

ALBANIA

moving in the right direction

An investment perspective



Against a backdrop of sustained economic growth of around 6% a year, low inflation, and a fiscal deficit of about 5% of GDP, the government of Prime Minister Sali Berisha has, since taking office last year, been busy implementing long-overdue changes to the economy and government itself.

"The new government will be a government of clean hands," said Mr. Berisha in September 2005 when he presented a cabinet program that focused on tax and other reforms that are clearing the way for foreign investment, economic growth and employment, while steering the country closer

to NATO and the European Union.

His first success has been the conclusion of a preliminary Stabilization and Association Agreement with the EU, in February of this year.

The requirement for concluding this agreement has been the implementation of reforms such as cracking down on organized crime and corruption, while at the same time increasing the freedom of the media, consolidating the management of the public sector, ensuring the efficiency and independence of the judiciary, and protecting property rights.

The government's efforts have been recognized internationally. Over the last year, foreign companies based in

Albania have invested more than \$150 million into the country -- about \$60 for every Albanian. The money is flowing in mostly from neighbors Greece and Italy -- the two countries with which Albania has the highest levels of imports and exports. Overall foreign investment last year totaled around \$260 million.

The government is taking steps to prepare for eventual EU membership, while at the same time seeking to fulfill the requirements for establishing closer relations with NATO.

Foreign minister Besnik Mustafaj says that Albania's Euro-Atlantic integration is an absolute priority, and that an integral part of the government's reforms is also to seek a more active role for Tirana regionally.

ALBANIA, moving in the right direction

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Since taking office in July of last year, my government has already made significant progress toward the goal of realizing Albania's considerable potential, and making it a key player within the burgeoning economy of southeastern Europe.

Our agenda for reform focuses on maintaining political stability and forging consensus to improve governance and strengthen our institutions. This is the only way to ensure managerial integrity within the public administration, as well as reliable, predictable and fair enforcement of the rule of law. At the same time, we will strengthen the role of citizens, giving them a greater say in how public services are delivered.

We are dismantling the systems and processes that have made corruption possible. Government itself is being downsized by around 30%, and the cost of running the administration has already been reduced by an astounding 350%. Parliament has also approved a code of conduct to prevent any conflict of interests within the administration. I want to send a clear message to the international community that we are increasing levels of transparency, and that there is no place for bribery and corruption in Albania.

Parallel to our work in improving and streamlining government is a package of economic measures. The key to economic stability is through fiscal discipline, more efficient public investment, and improved tax collection.

To encourage the growth of domestic businesses, we have implemented several new reforms. Within the first week in office the government reduced taxes by 50% for all small and medium-sized enterprises: a substantial percentage of our GDP is derived from this area. By the end of my first year in



Prime Minister Sali Berisha

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Statement from
PM Sali Berisha

office, we aim to have reduced taxes by one third for all other types of business. At the same time, industrial parks and Free Zones are being created in order to spur on growth within the economy.

Creating the right climate for international business

We are aware that international business confidence in Albania needs to be improved. To do that, we must be seen to be taking the right steps. A package of measures to encourage FDI that will speed up and strengthen investment procedures, while offering incentives, is in place: as a result, the Albanian economy is fast moving towards a fairer, more open and liberal model, based on attracting inward investment. The guarantees that foreign investors need will soon be in place.

And investors looking to do business in Albania will find attractive companies in a range of sectors, including infrastructure, communications, and services. We are pushing ahead with privatization, and preparing state-controlled companies for sale.

Our efforts to improve the business environment, boost trade, and accelerate regional integration have been recognized internationally - notably by the World Bank, which has approved a lending program for the period 2006 to 2009 of almost \$200 million under its Country Assistance Strategy (CAS). And for the first time, Albania has been judged creditworthy for loans from the International Bank for Reconstruction and Development.

As the World Bank pointed out at the beginning of this year, this four-year CAS coincides with the election of the new administration. It focuses on achieving measurable results, and there is an explicit goal to promote economic growth by supporting private sector development. By the end of this four-year strategy the business environment in Albania will be more attractive for both domestic and foreign investors.

