



## **Policies for Business in the Mediterranean Countries**

### **ALBANIA**



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## 1 Albanian Business Environment

As the transition in central and eastern Europe enters its second decade, policy-makers and analysts in the region increasingly recognise the importance of a good “investment climate” as the basis for sustainable economic growth and improvements in living standards.

Albania’s economic performance during the 1990s has been something of a roller-coaster. After a large output collapse in 1991-92, the country enjoyed strong growth between 1993 and 1996. In 1997, however, the country entered a period of extreme social and political instability following the collapse of a number of fraudulent pyramid schemes, and real output dramatically fell<sup>1</sup>.

**Table 1:** Main economic trends, 1998-2003

	1998	1999	2000	2001	2002	2003
<b>Real GDP growth (%)</b>	12,7	10,1	7,3	7,6	4,7	6
<b>Inflation rate (%)</b>	20,9	0,4	0	3,1	5,2	2,3
<b>Unemployment rate</b>	17,8	18	17,1	13,5	15,8	14,9
<b>Trade Balance (% of GDP)</b>	-22,8	-19,3	-22,3	-24,2	-23,9	-22,8
<b>External debt (% of GDP)</b>	31,8	29,1	31,8	28,2	24,4	23,9
Note: 2003 is estimated						

Source: European Commission, “The Western Balkans in Transition”, Occasional Papers n°5, 2004

The legacy of the 1997 crisis is still being felt throughout the Albanian economy. Nevertheless, the economy has been growing strongly since then,

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<sup>1</sup> Muent H. - Pissarides F. - Sanfey P. “Taxes, competition and finance for Albanian Enterprises: evidence from a field study”. EBRD, Working paper n° 54, 2000

reflecting improvements in all sectors, especially construction, trade and services. Real GDP growth reached 12.7% in 1998 and it was estimated to be around 6% in 2003. Inflation was kept under control, reaching 2.3% last year. Moreover, measures have been introduced to control government expenditure and enhance revenue collection<sup>2</sup>. By the middle of 1999 therefore, Albanian enterprises were facing a relatively stable macroeconomic environment. In *Table 1* we can see the main economic indicators for the period 1998-2003.

To a good macroeconomic environment we should add also a favourable legislative environment especially for foreign investors. After 1990, laws and provisions allowing private ownership, private activity, competition, bankruptcy, foreign investments, protection of the consumer, privatization of enterprises, concessions for them and other elements which serve as a regulator in the free market economy have been approved in Albania. This has made the role of the private sector strongly felt in the country's economy; it ensured about 80% of the entire gross domestic production, and created jobs for about 80% of the total number of the employed on national level. During the 1997-2000 period almost 500 small and medium state enterprises were privatized. This is also proved by the growth of imports of machinery and equipment, technological lines, etc., which was also accompanied by the creation of new jobs. Now it is the turn for the privatization of strategic sectors of the country's economy. This moment, coinciding with the Stability Pact for the Balkans<sup>3</sup>, supports foreign and local investors investing in sectors such as oil and gas, mines, energy, water resources, transport and telecommunication, baking systems and others.

**Table 2:** Hiring and Firing Index, 2003

<b>Indicator</b>	<b>Albania</b>	<b>Regional average</b>	<b>OECD average</b>
Flexibility of hiring	33	52	49
Flexibility of firing	15	28	38

note: Each index assigns values between 0 and 100, with higher values representing more rigid regulations.

Source: World Bank

Labour market conditions seem to be extremely favourable for investors. As a matter of fact, wages are low, 14820 leks on average per month (around 112

<sup>2</sup> European Commission data

<sup>3</sup> Signed in June 1999 among countries from the Balkans and major donor countries and international organizations aimed at achieving stability and economic development through financing regional projects.

euro)<sup>4</sup>, the working week is composed of 48 hours and labour regulations are flexible if compared with the regional average or with the OECD average<sup>5</sup>. (see Table 2).

