



Attractiveness of Albania for Foreign Firms: An Analysis of Opportunities and Challenges

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Abstract

This paper examines Albania's evolving landscape as a burgeoning destination for foreign direct investment (FDI), underscored by its strategic geographical location, economic reforms, and sectoral growth opportunities. Using a literature review methodology, we focus into an analysis of peer-reviewed articles, government reports, and international indices to construct a nuanced understanding of Albania's economic environment, the palpable sectoral opportunities for investment, and the persistent challenges that foreign firms may encounter. This analysis reveals that Albania presents a compelling case for foreign investment, particularly in sectors like tourism, energy, agriculture, and manufacturing. Conversely, the investigation highlights significant challenges that could impede foreign investment, such as bureaucratic inefficiencies, corruption, infrastructural deficits, and legal and regulatory uncertainties. This study contributes to the broader discourse on FDI in emerging markets, offering insights into Albania's unique position within the Western Balkans region and providing a framework for policymakers and investors to harness the full spectrum of opportunities while addressing the challenges to ensure mutual long-term benefits.

Keywords: Foreign Direct Investment (FDI), Economic Reform, Sectoral Opportunities, Bureaucratic Challenges, Strategic Location, Legal and Regulatory Framework

1. Introduction

In recent years, Albania has emerged as a compelling destination for foreign direct investment (FDI) in the Western Balkans. This interest is underpinned by a series of strategic reforms aimed at economic liberalization, improvements in the business environment, and the country's inherent geographic and cultural assets. Albania's transition from a centrally-planned economy to a market-oriented framework has been marked by significant strides towards integrating with the global economy, facilitating a conducive environment for foreign investors (Çakerri et al., 2020).

The significance of FDI for Albania's economy cannot be overstated. It plays an important role in the country's economic development, offering access to capital, technology transfer, and enhanced competitiveness in the global market. Sectors such as energy, tourism, agriculture, and manufacturing have notably benefited from foreign investments, driving growth and creating employment opportunities (Gjoka, 2016; Konstandina & Gachino, 2020; Prashantha kumar & Raju, 2018). However, navigating the investment landscape in Albania is not devoid of challenges. Issues such as bureaucratic inefficiencies, infrastructural gaps, and legal uncertainties pose hurdles for foreign firms operating or planning to invest in the country (Kamaladevi, 2011).

Albania has undertaken significant economic reforms aimed at improving its business climate to attract more FDI

and foster economic development. These reforms often encompass regulatory changes, the introduction of investment incentives, and the establishment of strategic economic goals.

Albania has worked on streamlining business regulations to create a more conducive environment for entrepreneurship and investment. Efforts to reduce red tape, simplify tax codes, and enhance the transparency of government procedures have been central to these regulatory reforms (World Bank Group, 2020).

To encourage FDI, Albania has implemented various incentive programs. These may include tax holidays, grants, or subsidies for new investments, particularly in designated economic zones or sectors identified as strategic for economic development, such as energy, tourism, and agriculture (UNCTAD, 2017).

The government has outlined strategic economic goals within its National Development Plans. These goals focus on economic diversification, sustainable development, and integration into European markets. By targeting key sectors for growth and investing in infrastructure and human capital, Albania aims to achieve inclusive and sustainable economic progress (European Commission, 2023).

Recognizing the importance of a robust legal framework for investment, Albania has undertaken reforms to strengthen property rights, enforce contracts, and resolve insolvency issues, thereby enhancing investor confidence (EBRD, 2023).

The objective of this paper is to explore the multifaceted landscape of foreign investment in Albania, identifying the key sectors that attract FDI and analyzing the opportunities and challenges faced by foreign firms. Through a comprehensive literature review, this study seeks to offer insights into the dynamics of Albania's investment climate, providing a nuanced understanding for investors and policymakers alike.

This exploration is structured as follows: Following this introduction, the paper delves into the economic environment and sectoral opportunities in Albania, highlighting the areas with the highest potential for foreign investment. It then assesses the opportunities presented to foreign firms, including government incentives and strategic advantages.

