance of new shares may also be passed by amending the Articles of Association of the company. If this is done, then the administrator/s may increase the company's capital up to the amount specified in the amending resolution for up to five years from the date of registration of the amendment in the Commercial Register.

### *Decrease of capital*

A company's capital may be decreased through either of the following:

- Reduction in the nominal value of shares, or
- Cancellation of shares.

A capital decrease requires shareholders' approval. The resolution of the General Meeting of Shareholders on the capital decrease must be announced in the Commercial Register.

## Management

### *General rules*

The joint-stock company's governing bodies are the General Meeting of Shareholders and the Administration Council (one-tier system), or the Supervisory Council and one or more administrators (two-tier system). There are no requirements regarding the nationality or residence of members of either councils or administrator. An administrator may not be a member of the Supervisory Council. The administrators, the members of the Administration Council and the Supervisory

Council may be shareholders. All administrators and Council members are held liable jointly and severally before the company for damages caused in the course of their duties.

In a single-member joint-stock company, the owner is empowered to decide on all issues otherwise handled by the General Meeting of Shareholders.

The General Meeting of Shareholders consists of all shareholders entitled to vote. A regular General Meeting of Shareholders must be held at least once a year, not later than 30 June. General Meetings of Shareholders are usually called by the administrator/s, or in cases provided for by the law, the General Meeting of Shareholders may be called by the Administration Council or by the Supervisory Council, or upon a request of shareholders representing no less than 5% of the company's capital.

The General Meeting of Shareholders may amend and supplement the Articles of Association, transform and dissolve the company, elect and recall the administrator/s, the members of the Administration Council or the Supervisory Council, appoint and dismiss registered auditors, approve the annual financial statements as certified by the appointed registered auditor and resolve other matters which fall into its prerogatives by law or by virtue of the Articles of Association.

#### *Two-tier system*

The company's constituent Supervisory Council must be elected prior to company registration. Subsequent members of the Council are appointed by the General Meeting of Shareholders. The total number

of Supervisory Board members may vary from 3 to 21.

The Supervisory Council does not effectively take part in the management of the company. The Supervisory Council appoints the administrator/s and exercises control over their activities and resolutions. The administrator/s must report on their activity to the Supervisory Council.

The day-to-day management of a SHA with a two-tier management system is carried out by the administrator/s under the control of the Supervisory Council. If provided for in the Articles of Association, certain resolutions of the administrator/s may require prior approval from the Supervisory Council.

#### *One-tier system*

One-tier companies are managed and represented by an Administration Council. It consists of a minimum of 3 and a maximum of 21 persons. The Administration Council delegates the actual management and representation of the company to one or more of its members who are subsequently designated as administrators. They serve at the discretion of the Administration Council and can be replaced at any time.

### **Other forms of business association**

#### **Unlimited partnership (SHK)**

In an unlimited partnership, all partners have trading capacity as well as unlimited liability, severally and jointly, for the debts of the company. Unlimited partnerships have their own business name, which may include the name of one or more of the partners, with the words "Unlimited Partnership" coming immediately after the name.



All partners are considered administrators and each partner may act on behalf of the company, unless stated otherwise in the statute of the company. The administrator's actions, when matched with the partnership's objectives, engage the partnership toward third parties.

The company's assets and capital are subject to claims for the partners' portion thereof raised by creditors for the satisfaction of a partner's personal debts.

The rights, duties and obligations of partners are governed by written Articles of Association. The partners' contribution may consist of cash or tangible or intangible assets. A partner's rights may be transferred to third parties only with the prior consent of the remaining partners.

### **Limited partnership (SHKM)**

A limited partnership consists of one or more "unlimited" partners in the capacity of entrepreneurs with unlimited liability and one or more "limited" partners whose liability is limited to the amount of their agreed contributions to the initial capital. A limited partnership has its own business name that may include the name of one or more of the partners immediately followed by the words "Limited Partnership."

The Articles of Association of the company govern the relations between limited and unlimited partners.

Unlimited partners in a limited partnership have the same powers and liabilities as those in an unlimited partnership. They are in charge of the day-to-day management of the company and their unanimous renunciation of the ordinary business activity entails the winding up and liquidation of the company. On the

other hand, limited liability partners are not entitled to take part in the management of the partnership although they might oppose those actions of unlimited partners which go beyond ordinary business activity.

### **Sole entrepreneur – Person Fizik (PF)**

Every individual who exercises a business activity independently by means normally used to organize a business activity qualifies as an entrepreneur and their business activity is categorized as a sole entrepreneur. The entrepreneur has a lawful obligation to register with the National Business Center (the identification data, place of exercising the commercial economic activity, object of activity, as it is determined, and specimen of the natural person's signature). Filing with the National Business Center constitutes a simultaneous registration with the tax authorities and the social and health insurance system.

### **Simple partnership pursuant to the Civil Code**

Simple partnership entities are governed by the provisions of the Civil Code and do not have the characteristics of commercial companies.

A simple partnership is a contract between two or more persons who agree to perform an economic activity with the purpose of sharing the derived profits. Members may contribute to the partnership's activity in money, goods or services.

A simple partnership is required to follow a specific contract form only when it is deemed necessary in view of the nature of the goods contributed jointly.

The contract duration may be extended without action for an indefinite period

of time when the members continue to undertake business functions.

The partnership may be managed separately or collectively by its members or through a representative elected to act as an administrator. Profit shares are distributed only after the administration reports on the activities of the partnership. The partnership takes its directions and obligations from the members acting in the capacity of administrators. The members who have acted in the name and on behalf of the partnership are collectively or separately responsible for the partnership's contingent liabilities toward third parties. New members who join the partnership are also collectively responsible for the liabilities assumed by the partnership prior to their membership. It is not admissible to compensate a third person's obligation toward the partnership with their credit rights toward a partnership's member.

### **Commercial Register**

The Commercial Register, a unique electronic database of business entities existing under the Albanian law, is regulated by the legislative provisions for the National Business Center.

The following are subject to registration with the Commercial Register:

- Individuals who carry out commercial activity
- Simple partnerships under the Civil Code
- Commercial companies
- Branches and representative offices
- Saving credit companies and unions

- Cooperation companies and any other entity subject to registration according to Albanian legislation.

The National Business Center (NBC) has the authority to receive all registration applications and keep all documents containing information related to the incorporation, activity, statutory changes, organization of businesses and legal representatives. The NBC provides full electronic access to the Commercial Register, information for the general public, foreign investors and governmental institutions via the internet. The National Business Center offers a "one-stop-shop" solution for business registration as the registration with the Commercial Register is simultaneous with the registration with tax authorities, the social and health insurance system and the Employment Inspectorate. The NBC serves as a single "window" for all types of business entities throughout Albania to perform and apply for all business registration-related processes.

# Real Estate

The major legislative acts which govern real estate and real estate transactions in Albania are the Albanian Civil Code, the Law on Real Estate Registration, the Law on Sale and Purchase of Land Plots and the Law on Land.

According to the Albanian Civil Code, real estate constitutes land, water sources, woods, buildings, floating constructions connected to land and any other object firmly and continuously incorporated with the land or a building.

Foreign investors may lease state owned or privately owned rural land for a period of 99 years. The lease of rural land is regulated by the provisions of the Civil Code.

## Types of ownership over real estate

Ownership of real estate in Albania may be public or private.

Public ownership includes properties of public interest and those designated for public use only and public functions such as the coastal beach, national roads, forests and parks, streets, squares, museums and schools.

Public properties belong to the state and municipalities. They can be granted for operation to third parties through emphyteusis or lease upon satisfying conditions explicitly stated by law. In the latter case, the lease period for public state and municipal properties cannot exceed 20 years, as the granting of the lease in both cases is subject to public tender procedures.

Public properties cannot be disposed of (i.e. by sale purchase, donation, in-kind contribution, exchange) and cannot be acquired on the basis of possession and expired prescription period. However, limited property rights (e.g. construction right) may be granted for municipal public properties and for state public properties (except for exclusively state owned properties and those related to national security), when provided for by the law.

Private properties can belong to individuals, entities, the state and municipalities following the limitations provided for foreigners (see Section "Direct acquisition" below). Private properties can be subject to real estate transactions. The exchange of ownership title or construction right over private state and municipal real estate property can be performed only in cases explicitly specified in the law. The lease period for state and municipal private property cannot exceed 20 years and the granting of a lease is subject to public tender procedures or public private partnership procedures.

When the property belongs to two or more persons, co-ownership is established. The co-owners decide operations by majority and each has a right of first refusal in the case of disposal of the property. The co-owners can authorize one of them to represent their co-ownership before third parties.

## Evidence of title

The ownership title and limited property rights over real estate property in Albania are evidenced by ownership title documents (usually in the form of a notary deed). In addition, the law requires that title documents are registered at the Real Estate Registry. Once the ownership title is registered at the Real Estate Registry, the owner or co-owners are provided with an ownership certificate issued by the Real Estate Registry Office. By virtue of this registration, the acquisition of the ownership title or limited property rights becomes defensible against third parties.

The ownership certificate contains among others the name/s of the owner/s, type of the real estate, its surface and location, any eventual mortgages, encumbrances or other limitations over such real estate. The ownership certificate is signed and sealed by the responsible officer of the Real Estate Registry Office.

## Acquisition of real estate

### Direct acquisition

The Albanian legislation on real estate does not provide explicitly for any restrictions for foreign individuals or entities to acquire the ownership over buildings. As regards land, pursuant to the Law on Sale and Purchase of Land Plots, foreign individuals or legal entities may purchase land plots for investment purposes, or land plots being used or already used for investment purposes.

Foreign investors acquire the right to purchase land plots if the total value of the completed investment is at least three times higher than the value of the land plot.

### Indirect acquisition

The restrictions on the acquisition of land by foreigners do not apply to Albanian legal entities involving foreign participation. Therefore, foreign legal entities and individuals can effectively acquire ownership rights over land through the acquisition of shares or an interest in existing Albanian companies, or through the establishment of such companies under Albanian law. It is possible for such a company to be 100% owned by a foreign investor.

Another possibility for indirect acquisition of a real estate in Albania for a foreign company or a foreign citizen is to buy shares in the capital of an already existing Albanian company, which then may act as acquirer.

Foreign companies and foreign citizens, furthermore, can acquire shares in the capital of an Albanian company which already owns a real estate property in Albania.

### Transaction documents

The general rule under Albanian law is that transactions involving real estate (e.g. a purchase and exchange) must be executed with a notary deed before a registered notary public.

The form of a notary deed is mandatory not only for transactions for transfer of ownership title over real estate properties, but also for establishment of limited property rights or encumbrances over real estate properties (e.g. construction right, right of use, and mortgages).

After execution of the deed, the notary public and/or any of the parties are obliged to register the transaction at the Real

Estate Registry in order to make the title of the acquirer defensible against third parties.

There are also special rules and procedures governing the acquisition of real estate arising from enforcement, insolvency and similar procedures.

# Accounting and Auditing

## Accounting

### Introduction

The Albanian accounting legislation has been aligned more closely with the International Financial Reporting Standards (IFRS) framework. All entities which do not apply IFRS must apply the National Accounting Standards (NAS) which have been published and enacted by the Minister of Finance. Effective from 1 January 2015, enhanced National Accounting Standards have been enacted, bringing the NAS broadly in line with the International Financial Reporting Standard for Small and Medium-sized Enterprises (IFRS for SMEs).

### Accounting principles and standards

All economic for-profit entities in the Republic of Albania, including financial institutions and auditing companies, regardless of their legal form or specific legal requirements, are subject to Law No. 9228 dated 29 April 2004 on Accounting and Financial Statements. Other entities, including not-for-profit organizations, are also subject to this Law, except for those cases when their financial statements and accounting are subject to specific laws and regulations for regulatory and supervisory purposes.