Special attention in Albania is given to the protection of foreign investments, as the role and the contribution of them in the Albanian economy is unquestionable. Hence either financial and other incentives are in place for foreigners. The attraction of foreign direct investments has been and remains a priority of the government's economic reform. Related to this, the government is working on to finalize the privatization process in the strategic sectors; to improve further the infrastructure especially in road sector, electricity sector, telecommunication, etc.; to increase the level of public security; to deepen the integration and cooperation process not only within the region; to increase the resources of domestic financing and also to obtain grants and concession and quasi concession loans which will take place during 2003-2005. The *Agency for Foreign Investment Promotion* (ANIH) was recently created in order to promote FDI, especially in green-field or privatization-related and infrastructure projects; to provide services for the investors, investment generation and corporate development support; and it is also involved in an investment policy advocacy role with concrete propositions for improving the legislation in this field. Moreover, a number of guarantees and protections are set up from a Law dated 1994 on *Foreign Investments*. According to this Law, all foreigners, either physical or legal persons, who intend to invest in Albania have no need to ask for permission or authorization, and they shall not be expropriated or nationalized or be subject to any other equivalent measure. The foreign investor enjoys the right to transfer all funds in currency and in kind related to his investment out of the Republic of Albania. The investor enjoys legal protection of his rights related to an investment made in Albania. Such protection is guaranteed for any dispute that arises between a foreign investor and an Albanian party. It is up to the disputing parties to define the procedures for the resolution of the dispute through arbitration. In the event of the failure of such provision, the foreign investor has the right to submit the matter to an Albanian court or to an Arbitration Court in Tirana. Furthermore, in the event of a dispute involving discrimination, transfer of assets, or indirect expropriation of a foreign investment by the Albanian Government, the investor may submit the dispute to the International Centre for the Settlement of Investment Disputes (ICSID) <sup>6</sup>. To provide security and protection against losses arising from political risks (thereby providing confidence to potential exporters and investors in Albania), the International development Association (the World Bank) has approved a credit of 10 million USD to the Albanian

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<sup>4</sup> INSTAT data

<sup>5</sup> World Bank data

<sup>6</sup> ICE, "Albania - Guida agli Investimenti", 2001

Government under its Private Sector Recovery Project to support a Political Risks Guarantee Facility, to be administered by the Albanian Guarantee Agency (AGA), a statutory corporation owned by the Government of Albania. A number of bilateral agreements were also signed by the Albanian Government on the promotion and protection of reciprocal investments and on the avoidance of double taxation as an instrument for the promotion of foreign investments and co-operation.

Finally, businesses in Albania also receive an important financial support from the international community, thanks to Albanian participation in different International Organizations and various multi-bilateral agreements. These financial incentives usually take the form of guarantees, like those offered by the Multilateral Investment Guarantee Agency of the World Bank (MIGA) and the European Investment Bank (EIB), or grants, loans and soft-loans, like those of the European Bank for Reconstruction and Development (EBRD), World Bank (IBRD, IFC), EIB, European Investment Fund (EIF), etc., that finance between 25 and 50% of the total project cost. Moreover, there is an EU programme, the JOP Phare area, that gives support to the internationalization of SMEs and is structured in 4 facilities providing essentially grants. The Albanian Reconstruction Equity Fund (AREF), of the EBRD, is a venture capital fund that provides support to private investments in the productive and service sector. Other sources of credit and assistance could be the SIMEST and Mediocredito Centrale, for Italian firms, or the Albanian American Enterprise Fund (AAEF)<sup>7</sup>.

**Table 3: FDI Inflows 1997-2001 (in millions of dollars)**

Host region/economy	1997	1998	1999	2000	2001
<b>Albania</b>	<b>48</b>	<b>45</b>	<b>41</b>	<b>143</b>	<b>181</b>
Bosnia and Herzegovina	1	55	149	131	164
Bulgaria	505	537	819	1002	689
Croatia	551	1014	1635	1127	1442
Slovenia	375	248	181	176	442
TFYR Macedonia	16	118	32	178	530
Yugoslavia	740	113	112	25	165
<b>Balkans</b>	<b>2236</b>	<b>2130</b>	<b>2969</b>	<b>2782</b>	<b>3613</b>
<b>Average</b>	<b>319,4</b>	<b>304,3</b>	<b>424,1</b>	<b>397,4</b>	<b>516,1</b>

Source: UNCTAD, World Investment Report 2002

<sup>7</sup> See note 6

Nevertheless, if we give a look to the FDI inflows we may notice that FDIs in Albania are quite low compared with those of other countries in the region. (see Table 3).