Subsequently, the paper examines the challenges that investors might encounter, ranging from bureaucratic hurdles to infrastructural and legal risks. Through case studies, it offers real-world insights into how foreign firms have navigated these challenges. The discussion synthesizes the findings, comparing Albania's attractiveness to that of other countries in the region and offering recommendations for stakeholders. The paper concludes by summarizing the key points and suggesting directions for future research.

2. Literature Review

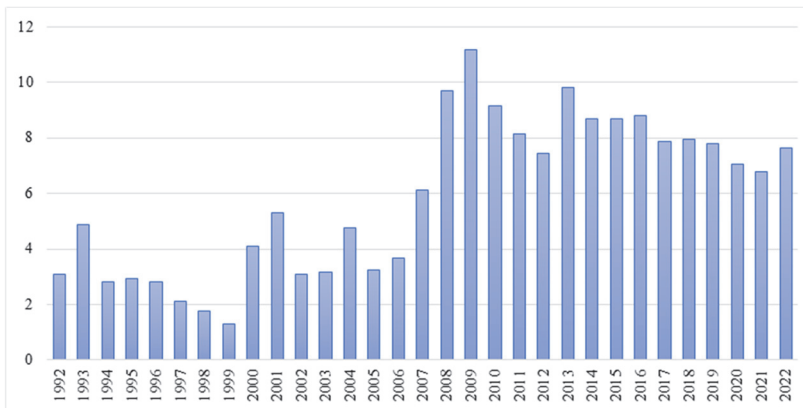
2.1 Economic Environment and Sectoral Opportunities

Albania has undergone significant economic transformations since the 1990s, transitioning from a strictly centralized economy to a more open, market-oriented model. This shift has been accompanied by comprehensive reforms aimed at stimulating economic growth, attracting FDI, and integrating the Albanian economy into global markets. As highlighted by Muharremi (2020), the country has focused on creating an inviting environment for investors through policy reforms, improving the ease of doing business, and stabilizing the macroeconomic environment. These efforts have positioned Albania as an emerging destination for foreign investment in the Balkans.

The Albanian government has implemented a series of fiscal policies and incentives to attract FDI, such as reducing corporate tax rates and offering tax holidays for specific investments. These measures, coupled with Albania's membership in the World Trade Organization (WTO) and its status as a candidate country for European Union (EU) membership, underscore its commitment to aligning with international economic standards and practices (Blau & Janssen, 2020; Muharremi, 2020; Open Society Foundation for Albania – Soros Foundation, 2010; The World Bank, 2021). For instance, Zeneli (2014) discusses economic challenges in the Western Balkans, including the need for socio-economic reforms and stronger EU cooperation.

Economic growth in Albania has been steady, with the country achieving an average annual GDP growth rate of around 3.5% over the past decade. This growth has been driven by significant investments in infrastructure, energy, tourism, and manufacturing sectors, bolstered by the strategic use of FDI (Cakerri et al., 2020).

Graph 1 represents the FDI net inflows as a percentage of GDP for Albania from 1992 to 2022 (The World Bank, 2023). There is an evident fluctuating trend with periods of significant increases and decreases. The trend shows that FDI as a percentage of GDP has had a varied impact on the Albanian economy over the years.



Graph 1. Foreign direct investment, net inflows (% of GDP) (The World Bank, 2023)

During early years (1992-2004), FDI as a percentage of GDP is relatively low, with only a few spikes. The values range mainly between 2% to 5%. This suggests that Albania was starting to open up to foreign investment, but the levels were not consistently high.

There is a noticeable increase in FDI during mid period (2005-2009), with the peak reaching just above 11% in 2009. This could be indicative of Albania's growing attractiveness to foreign investors, potentially due to favorable economic policies, stability, or specific investment opportunities that arose during this time.

After the peak in 2009, there is a decline followed by fluctuations. The percentage remains above 6%, indicating that while there may have been economic or policy changes impacting investment, Albania continued to attract a considerable amount of FDI relative to the size of its economy.

The last six years (2017-2022), show relative stability in FDI as a percentage of GDP, with figures hovering around 7% to 8%. This could be a sign of a mature and steady investment environment, despite global economic uncertainties and challenges. The final data point (2022) shows a slight increase compared to 2021, which might suggest a recovery or an uptrend in FDI inflows relative to Albania's GDP.

