



# An Enabling Environment for Sustainable Enterprises in Albania

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Office

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## BiznesAlbania

BiznesAlbania (BA) was established on 10 December 2010 as an independent organization of employers and business associations. Having been established due to the increasing need for the private sector to stand together with a unified voice, BiznesAlbania has become the sole organization representing, promoting and safeguarding the rights and interests of employers in Albania. BiznesAlbania provides a forum for consultation and discussion among members on matters of common interest, and seeks for the adoption of principles and best practices through information, legal advice, research, training and other activities.

BiznesAlbania has 24 Business Associations as association members and a number of individual companies as direct members. It represents more than 30.000 employers as part of association members.

BiznesAlbania is recognized nationally, regionally and internationally. In December 2013, BiznesAlbania became a member of the National Council of Labor having also the position of the deputy chairperson of the Council representing the employers' side. BiznesAlbania is a key member of the National Labor Council (NLC). NLC is the highest tripartite social dialogue institution in the country and consists of 27(twenty-seven) members where seven members (Ministers) represent the Government and ten members represent the employers and employees' organizations each. BiznesAlbania has five members of the NLC. BA is also a member of the National Economic Council chaired by the Prime Minister of Albania and in a series of committees and boards that serve the Tripartite Social Dialogue in Albania.

It works closely with the ILO and is a full member of the International Organization of Employers (IOE) since June 2013, partner with Business Europe and DECP (Dutch Employers' Cooperation Program).

BiznesAlbania offers its members a wide range of services including Law Consultation Service, Information Dissemination, VET, Networking, Lobbying/Advocacy, and Research & Publications.

In March 2014, BiznesAlbania in cooperation with the ILO Office in Budapest conducted a strategic planning workshop to review the strategic direction for BiznesAlbania. A key outcome of the workshop was that BiznesAlbania should eventually broaden its range of issues concerning business, therefore becoming eventually a business organization rather than an employers' organization. The mission and vision for the organization has been redrafted to reflect this need.

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### List of acronyms

BA	Business Albania
CIT	Corporate Income Tax
DECP	Dutch Employers' Cooperation Program
EBRD	European Bank for Reconstruction and Development
EESE	Enabling Environment for Sustainable Enterprise
EU	European Union
GCI	Global Competitiveness Index
GDT	General Directorate of Taxation
IC	Investment Council
ILO	International Labor Organization
INSTAT	Institute of Statistics
IOE	International Organization of Employers
ISAC	Inter-Sectorial Strategy Against Corruption
MSWY	Ministry of Social Welfare and Youth
NEC	National Economic Council
NES	National Employment Service
OSCE	Organization for Security and Co-operation in Europe
RCC	Regional Cooperation Council
SME	Small and Medium-sized Enterprises
SNA	Skill Need Analysis
VAT	Value Added Tax
VET	Vocational Education and Training
VTC	Vocational Training Centers
WBI	World Bank Doing Business Index
WEF	World Economic Forum
WGI	Worldwide Governance Indicators

# EXECUTIVE SUMMARY

BiznesAlbania supported by the International Labor Organization (ILO) is committed to foster an enabling environment for sustainable enterprises (ESEE). Key actual areas that are limiting a favorable business environment in Albania were identified and were further investigated for the earlier mentioned purpose. The most important and recognized constraints on enabling the environment for growth and sustainability of Albanian private enterprises are corruption, tax issues, skills and training, informality and informal competition and legal and regulatory framework.

The study “An Enabling Environment for Sustainable Enterprises in Albania” was conducted by IDRA (Institute for Development, Research and Alternatives) following the ILO’s ESEE methodology. It includes a combined methodological approach. BiznesAlbania identified in collaboration with focus groups the key five constraints for employers in Albania. For these five key restrictions, a questionnaire was developed as a basis for interviews with executives of 400 Albanian companies. Along with a detailed assessment of problems recognized, the report also offers recommendations of the respective solutions.