### Financial reporting

Entities which, in the current and preceding years, do not exceed a turnover and/or total

value of assets of ALL 10 million at the year end and have less than 10 employees are defined as micro enterprises, and can keep their accounting and prepare their financial statements pursuant to the criteria defined by the National Accounting Council and approved by the Council of Ministers.

All entities must adopt an accounting system in compliance with the accounting plans issued and approved by the Council of Ministers.

In addition, there are two other accounting plans:

- Accounting Plan for Banks which covers commercial banks, and
- Public Accounting Plan which covers central and local governmental institutions.

The Ministry of Finance can approve supplements to these plans depending on the specific characteristics of each entity.

The fiscal year consists of 12 consecutive months and commences with the calendar year. Accounting records must be kept and maintained in Albanian lek (ALL) and in the Albanian language. Transactions in foreign currencies are allowed to be carried out through special accounts in the respective currencies. However, once a month and at the end of the fiscal year, foreign currency amounts must be converted into Albanian lek. All accounting books, source documents and financial reports must be

retained for a period of 10 years. Normally, accounting books and records can also be maintained by third parties, with the exception of the cases specified by law.

The financial reporting environment in Albania has historically been tax-driven and, hence, the use of IFRS or NAS can still present challenges to the preparers of financial statements and their existing internal company procedures and infrastructure.

Law No. 9228 dated 29 April 2004 on Accounting and Financial Statements introduced accounting standards for the first time. This Law sets out the concept of national and international accounting standards, which serve as the basis for selecting the treatment or accounting methods applicable when preparing or presenting financial statements.

Standards issued by the International Accounting Standards Board, translated into Albanian under the responsibility of the National Accounting Council without changes from the original English version, were announced by the Minister of Finance in May 2008 and are mandatory for the following entities:

- Publicly held companies and their branches, subject to consolidation of accounts
- Second-tier banks, financial institutions similar to banks, insurance and re-insurance companies, security funds and all companies licensed to perform investment activity in securities, even if they are not stock listed companies
- Other large publicly held economic units as defined by the Council of Ministers based on the following criteria: annual sales of more than ALL 1,250 million and annual average number of permanent employees of over 100.

The Law on Accounting provides that financial statements must include the following documents:

- Accounting balance sheet
- Statement of income and expenses
- Statement of changes in equity
- Cash flow statement
- Financial statement annexes, which include a presentation of accounting methods, as well as other explanatory material.

#### *Individual financial statements*

The financial statements consist of a statement of financial position, statement of comprehensive income, statement of cash flows, and statement of changes in equity along with disclosure notes to the financial statements.

The statement of financial position and the statement of comprehensive income must be based on and supported by bookkeeping records. Comparative figures must be presented.

Entities under the supervision of the Bank of Albania or the Albanian Financial Supervision Authority, such as banks, insurance companies, investment companies, pension and health insurance funds and listed entities, are required to file certain additional reports.

#### *Consolidated financial statements*

Companies having a majority holding in, or exercising control over subsidiaries must generally prepare consolidated annual financial statements. Consolidated financial statements must present a true and fair view of the group's transactions with third parties. To this end, all intra-group transactions and balances are eliminated.

The consolidated financial statements are prepared and presented on the basis of the accounting standards applied to prepare and present the annual separate financial statements of the parent company.

According to IFRS, a parent which is a wholly-owned subsidiary, need not present consolidated financial statements provided that certain other conditions are met. Such a parent must disclose the reason why consolidated financial statements have not been presented, together with the basis on which the subsidiaries are accounted for in their separate financial statements.

Where prepared, the consolidated financial statements must comprise a consolidated statement of financial position, a consolidated statement of comprehensive income, a consolidated statement of cash flows, a consolidated statement of changes in equity and appropriate disclosure notes.

### **Equity requirements**

Equity includes share capital, reserves (including revaluation reserves) and retained earnings. Joint-stock companies are required to allocate one-tenth of their after tax profit to a statutory reserve until the amount of the statutory reserve exceeds one-tenth of the share capital of the company.

### **Filing requirements**

All enterprises are required to file their annual corporate income tax declaration with the tax authorities by 31 March of the following year. This declaration needs to be accompanied by their annual financial statements and the management is responsible for the timely preparation of the financial statements and their content.

### **Publication of financial statements**

Entities which are registered with the Commercial Register have to submit their annual financial statements, together with an audit opinion, to the National Commercial Register.

### **Auditing**

#### **General audit environment**

The Albanian Audit Law requires that financial statements of those entities meeting certain criteria have to be audited by a registered auditor.

External audit requirements have previously been included in the Law on Commercial Companies which requires that the financial statements of all companies subject to the Law on Accounting must be certified by independent registered chartered accountants if they meet at least two of the following three conditions:

- Total assets are more than ALL 6 million
- Annual sales are more than ALL 12 million, and
- Annual average number of permanent employees is more than 10.

On 14 April 2008, the Law on Entrepreneurs and Commercial Companies was enacted replacing the Law on Commercial Companies and, on 5 March 2009, the Law on Auditing, Organization of the Professions of Auditors and Authorized Accountants ("the Audit Law") was adopted. The Audit Law aimed to improve and strengthen the public oversight of auditors and authorized accountants as well as to clarify the entities which are subject to mandatory auditing as the Company Law is relatively silent on such requirements. The Audit Law was



subsequently changed in 2010 and the latest amendment dated from 28 April 2016.

### Audit requirements

Under the Audit Law as last amended and currently enacted, a mandatory financial statements annual audit is required for the following legal entities:

- All commercial companies which apply IFRS, regardless of their legal form
- All joint-stock companies which apply NAS
- All limited liability companies which apply NAS when at least two of the following conditions are met:
  - The total assets at the end of the respective financial period are equal to or higher than ALL 50 million
  - The total turnover of the economic activity for the financial period is equal to or higher than ALL 100 million
  - The average number of employees is at least 30 during the financial period.

Under the Commercial Law, partners with a participation interest of at least 5% or as specified in the bylaws of the entity as well as any creditors with an outstanding exposure of at least 5% of the share capital may require a special investigation, including a financial statements audit.

Companies which are subject to supervisory regulations or laws, i.e. financial institutions, are required, regardless of their size, to undertake an annual audit.

In accordance with the changes in the audit practice in Albania, audit activities are no longer regulated by the Institute

of Chartered Accountant Experts (IEKA), which used to be the only body which licensed a registered independent audit individual or firm.

The 2016 amendments to the Audit Law have significantly remodeled the organization of the audit and accounting profession. The most important changes included:

- Establishment of a Public Oversight Board which oversees the activities of accountants and auditor organizations
- Establishment of a Certification Authority which is responsible for the testing of potential candidates for authorized accountants and auditors
- Establishment of a Registration Authority which is the body responsible for the registration or de-registration from the public register of authorized accountants and auditors
- A rotation requirement of seven years has been set for individuals who are auditors or any individual partner in an audit firm.

The law also provides details for the organization and activities of authorized accountants and auditors and includes requirements on the continuing professional education, internal and external quality review, code of ethics and transparency reports.

The latest amendments of the Law further strengthen the role of the public oversight system through the Public Oversight Board and aim at the alignment of legislation with European Commission Directives on statutory audits.

The International Standards on Auditing have been translated into Albanian and are required to be applied in any audit of financial statements. Auditors of financial institutions must be pre-approved either by the Bank of Albania or the Financial Supervision Authority.

# Taxation

## Tax system

The tax system of the Republic of Albania consists of a package of tax laws, tax treaties with other countries, guidelines, regulations, methods for the assessment of taxes, the conditions to ensure their payment, as well as forms and methods of tax control and imposition of liability for violation of tax legislation.

The Albanian tax legislation provides for the following main taxes:

- Corporate income tax
- Personal income tax
- Withholding tax
- Value added tax
- Excise duties
- Customs duties
- Local taxes
- National taxes.

## Corporate tax

The corporate income tax (CIT) rate in Albania is 15%. This rate applies for taxpayers having an annual turnover higher than ALL 8 million (approximately EUR 57,000). Tax is levied on any domestic or foreign legal entity whose status is determined by the Albanian laws in force.

Corporate income tax is applied to the accounting profit after adjustments for tax

purposes. Profit calculations must be made in accordance with the Law on Accounting Standards and Financial Statements and the relevant instructions issued by the Ministry of Finance.

According to the general principle of tax deductibility, expenses are deductible only if they are incurred with a view to generating taxable income.

Some expenses are specifically designated as non-deductible in the Albanian Law on Income Tax, including:

- Cost of benefits in kind
- Representation expenses when they are over 0.3% of the annual turnover
- Cost of land and building site acquisition
- Fines or penalties
- Reserves or special funds (excluding certain reserves as provided for by the law)
- Sponsorship expenses if their level exceeds certain thresholds
- Expenses which are not properly backed up by supporting documents
- Salary expenses if paid to employees not through the banking system
- Expenses paid in cash exceeding ALL 150,000.

## Taxable income

### *Tax depreciation*

Entities may set depreciation rates for assets in accordance with their accounting policies, while under the provisions of the Law on Income Tax, maximum annual rates allowed for tax purposes are specified according to a separate tax depreciation schedule.

The straight-line method is applied for:

- Intangible assets as patent, start-up expenses, goodwill at a rate of 15%.

The declining balance method is applied for:

- Computers, computer peripheral equipment, software and right to use software at a rate of 25%
- Buildings, including investment properties, facilities, transmitting devices, electricity carriers and lines for communication; machinery and production equipment which are fixed to the buildings/site of work at a rate of 5%
- All other depreciable assets at a rate of 20%.

If the residual book value of assets depreciated at a rate of 5% (i.e. purchase, construction, improvement costs, etc.) at the beginning of the fiscal period is less than 3% of the historical cost of the asset, then the net book value shall be recognized entirely as a deductible expense for the fiscal period.

If the residual net book value of assets amortized at a rate of 20 and 25% (i.e. computers, information systems, software products, and data security equipment) at the beginning of the fiscal period is less than 10% of the historical

cost of such an asset, then the net book value shall be recognized entirely as a deductible expense.

### *Thin capitalization*

Thin capitalization rules apply in Albania if a company's debts exceed four times the amount of its equity (excluding short-term loans). In such a case, the interest paid on the exceeded amount shall not be tax deductible. The thin capitalization restrictions do not apply to banks, insurance and leasing companies. In addition, interest paid exceeding the average annual interest rate of loans published by the Bank of Albania is not tax deductible.

### *Interest Capping Rule*

Starting from January 2018, a new interest capping rule will be introduced. In line with it, the "net interest expenses" paid for loans or financing from related parties will be considered tax deductible only if these do not exceed 30% of the company's earnings before interest, taxes, depreciation and amortization (EBITDA). For the purposes of application of this rule, net interest expenses will be considered the difference between interest income and interest expenses. Any net interest expenses which cannot be deducted in a tax period (calendar year) may be deducted in the following years unless the company has passed a restructuring process where 50% of the shares or voting rights have been transferred.

The interest capping rule is not applicable to banks, non-banking financial institutions, insurance companies and leasing companies. Further instructions on application of this rule will be determined by the Minister of Finance.

### *Tax losses*

Tax loss can be carried forward over three tax periods. It can be offset against the positive financial result after tax adjustments for the respective tax period according to the “first loss before the last one” principle. The tax loss cannot be carried forward if the ownership of stock capital or voting rights of an entity changes by more than 50% in value or number.