The highest FDI net inflow as a percentage of GDP was observed in 2009, which is significantly higher than in other years. There have been three notable periods of increased FDI inflows: the early 2000s, the peak around 2009, and the steady period post-2015.

The graph does not show any prolonged periods of continuous decline, which would suggest a generally favorable environment for FDI in Albania over the last three decades.

It is important to note that FDI percentages can be influenced by many factors, including but not limited to global economic trends, country-specific economic policies, political stability, and changes in the investment climate. The data points in the years leading up to 2022 could also reflect the impact of the COVID-19 pandemic on global and national economies.

The tourism sector in Albania presents a significant opportunity for foreign investors, capitalizing on the country's diverse natural beauty, including its Adriatic and Ionian coastlines, cultural heritage sites, and relatively unexplored mountainous regions. Government initiatives to improve tourism infrastructure and promotional campaigns have begun to bear fruit, with increasing tourist arrivals contributing to economic growth. Investment opportunities abound in hotel and resort development, eco-tourism, and adventure tourism, leveraging Albania's unique offerings to a global audience (Gorica & Paloka, 2006; Guçe, 2020; Pavlović et al., 2022).

Albania's energy sector, particularly hydropower, has attracted considerable FDI, given the country's abundant water resources. Albania generates almost 100% of its electricity from hydropower, presenting opportunities for further investments in renewable energy sources, including solar and wind energy. The government's commitment to increasing renewable energy production aligns with broader environmental objectives and sustainability goals, offering lucrative prospects for investors in green energy (Gjoka, 2016).

Agriculture remains a vital sector of the Albanian economy, contributing significantly to GDP and employment. The

sector offers potential for FDI in agro-processing and export-oriented agriculture, particularly in organic products and traditional Mediterranean crops. The EU remains a key market for Albanian agricultural exports, with preferential trade agreements and geographical proximity facilitating access. Investments aimed at modernizing agriculture through technology and improving supply chain efficiencies could greatly enhance productivity and competitiveness (Blau & Janssen, 2020; Gjokutaj, 2021; Lediana et al., 2023).

The manufacturing sector in Albania has seen growing interest from foreign investors, driven by competitive labor costs and improving industrial infrastructure. FDI has played a crucial role in technology transfer, enhancing the productivity and innovation capacity of the Albanian manufacturing industry. Investments in sectors such as textiles, footwear, and food processing have benefited from Albania's strategic location, offering access to European markets. The government's focus on improving industrial zones and providing incentives for manufacturing investments further amplifies the sector's attractiveness (Konstandina & Gachino, 2020).

2.2 Opportunities for Foreign Firms in Albania

Albania has implemented a range of incentives aimed at attracting foreign investment, focusing on reducing operational costs and enhancing profitability for foreign businesses. These incentives include tax benefits, such as reduced corporate income tax rates for specific sectors or investments, VAT exemptions, and customs duty exemptions for imported machinery and equipment used in production. Special economic zones (SEZs) and industrial parks offer additional benefits, including infrastructure support and streamlined administrative procedures. The Albanian Investment Development Agency (AIDA) plays a pivotal role in facilitating foreign investment, providing information, support, and services to foreign investors (Muharremi, 2020).

Albania's strategic geographic location serves as a significant advantage for foreign firms, acting as a gateway to the Balkan region and offering direct access to European, Middle Eastern, and North African markets. Its coastline along the Adriatic and Ionian Seas provides maritime access, which is crucial for trade and logistics. The country's proximity to major European markets enables businesses to benefit from reduced transportation times and costs, facilitating easier access to a broader customer base. Additionally, Albania's participation in various regional and international trade agreements enhances its appeal as a strategic hub for businesses looking to tap into regional trade flows and access new markets (Guçe, 2020).

Albania offers a competitive labor market with a relatively young, educated, and increasingly skilled workforce. Labor costs in Albania remain competitive compared to other European countries, providing foreign firms with a cost-effective solution for labor-intensive operations. The workforce's linguistic capabilities, particularly in English, Italian, and Greek, further enhance Albania's attractiveness, facilitating communication and business operations with international partners. The government has also focused on vocational training and education programs to better align the skills of the workforce with the needs of foreign investors, particularly in sectors such as information technology, engineering, and services (Konstandina & Gachino, 2020).