In short, we are creating the right environment for domestic and foreign investment, which is the way to ensure EU integration. Our achievements were recognized in February, when the president of the European Commission, Jose Manuel Barroso, visited Albania to finalize our EU Stabilization and Association Agreement. Membership of the European Union and NATO are now in sight; a prospect that would have been unimaginable 15 years ago. ■

Open for business

Reforms key to investment

Over the last two years Albania has projected itself with increasing success as a country open for business. The government of Prime Minister Sali Berisha has passed a raft of legislation, ranging from land reforms to the extensive privatization program now under way that is paving the way for increased private and foreign involvement in the economy.

An eagerness to forge closer ties with the West and regional groupings is being reinforced by a more secure legal framework to protect both foreign and domestic private investments, improvements to the transport and telephones systems, and, crucially, improvements in the banking system.

At the same time, Albania has successfully negotiated a series of free trade agreements with its neighbors, and the process that will eventually lead to EU membership commands cross-party political support.

In a bid to attract new investment to the country, the government recently reinvigorated the state's investment promotion agency, AlInvest. (www.alinvest.gov.al) Its new CEO, Denis Kalenja, says the new entity will provide a one-stop shop for potential investors needing information

as well as support in linking up with local partners. The government has already relaxed visa requirements for foreigners and cut red tape, making it easier to set up a business or buy land.

Revamping the financial sector

Economy Minister Genc Ruli says the government is well aware of the many problems still to be overcome if private investment is to really take off. A well-developed financial sector is essential for business - and in particular for the small and medium-sized enterprises which provide the bedrock for sustained growth and poverty alleviation.

There are more than 16 fully-fledged commercial banks operating in Albania, whose lending portfolio, deposits and profits overall are rising significantly. Tools comparatively new to the market, such as syndicated loans, are helping to fuel eco-

ALBANIA

Official name:

Republic of Albania

Form of state:

Parliamentary republic; constitution was adopted by popular referendum on 28 November 1998.

National legislature:

Unicameral People's Assembly or Kuvendi Popullor (140 seats)
100 seats are elected by direct popular vote and 40 seats by proportional vote for four-year terms.

Electoral system:

Universal suffrage over the age of 18

National elections:

Presidential - last held 24 June 2002; next to be held June 2007
Legislative - Last held 3 July 2005; next to be held in 2009

National government:

Chief of state: President of the Republic Alfred MOISIU (since 24 July 2002)
Head of government: Prime Minister Sali BERISHA (since 10 September 2005)
Cabinet: Council of Ministers proposed by the prime minister, nominated by the president, and approved by parliament.
President elected by the People's Assembly for a five-year term; prime minister appointed by the president



Area:

Total: 28,748 sq km
Land: 27,398 sq km
Water: 1,350 sq km

Language:

Albanian

Currency:

Leke

Exchange rate:

2005 average \$1= 103.07 Lek (ALL)
2006 latest \$1=103.05 Lek (ALL)

Population:

3.5m (July 2005)
Tirana (capital) 750,000

Economic Summary

	2004	2005
Total GDP (\$bn)	\$7.5	\$8.4
Real GDP growth (annual % change)	5.9%	6%
GDP per capita (\$)	\$2385	\$2673
Inflation (annual % change in CPI)	2.9%	2.4%
Industrial Production (annual % change)	2.7%	3.1%
Gross International Reserves in millions of Euros	€1,025	€1,147
Government expenditure (% of GDP)	29.0%	27.3%
Total foreign debt (% of GDP)	16.8%	16.90%
Current account balance including official transfers (% of GDP)	-5.40%	-7.00%
Total exports (\$bn)	\$0.603	\$0.652
Total imports (\$bn)	\$2.19	\$2.54
Trade balance (% of GDP)	-21.3%	-22.5%

Source: Macroeconomic Department, Ministry of Finance

Main trading partners (share of total trade to world 2004)

Exports	%	Imports	%
EU countries	89.83	EU countries	66.21
Italy	73.01	Italy	33.13
Greece	11.98	Greece	20.14
Germany	3.09	Germany	5.25
Other	1.74	Other	7.68
SEE countries	7.09	SEE countries	7.21
Kosovo	4.59		
Other	2.5	Other countries	26.58
		Turkey	7.17
Other countries	3.09	Other	19.41

Source:
General Directorate of Customs,
Albanian Center of International Trade

conomic growth, while growth of retail banking is also high on the agenda of the banking industry.