In the following part I will try to show the main obstacles faced by businesses that want to invest in Albania and, as a consequence, why a stable political and economic situation doesn't pave the way for a considerable growth in FDI inflows.

An EBRD study<sup>8</sup> measured the relative importance of the main constraints faced by the enterprises surveyed, concluding that the main constraint is competition from companies in the grey economy. Savings on registration and licensing costs and tax evasion give a substantial cost advantage to small enterprises, whereas the advantage of being officially registered in a country at such a low level of development does not appear to be particularly strong. The WB estimated that the output of the informal economy is around 34.1% of the GNI against an average of 16.78% in the OECD countries.

Competition from the grey economy is followed at a distance by poor access to bank loans, by the tax burden and by bureaucratic procedures<sup>9</sup>.

Concerning the tax burden, even if the effect of fiscal incentives in attracting investments is not clear, most countries use tax policies to attract certain types of investments. From the previous analysis for example some strategic guidelines of the Albanian Government emerge. For instance, there is a series of fiscal incentives directed at fostering SMEs development, with the introduction of a Small Business Tax particularly favourable for businesses with low revenues; or to speed up the development of "sensible" sectors, such as agriculture, tourism or finance (e.g. with the provision of VAT exemption, tax holidays, etc.); and, finally, to promote productive investments (with the provision of tax credits).

A few comments on the overall picture of the Albanian tax system arise. First, even if the corporate income tax rate seems to be quite low at 25%, in relation with the world average rate (around 35%), it is not the most attractive in the Balkan region where almost all the countries have undertaken tax cutting policies, such as the Serbian government, which has a CIT rate of 19%. Indeed, the program of the actual government includes a strategy for cutting the tax burden. Nevertheless, regional competition on fiscal issues, aimed at attracting FDIs, could end-up with a bidding war, favouring multinationals at the expense of the state and the welfare of its citizens. Hence, it is important for the Balkan countries to reach an agreement aimed at harmonizing their tax policies. Secondly, an issue that should also be taken into consideration before defining any future fiscal policy is that of the right mix of taxation tools,

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<sup>8</sup> Muent H., Pissarides F., Sanfey P. "Taxes, competition and finance for Albanian enterprises: evidence from a field study". EBRD Working Paper n°54, 2000

<sup>9</sup> See note 8

because instruments for promoting investments also mean different effects. For example, tax allowances or credits have a greater impact on new businesses and could also be targeted to few productive of critical sectors, rather than a reduction of the CIT rate that favours every firm in every sector in the same way. At the same time, tax holidays benefit primarily short-term investments and tend to reward the founding of a company rather than investment in existing companies.

Concerning the administrative barriers, I will focus on those in the next paragraph.

In practical terms, along with supporting new business initiatives, the Government has to take measures to *remove existing constraints* to firm creation and growth. The Albanian Government is well aware of these needs and in its programme the next steps to undertake in order to encourage the private business development deserve special attention. According to this programme, issues such as the existence of dishonest competition, subjective administrative practices, non-guaranteed ownership rights, administrative barriers have all instilled a lack of entrepreneurship trust against institutions despite them being administrative or legal. This situation should be put to an end to it soon<sup>10</sup>.

## 2 Removing Administrative barriers

Another aspect in fulfilling the objective of encouraging the development of entrepreneurship is the maximal simplification and elimination of unnecessary procedures in order to facilitate the registration and functioning processes of economic entities. Just to have an idea of the weight of the bureaucracy in Albania it's possible to have a look at *Table 4* which presents some indicators for the starting-up of a business, compared to the regional and OECD average. Experience in many countries suggests that simplifying the investment process and eliminating scope for discretion also represents an useful tool in the battle against corruption.