Survey results were then benchmarked against the secondary data. This included research of previously available and reliable data from the World Bank, IMF, World Economic Forum, Heritage Foundation and other institutions. Albania was compared to other countries in the region, which were selected based on common history, geographic proximity, and similarity of size. The selected countries were Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia and Serbia. In addition, Slovenia was chosen as a country that had rapid economic development. Although Slovenia is considered to be a part of the region, it is also a country that is a member of the European Union and which has been included in this report as a success story due to the fact of having a similar size and population with Albania.

A draft of this report was presented to a validation workshop in a meeting with business associations that are members of BiznesAlbania. Their input was included as part of the recommendations of this report and serves as a starting point for the Strategic Policy Framework that follows this document.

Informal competition, tax rates and frequent tax changes, complex and unpredictable legal and regulatory framework, skills mismatch and corruption appear to be the biggest obstacles for Albanian businesses. The anti-informality campaign, which the Government of Albania did in the end of 2015, has given additional importance to informal competition and other issues related to taxation.

Although the tax rates are ranked as a problem in several other reports, firms appear to be more cautious in their answers when asked if their tax rates are too high. On the other hand, tax procedures seem to be considered complicated at every firm’s size or sector, while tax morale decreases for bigger firms, as close to 70% of firms with more than 10 employees fully agree that it is justifiable not to declare all taxes. Another issue remains the fairness of tax officials, at less than 40% of firms somehow agree on that question. The last important issue remains the fact that a large number of firms appear to have problems with the lacking of information about the tax compliance and this problem is more aggravated for the bigger companies. The government must focus more on the tax compliance of the medium size firms. Moreover, the information about the tax compliance should be more available through taxpayer services and more clarity in tax laws and regulations.

Corruption is a key problem in the country, where a strong policy management system in the country comprising sufficient legal framework and necessary bodies, is crippled by poor implementation and a lack of resources. Albania seems to perform worse than the region in this area, although there are some recent improvements. More than 50% of the firms, state that business cannot be conducted without bribes. Moreover, another half of the firms appears to notice that the relations between senior government officials and executives of private sector involve bribes or other contributions. What is needed is more transparency in public sector operations and a well-defined mechanism for complaints and grievances for the citizens and firms to use against the public sector.

More than 65% of the firms admit that they compete against informal competitors, although the figure is much lower for the bigger firms (over 50 employees). The Anti-Informality campaign conducted at the end of 2015 appears to have had good results, as more than 50% of the firms admit that it has had a notable impact on the reduction of the informality. Government can pursue the efforts in a different way in order to have a better impact in all the areas, as the results against informality have had some different results in different sectors and firm sizes.

Inadequately educated workforce is another important problem for businesses in Albania. Other studies have shown the employees' experience and level of qualifications are the main assets to find jobs in Albania. Our survey finds similar results, although with some differences between micro firms and bigger businesses. Difficulties in hiring staff with necessary competencies are presented mostly in the manufacturing sector and by bigger businesses, and those difficulties bring overall a negative impact on the business development. There are several potential barriers that impede firms regarding training and maintaining competent employees, as the high labor turnover, lack of relevant courses and lack of funds for training. The government should conduct more often skills gap analysis, as the last one was only carried out in 2014 and the skill mismatch might be higher between the private sector demands and the unemployed job seekers. Moreover, the National Employment Service through the Vocational Training Centers could do more to include actual workers in their programs of training

Although Albania appears to have a small burden of government regulations, the efficiency of the legal framework in challenging regulations and is usually poor. The government should not strive to add more regulations, before having better results in the efficiency of the legal framework in dealing with existing regulations. The Administrative court and insolvency procedures will remain key issues to be resolved in the future, as stated by some groups of firms.

The report indicates several other issues for business. Although the quality of the Albanian infrastructure may not look particularly bad, the domestic perceptions are troublesome as more of the surveyed enterprises report that investments in infrastructure did not bring strong positive impact on firms' operations.



# RECOMMENDATIONS

The most important problems and constraints that hinder the development of businesses in Albania, as identified in this study can be resolved through a series of complex and correlated efforts by the government. Consultation with social partners, and especially with the representatives of the business community like BiznesAlbania, is essential in assisting the government to get things right and enable a proper business climate.