However, the banks have to work hard to overcome widespread use of the cash economy. The informal economy is a hot issue in Albania that needs a lot of attention. But the expansion of new banking services, combined with growing professionalism, is prompting a shift in mentality.

Tackling corruption

“Albania suffers from an image problem,” says Mr. Ruli when asked about what the government is doing to tackle corruption.

“We inherited a legacy of corruption, organized crime, unemployment, and poverty. Law enforcement and tough measures against corruption are our priorities,” he explains.

Mr. Ruli says that while it is important to introduce greater transparency into the decision-making process, it is also essential to increase the participation and knowledge of the public, which is where the media has a role to play. “The role of the media is important here as a watchdog of civil society and government,” he says.

Many in senior positions under the former government abused their positions to make money out of Albania’s privatization process. In fact, the new administration has challenged the sale last summer of former state telecommunications company, Albtelecom.

In June 2005 a 76% stake in Albtelecom, the sole fixed line operator, was sold to the Calik Enerji Telekom consortium, a joint venture between power utility Calik and Turk Telekom for \$151 million. The deal looked dubious even before it was signed. Six interna-

tional bidders were shortlisted, including Slovene Telekom, Western Wireless and the Kharafi Group of Kuwait, but five withdrew close to the bid deadline. In October, however, the new govern-



Mr Genc Ruli - Minister of Economy and Energy



Mr Lulzim Basha - Minister of Transportation and Telecommunications

ment ruled that the sale was not in the best interests of the country and had broached legislation.

According to Erion Veliq, leader of the civic action group Mjajt! (Enough!): “The former government blatantly abused the tender process. For instance, they listed nonexistent bidders. So, up until now, the concept of transparency in Albania has existed in name only, and doing business here was based more on wake-up moods of politicians than fair play.”

The new government of Sali Berisha has refused to grant parliamentary approval to the deal, and a parliamentary commission is now examining the process. A new tender is being prepared. The result should be a major financial and political victory in the fight against corruption.

Tourism potential

The World Travel and Tourism Council estimates that Albania’s tourism industry generated around \$1.9 billion in 2005, and will grow to around \$3.5 billion by 2015. Travel and tourism demand is expected to grow by 15.9% in 2005 and by 5.4% per annum, in real terms, between 2006 and 2015. Albania’s tourism and travel industry is expected to contribute 4.7% to GDP in 2005.

Thanks to its long-standing isolation, Albania’s 450 km coastline is unspoiled, while the Albanian Alps, with their lakes, vast forests and rich cultural heritage offer considerable potential. Foreign investors have been quick to explore development opportunities in the hotel industry in coastal areas. The government has made clear that Albania is committed to developing tourism along sustainable, environmentally friendly lines and intends to avoid the overdevelopment that has characterized other Mediterranean destinations. ■



Banca Italo Albanese



Albanian Refining and Marketing of Oil

Sh.a



ALBPETROL sh.a
Albanian Petroleum Company

AlbPetrol

Albtelecom

Albania's telecoms market has been hugely successful in attracting foreign investors. While most of the region's promising telecoms assets have already been snapped up, so smaller deals like Albtelecom are starting to look more attractive to operators seeking long term growth.

Ilirian Kuka, who took over as general manager of Albtelecom at the end of 2005, says he wants make this the year of "the Internet" for Albania. "We have started plans for increasing backbone capacity by 400% before the end of the second quarter," he explains.

At the same time, he adds, investments are lined up to increase the capacity of network and switches for fixed-line business. "Our plans are that within two years we will be able to eliminate waiting lists for fixed lines, and that our services will reach the same level as

our peers in the region". Albtelecom announced a 3.7% increase in 2005 revenues to \$128 million, and gross profits of \$20.4 million. Albtelecom's subscriber base is just 300,000 but with its new digital infrastructure, that will soon allow it to offer broadband and television, the company's growth potential is significant. What's more, Albtelecom holds the country's third national GSM license, Eagle, which will increase its subscriber base substantially. "This will be a key investment both in terms of increasing the value of the company as well providing Albanians with more choices for mobile telephony. The increased com-



Mr Ilirian Kuka, General Manager of Albtelecom

petition that the development of this company will bring to the mobile market will be a positive development for the customer," argues Mr. Kuka.