**Table 4:** Starting a Business, 2004

Indicator	Albania	Regional Average	OECD average
N° of procedures	11	10	6
Duration (days)	47	40	25
Cost (% GNI per-capita)	32,2	16,1	8,4

Source: World Bank

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<sup>10</sup> Albanian Council of Ministers web-site



Administrative procedures exist in all countries. There many reasons for the presence of these procedures. Authorities have generally advanced arguments such as security, protection of the environment, health protection, and quality control. The economic literature has justified government intervention in the “public interest theory of regulation” developed by Pigou (1939). In short, government regulation reduces or eliminates market failures, therefore raising global public utility. Nevertheless, excessive regulation, can lead to substantial delays and costs to firms that may decide to locate elsewhere or operate in the informal sector. The lost revenues can lead to a sub-optimal equilibrium and lower public utility.

Removing administrative barriers to investment is a need that has been increasingly recognized in Albania, though the situation faced in the country is not unique. In almost all transition economies, removing administrative barriers has become necessary once the legal constraints to private investment have been addressed. In particular, countries with a history of government intervention and direction in economic decisions typically have complex and overlapping administrative controls beyond those easily identified as obvious constraints to investments.

To solve bureaucratic problems linked to the regulatory system, a number of reform-minded governments developed a method in the mid-1990s, known as the “study of administrative barriers”. Since then its use has spread rapidly among the countries of Africa, the Middle East, Latin America, and Eastern Europe. Almost all governments in the region of South East Europe had either completed or had such a study underway by 2002<sup>11</sup>. Although the content and level of effort may vary from country to country, a “study of administrative barriers” typically includes a thorough examination of all the steps an investor has to go through in order to start up a new business, plus several of the routine interactions between a business and government agencies required during the course of ongoing business operation. This means: *Start-up procedures*, such as registration procedures, licenses, etc.; *locating procedures*, such as land registration, site development approvals, building permits, etc.; *operating procedures*, like tax administration, product certification, labour regulations, government inspections, etc.

Such a study (a 500-company survey) was also carried out in Albania by the Foreign Investment Advisory Service (FIAS) on behalf of the Albanian Government that recognized the importance of improving the business environment as critical element in the national strategy of promoting investment, stimulating growth and reducing poverty. Three specific areas of administrative barriers to investments in Albania stand out as most

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<sup>11</sup> Foreign Investment Advisory Service( FIAS). “Albania. Removing administrative barriers to investment: a critical component of the National Development Strategy”. 2003

problematic, according to the results of the survey: customs procedures, tax administration, and land and construction permits.

*Customs procedures*<sup>12</sup> received some of the highest levels of complaints in the company survey. Firms are dissatisfied with the time and complexity involved in import clearance, invoice valuation, and dispute settlement. Export procedures were also the subject of serious complaints. Moreover, the survey indicates widespread problems of petty corruption in customs.

The average time of 5.3 days for each import clearance is too long for investors, and it certainly compares unfavourably with many other countries in the region. One reason for this prolonged process is the heavier burden of paperwork required. The mission observed about 20 supporting documents to be required at goods declaration for a commercial consignment. Other documents required, such as bills of lading or other transport documents, serve no useful purpose to customs. In fact, an original bill of lading is a legal document of title to the goods, to be used by the importer to claim the goods from the shipping company, to ensure that the right person is taking delivery of the goods. However, this is not the responsibility of the custom administration whose concern is to ensure that the correct duty and tax are paid before the goods are released.

Another factor further slowing down the import clearance process is VAT calculation. The national VAT law requires that the VAT value should be based on the customs value (CIF) plus import duty plus all the post landing expenses. This requires the customs administration to add the post landing expenses before calculating the VAT payable on imports, which complicates the documentation involved in import clearance. Again, this practice is not consistent with general international rules, under which the post landing expenses may not be added before import duty is calculated.

Another major concern of importers relates to the administration and application of the customs valuation system that allows too much room for arbitrariness and this fails to serve the original purposes of the valuation system. On the contrary, it tends to punish law-abiding importers and encourage illicit practices.

*Tax administration*<sup>13</sup> represents another crucial area of reform in Albania. The system today does not meet the equity, transparency and predictability criteria of a well functioning tax system. It contains significant opportunities for petty corruption, which further damages the accountability and credibility of the system. For instance, inconsistent treatment among different taxpayers could

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<sup>12</sup> Foreign Investment Advisory Service( FIAS). "Albania. Removing administrative barriers to investment: a critical component of the National Development Strategy". 2003

<sup>13</sup> See note 12

be noticed. Large businesses in general bear a disproportionate burden of taxation as compared to small businesses and individuals.