There are indications that a simplification of the tax administration would encourage businesses to comply with tax requirements. Small businesses in Albania complain about their limited access to information on tax compliance and onerous reporting requirements, which results in many of them operating informally.

Simplifying procedures, making processes available online, reducing multiple requests for information, offering wide forms of tax services and so forth are likely to make a significant difference to tax compliance costs while potentially avoiding adverse effects on small businesses. Tax compliance costs should be reduced substantially. That includes time spent understanding the tax regulations and actually applying them; time spent with authorities on clarifying issues to do with the taxes; and the costs of obtaining advice on the taxes.

Tax administration should use the 'carrot and stick' approach to tax compliance and it is driven by the recognition that revenue bodies should bring balance between their taxpayer services on one side and policing roles. Tax compliance can be improved by blending incentives to full compliance with the traditional penalties for non-compliance. Traditional penalties have been used extensively, without many results, so the government must focus more on the taxpayer service area.

Addressing corruption requires the creation and enforcement of appropriate incentives to reward good practices and transparency and appropriate sanctions to discourage behavior and practices, which threaten ethical behavior in public sector and in businesses.

All public institutions should analyze the areas of their operation, where there is a high potential for corruption and to suggest measures for its prevention. It is therefore necessary to create an environment that will guarantee legislation implementation in terms of protecting the independence and impartiality of institutions in decision making from political and other influences, and increase the accountability in the exercise of competencies.

Stronger liaisons and cooperation between public and private sector are also needed if we want to increase the transparency of public administration work (especially in the areas of public procurement, inspection activities etc.), eliminating political favoritism and influences. The public sector can increase the services offered in cooperation with the private sector, by ensuring that private companies could operate some front line services (for example front office of immovable property register services, etc.,)

The corruption within state institutions should be addressed by rendering transparent and accountable procedures for issuing permissive documents (permits) for business, by fostering the central public administration reform, by implementing and enforcing meritocratic principles in all public institutions, by increasing the wages of competent public servants and by implementing IT tools in the delivery of public services.

The anti-informality actions should focus more on small firms (5 – 9 employees) and on the largest companies, which state that the previous campaign was not very successful. The previous campaign has had less result in the North and South Albania, so the new action plans must take into consideration every part of the country. In order to tackle the informal economy, it is necessary to ensure professional, timely and non-discriminatory actions of public and local administration bodies, especially inspections in terms of uncompromisingly turning illegal entities into the formal economy. After the

large anti-informality campaign at the end of 2015, the solution to this problem lies in the targeted campaign focusing on particular sectors and firm size to whom the general national campaign produced less favorable results.

When it comes to improving the skills and training, the government should continue the reform of the system of vocational education and training and focus on continuous improvement of the quality of adults' education system. There is a great need to increase the cooperation between the education institutions and business sector ensuring transfer of practical knowledge and innovation that will result in increased matching between supply and demand in the labour market and greater business innovation. Vocational Training Centers (VTC) should serve more for the needs of the companies. Business association can participate in the management of the VCT, by being part of their management, or through public-private partnerships.

In order to bridge the gap between supply and demand in the labour market, Albania needs to improve skills gap analysis, skill anticipation system and create enrolling policies accordingly. In promotion of work-based learning as a crucial factor to creating skilled workforce, there is a strong recommendation for improved quality of practical training, as well as for the introduction of tax relief or similar stimulating measures that will ensure active participation of enterprises in the processes. Counseling with the business community should be of a special importance.

To promote workers' training, which is currently at a low level, the government should establish a fund for co-financing of training of employees (together with employers) and advocate for more active participation of employers in education planning and curriculum design.

Improving the quality and transparency of legal and regulatory framework could be achieved by additional genuine consultation with the business community, with a stronger role of the National Economic Council and National Labour Council, timely publication of revised versions of the laws. New laws should be followed soon by their respective bylaws and regulations; otherwise, it can significantly hinder prompt enforcement of certain provisions.