Mobile penetration rates are high, with more than one in three phones per capita. In the mid-1990s, as Albania emerged from the ruins of communism, and with a primitive fixed line system, mobile telephony played a key part in economic development.

Until Eagle takes off, the two private companies dominating the sector are AMC and Vodafone. In 2003, UK-based telecoms giant Vodafone paid \$85 million for the country's second mobile franchise, providing competition for AMC - successfully privatized in 2000, when an 85% stake was sold by the state to a consortium involving Norway's Telenor and Greece's Hellenic Telecommunications Organization (OTE) for around \$86 million. With a 52% market share, the company's subscriber base has grown to more than 750,000. ■

Connecting Albania's Business To The World

Albtelecom Sh.a. is the only operator of the fixed telephone in Albania.

... the only operator in the area of telecommunications which ensures international connectivity with its own network

Albtelecom sh.a. applies a full digital technology

...the only operator in Albania with the necessary capacities to offer interconnection for internal and external communication.



ALBTELECOM

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Playing a growing role in European air traffic safety

A ground-breaking deal to finance a Lockheed Martin air traffic control system will effectively allow the country to charge a toll on the use of its skies, whether planes land or not, with revenue used to pay off the loan.

Arben Xhiku, director of Albania's Air Traffic Agency (ANTA), says that European air traffic is expected to grow two to three times over the next 20 years, and that Albania's strategic location means that modernization of its air control systems is imperative for the economic development of the transport sector.

Mr Xhiku says the system to be used by ANTA will triple the country's ability to handle air flights over Albanian

airspace, with room for further growth. The latest improvement to Albania's air traffic control is part of a 10-year EU master plan begun in 2000. On the ground, there's also a lot of action. Tirana Airport Partners, a private consortium, is managing the country's only international airport at Rinas under a 20-year build-own-operate-transfer concession. It is busy upgrading the facility, with new passenger and cargo terminals currently under construction, along with improved access and security measures.

The TAP contract also represents a key stage in transforming Albania's international airport into one of Southeast Europe's air-traffic hubs. The

consortium pays an annual concession fee and, in return, is entitled to the airport's income. The Albanian government plans to increase co-operation with TAP says Transport and Telecommunications Minister Lulzim Basha.

Around 750,000 passengers a year currently use Rinas airport, but the figure is rising fast. The new terminal, due for completion next year, will increase capacity to an expected 1.5 million passengers by 2010, and ultimately to three million. Meanwhile, TAP is negotiating to bring other airlines into the country.

Among the international carriers that now serve Albania are Austrian Airlines, Hungary's Malev, Greece's Olympic Airlines, Serbia-Montenegro's JAT, Italy's Alitalia, Slovenia's Adria Airways, Turkish Airlines, and Bulgaria's Hemus Air, all of which offer regular, scheduled flights to Tirana. Several domestic companies, such as Albanian Airlines, Albatros Airways and Ada Air, also offer direct flights to and from European cities.

In 2005, UK flagship carrier British Airways (BA) announced it was launching regular direct flights between Gatwick Airport and Tirana, which have given a substantial boost to travel in and out of Albania.

BA projects that 25,000 travelers will use the new London-Tirana route in the first year, with the number rising incrementally afterwards.

Meanwhile, the government is also considering developing domestic air traffic in the southern cities of Saranda and Vlora, which are considered to be the top destinations for tourism in the country. Kukesi Airport, in north eastern Albania, is under construction. According to the long term plans, all three airports will eventually become licensed for international flights. ■



"With new investment in technology, we are keeping the skies above Albania safe"

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Part of the European mosaic

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Four decades of isolation under communism meant that when Albania finally returned to the real world in 1991, the country's communications and infrastructure were at best dilapidated, and at worst non-existent: power generation was limited to a few hydroelectric stations, and aside from the main cities - where supplies were limited - much of the country had no access to electricity. Restrictions on free movement under the communists meant a ban on private ownership of vehicles, and thus no major road network.

Lack of investment in the 1990s saw the railway system fall into disrepair. But over the last decade and a half, backed by funding from multilateral lending bodies such as the European Bank for Reconstruction and Development (EBRD), the International Monetary Fund (IMF), and the European Union (EU), Albania is implementing an ambitious program to update its communication and infrastructure to not only meet domestic needs, but connect the country to the rest of the region.