Another issue is the conduct of audits. The level of discretion applying at the local level to impose penalties, the high level of penalties and the discretion to freeze bank accounts, provides leverage for auditors to extract additional tax from already compliant taxpayers or to pressure taxpayers into making “unofficial payments”.

Moreover, the profits tax (applicable to businesses with a turnover of over 8 million lek) is levied prospectively on a monthly basis. For this purpose, a new business will be required to estimate its profit for the following 12 months. Businesses have complained that it has not been acceptable in practice to quote ‘nil’ for the first year profit, even though it is not unusual for a business to make a loss in its first year of trading. Businesses further complain about the basis for profits tax, which is usually calculated by reference to the profits of a business in the income year before the last (for the initial 4 monthly payments). Businesses point out that this method of calculation does not provide scope to factor in economic changes and other changes to the business cycle.

Finally, the registration and re-registration process for small business in particular is extremely complex.

The rates and methods of tax collections, particularly the pre-payment of profit tax imposed on the start-ups, do not encourage new business entries and may, in reality, encourage the expansion of “informal” businesses.

Investment procedures related to *land and construction*<sup>14</sup> are another major area of concern. The complaints are about delays, unpredictability, and high cost related to the process of obtaining business permits. In particular, the high cost is associated with “unofficial payments”. For instance, 87% of the average cost for registering titles in the land office/cadastral is attributable to “gifts, bribes and unofficial payments”. The problem, however, goes beyond the time and money investors have to spend in registering land titles and obtaining construction permits. Further discussions with groups of investors, real estate agencies and relevant government authorities revealed a shared concern over broader issues of land property and construction rights, characterized by numerous land tenure disputes, illegal occupancy and chaotic construction activity.

Today land transactions take place predominantly in the market place, with little government intervention. However, weak and often conflicting property rights have seriously hampered these private transactions. They are the result of errors and inconsistencies arising from the multiple privatization and restitution programs, as well as from chaotic construction activity. While the

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<sup>14</sup> Foreign Investment Advisory Service (FIAS). “Albania. Removing administrative barriers to investment: a critical component of the National Development Strategy”. 2003

problem is spread across the country, it has been particularly acutely felt in the urban areas where the commercial demand for land is high. Moreover, there is a total lack of cooperation between the key agencies responsible. The public utilities, including electricity, telephone (fixed lines), water and sewage, remain state owned monopolies at the national level and they have little communication with municipal level urban planning departments. Decisions made by the various parties often ignore each other's needs and requirements, and lead to conflicts on the construction site.

Going back to the analysis of the main administrative barriers it seems to me important to dedicate a few words to the registration process. Even if the FIAS survey doesn't stress too much on this issue because it's not felt to be one of the main constraints, nevertheless the business registration process is highly bureaucratic and time consuming in nature. Numerous forms and documents are required for the various pre-determined steps towards registration. On average it takes several steps to register a company (from getting a bank account and registering at the court, to licensing at the tax office) and payment of several sets of fees for various licences and permits (e.g. health and safety). A key stage for the registration of a company is the presentation of proof of all these steps and payments to the *District Court in Tirana*, followed by its approval with a court decision, which takes 23 days on average. While registration is open to anyone wanting to establish a company, such registration can take place only at the Tirana District Court. This requires businesses from other areas to travel to Tirana to register their businesses. International best practice suggests that much of the registration process could be accelerated and streamlined. This degree of centralisation neither results in efficient practices nor does away with scope for corruption. However, the fact that all businesses located outside the capital must register in the Tirana District Court, leads to significant delays and costs which are borne by those companies. If the Tirana District Court is to be retained, scope for on-line registration should be urgently prioritised<sup>15</sup>.