### **Withholding tax**

Under the Law on Income Tax, entities residing in Albania are obliged to withhold tax at a rate of 15% from the following gross payments sourced in the territory of Albania:

- Dividends, profit shares, interest payments, copyrights and royalties, payments for technical, management, financial and insurance services, payments for constructions, installation, assembly or supervision of work which relate to such services
- Rental payments, payments for performances of actors, musicians or sportspeople, including certain payments made to persons who employ them or act as intermediaries in arranging shows or performances.

Following recent changes, withholding tax shall be declared within deadlines set out in the Law on Income Tax through a specific tax return.

The tax is not withheld when the payment is provided to entities which are subject to corporate income tax and VAT in Albania.

Where there is a Double Tax Treaty in force between Albania and another country, its provisions prevail over the local tax regulations.

### **Payment due dates and filing deadlines**

Any taxpayer is required to prepare the annual income tax return in the form set out in the Instruction of the Minister of Finance for the implementation of this law. Taxpayers shall submit this annual income tax return to the tax authorities by 31 March of the following year, along with the balance sheet including its annexes as well as any other data set out in the instruction of the Minister of Finance for the implementation of this law.

Advance corporate tax payments are due either on a monthly or on a quarterly basis. During the first taxable period, the advance corporate tax payments are calculated on the basis of the entity’s forecast taxable profit for this year.

Advance corporate tax installments for the following taxable periods are calculated on the basis of the annual corporate tax return of the previous years.

The taxpayer shall make the corporate tax advance payment no later than the 15th of each month (in the case of monthly settlement) or the end of each quarter (in case of quarterly settlement), in the tax administration account.

A penalty of 10% is applied in case of late payment of the advance payments of the CIT.

### **Relief from tax**

#### *Foreign tax credits*

According to the tax law provisions, income taxes paid abroad by residents are credited to the tax balance due in Albania.

#### *Tax treaties*

Since 1992, Albania has entered into agreements to avoid double taxation with

respect to taxes on income and on capital with various countries.

The agreements cover the taxation of income from business profits, international transport, dividends, interest, royalties, dependent and independent personal services, as well as income from real estate. These apply to individuals and legal entities that are resident in one or both of the contracting states.

The agreements specify the rules that apply to taxation of the above-mentioned types of income in the attempt to avoid double taxation. In addition, for certain types of income like dividends and interest the Agreements specify the maximum rate applicable in both contracting states. For a list of the DTTs in force and those ratified by the Albanian Parliament but not currently in force, please refer to Appendix A.

### **Branch vs. subsidiary**

Permanent establishments/branches, are subject to corporate income tax derived from Albanian sources. Effectively, there is no difference between the taxation of branches and subsidiaries with respect to business profits.

The repatriation of after-tax profits generated by a branch is not subject to withholding tax while payments of dividends from a subsidiary are subject to withholding tax (unless a DTT states otherwise).

### **Grouping/consolidated returns**

The concept of a consolidated company tax return is not accepted under the Albanian tax legislation. Companies may not transfer their tax losses to other companies within a corporate group.

### **Partnerships**

Partnerships are treated as incorporated entities for tax purposes. In other words, partnerships are non-transparent entities.

### **Anti-avoidance measures: transfer pricing**

There are transfer pricing rules in Albania that allow the tax authorities to adjust taxable profits if the transaction between related parties is not at arm's length. Transfer pricing adjustments can be made by the tax authorities only through the Commission of Transfer Pricing in the General Directorate of Tax.

Instruction No. 16 dated 18 June 2014 on Transfer Pricing is based on the 2010 Transfer Pricing Guidelines of the Organization for Economic Cooperation and Development (OECD).

The definition of a "controlled transaction" provides that transfer pricing rules apply only to transactions between an Albanian and a foreign taxpayer related party (domestic transactions are excluded).

The Law sets out the transfer pricing methods to be used by taxpayers when performing a controlled transaction depending on the specifics of the transaction. However, it also provides for the possibility that, if none of the methods laid down in the Law can be used in a reasonable way to apply the market principles in the controlled transactions, then the taxpayer has the right to choose another appropriate transfer pricing method.

According to the Income Tax Law, the taxpayer is obliged to present to the tax authorities, upon their request within 30 days, the transfer pricing documentation proving that the taxpayer has analyzed the transaction for transfer pricing purposes.

The transfer pricing documentation may be submitted either in electronic or paper format and either in Albanian or English. However, where documents are submitted in English, the tax authorities may exercise their right to request an official translation into Albanian. This translation is at the expense of the Albanian taxpayer and must be provided within 30 days from the request for translation.

The taxpayers performing controlled transactions exceeding an overall yearly amount of ALL 50,000,000 (approximately EUR 360,000) must present to the tax authorities an Annual Controlled Transactions Notice as per the format provided in the Instruction on Transfer Pricing.

In addition, according to the amendments, a taxpayer may enter into an advance price agreement with the tax authorities to determine the necessary conditions that the taxpayer needs to fulfill to perform controlled transactions in compliance with the market principles.

The procedures to be followed in relation to the advanced pricing agreement are defined in a special Instruction on Advanced Pricing Agreements which entered into force on 6 March 2015.

### **Corporate tax incentives**

There are no special corporate income tax incentives in Albania.

## **Taxation of individuals**

### **Personal income tax**

#### *Residence*

Under Albanian law, all individuals are liable to income tax. Albanian tax residents are:

- Individuals who (i) have a permanent residence in Albania, or (ii) are Albanian

citizens and citizens who act as a consul, diplomat, or other officer outside Albania

- Individuals who are present in Albania for more than 183 days within a 365-day period.

Albanian resident individuals are subject to personal income tax on their worldwide income, whereas non-resident individuals are subject to tax only on income derived from an Albanian source, unless a Double Tax Treaty (DTT) provides otherwise.

#### *Income subject to tax*

Personal income tax is levied on the following categories of income:

- Wages, salaries and other compensation derived from labor relations
- Dividends and profit shares
- Interest from bank deposits and other interest bearing securities
- Income from royalties
- Income from loans and leasing, excluding cases when this income is generated through commercial activity
- Capital gain from the sale of shares
- Other income (i.e. any other income that is not explicitly exempt by the law)
- Any income (not taxed before and not accompanied by supporting documents) contributed by an individual for the increase of the registered capital of a company.

#### *Deductions*

Albanian tax resident individuals realizing a worldwide income up to ALL 1,050,000

(approximately EUR 7,500) per year, upon fulfillment of certain conditions, have the right to some deductible expenses as follows:

- The amount of the interest rate paid for loans obtained for tuition, for themselves or for children and persons in custody
- Expenses for medical treatment for themselves or for children and persons in custody, for the part not covered by compulsory health insurance, according to the specifications regulated by the Council of Ministers.

#### *Exempt income*

The following types of income are exempt from personal income tax:

- Pensions and other social security benefits received from the Albanian social security system and economic benefits for individuals without income or with a low income
- Scholarships for students
- Compensation given to employees in cases of diseases, death of close relatives and other
- Compensation given to owners for expropriation made by the state in the public interest
- Income exempt on the basis of international agreements ratified by the Albanian Parliament
- Interest generated from government treasury bills or other securities issued before 1999
- Net profit earned by a sole entrepreneur, regardless of whether the latter is subject to corporate income tax or simplified income tax on small business

- Income from wages and compensation for labor relations of consular, diplomatic or similar officials of other countries and international organizations attributed with diplomatic status
- Income related to indemnification assigned by a final court decision and compensation for court costs
- Income received by governmental institutions for contributions to science, sport and culture.

Contributions made by an employer for life and health insurance of employees are considered exempt income for personal income tax purposes.

According to amendments to the Law on Income Tax, the contribution made by a member of a voluntary pension fund up to the amount specified in the Law on Voluntary Pension Funds as well as contributions made by the employer or any other contributor on behalf of the member of the voluntary pension fund shall be considered exempt income for personal income tax purposes. Other exempt personal income includes return on investment, including gains from pension fund investments.

#### *Relief from tax*

Individuals may credit tax paid abroad up to the tax amount due calculated as per the tax rates applicable in Albania. The payment of taxes processed abroad must be supported by a certificate issued by the competent tax authority in the foreign country.

#### *Tax rates and payment dates*

Pursuant to Law No. 8438 dated 28 December 1998 as amended, gross salaries and compensation for employees



are taxed on a monthly basis according to the below progressive taxation scheme:

<b>Monthly taxable income</b>		<b>PIT rate</b>
From (in ALL)	To (in ALL)	
0	30,000	0%
30,001	130,000	13%
130,001	Unlimited	23%

Other types of personal income such as income from dividends, income from rent, capital gains, income from bank interest, gains from lottery or games of chance and any other income specified as personal income of individuals are subject to personal income tax at a 15% rate.

#### *Annual personal income tax return*

Albanian tax resident individuals realizing a worldwide income of more than ALL 2,000,000 (approximately EUR 14,700) per year are obliged to submit with the Albanian tax authorities their annual personal income tax return by 30 April of the following year to which the income relates. The same rule is applicable to non-tax resident individuals realizing an Albanian sourced income of more than ALL 2,000,000 per year.

#### *Fringe benefits*

Certain fringe benefits, such as food expenses, funding of education, and use of sports facilities, are treated as taxable if paid in cash to the individuals. If provided in kind, fringe benefits are not taxable for individuals.

#### **Payroll-related contributions**

The Albanian social security contributions are administered by the Institute of Social

Security Contributions, while health insurance contributions are administered by the Institute of Health Insurance. Both institutions are under the jurisdiction of the Council of Ministers.

Mandatory social security contributions are due on employment, civil and management income up to a maximum monthly amount of ALL 97,030. The health insurance contributions which are calculated on the overall monthly gross income received by the employee. Social security and health insurance contributions are paid by the employer at a rate of 16.7%. Social security and health insurance contributions are paid by the employee at a rate of 11.2%.

#### **Contribution rate**

	<b>Social security</b>	<b>Health insurance</b>
Paid by employer	15%	1.7%
Paid by employee	9.5%	1.7%

The social security contributions for the self-employed individuals are calculated based on a monthly gross salary not lower than the minimum salary on a national level (ALL 22,000) and not higher than the maximum salary used for the employed individuals for the purposes of calculation of these contributions (ALL 97,030). Health insurance contributions are calculated based on the minimum salary on a national level (ALL 44,000).

#### **Local taxes**

Local tax authorities determine and collect local taxes from entities carrying on business in their municipalities.

According to the Law on the Local Tax System, a wide range of local taxes is levied on every business activity. Most of them

are levied at specific amounts and differ by location of business activity in the territory of Albania.

### **Tax on small business**

Individual entrepreneurs or legal entities that conduct business activity in Albania and have an annual turnover of less than ALL 8 million are subject to the local tax on small business.

Small businesses having an annual turnover of less than ALL 5 million shall be exempt from any obligation to pay a simplified income tax on small businesses.

According to the recent amendments to the Law on Local Taxes, taxpayers with an annual turnover between ALL 5 million and ALL 8 million will be subject to a simplified income tax on small business at a 5% rate. The simplified income tax on small business is paid in advance on a quarterly basis, by 20 April, 20 July, 20 October and 20 December, at the accounts of either the tax authorities or the Postal Office.

All small businesses have the obligation to submit in the tax system the annual tax return by 10 February of the year following the year to which the tax returns relates.

A penalty of 10% is applied in case of late payment of income tax on small business.

### **Infrastructure tax**

Tax on infrastructure is levied as a percentage of a planned investment or of the sale price per square meter of the new construction.

Following amendments to the law on Local Taxes, infrastructure tax levied on the sale of residential buildings or service facilities (not designated for tourism, industrial or public use) shall vary between 4% to 8%

of the sales price per square meter. The infrastructure tax rate applied for buildings used for other purposes shall continue to vary in the ranges of 1 – 3% of the investment value (for the municipality of Tirana, the applicable percentages are 2 – 4%).