Albania has experienced consistent economic growth, underpinned by sectoral opportunities, particularly in tourism, energy, agriculture, and manufacturing. The country's GDP growth, coupled with sectoral advancements, showcases its potential as a promising market for foreign investors.

Albania's strategic geographic position at the crossroads of European and Balkan trade routes offers significant market access. This location advantage is crucial for sectors like logistics, tourism, and export-oriented manufacturing.

The Albanian government has implemented various incentives, including tax benefits and investment grants, to attract FDI. Ongoing economic reforms aimed at improving the ease of doing business have positively influenced the investment climate.

The availability of a young, increasingly skilled, and cost-effective labor force presents a valuable asset for foreign firms, particularly in labor-intensive industries.

2.3 Challenges Facing Foreign Firms in Albania

One of the most significant challenges that foreign investors face in Albania is navigating the bureaucratic landscape and dealing with corruption. Despite efforts to streamline processes and enhance transparency, investors often encounter red tape and inefficient government procedures, which can delay projects and increase costs. Transparency International's Corruption Perceptions Index frequently highlights the need for Albania to improve its fight against corruption, indicating that corruption remains a substantial obstacle to doing business (Transparency International CPI, 2021).

Additionally, Firalba Gjoka (2016) discusses the impact of corruption and political risks specifically in the hydropower sector, emphasizing that these challenges are not unique to but are particularly pronounced in energy and infrastructure projects. These issues extend to property rights concerns and can deter investment by creating an unpredictable business environment.

While Albania has made strides in improving its infrastructure, the quality and reliability of transport, energy, and digital infrastructure still lag behind EU standards. This gap can pose logistical challenges for foreign firms, affecting the efficiency of operations and access to markets. The World Bank's Logistics Performance Index (LPI) provides insights into countries' logistics capabilities, where Albania's ranking reflects areas needing improvement in infrastructure quality and customs procedures (World Bank, 2018).

The energy sector, despite its potential, is hampered by issues of reliability and capacity, particularly outside the main urban centers. Gjoka (2016) notes that while there is significant investment in hydropower, the broader energy infrastructure requires modernization to support sustained economic growth and attract further investment.

Legal and regulatory risks are another critical challenge for foreign investors in Albania. The legal framework can be volatile, with frequent changes in laws and regulations that can impact business operations. Investors may find it challenging to navigate the legal system, leading to uncertainties and risks in investment decisions (Gautam, 2024; Peci & Shabani, 2020).

Muharremi (2020) highlights the importance of a stable and transparent legal and regulatory framework for attracting FDI. The need for clarity and consistency in laws related to taxation, property rights, and investment protections is crucial for creating a conducive business environment.

Secure property rights and access to land are fundamental concerns for investors in Albania. The legacy of unclear land titles and ongoing disputes can complicate investment projects, particularly in sectors like agriculture, tourism, and real estate development. The European Bank for Reconstruction and Development (EBRD) has pointed out the necessity for Albania to address property rights issues to enhance investor confidence and support economic development (European Bank for Reconstruction and Development, 2019). Moreover, aid for trade initiatives have supported developing countries in attracting FDI and expanding trade while highlighting challenges in economic diversification (OECD/WTO, 2019).

Despite improvements, foreign firms still encounter bureaucratic inefficiencies and administrative complexities in business operations, as indicated by global business and corruption indices.

Corruption remains a significant concern, affecting various sectors and posing risks to investment and operational integrity. This challenge is highlighted in Transparency International's reports, reflecting the need for robust governance and anti-corruption measures.

While there are ongoing efforts to improve infrastructure, issues with transportation networks, energy supply reliability, and digital infrastructure create operational challenges for businesses.

The legal environment in Albania is often characterized by frequent changes and a degree of unpredictability, posing a challenge for foreign firms in terms of compliance and long-term planning.

These results underline the dual nature of Albania's investment landscape. On one hand, the economic potential, strategic location, and government initiatives create an inviting environment for FDI. On the other hand, bureaucratic complexities, infrastructural gaps, and governance issues present considerable challenges that need strategic navigation by foreign investors. The balance of these factors will play a crucial role in shaping the future trajectory of FDI in Albania.