### **3 Reform Implications and Conclusions**

These results suggest that actions to help the SME sector can and should be taken by the Albanian authorities, primarily, in reducing the size of the informal economy. Not only this would help improving macroeconomic imbalances (through higher tax revenues) but it would also reduce the importance of an unfair obstacle faced by legitimate businesses. Reforming the judicial system, strengthening the rule of law and public order, fighting corruption and deepening public administration reform remain key challenges

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<sup>15</sup> Albanian Foreign Investment Promotion Agency data

for the government in the medium term. Other important issues include implementation of the new competition law, including the establishment of an independent "Competition Authority", strengthening and increasing transparency of industry regulations, introducing new insurance law, and reinforcing financial regulation and consumer protection. It is also essential to develop stronger capacity to absorb the international assistance and implement public sector projects. Institutional improvements are necessary both to improve efficiency of government operation and to achieve the implementation capacity needed to finalise negotiations on the Stabilisation and Association Agreements with the EU<sup>16</sup>.

Now we can see more in details what should be taken into consideration if we want to define a strategy to reduce administrative barriers.

The FIAS survey itself proposes several recommendations for the future policy. Some of them are "general", which means that are connected to the factors identified to be the main determinants of administrative barriers to investments. The FIAS survey attributes the observed obstacles to a combination of the following factors:

- A systemic lack of implementing regulations and operational guidelines,
- A systemic lack of effective institutional structures,
- Legal and regulatory enforcement is chronically lacking,
- Administration further weakened by a lack of development of the appropriate mindset and skills of officials at all levels<sup>17</sup>.

If these are the causes, something should be noted: an administrative barriers reduction strategy it is not enough by itself, but the solution to the problem lies in a wider approach to the scope of the reform. This finding is in line with the conclusions of a study conducted by the WB and the International Finance Corporation in 2002<sup>18</sup>, aimed at explaining cross-country variations in administrative costs faced by investors. It states that focusing on the bureaucratic, technological, and institutional aspects of the procedures, traditional policy recommendations have suggested eliminating duplicative documents or forms, establishing virtual networks or on-line registration as well as implementing so-called "one-stop shops". These recommendations, although useful, have generally failed to generate the expected results in most developing countries, suggesting that the origin of excessive administrative barriers lies in more fundamental factors. This analysis has shown that rationalizing administrative procedures is a difficult task, because administrative costs reflect more profound characteristics in each country.

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<sup>16</sup> Muent H., Pissarides F., Sanfey P. "Taxes, competition and finance for Albanian enterprises: evidence from a field study". EBRD Working Paper n°54, 2000

<sup>17</sup> Foreign Investment Advisory Service( FIAS). "Albania. Removing administrative barriers to investment: a critical component of the National Development Strategy". 2003

<sup>18</sup> Morisset J., Neso O. "Administrative barriers to foreign investments in developing countries". WB-IFC-FIAS Policy Research Working Paper 2848, 2002

Countries with higher corruption levels, lower quality of governance, lower degrees of financial openness, and lower public wages are more likely to have higher administrative costs. In fact, the level of *corruption* or the lack of good *governance* is expected to influence the administrative costs as bureaucrats and politicians are more likely to capture the extra rents. At the same time, low paid bureaucrats are more likely to capture extra rent by raising administrative costs. As a consequence, administrative reforms must be incorporated in broader reforms. For instance, to eradicate the abovementioned causes, investments in human capital are needed, as well as judicial reform, trade and financial liberalization, anti-corruption measures, institution-building activities, and so on.

The FIAS study presents also more specific suggestions, related to each of the obstacles individuated. It's possible to summarize them in a couple of guidelines to be followed:

- To enforce rules and regulations, following international standards,
- To emulate some international best practices.

Regarding the first point, it suggests, for example, the adoption of the system used by the European Union for custom procedures. This will help reduce the number of documents required and simplifies the overall system. More specifically it proposes implementation of the specific recommendations of the UN/ECE Working Party on the Facilitation of International Trade Procedures. *Standard 3.16* of the Kyoto Convention, for instance, provides guidance on the documents necessary for goods declarations in order to permit the legitimate customs control and ensure compliance with the customs laws.

It's also necessary to establish clear rules and criteria for invoice valuation, and to this purpose, WTO guidelines should be taken into consideration.

Law enforcement is particularly important for the land and construction permits that are strategic for investments. Such investments require an adequate legal and institutional framework providing strong protection for property rights, clear guidance for land use and construction requirements, and equal and predictable treatment when dealing with regulatory agencies at the national and local levels. Zoning plans, building codes, and other necessary construction and environment and safety related regulations are required<sup>19</sup>.