For infrastructure projects (construction of national roads, ports, airports, tunnels, dams, and others), the tax on infrastructure is 0.1% of the new investment value but not less than the rehabilitation costs of the infrastructure damaged by the new construction, unless an allowance for rehabilitation costs has been provided for in the investment plan. Payment of infrastructure tax is an obligation of the investor. It is paid once a permit for a new construction is granted to the entity issuing such a permit. For buildings under a legalization process, the tax on infrastructure is 0.5% of the investment value.

### **City tax**

City tax is payable by all persons residing in a hotel, both Albanian and foreigners. It is calculated and withheld by the hotel administration. The hotel administration must remit the total amount of city tax collected to the respective municipality by the fifth of the following month in which the hotel invoice was issued. The city tax will be calculated based on the number of the nights accommodated and will vary for the following categories:

- For 4- to 5-star hotels, from ALL 105 to 350 per accommodation night per person, depending on the location of the hotel
- Guesthouse, motel and any other accommodation as per the definition

of the Law on Tourism, ALL 35 to 140 per accommodation night per person, depending on the location of the facility.

### **Other national and local taxes**

There are a variety of other national and local taxes and fees. These include royalties charged on extraction and sale of natural resources, port charges, consular fees, TV and telephone taxes, driving license fees, airport arrival and departure tax, cleaning tax, advertising tax, circulation tax on vehicles, plastic and glass packaging tax and others.

National taxes also include written insurance premiums excluding premiums for life, health and green card insurance. The applicable tax is 10% of the value of the written insurance premium. The tax will be collected by insurance companies licensed by the Financial Supervision Authority and these companies will not benefit from any commissions from tax collection.

The deadline for declaration and payment of national taxes and tariffs is the 15th of the following month of reporting.

### **Real estate tax**

Foreign and Albanian individuals and legal entities who own or use real estate property in Albania are subject to tax on real estate. Local tax on real estate consists of the real estate tax on buildings and real estate tax on agricultural land and on land plots. Users of real estate who do not possess ownership documentation are obliged to self-declare the property to the municipality of its jurisdiction.

### **Real estate tax on buildings**

The tax base is the area of the building measured in square meters for each floor

of the building owned. The tax is levied on each square meter and varies depending on the district where the building is located.

The local tax on buildings will vary from ALL 5 to ALL 400 per square meter. The tax depends on the region where the real estate is located and is calculated on an annual basis. The tax on residential buildings used for business purposes varies from ALL 40 to ALL 400 per square meter, while the tax on buildings owned by individuals varies from ALL 5 to ALL 30 per square meter. Buildings used for production activities are subject to an annual tax. Depending on the zone in which it is located, the annual tax amounts to ALL 200/m<sup>2</sup>, 150/m<sup>2</sup> or 100/m<sup>2</sup>.

In addition, the tax on buildings will be doubled for any second or subsequent real estate property (apartment or house) owned by individuals.

Buildings owned by the state and local governmental authorities as well as by religious institutions are exempt from this tax.

### **Real estate tax on agricultural land**

The tax base is the area of agricultural land measured in hectares. The tax is levied on each hectare and varies depending on the district where the agricultural land is located. The real estate tax on agricultural land per hectare varies from ALL 700 to ALL 5,600.

### **Real estate tax on land plots**

Entities and individuals owning land plots shall be subject to real estate tax on land plots. The tax base is the surface of the land plot in square meters, under ownership or use. The tax payable shall vary based on four categories of local government units (LGUs) in which the land

plot falls under and the purpose of its use (i.e. between 0.14-0.56 ALL/m<sup>2</sup> per annum for residence purposes and 12-20 ALL/m<sup>2</sup> per annum for business purposes).

### **Tax on ownership transfer of real estate**

The tax is applicable in case of transfer of the ownership right on buildings and other real estate properties. It is payable by the individual/entity transferring the ownership of the real estate. The tax base is the area of the building measured in square meters for each floor of the building owned. The tax on ownership transfer of buildings is levied on each square meter and varies from ALL 100 to ALL 2,000 depending on the district where the real estate is located. The tax on ownership transfer of real estate other than buildings is 2% of the sale price. Individuals subject to personal income tax are exempt from tax on ownership transfer of real estate. Donors of real estate property to governmental authorities, religious institutions or not-for-profit organizations are also exempt from this tax, but are held liable to pay a fee to the Real Estate Registration Office.

### **Value added tax**

VAT in the Republic of Albania is regulated by Law No. 92/2014 dated 24 July 2014 on VAT and the respective instructions.

The location of goods at the time of the supply determines the VAT treatment. If the goods are located in Albania, then the supply is subject to 20% Albanian VAT.

If goods are dispatched or transported, the place of supply is the place where the goods are located at the time when dispatch or transport of the goods to the customer begins, except in the cases defined otherwise in the law.

A supply of electric energy, gas, water, heating, cooling, or air conditioning is performed at the location where the supply is received.

### *Exports*

The export of goods from the territory of the Republic of Albania is zero-rated, provided that certain transportation and documentation requirements are fulfilled.

### *Imports*

The import under the normal import regime is subject to Albanian VAT. VAT is payable by the importer to the customs authorities.

### **Place of supply and taxation of services**

Based on the general rule, the place of supply of services will be considered to be the place where:

- The recipient (a taxable person) has established its business
- The recipient has a fixed establishment, if the services are related to the fixed establishment.

If the beneficiary of the service is a not a taxable person and the supplier is a taxable one, the place of supply of service will be considered the place where:

- The taxable person has established its business
- The fixed establishment is located, if the service is provided by the fixed establishment.

In both of the above cases, in the absence of a place of business or a fixed establishment, the place of supply of services will be considered to be the place where the taxable person has a permanent address or usually resides.

The cases below are considered an exception to the abovementioned general rule:

- For services connected to immovable properties, the place of supply is considered to be the place of location of the property
- For passenger transport services, the place of supply is considered to be the place where the transport takes place, proportionate to the distance covered
- For restaurants and catering services supplied on board of ships, planes or trains, the place of supply is considered to be the point of departure
- For services of short term leases of transport vehicles, the place of supply is considered to be the place where the vehicle is made available to the client.

### VAT rates

There are two VAT rates applicable in Albania:

- 20% general rate applied to domestic transactions and on imports of goods
- 0% rate applied to exports of goods and some other supplies explicitly listed in the law.

The supply of medicines and medical services offered by private and public health institutions is considered a VAT exempt supply.

### Zero VAT rates

VAT is applied at a zero rate (0%) in the following cases:

- Supply of goods exported outside the territory of Albania

- Supply of goods and services relating to the international transport of goods and passengers
- Supply of goods and services relating to maritime, commercial or industrial activities.

### Exemptions

The following supplies are considered VAT exempt:

- Supply of services performed outside the territory of Albania by a taxpayer whose place of business is in Albania (export of services)
- Lease of a building for a period exceeding two months and sale of land and buildings
- Financial services
- Supply of packaging materials for medicines
- Postal services
- Supply of newspapers, magazines and books within Albania, newspaper printing services, and incorporated advertising (excluding imports)
- Games of chance, casinos and race track activities
- Hydrocarbon operations\*
- Supply of educational services
- The import of machinery and equipment in Albania by certain categories of taxpayers as specified in the Law.

\*The supply of goods and services (including import of goods and services) made by contractors and subcontractors during the research phase of hydrocarbon operations and certified as such by the

National Agency of Natural Resources is VAT exempt. The supply made during the development phase does not benefit from the VAT exemption.

The Ministry of Finance has issued an instruction providing the list of services and equipment that are considered related to the research phase as well as the procedure to obtain the VAT exemption.

### **Registration for VAT purposes**

All taxable persons carrying out independent economic activities are required to apply for a mandatory VAT registration if their taxable turnover for a calendar year exceeds ALL 5 million (or a proportion of such threshold if they start to provide the services in the middle of the calendar year).

There is no VAT registration threshold for certain types of activity performed by registered freelancers such as lawyers, public notaries, accountants, dentists and others.

#### *Voluntary registration*

A taxable person who does not meet the requirements for a mandatory VAT registration but is carrying out an independent economic activity in the country has the right to register voluntarily without fulfilling the threshold requirements.

#### *Deregistration*

If a taxable person closes down their economic activity, they must ask to be deregistered not later than 15 days after the last day when they carried out taxable supplies. Deregistration becomes effective from the last day of taxable supplies.

When evidence is provided that, for any reason, the taxable person did not carried out business activity during the last fiscal year, the tax authorities, after completing administrative procedures of verification of these taxable persons, have the right of deregistration from the active register by transferring the taxable person into the passive register pursuant to the Law on tax procedures in the Republic of Albania.

### **Obligations of VAT registered persons: VAT returns**

Each VAT registered person must submit VAT returns after submitting the purchase and sales book.

The VAT return must be prepared on the basis of the information from the purchase and sales book for the respective month. The deadlines for submission of the books and VAT return are respectively the 10th and the 14th day of the month following the reference tax period.

### **Recovery of input VAT**

The credited (deducted) VAT is the amount of VAT paid by the taxable person during the purchasing of goods or services within the country, as well as the amount of VAT paid by them for imports, with the condition that these supplies will serve only as taxable supplies that will be made by the taxable person.

If the supplies received or imports, will serve to the exempt supplies that a taxable person could make, the crediting of VAT paid in relation with the supplies received for these purposes shall not be allowed.

When supplies received by a taxable person, both by purchasing within the country or importing, are not destined for carrying on an economic activity, the taxable

person does not have the right to credit the VAT paid on these purchases or imports.

If the taxable person uses the received supplies or imports for purposes of both taxable supplies and exempt supplies simultaneously, then the crediting of the VAT paid will be proportionally paid according to provisions of the VAT Instruction.

### Reimbursement of VAT

If the tax credit for the tax period exceeds the VAT charged for the next tax period, the taxable person has the right to be credited for the coming period at the VAT amount in excess.

A taxpayer may claim a reimbursement of excess tax credit in the cases when:

- The taxpayer has carried forward an amount of tax credit for three successive months
- The reimbursement claimed exceeds ALL 400,000.

### Penalties

#### *Offences in issuing tax invoices*

Failure to issue tax invoices or VAT invoices is subject to a penalty equal to 100% of the undeclared or unpaid tax liability resulting from the non-issuance of a tax invoice, while the tax liabilities and interest are calculated and paid according to the provisions of the specific tax laws. The recurrent failure to issue fiscal invoices for more than two times is treated as tax evasion and gives the tax authorities the right to file a criminal charge against the taxpayer.

#### *Failure to file a tax return by the due date*

For every tax return submitted after the deadline, a penalty amounting to ALL 5,000

(approximately EUR 35) is to be applied to all taxpayers, except those registered for CIT purposes in Albania that will continue to be subject to the penalty of ALL 10,000 (approximately EUR 70).

#### *Failure to pay a tax liability or contribution by the due date and filing an inaccurate tax return or refund request*

A taxpayer who fails to pay a tax liability or contribution before the due date and who also files an inaccurate tax return or refund request is liable for a penalty equal to 0.06% of the outstanding tax liability per each day of delay. The penalty cannot be calculated for a period exceeding 365 calendar days.

### Customs duties

The Customs Code in force in Albania is stipulated in Law No. 102/2014 and became effective on 31 July 2014. It is harmonized with Regulation No. 952/2013 of the European Parliament and of the European Council dated 9 October 2013.