3. Discussion and Conclusion

The analysis of Albania's attractiveness to foreign firms, considering both opportunities and challenges, yields a multifaceted view. On one hand, Albania presents significant opportunities across various sectors such as tourism, energy, agriculture, and manufacturing, buoyed by strategic location, government incentives, and a young, dynamic workforce. These factors align with the findings of Muharremi et al. (2020), who note the country's economic reforms and sectoral potential as key drivers for FDI.

On the other hand, challenges such as bureaucratic hurdles, corruption, infrastructural gaps, and legal uncertainties persist, echoing concerns raised by Transparency International (2021) and the World Bank (2018). These issues necessitate a cautious approach from foreign investors, highlighting the importance of thorough due diligence and local partnerships.

Comparatively, Albania's investment climate shares similarities with other transitional economies in the Western Balkans, where potential rewards are often balanced against systemic risks. The experience of foreign firms in Albania

can offer valuable lessons for navigating emerging markets, emphasizing the importance of adaptability, local engagement, and strategic planning.

Strategically, foreign firms must leverage Albania's strengths while mitigating risks. Engaging with government initiatives, benefiting from sector-specific incentives, and contributing to infrastructural and technological advancements can enhance their success. Moreover, collaboration with local entities and adherence to best practices in corporate governance and social responsibility can build a strong foundation for long-term growth.

Albania's trajectory towards becoming an attractive destination for foreign investment is marked by both promise and challenges. The country's strategic location, rich natural resources, and ongoing reforms present a compelling case for investment across several key sectors. However, navigating the investment landscape requires careful consideration of the bureaucratic, legal, and infrastructural challenges that persist.

To sustain and enhance its attractiveness to foreign investors, Albania must continue its efforts in improving the business environment, fighting corruption, and investing in infrastructure and human capital. For foreign firms, success in Albania involves not only capitalizing on the available opportunities but also actively participating in the country's growth story, contributing to economic development and social progress.

Future research could focus on the impact of EU integration processes on Albania's investment climate, the role of digital transformation in attracting FDI, and the effects of global economic trends on the Balkans. Such studies would provide deeper insights into Albania's evolving position in the global economy and offer guidance for policymakers and investors alike.

The findings from this research have several important implications for policymakers, investors, and scholars interested in the dynamics of foreign direct investment (FDI) in emerging markets, particularly in Albania. The research underscores the necessity for continued reforms in enhancing the business environment, streamlining bureaucratic processes, and fighting corruption. Policymakers are encouraged to prioritize infrastructure development and legal stability to attract and retain foreign investment. The dual nature of Albania's investment landscape suggests that investors must undertake comprehensive due diligence and local market analysis.

The identified sectoral opportunities and strategic location offer potential high returns on investment, balanced against the need for caution due to administrative and infrastructural challenges. This study contributes to the literature on FDI in transitional economies, offering a case study of Albania. It highlights the need for ongoing research into the effects of government policies on attracting FDI and the impact of FDI on local economic development.

The study faces several limitations that must be acknowledged. The research is based on available literature and reports, which may not capture all recent developments or unpublished data on Albania's investment climate. While Albania provides a compelling case study, the findings and implications may not be directly applicable to other transitional or emerging economies due to unique historical, cultural, and economic contexts. The study predominantly relies on qualitative analysis and review of secondary sources. A lack of comprehensive quantitative data may limit the ability to draw definitive conclusions about the relationship between FDI and specific economic outcomes in Albania.

Given these implications and limitations, future research directions could include. Comparative analysis of Albania with other transitional economies in the Balkans or similar emerging markets could provide deeper insights into the effectiveness of different strategies to attract FDI. Empirical studies employing quantitative methods could explore the direct impact of FDI on economic growth, employment, and sectoral development in Albania.

Longitudinal studies assessing the impact of specific policy reforms and incentives on attracting FDI would offer valuable feedback for policymakers and investors alike. Qualitative research focusing on the experiences and strategies of foreign firms operating in Albania could provide practical insights into navigating the investment climate and contributing to sustainable economic development. By addressing these areas, future research can build on the findings of this study to enhance our understanding of FDI in Albania and similar transitional economies, informing both policy and practice.

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