Concerning the second point, the survey explicitly refers to international best practices when it recommend the use of a *risk management approach* to customs control. Risk Management consists of assessing the risks attached to Customs controlled operations, by analyzing all factors that contribute to it. Once such a system is in place, the customs could focus their resources more on the "high risk" categories while the "low risk" consignments could be released without physical examination. This would significantly reduce the delays to imports

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<sup>19</sup> See Foreign Investment Advisory Service( FIAS). "Albania. Removing administrative barriers to investment: a critical component of the National Development Strategy". 2003

and increase the efficiency of resource allocation in customs. Another practice that is being internationally used, especially by developing countries, is that of international inspection companies that provides services of classification, valuation and duty calculation for imports, and some cost-benefit analysis<sup>20</sup>.

A solution that I find really interesting to follow, not mentioned in the FIAS survey, is that adopted successfully by other countries (as Ireland), of *industrial and tourism development parks*. Such industrial parks have become popular because they satisfy several objectives. First, they provide investors with land that has secured ownership titles or lease contracts. Second, they enable concentrated industrial infrastructure development, and provide investors with ready-to-use serviced land. Third, they relieve investors of the bureaucratic burden of seeking site development approvals, since they usually provide 'blanket' construction permits. Nevertheless, developing an industrial zone requires significant investment and expertise. Most developing countries face serious financial and human resource constraints. To overcome these constraints, a solution that Albanian Government could take into consideration is to start with one or a few pilot projects. More industrial zones can be established and developed once these pilot projects demonstrate success.

Finally, a relevant issue that could be seen as an horizontal instrument necessary to speed-up and simplify all the administrative procedures businesses face is that of the "One-stop-shop" system. This tool represents one of the main innovations affecting the relationship between firms and public administrations and it is nowadays being introduced in almost every European country, following the example of the French experience with the *Centres de Formalités des Entreprises*. Its ambitious objective is to facilitate relations between firms and administrations, moving toward a one to one model, by providing a unique public entity responsible for all the administrative steps a firm should undertake. This "window" should provide private firms with all the information (laws, regulations, financial facilities, etc.) and documents needed to start a business, dealing with all the administrations involved in the process. The Albanian Government seems to have understood the strategic importance of such an instrument and it is going to strongly support the creation of a one-stop-shopping service. One has recently been established in the Tirana district. Anyway, to be really effective this service should be provided at local level and spread all over the country and a coordination mechanism should also be established at a national level.

Even the issue of free trade zones to attract foreign investments has been under consideration for some time. Existing law provides authority to establish free trade zones and a special free trade zone commission has been established by the government to identify potential sites. However, no free trade zones or free ports have yet been established.

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<sup>20</sup> See note 19

Before concluding, it should be said that Albanian Government is receiving important support from the international community, especially from the EU, the IMF and the WB.

More precisely, Albanian Government is already working with IMF, World Bank and other donors on the necessary improvements of tax administration, with a view to both encouraging businesses and improving the effectiveness of tax collection. Important steps in reforming the fiscal administration have been taken: the improvement of tax and custom legislation and its adjustment with European standards, continuous institutional strengthening of fiscal system, the build-up of stable fiscal administration and set-up of human capacity, modernization of IT systems, set-up and functioning of independent mechanisms for the of taxpayer appeals, implementation of facilitative administrative procedures that create access for businesses and guarantee transparency and integrity of fiscal administration activity, set-up and strengthening of mechanisms that guarantee reduction of fiscal evasion and help the formalization of economy. During 2003-2005 several planned measures will minimize fiscal evasion: They include implementation of internal auditing, of anticorruption and investigation measures as well as an *a-posteriori* control. Part of the function of creating a friendly business climate is the establishment of consultation with the business for all its fiscal aspects and the signing of several protocol agreements. These projects are going in the right direction and should receive further support.

The Government is also working with the support of the World Bank, European Union and other donors to complete the nationwide restitution program and to speed-up land registration with emphasis on the urban and other commercially attractive areas (such as the coastal areas designated as tourism zones). Ways and means to resolve the numerous land disputes are also being examined.