Customs duties are levied according to the classification of imported goods in a six-digit harmonized system. Minimum customs values are applied to many imported items. Major exemptions are applicable for:

- Goods imported under agreements and where the customs duties exemption is explicitly stated in an agreement
- Certain imports for contractors in oil exploration
- Humanitarian aid
- Goods imported for charitable, philanthropic or assistance purposes by not-for-profit organizations, religious institutions and public entities

- Goods imported for trade promotion purposes and advertising.

The approved tariff contains only the following tariff rates: 0, 2, 5, 6, 10 and 15%.

### *Agreements*

- Albania has signed the Stabilization and Association Agreement with the EU. The Stabilization and Association Agreement entered into force on 1 April 2009.
- Albania is part of the Central European Free Trade Agreement (CEFTA) starting from 1 January 2007.
- In December 2009, Albania signed an FTA with the European Free Trade Association. EFTA member states are Iceland, Liechtenstein, Norway and Switzerland.
- The Free Trade Agreement between the Republic of Albania and EFTA focuses on the liberalization of trade in goods. Both EFTA and Albania will abolish all customs duties on industrial products, including fish and other marine products. Bilateral arrangements on agricultural products between individual EFTA States and Albania also form part of the instruments establishing the free-trade area between both sides.

### *The U.S. Generalized System of Preferences (GSP) Program*

The General System of Preferences (GSP) is a U.S. trade program designed to promote economic growth in developing countries by providing preferential duty-free entry of up to 3,500 products from 128 countries, including Albania. The purpose of the GSP program is to give these exports a competitive edge in the U.S. market.

U.S. companies and customers are especially interested in buying goods through the GSP program because the exports are not charged tariffs, upon entering the United States.

Many items are eligible for GSP duty-free treatment. These include most manufactured goods, inputs used in manufacturing, jewelry, many types of carpets, certain agricultural and fishery products, and many types of chemicals, marble, and minerals.

### **Excise duties**

Based on Law No. 61 dated 24 May 2012, excise duties administered by the customs authorities are levied on certain domestic or imported goods such as energy products, alcohol and alcoholic beverages, tobacco and its products, and other products defined by this Law (i.e. coffee, fireworks, tires, and others). Tax liable persons for excise duties are licensed producers and importers of the goods listed above.

The Albanian Law on Excise Duties specifically refers to certain transactions as exempted from excise duties when evidence is given that:

- Cigarettes, alcoholic beverages and other products are for personal use and in compliance with the non-taxable limits defined by the customs legislation
- Products are used for personal or official needs in the context of diplomatic and consular missions (excluding Albanian residents)
- Products are used for personal or official needs of international organizations, known as such by the Republic of



Albania and in accordance with the provisions of International Conventions (excluding Albanian residents)

- Products are used for the supply of canteens for the armed forces of any NATO member country, except the Albanian Armed Forces
- Products are imported in the personal luggage of passengers or imported through other means of international transportation, in accordance with the limits provided in the customs legislation
- Goods are exported
- Goods have been settled under the temporary customs regime
- Goods have been imported by diplomatic representatives accredited in Albania and when it is specifically indicated that these will be exempted from excise duties.

The import of oil derivatives used during oil exploration and utilization of oil wells will not benefit from excise duty exemption.

The excise products which benefit from exemption must be supported by a specific authorization as per the template defined by the Council of Ministers.

Customs authorities may reimburse excise duties on certain goods when these are used for specific activities as mentioned by the law.

As of 1 January 2017, the excise duty applicable to certain products (i.e., cider and perry, other processed tobacco and its substitutes, natural gases) was changed.

# Employment Regulations

## Legislation

The major item of legislation which governs employment relations in Albania is Law No. 7961 dated 12 July 1995 on the Labor Code of the Republic of Albania, ("Labor Code" or "LC") as amended. The LC regulates all major aspects of employment relations, namely:

- The conclusion, amendment and termination of employment contracts, including flexibility of hiring through part-time and fixed-term contracts, grounds and notification rules for dismissal, priority rules for dismissal and severance pay
- Working hours, premiums for overtime work, absences, holidays and paid annual leave and the minimum wage
- Employment conditions and discipline
- The compensation and contractual liabilities of the parties to an employment contract
- Special protection for some categories of employees
- Procedure for collective redundancy of employees.

Legal requirements are also set out in the Law on Health and Safety at Work, the Law on Encouragement of Employment, as well as a number of Decisions of the Council of Ministers adopted on the basis of the LC and the above laws.

One of the main goals of the Albanian employment legislation is to create a minimum level of protection for employees. As a result, the LC, as well as the other relevant Albanian legislation, contains numerous mandatory rules and regulations by which an employer hiring employees in Albania must abide and comply with.

## Employment contracts

### Form of contracts and obligation for notification

Generally, labor relationships in Albania, as well as the rights and obligations under the agreements between employers and employees, are set out in employment contracts.

The LC regulates the following major types of employment contracts:

- Contracts concluded for an indefinite period of time (contracts with an indefinite term)
- Contracts concluded for a defined period of time (defined-term contracts).

According to the LC, as a rule an employment contract is concluded in writing for an indefinite period of time. However, provided that there are objective reasons connected to the temporary nature of the work, an employment contract may also be concluded for a defined period of time.

The employment contract (either for an indefinite or defined term) must contain in particular:

- Identity of the parties
- Workplace
- General description of the job
- Starting date of the job
- Duration, when the parties sign a contract for a defined time period
- Duration of paid vacations
- Notice period for termination of the contract
- Constituent elements of the wage and the day on which it is payable
- Normal time of the working week
- Collective contract in force
- Specific disciplinary measures and the procedure to impose those.

According to the LC, the employment contract may be concluded solely in writing. The first three months of employment can qualify as a probation period, which can be reduced or removed by means of a written or collective agreement. During the probation period, each of the parties may terminate the contract by informing the other party about their decision at least five days in advance.

### **Working hours**

The LC provides that the normal workday must not exceed eight hours per day. The normal working week must not exceed 40 hours. Employees who are less than 18 years old must not work more than six hours per day.

The duration of night work and work carried out a day before or after must also be no longer than eight hours without interruption. It must immediately be preceded or followed by a full day break.

Pursuant to the Albanian Labor Code, additional remuneration must be given to employees working between 7:00 pm and 10:00 pm and it must not be lower than 120% of the standard hourly rate.

Every working hour taking place during the interval from 10:00 pm to 6:00 am entitles employees to an extra payment added to their salary, which is not lower than 50% of the salary.

If the normal workday is exceeded or circumstances require extra hours of work, an employee may perform overtime work. According to the Labor Code, the employee must not perform overtime when working more than 48 hours per week. The overtime must be paid with a bonus of 25% of the regular rate or may be compensated with holidays.

The work performed on a weekly day off is remunerated with a bonus of no less than 25% of the hourly rate or with time off that corresponds to the duration of the extra hours + 25% more (one hour of work on holidays = 1.25 hours of time off).

If an employee works on official holidays, they are entitled to a remuneration with a bonus of no less than 25% of the hourly rate and with time off that corresponds to the duration of the hours worked.

The overtime performed during a weekly day off or on official holidays is compensated with a holiday or payment which are at least 50% greater than the overtime performed or the normal salary respectively, unless otherwise defined by the collective contract.

## Holidays

### *Annual holidays*

Employees are entitled to annual leave other than public holidays.

The duration of the annual leave is not less than four calendar weeks during a year of work.

When an employee has not completed a full year of work, the duration of the paid annual leave is defined proportionally to the duration of work. The periods of temporary disability to work are considered working time.

An employee who, during the annual leave, is hospitalized or stays at home because of sickness or an accident which can be certified by means of a medical certificate may request postponement of annual leave.

The annual leave must be given during the working year or until the end of the first quarter of the following year and it must not be less than one uninterrupted calendar week.

### *Other paid holidays*

In the event of marriage or death of one's spouse, their direct predecessors and descendants, an employee receives five days of paid leave.

In case of serious sickness of family members, a partner, direct predecessors and descendants certified by a medical report, an employee receives up to 30 days of unpaid leave.

When an employee is not able to work because of sickness, the employer must pay the employee not less than 80% of their wage for a period of 14 days which is not covered by social security.

Parental leave is a recently introduced concept in the Labor Code, providing for a total of four months of unpaid leave until the child reaches the age of six years. In addition, maternity leave is provided for a period starting from 35 days before birth to 63 days after birth. Furthermore, three paid days off are provided for the spouse or the partner in case of childbirth.

### *Public holidays*

The Albanian Government has set a number of days as public holidays on certain days during the year while religious holidays are subject to change every year.

The public holidays for 2017 are as follows:

**1 and 2 January** – New Year holidays

**14 March** – Summer Day

**22 March** – Nevruz Day

**16 April \*** – Catholic and Orthodox Easter

**1 May** – Labor Day

**25 June\*** – Bajram Day

**1 September\*** – Bajram Day

**19 October** – Mother Theresa

**28 November** – Independence and Flag Day

**29 November** – Liberty Day

**8 December** – Youth Day

**25 December** – Christmas

*\* Subject to change every year*

## Medical check-ups

All employees must undergo periodical medical check-ups once every six months. The associated expenses are the employer's responsibility.

## Healthy and safe working conditions

One of the main obligations of the employer is to provide healthy and safe working conditions. The law aims to secure greater protection of the employees' life, health and working capacity by holding the employer responsible for the conditions under which the employees carry out their employment obligations.

The labor legislation sets forth strict obligations to the employer in relation to the provision and maintenance of healthy and safe working conditions, which include but are not limited to:

- Performing assessment of risks to the health and safety of employees to prevent risks for accidents at work place and professional diseases
- Determining protection measures to be taken and necessary protection equipment to be used to provide individual and collective protection of employees
- Keeping a register of accidents at work when the employee benefits from temporary work disability for more than three days due to accidents or professional diseases and preparing reports in case of work accidents in order to provide to authorities.

Undertaking the above obligations by employers is subject to inspection and control by the Labor Inspectorate, which is entitled to impose fines in the case of non-compliance with the rules and the standards for healthy and safe conditions.

## Termination of employment contracts

According to the regulations of the Albanian Labor Code, the process of termination of

employment contracts differs based on the type of the contract.

In case of termination of an employment contract for an unlimited period, the parties notify each other through providing written notice of:

- Two weeks if the employee has worked for the entity up to six months
- One month if the employee has worked for the entity between six months to two years
- Two months if the employee has worked for the entity for between two to five years.
- Three months if the employee has worked for the entity for more than five years

For employment contracts with defined periods, the contract terminates at the end of the period determined in the contract. In the event the long term contracts signed for a period more than three to five years, it might be terminated by the employee after three years and the notice period would be two months. Furthermore, when the contract is signed for more than five years, it might be terminated from the employee after five years and the notice period would be three months.

The Labor Code does not provide for the possibility of the employer to terminate the employment contracts with a defined term. However, for all types of contracts immediate termination can occur at any time for justifiable reasons. In the event of unjustifiable reasons, the employer may be required by a court decision to pay a penalty of not more than a one year's salary. It is also possible that both parties may agree to terminate the employment contract by mutual consent.

In addition, when terminating the employment contract, the employer must determine and include in the written notice on termination the reasons of contract termination. Such reasons may be related to the employee's skills and behavior or operational needs of the enterprise.

### **Foreign nationals working in Albania**

The Albanian Labor Code provides for no special treatment for expatriate personnel. In most cases, foreign nationals seeking employment in Albania must obtain work permits. For a discussion of work permits, please refer to Chapter 8.