Privatization will play a central role in modernizing infrastructure, says Transport Minister Lulzim Basha, who recently announced proposals to hand over road maintenance responsibilities to the private sector through concessions.

The ministry has also released a list of tenders for the construction of roads, bridges and other infrastructure across the country worth \$7.8 million. Open to international tender is the road to connect the port of Durres to the road system linking FYROM and Bulgaria, and then northward to the major European corridors, and south to Istanbul.

This project has seen massive investment in Durres, which is now the country's main port of entry for passengers and goods, and with a current commercial capacity of three million tons. Under a \$50 million investment program, the independent port authority will enlarge its facilities to allow large capacity ves-

sels to be serviced. The entry canal is being dredged, and facilities installed to allow it to facilitate oil shipments.

Plans are also in hand to attract foreign investment to rebuild Albania's deteriorated rail network by attracting investment in the country's railway network, particularly the Durres to Tirana line, which connects 40% of the country's population.

Albania is fortunate that its track gauge is the same size as the rest of Europe, making border connections possible. The system is also open to other operators to invest in and use the network.



Tirana's infrastructure has improved hugely over the last decade.

Diversification the watchword for electricity sector

Now approaching the completion of a five-year restructuring plan that will soon ultimately see electricity utility KESH privatized, Albania's power sector has proved one of the biggest attractions for foreign investors, pulling in more than €400 million since 2002. The most likely outcome is that the generation function will remain publicly owned while the distribution network will be split into a number of independent private companies. The government's energy strategy emphasizes renewable energy and conservation and opening markets for foreign and Albanian partnerships.

At the same time, the government

has sought to diversify away from the country's overdependence on hydroelectric energy through the construction of thermal power stations such as the oil-fuelled plant at Vlore, as well as a \$1.9 billion dollar re-gasification terminal and thermal electric power generation plant at the country's leading industrial city of Fier.

The project would make Albania, once energy starved, into one of the biggest producers and exporters of power in Europe.

When completed, Albania will be connected to its neighbors Italy and

Greece and the rest of Europe as the electrical power grid will match EU standards.

KESH is also investing around \$12 million to improve power transmission lines in Albania's southeast. Energy Minister Genc Ruli says that by 2008 the country's electricity supplies will be stable. "The end of 2007 and the beginning of 2008 will spell the end of power outages for Albanian consumers," says Mr. Ruli.

Mr. Basha predicts an important role for Albania once its infrastructure meets international standards. "Our neighbors and European investors that want to connect with other Mediterranean countries will soon see that going through Albania is quicker and more economical. We want to make the country part of the European mosaic again." ■

Albania's linguistic skills and prime location give it a service industry future

Welsh businessman David Hentsell believes the service industry has a great future in Albania, and so has set up Kikas, a small, but rapidly growing call center operation in Tirana.

In recent years, major call center operators moved their businesses to India to take advantage of cost savings. "The business case was pretty straightforward," says Hentsell, "but over the years the cost advantage has eroded and India is becoming more expensive."

Albania has the distinct advantage over India thanks to the linguistic skills of its people. Many European languages, including English, French, Italian and Greek are widely spoken.

"I was amazed by the multi-lingual capability of people in this country," says Hentsell

The other clincher for Hentsell is Albania's location - one hour away from Italy and around three hours from London by direct flight now that British Airways is set to begin regular direct services to Tirana.

"When that happens," reckons Hentsell, "the whole of Europe becomes a major opportunity as far as Albania is concerned."

Hentsell points to Albania's flexible employment laws, low overheads, and staff costs which give it the edge of other European countries.

"When I looked at all of these advantages, I realized that it just made so much sense to start Kikas - as a multi-lingual, inbound, outbound, multimedia communications business," he explains, adding that he is looking at partnering with other contact call center operations outside Europe to draw more business to Albania.

Hentsell projects that within 18 months Kikas will employ more than 500 people, starting with low level, high volume business. "It will take a while to train the staff in more

demanding technical fulfillment work, but overall it's a good sign that Albania is now in a position to attract this sort of business and the associated investment it requires." ■

Green solutions



for future generations



Albanian Power Corporation

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