# Foreign Nationals

## Legislative framework and general principles

The legal status of foreign nationals in Albania is governed by the Constitution of the Republic of Albania, the Law on Foreigners (2013) as amended, the Decision of the Council of Ministers on determination of criteria, procedures and documentation for entrance, stay and treatment of foreigners (2013) and the Decisions of the Council of Ministers on procedures for provisioning, refusing, renewing and cancelling of work permits in Albania (2014). Generally, the Albanian legislation concerning foreign citizens is in compliance with the EU *acquis communautaire* as related to immigration policy.

The Law on Foreigners is applied to those foreigners who are not citizens of the Republic of Albania (“foreigners”). This Law provides that the citizens of the United States of America (USA), the EU and the Schengen area countries enjoy equal rights with Albanian citizens as regards employment and self-employment.

Foreigners are divided into two categories – those who must secure a visa when crossing the borders of the Republic of Albania and those who are exempt from that requirement.

Visa requirements and the exemption of such requirements for foreigners are governed by bilateral agreements with other countries for visa regimes and the effective Albanian legislation.

Foreigners who wish to reside in Albania on a long-term basis (in any case more than three months within each six-month period) shall be issued a residence permit.

Foreigners may work in Albania only after obtaining a work permit, unless otherwise stipulated by the law. There is a general rule that foreign nationals are obliged to obey Albanian laws and the established legal order in Albania. In this respect, foreign citizens residing in Albania bear the same civil, administrative and penal responsibilities as Albanian citizens, unless otherwise provided for under a special law, or an international agreement to which the Republic of Albania is a party.

## Visas

### Visa system for foreigners traveling to Albania

Albania is relatively easy to access. To enter the country, a valid passport or any other valid traveling document recognized by the Albania is required. Before traveling to Albania, foreigners should contact the diplomatic and consular representations of the Republic of Albania abroad to check if rules have changed. Foreign citizens can enter Albania after presenting valid passports or any other valid travelling document and if required entry visas issued by diplomatic or consular representations of the Republic of Albania abroad. The passport must be valid for at least three months.

### **Holders of ordinary passports**

Some countries whose citizens are holders of ordinary passports can enter Albania without a visa. The list of countries whose citizens can enter Albania without a visa is periodically approved by the Council of Ministers of Albania. They have to present their valid passports or other valid traveling document at a border checkpoint and are granted a stay permit of 90 days. Foreign citizens must have the necessary currency to sustain themselves during their stay in Albania.

### **Holders of diplomatic and service passports**

Foreign citizens who are holders of diplomatic or service passports can enter Albania without a visa. They are allowed to stay in Albania for up to 90 days within each 180 days period.

For citizens who enter the territory of Albania without visas or who are requested to get visas at border checkpoints, the permit of stay is 90 days within a period of 180 days. During the first 10 days of their stay, they must register with the local authority responsible for border and migration indicating the duration of their stay, or face a fine when they depart from Albania. The list of countries whose citizens are excluded from the obligation to register with the local authority responsible for border and migration is approved by the Council of Ministers of Albania.

### **Where to apply for a visa to enter the Republic of Albania**

All other foreigners who are not exempt from obtaining a visa must be issued a visa before they enter Albania at the missions of the Republic of Albania which cover the respective country of residence. These

missions can also provide them with valuable information about Albania.

### **Residence permits, residence certificates and residence cards**

Foreigners who wish to reside in Albania on a long-term basis (in any case more than three months within each six-month period) are issued a residence permit.

Residence and work permits are regulated according to the Law on Foreigners No. 108/2013 dated 28 March 2013 and the respective sub-legal acts. This law regulates the regime of entering into and exit of foreigners from the Republic of Albania as well as their residence, work and treatment in the country. The law determines the functions and competencies of the state authorities and other subjects, public and private, Albanian and foreigners, related to foreigners.

There are different types of residence permits based on the type of residence, as follows:

- Residence permit type A, not renewable, which entitles its holder to stay in the Republic of Albania within the period for which it is issued
- Residence permit type B, renewable, which is issued for a defined period and entitles its holder to enter, stay and exit in/from the Republic of Albania within the period defined therein
- Residence permit type C which is issued for an undefined period and entitles its holder to enter, stay and exit in/from the Republic of Albania
- Residence permit type S renewable after a six month interruption period, which is issued for season works and entitles



its holder to enter, stay, and exit in/from the Republic of Albania within the period defined therein

- Residence permit Blue Card AL, renewable, which is issued for a defined period for highly qualified employees and entitles its holder to enter, stay and exit in/from the Republic of Albania within the period defined therein
- Residence permit Blue Card AL-C, which is issued for an undefined period only for highly qualified employees and entitles its holder to enter, stay and exit in/from the Republic of Albania
- Residence permit for employment purposes which is granted in compliance with the conditions of the work permit
- Residence permit for the self-employed which is granted to self-employed persons in compliance with the conditions of a work permit
- Residence permit for vessels crew which is granted to the vessels crew, employed in a vessel registered in the Republic of Albania and perform activity as employees for more than 90 days in a period of 180 days as well as to the crew that performs activity as employees in a foreign vessel but according to the specifics of the activity stays in the harbours of the Republic of Albania for more than 90 days in a period of 180 days.

The Law on Foreigners provides for other types of residence permits apart from those mentioned above. Some of these residence permits for special occasions are far:

- Seasonal works
- Vocational trainings

- Youth exchange
- Voluntary services
- Scientific research
- Students
- Humanitarian occasions
- Victims of human trafficking
- Family reunion.

Each type of residence permits has specific documents laid down in the Law on Foreigners and sub-legal acts applicable to it.

If a residence permit is obtained, it must be presented to the authorities whenever requested.

A residence permit can be issued for:

- A three month, six month, one year term and can be renewed not more than five consecutive times
- A two year term which can be renewed not more than once
- A five year term
- Permanent, if the foreign citizen has legally resided for five consecutive years in Albania and has stable activities or relationships in the country.

Citizens of the USA have a more favourable regime, according to which they can stay in Albania for at least one year without a residence permit. US citizens are entitled to obtain the first residence permit for a period of five years.

## Work Permits

### General rules

Persons who are not Albanian citizens and wish to work in Albania need a work permit issued by the Ministry of Social Welfare and Youth.

The request for a work permit must be completed before starting any work. All the required documents for the application can be obtained from the Migration Office, Albanian Embassy in one's country of origin, or at regional labor office.

Generally, the granting or refusal of a work permit takes no longer than 10 days after submitting the appropriate documentation.

A work permit can be granted with or without time restrictions. The validity period of the work permit is based on the type of work permit. The work permit will expire if the deadline is exceeded, if the foreigner leaves Albania for a period longer than six months or does not start the activity for a period of three months from the date the work permit is issued.

Foreigners who will perform economic activity on the territory of Republic of Albania are provided with the following types of work permits:

- Work permits type A which are issued depending on the purpose/type of work such as work permits for employees, economic activities, seasonal work, students, cross border employment, voluntary services, work permits for family members, sportsmen and housekeepers
- Work permits type B depending on the purpose/type of work such as: work permits for independent economic activity, self-employed and investors.

In addition, there are two type C work permits which are issued for special occasions and contracting services and one type D work permit issued for foreigners who obtain a permanent work permit.

The specific documents for each of these types are indicated in the Law on Foreigners and the respective Decisions of the Council of Ministers approved in this regards.

### Work registration certificate

The Law on Foreigners provides for a group of foreign citizen who are exempted from work permits obligation but have the obligation to obtain a work registration certificate.

The work registration certificate is granted for a period of 60 days within a period of one year to foreigners who fall into the following categories:

- Audit and consultancy service providers
- Lecturers participating in common seminars
- Artists and technical staff participating in cultural activities such as opera, ballet, theatre, concerts, films or TV show authors or actors
- Foreigners who work in circus, or other public entertainment activities
- Foreigners who work in fairs or exhibitions
- Persons who install machinery or constructions which are delivered from a foreign company and perform service for machinery repairing as well as services on training of Albanian or foreign employees for operating such machinery.

The work registration certificate is granted for a period of 90 days within a period of one year to foreigners who fall into the following categories:

- Those involved in the border transport of goods and people, on the territory of Albania and whose place of residence is registered outside Albanian territory
- Key personnel or board members who work for companies but are not employed
- Scientific employees, representatives of scientific institutions and scientist who participate in project implementation being important for the Republic of Albania under a governmental agreement or inter institutional collaboration programs
- Lecturers, teachers, researchers, foreign specialists, administrative staff who enter Albania as participants in an educational cooperation program or are staff members of a central educational institution if this institution has a branch in Albania
- Crew members of ships and airplanes
- Personnel performing unpaid humanitarian services for not-for-profit organizations or institutions, under special regulations or international cooperation programs
- Trainers who enter Albania from foreign companies or their branches in other countries for training activities for vocational trainings under cross institutional collaboration programs
- Experts in the fields of protection of cultural inheritance, libraries and archives
- Students who enter in the framework of collaboration, training or experience exchange relationships.

The work registration certificate is granted for an undefined period to foreigners who fall into the following categories:

- Those of missions for technical assistance from international organizations working with central or independent institutions or institutions having direct dependence from these institutions
- Consultants of central state institutions, independent institutions, or institutions depending directly from these institutions, in the framework of governmental agreements or international organizations projects
- Managers or personnel of humanitarian and religious foundations or institutions, not-for-profit organisations recognized who are registered with the competent authorities of the Republic of Albania and do not get remuneration for their work
- Civil or military officers who enter and work in Albania based on an agreement with the government of the country where they come from
- Representatives of mass media, correspondents or reporters, accredited in Albania, working for foreign employers
- Lecturers, members of scientific staff, and foreign specialists that enter Albania based on a bilateral agreement between governments or educational institutions.

## **Foreigners who generally do not require a work permit in Albania**

The following are the main categories of foreigners who may work in Albania without the need for a work permit:

- Citizens of the USA, EU and Schengen area countries who are legally residing in Albania apart for those cases when, under the Albanian legislation, Albanian citizenship is required for the specific employment
- Foreigners who stay up to one month within a period of one year for the following reasons:
  - Persons who negotiate for an agreement or are involved in a fair or conference
  - Business visitors
  - Crew members of ships and airplanes
  - Lecturers, members of scientific staff, and foreign specialists who enter the Republic of Albania based on a bilateral agreement between governments or educational institutions
  - Trainers who enter in the framework of collaboration between governmental institutions or education institutions
  - Personnel of humanitarian organizations operating under international collaboration programs.

# Government Control

## Public procurement

Public procurement in Albania is regulated by Public Procurement Law No. 9643 dated 20 November 2006 which establishes the rules on procurement of goods, works and services from contractual authorities in Albania.

Detailed information about limits of funds, procedures, winner selection, participants, selection reasons, deadlines and contract execution is available to interested parties and the general public. The principle objective of the procurement law is transparency.

### Types of public procurement procedures

The law sets out the following standard procurement procedures:

- Open procedures
- Limited procedures
- Procedures with negotiation, with or without prior proclamation of the contract notification
- Request for proposal
- Project competition
- Consultancy services.

### Main participants

Public procurement award procedures usually involve many stakeholders, among which are the contracting authorities, candidates and tenderers, contractors, subcontractors, suppliers and service providers.

The contracting authorities are:

- Constitutional institutions, other central institutions, independent central institutions and municipal authorities
- Any entity meeting the following conditions:
  - Established to pursue a general interest with non-economic and commercial features
  - Enjoys legal personality
  - Financed mainly by the state, regional or municipal authorities, or by other public entities or administered from them or with an administrative, managerial or supervisory board, where more than half of their members are appointed by the state, regional or municipal authorities or by other public entities
- Organizations established by one or more of these authorities or by one or more of these public bodies
- Any contractual authority defined above when carrying out each of the activities mentioned in Article 58/1 of the Law
- Public enterprises if the contract is chosen as a winner for the purpose of carrying out each of the activities defined in Article 58/1 of the Law
- Any other entity, not mentioned above, when carrying out one of the activities defined in Article 58/1 of the Law or a combination of them, based on special

or exclusive rights granted by the responsible authority.

Contractual authorities are responsible for procurement and use public funds at their disposal. They must publish all required tender documents and necessary information regarding procurement on the official website of the Public Procurement Agency.

Any Albanian and foreign legal entities and individuals, as well as any combinations of them, meeting the legal requirements set out in the Public Procurement Law, may participate in public procurement procedures and be awarded public procurement contracts. The application process usually requires the provision of many corporate and financial documents by the applicants to the contracting authorities, certifying the fulfillment of certain conditions, called selection criteria. The criteria for selection of the successful participant in the public procurement procedure can be either the lowest price or the economically most advantageous tender.

### **Public Procurement Agency**

The Public Procurement Agency is the state authority governing public procurement in the country. Contractual authorities are responsible for the implementation of the procedures provided for by the law in order to identify and select the winners of public contracts.

### **e-Procurement**

There is an e-Procurement platform which offers a collaborative environment for organizing tender-related activities. It supports tender workspace management,

secure storage, open and automated evaluation of tenders, and creation of regulatory reports.

The Public Procurement Law provides for a secure and standardized procedure to file claims with the Public Procurement Agency.

### **Appeal of public procurement procedures**

Any decision, action or omission of the contracting authorities in a public procurement procedure until conclusion of the contract or of the framework agreement can be appealed by the interested parties before the contracting authority and the Commission of Public Procurement.

The appeal suspends the public procurement procedure unless a temporary decision is taken by the Commission of Public Procurement for non-suspension of the public procurement procedure.

The Commission of Public Procurement may decide either to:

- Cease judgment when it identifies that the appealed decision of the contracting authority has not been taken in breach of law, or
- Instruct the contracting authority to cancel the illegal actions.

The resolution of the Commission of Public Procurement can be appealed before the Administrative Court. The appeal before Administrative Court does not suspend the public procurement procedure, conclusion of the contract or fulfillment of procurement contract obligations unless the Administrative Court rules otherwise.

## Concessions and public-private partnership

The conditions and procedure for granting, implementation and termination of concessions and public-private partnerships (PPP) in Albania are mainly regulated by the Law on Concessions and PPP, effective from 25 May 2013, and the Law on Public Procurement. The Law on Concessions and PPP approximates Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts.

The Law on Concessions and PPP also regulates the PPP as a legal concept and the terms and conditions for implementation of projects as PPPs.

The PPP is defined in the law as a long-term contractual cooperation between one or more public partners, on the one side, and one or more private partners, on the other side, to implement projects of public interest through obtaining better value from the invested public resources and allocation of risks between the partners.

Granting of concessions or PPPs is considered an appropriate method for governmental and local government units to manage their properties by way of involving business entities in that management.

### Types of concessions

A concession can be granted for public works or services or a mixture of these.

A concession of public works is defined as an agreement concluded in writing, with a financial interest, entered into between a contracting authority and one or more

economic operators. This agreement must have as subject matter the completion of works, where the compensation for the works completed consists of the right to use such completed work or the respective fee together with the right of use.

A concession of public services is an agreement concluded in writing between a contracting authority and one or more economic operators. This agreement must have as subject matter the provision of services, where the compensation for the provision of such services consists of the right to use the services or this right together with the respective fee. A mixed concession is defined as a concession which has as its object the completion of works and provision of services identified as a concession of public works or a concession of public services. The determining factor to define whether such an agreement is a concession of public works or services is whether the work to be completed is the main object of the contract or whether the work is just a characteristic for the public service which is the object of the agreement.

### Parties to concessions or public-private partnership agreements

The public contracting authorities which grant concessions or public private partnerships are:

- The Council of Ministers, and the respective Ministries
- The Parliament of Republic of Albania
- Municipalities.

The Law on Concessions and PPP provides that the concessionaires are selected only through an open procedure, where any interested candidate can submit an

offer. The open procedure is also applied by the contracting authority for selection of the private partner in cases where the concession is awarded to a mixed public-private company.

The offers submitted by candidates are evaluated by an evaluation committee appointed by the grantors of the concession. The evaluation criterion applied by the evaluation commission is the economically most advantageous offer, which is selected on the basis of different criteria determined when opening of the concession procedure, such as: the quality of construction, the rendered service, price of construction, term of the concession and others.

The maximum term of any concession agreement is 35 years. The term can be extended for another period if necessary in cases of contract amendment and if additional works or services are granted.

In view of the long validity terms for which they are typically concluded, the law allows for the possibility that concession agreements may be amended, by virtue of written annexes but only in cases explicitly provided by the law.

### **Concessions and Public Private Partnership Register**

The Ministry of Finance keeps a public Concessions/PPP Register which contains information on each concession/PPP procedure from its initiation until the termination of the concession/PPP agreement.

### **Competition and antitrust regulations**

The Law on Protection of Competition was enacted on 1 December 2003. The aim of the Law is to ensure free and effective

competition in the market in the public interest. It covers three main targets which determine the protection of competition:

- Abuse of a dominant position
- Prohibited agreements in the form of cartels
- Control of concentrations of enterprises.

This Law guarantees the protection of competition in cases where competition is distorted by collusive agreements, abuse of a dominant position in the market, or merger agreements among companies which lead to the creation of a dominant position or the strengthening of existing dominant positions.

The Competition Authority is a public authority and independent in accomplishing its tasks of monitoring and investigating agreements, abuses of a dominant position or control of concentrations, and imposing fines and sanctions in case of violation of this law.

The control of concentrations policy contributes to promoting the structural and economic reforms in Albania towards the consolidation of the market economy. The objective of this policy is to preserve a sufficient number of companies in the market to support an effective competition and potentially lower prices.

The Law prohibits all agreements which obstruct, limit or otherwise distort market competition, and especially those which directly or indirectly affect the sale or purchase prices, limit or control the market, share the market, apply different conditions for similar transactions and others.

### **Abuse of monopoly or dominant position**

The Law prohibits the abuse of a dominant or non-dominant position. It prohibits



any abuse on the part of one or more enterprises with a dominant position in the market, specifically in the cases of determining directly or indirectly unfair prices for sales or purchases, or other unfair market conditions.

### **Control on concentration of economic activities**

The third main thrust of the Law on Protection of Competition is related to concentration procedures. These are cases when a significant change of control occurs as a consequence of: a) merger of two or more enterprises or part of enterprises independent from each other; b) acquiring direct or indirect control by one or more natural persons who simultaneously have control of at least another enterprise or more, by one or more enterprises over one or more enterprises or part of the latter through purchase of shares, quotas or assets, agreement or any other legal mean; c) direct or indirect control over one or more enterprise or part of the latter. Concentration is a part of industrial restructuring and is seen as a necessary response to the challenges of the global economy.

### **Protection of intellectual property rights**

The major Albanian legislative acts governing copyright and intellectual property are the Law on Industrial Property and the Law on Copyright and Related Rights.

The Law on Copyright and Related Rights was enacted with the clear scope to protect the copyright and related rights in the Albanian territory regarding literary, artistic and scientific works. This law is applicable to local and foreign natural persons and legal entities performing commercial, creative and productive activity or any other functions

of estimating, utilization or transformation of artistic, scientific or literary works in the Albanian territory. Subject to this law are original works and derived works and collections. The law includes the specific cases when its provisions are applicable to audiovisual works and computer programs.

The copyright includes the moral and the economic rights of the author over their work. According to the law, the moral rights cannot be assigned or prescribed and those might be protected by the author's heirs after the author has passed away. Economic rights might be assigned through inheritance or contract, exclusively or non-exclusively. The law provides that every agreement for the exclusive assignment of economic rights must be filed, registered and certified by the Copyright Directorate.

The economic rights on literary, artistic and scientific works are prolonged throughout the author's lifetime and 70 years after the author has passed away, regardless of the date when the work was legally published. In case of co-authors' works, the duration of economic rights as described above starts from the date of the last co-author's death. In case of anonymous works, the law provides for a 70-year protection term for the economic right starting from the date of legal publication. When a work is published in parts, episodes or volumes, the 70-year term of protection is calculated for each part separately. The economic rights cannot be protected when the works are not published within 70 years from their creation date. All aforementioned terms are calculated from 1 January of the subsequent year of the author's death or publication of work. The copyright might be exercised either for an individual work or collectively for a group of works. The copyright might be protected by the title-holders themselves,

their legal representatives or by a Collective Administration Agency selected by their free will.

Collective Administration Agencies (CAAs) are legal entities, established as not-for-profit organizations and licensed by the competent Ministry upon the proposal of the Copyright Directorate. The scope of their activity is the collection of income from the utilization of the works and their distribution to the title-holders of copyright and related rights who have assigned the administration of these rights to an agency by means of a contract. The applicable fees on copyright are determined by means of a general agreement between the Collective Administration Agency and representatives of the Users Association or by a decision of the National Copyright Council. The Law on Industrial Property entered into force on 1 November 2008. This Law governs the acquisition of industrial property rights and protects copyrights, patents, trademarks, stamps, marks of origin, industrial designs and geographical indications. It is applicable to the industrial, commercial and agricultural fields and to the development of all natural and manufactured products. The provisions of the law are equally applicable to foreign persons or legal entities that are resident of member countries of:

- International treaties and conventions where Albania is a member
- Countries which are members of the World Trade Organization, or
- Countries where the mutual or regional reciprocity principle with Albania is applicable.

Pursuant to this Law, inventions and the use of a model are protected by patents issued by the Patent Office. Industrial

designs, trademarks, services and origin marks are protected through registration with the General Directorate of Patents and Marks (GDPM). The GDPM has the authority to keep and administer the registers for:

- Applications for the registration of marks, industrial designs, geographical indications and applications for granting the patents and registration of integrated circuits
- Patents, integrated circuits, marks, industrial designs, registered geographical indications
- Authorized representatives for the patents, marks, industrial designs and geographical indications.

These registers are available for public inspection. Any data related to the protected industrial property rights or applications for their protection are published periodically in the GDPM bulletin not less than four times a year. The public may ask for further information regarding the industrial property in view of the respective tariffs and in accordance with provisions of the Law.

All the contracts related to the request for a patent or the patent property must be in writing and signed by the contracting parties. Any changes made on the request for a patent or patent property must be registered with the Patents Register. Only upon their registration does a patent title-holder become entitled to claims with regard to the patent. The patents are registered upon issuance date order.

This Law provides for specific conditions and requirements regarding the application for registration, publication of applications, registration, and rights deriving from the

registration of patents, industrial designs, marks and geographical indications. Furthermore, the Law lays down specific provisions related to limitation and termination of the rights, refusal, waivers, and appeals against the decision for refusal of registration and court procedures related to patents, industrial designs, marks and geographical indications.

The Law specifically sets out the international mandatory requirements according to the Collaboration Tractate in Patents field. As per this Law, the protection of inventions may be ensured through a request for a European patent effects and European patents in conformity with the regulation under the agreement between the Republic of Albania and the European Patents Organization.

Furthermore, in 2000, Albania ratified the Marrakesh Agreement and became signatory to the World Trade Organization's Trade Related Intellectual Property Rights (TRIPS) agreement. In addition, Albania has signed the Convention of the Multilateral Investment Guarantee Agency (MIGA). MIGA provides investment guarantees against certain non-commercial risks (i.e. political risk insurance) to eligible foreign investors for qualified investments in developing member countries. Along with the MIGA Convention, Albania has signed the New York Convention of 1958 (on the recognition and enforcement of foreign arbitral awards) and the Geneva Convention on Execution of Foreign Arbitral Awards. The Overseas Private Investment Corporation (OPIC), a US-government sponsored entity, can make available insurance and project finance resources to US investors in Albania. OPIC's three main activities are risk insurance, project finance and investment funds.

## **Supervision of the Bank of Albania over the activities of banks and other financial institutions**

Pursuant to the Law on Banks in the Republic of Albania ("Banking Law"), the Bank of Albania (BoA) is the licensing and supervising authority for banks, non-banking financial institutions, savings and loan associations and their unions, and foreign exchange bureaus. The BoA exercises supervision over compliance of the activities of banks and financial institutions, with the rules established by the Banking Law and the regulatory framework of the BoA.

Licenses for banking activities are issued by the Bank of Albania. In order to perform services, the financial institutions are obliged to obtain licenses with the BoA for the performance of their activities.

The Bank of Albania is the Central Bank of the Republic of Albania and was established according to Law No. 8269 dated 23 December 1997 on the Bank of Albania. The legal independence and the main duties of the Bank of Albania are provided for in a separate article of the Constitution. Under the terms of its charter, the BoA's main responsibilities are:

- Formulating, adopting and executing the monetary policy of Albania, which shall be consistent with its primary objective
- Formulating, adopting and executing the foreign exchange arrangement and the exchange rate policy
- Issuing or revoking of licenses and supervising banks that engage in the banking business in order to secure the stability of the banking system
- Holding and managing its official foreign reserves

- Acting as banker and adviser to, and as fiscal agent of, the Government of the Republic of Albania
- Promoting an effective operation of payments system.

The Bank of Albania fulfils its supervisory function by:

- Drafting and improving the regulatory and supervisory framework
- Regulating the entry into the market of potential banks, shareholders and administrators
- Implementing principles of risk-based supervision through regular on-site examinations and off-site analysis of licensed entities' indicators, and through corrective measures to address supervisory concerns
- Cooperating with supervised entities, other domestic financial institutions, foreign supervisory authorities, and foreign banks operating in the Republic of Albania through their branches or subsidiaries.

The BoA has supervisory competencies with respect to banks, including but not be limited to:

- Requiring all necessary financial documents
- Performing on-site inspections
- Appointment of external independent auditors
- Attending the meetings of management and supervisory bodies of banks.

In cases of violation of provisions of the law or other acts, the BoA is empowered to impose certain measures on banks such as: issuance of written warnings and

orders to eliminate violations, prohibition of certain transactions, prohibition on foreign banks to carry out activities on the territory of Albania and the appointment of conservators for a certain period. As a final and exceptional measure, the BoA has the right to withdraw banks' licenses or other permits.

The BoA supervision also covers those activities of Albanian banks carried out abroad, as well as local activities of branches of banks from other countries. In exercising its supervisory powers, the BoA shall cooperate with the relevant supervisory authorities of other countries concerned.

The Credit Registry, which is the electronic database on bank borrowers, started to operate under the supervision of the Bank of Albania in January 2008. All the banks operating in Albania register information on the loans granted by them and on the related credit risk in the banking and financial system. Such information is archived for a period of five years. The Bank of Albania may request other financial institutions under its supervision to report for the purposes of the Credit Registry. Other financial institutions not supervised by the Bank of Albania may also report to the Credit Registry, according to the relevant agreements signed between them and the Bank of Albania and/or other regulatory authorities. Currently, 16 banks and 12 non-banking financial institutions operating in the area of lending and financial leases, two unions of savings and loan associations and one independent savings and loan association report to the Registry.

All banks and branches of foreign banks operating in Albania are required to report

to the Bank of Albania on a monthly, quarterly, semi-annually and annually basis. These reports must include the balance sheet and profit and loss account for the reporting period, foreign currency balances, changes, if any, within the management of the Board of Directors of the bank, data on the bank network structure, interest rates, credit exposures, credit per economic sector, high risk control, adequacy ratio (including total risk), weighted assets and off-balance sheet items, regulatory capital.

### Insurance companies and insurance intermediaries in Albania

The insurance activity in Albania, including the requirements for underwriting activity by a foreign insurer, is regulated by

Law No. 52 dated 22 May 2014 on the Activity of Insurance and Reinsurance ("Insurance Law"), which provides for the establishment, activity and supervision of insurance, reinsurance and intermediation companies.

Pursuant to the Insurance Law, an insurance intermediary may be an insurance broker or an insurance agent who carries out insurance intermediation against remuneration.

The insurance broker is a legal entity or sole proprietor (individual) who performs insurance intermediation upon the assignment of a consumer of insurance services and following the assignment of an insurer.

Insurance company	January – December 2016		January – December 2015	
	Compulsory insurance market share	Voluntary insurance market share	Compulsory insurance market share	Voluntary insurance market share
Sigal Uniq Group Austria	27.41%	38.47%	28.71%	41.33%
Eurosig	15.63%	14.16%	15.21%	15.75%
Sigma InterAlbanian VIG	14.46%	10.67%	16.36%	13.13%
Albsig	12.09%	15.16%	9.91%	9.59%
Intersig VIG	11.13%	9.28%	12.04%	9.89%
Insig	6.67%	3.61%	5.84%	4.05%
Atlantik	6.53%	4.85%	6.13%	2.62%
Ansig	6.08%	3.81%	5.78%	3.64%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

Source: Financial Supervisory Authority

The insurance agent is a legal entity or an individual who performs insurance intermediation under assignment of an insurer, carried out on behalf and at the expense of the insurer.

The insurance industry in Albania was created in 1991 with the establishment of the first insurance company INSIG, which held a monopoly position in the market for several years. The industry remains small despite increases in both the number of companies and their product base.

Vehicle insurance still remains the leading type of insurance in the market, accounting for 61.9% of the total value in 2016. During 2016, gross written premiums were ALL 15.4 billion (EUR 114 million) or 9.15% more than in 2015.

Meanwhile, non-life insurance in 2015 amounted to ALL 14.4 billion (EUR 106 million).

The market for non-life insurance classified in compulsory and voluntary insurance comprises the companies listed in the table on p. 85 (with respective market shares as at the end of December 2016 and 2015).

The market for life insurance is comprised of the companies listed in the table on p. 86 (with respective market shares as at the end of December 2016).

## Foreign exchange regime

The Bank of Albania implements a free-floating exchange rate regime. The value of the lek against the other foreign currencies is determined in the foreign exchange market by its supply and demand. The free-floating exchange rate regime allows the Bank of Albania's monetary policy for flexibility in achieving the inflation target.

## International payments and transfers

Commercial banks execute cross border bank transfers and payments between local and foreign persons only after being presented with documents evidencing the purpose of the transfer.

The Law on the Payment System dated 29 April 2013 includes provisions for the payment systems, security settlement systems, clearing houses and settlement agents, and payment instruments. Pursuant to the Law, a payment institution may perform payment services under a license issued by the Bank of Albania in cooperation with the Albanian Financial Supervision Authority, when the respective competences are interweaving, as in the case of securities.

Insurance company	Market share	
	January – December 2016	January – December 2015
INSIG	11.69%	8.42%
Sicred	28.35%	25.76%
Sigal Life	59.96%	65.82%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

Source: Financial Supervisory Authority

# Appendix A

## Bilateral Agreements

### Bilateral Agreements for the Mutual Protection and Encouragement of Foreign Investment

#### Approved Agreements

Austria	Kuwait
Azerbaijan	Lithuania
Belgium-Luxembourg (Economic Cooperation)	Malaysia
Bosnia and Herzegovina	Malta
Bulgaria	Moldova
China	Netherlands
Croatia	Poland
Cyprus	Portugal
Czech Republic	Qatar
Denmark	Romania
Egypt	Russia
Finland	San Marino
France	Slovenia
FYROM	Spain
Germany	Sweden
Greece	Switzerland
Hungary	Tunisia
Italy	Turkey
Izrael	Ukraine
Korea	United Kingdom
Kosovo	USA

#### Agreements under negotiation process

Belarus	Morocco
Canada	Saudi Arabia
Georgia	Turkey TIKA

## **Bilateral Agreements For Economic, Trade and Technical Cooperation**

### **Approved Agreements**

Argentina	Malta
Austria	Montenegro
Bulgaria	Netherlands
China	Poland
Croatia	Qatar
Czech Republic	Romania
Egypt	Russia
Finland	Saudi Arabia
France	Serbia
FYROM	Slovenia
Germany	Spain
Hungary	Sweden
Italy	Switzerland
Izrael	Tunisia
Korea	Turkey
Kuwait	UAE
Latvia	Ukraine
Lebanon	United Kingdom
Malaysia	Uruguay

### **Agreements under negotiation process**

Azerbaijan	Palestine
Bosnia and Herzegovina	Philippines
Korea	



# Appendix B

## Double Taxation Treaties in force to which Albania is a party

State	Dividends (%)	Interest (%)	Royalties (%)
Austria	10/5*	5	5
Belgium	10/5*	5	5
Bosnia and Herzegovina	10/5*	10	10
Bulgaria	10/5*	10	10
China	10	10	10
Croatia	10	10	10
Czech Republic	10/5*	5	10
Egypt	10	10	10
Estonia	10/5*	5	5
France	10/5*	10	5
Germany	10/5*	5	5
Greece	5	5	5
Hungary	10/5*	0	5
Iceland	10/5*	10	10
Ireland	10/5*	7	7
India	10	10	10
Italy	10	5	5
Kosovo	10	10	10
Kuwait	10/5/0*	10	10
Latvia	10/5*	10/5*	5
Macedonia	10	10	10
Malaysia	15/5*	10	10
Malta	15/5*	5	5
Moldova	10/5*	5	10
Netherlands	15/5/0*	10/5*	10

<b>State</b>	<b>Dividends (%)</b>	<b>Interest (%)</b>	<b>Royalties (%)</b>
Norway	15/5*	10	10
Poland	10/5*	10	5
Republic of Korea	10/5*	10	10
Romania	15/10*	10	10
Russia	10	10	10
Serbia and Montenegro	15/5*	10	10
Singapore	5	5	5
Slovenia	10/5*	7	7
Spain	10/5/0*	6	0
Sweden	15/5*	5	5
Switzerland	15/5*	5	5
Turkey	15/5*	10	10
United Kingdom	15/10/5*	6	0

### **Double Taxation Treaties ratified by Albania but currently not in force**

<b>State</b>	<b>Dividends (%)</b>	<b>Interest (%)</b>	<b>Royalties (%)</b>
Luxembourg	10/5*	5	5
Qatar	5	5	6
United Arab Emirates	10/5/0*	0	5

*\* The reduced rate can be applied under specific circumstances.*

# Appendix C

## **Bilateral Social Security Agreements concluded by Albania**

Austria\*

Belgium

Bulgaria

Canada\*\*

Czech Republic\*

Greece\*\*\*

Germany\*

Hungary\*

Italy\*\*

Luxembourg

Macedonia

Romania\*

Turkey

United States\*\*\*

\* Negotiations have started for revision to social security agreement between Albania and Bulgaria.

\*\* Initialled and not yet in force

\*\*\* Under negotiations

## **KPMG in Albania**

Deshmoret e Kombit Blvd.

Twin Towers Buildings

Tower 1, floor 13

Tirana, Albania

Telephone: +355 4 2274 524

+355 4 2274 534

Fax: +355 4 2235 534



**[al-office@kpmg.com](mailto:al-office@kpmg.com)**

**[kpmg.com/al](http://kpmg.com/al)**

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2017 KPMG Albania Shpk, an Albanian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Cover photo: milosk50 / Shutterstock.com