The government should introduce "Think small first" principle at all levels of government and all stages of policy creation. A detailed assessment of the expenses of regulation of micro and small companies should be conducted prior to legislation being proposed. The government should implement policies, regulation and measures to encourage an easier legal framework for small businesses and new businesses, in order to have less troublesome insolvency procedures, tax procedures, etc.

Each ministry or main agency should have an office or department that should deal with the management of the problems presented by companies and business associations. This office can streamline and coordinate all the activities that are needed to solve the problems, by ensuring a comprehensive response about the respective issue.

The government should improve the existing infrastructure for policy implementation that will prohibit the arbitrariness of the executive powers and the inefficiency to challenge the legal framework. Moreover, it should strengthen the capacities for independent and impartial courts and effective judicial review.

# INTRODUCTION

BiznesAlbania (BA) is the most representative employers' organization that is legally empowered to promote and defend the legitimate interests of its members in their relationship with public authorities, trade unions and other legal entities, following this text, referred to as 'BA'. BA is the largest business association made up of 42 members, 29 of which are business associations. It has a quite good sector representation, including associations and individual businesses from the following sectors: farming (organic) and agro processing, industry and light industry, tourism, construction, transport, trade (import and export), and other services (publishers, accountants, engineers, hotel and restaurants, security guards, etc.)

BA is represented in most paramount policy forums in Albania such as the National Labour Council (the tri-partite council comprising employers' organizations, trade unions and government representatives); and all commissions of the National Labor Council, National Economic Council (the highest economic forum chaired by the Prime Minister of Albania), Administrative Council of National Employment Service, National VET Council, National Reconciliation Office (composed of two business representatives, two trade coalescence representatives and chaired by the ministry of Labor representative; it is conducting a procedure similar to arbitration), and all boards of vocational schools in Albania

It is a member of the International Organization of Employers (IOE), partner of ILO, and candidate member of Biz EUROPE and DECP (Dutch Employers' Cooperation Program).

The International Labour Organization in 2007 endorsed a resolution describing the framework for achieving a conducive environment called Enabling Environment for Sustainable Enterprises (hereafter referred to as "EESE"). This is the framework for the ILO's work on enterprise development, which BiznesAlbania has agreed to follow in the future.

Considering its institutional mission, BiznesAlbania decided to utilize the EESE methodology developed by the ILO to assess the environment in which businesses start-up and grow. The methodology aims to avail employers' organizations to assess and amend an enabling environment for the promotion of sustainable enterprises. Categorically, this methodology availed BiznesAlbania to identify constraints in the development of sustainable enterprises and to formulate advocacy and reform proposals that can be acclimated to render dialogue with regimes more efficaciously.

This document represents the result after applying the EESE methodology to the environment in Albania.

# Methodology

Research conducted for this assessment followed ILO’s EESE methodology. Three focus group discussions were organized by BiznesAlbania, in order to identify and further narrow down key obstacles and quandaries of businesses in Albania. Focus group participants were business owners, or top managerial staff, additionally members of sundry business organizations operating in the country.

After the discussions, five key constraints were identified and a questionnaire was developed (through ILO “Enabling Environment for Sustainable Enterprises” (EESE) Toolkit) with a focus on these pillars or problematic dimensions. This questionnaire was utilized during the next phase of the 404 face-to-face interviews with business representatives (owners or decision makers) on a national representative scale, stratified by location (Tirana, Central, North and South) and business size (number of employees). INSTAT business register of 2014 was deemed most suitable in defining the sampling frame, whereas the GDT (General Directorate of Taxation) registry of tax filings was acclimated to select the interlocking quotas. Fieldwork for this project was conducted during October and up to December of 2016.

**Table 1. Sample Distribution according to regions**

Region	Interviews	Percent
South	92	23%
North	32	8%
Central	46	11%
Tirana	234	58%
<b>TOTAL</b>	<b>404</b>	<b>100%</b>

**Table 2. Sample Distribution according to business size**

Business Size	Interviews	Percent
Micro (1-4)	237	59%
Small (5-9)	69	17%
Medium (10-49)	61	15%
Large (50+)	37	9%
<b>TOTAL</b>	<b>404</b>	<b>100</b>

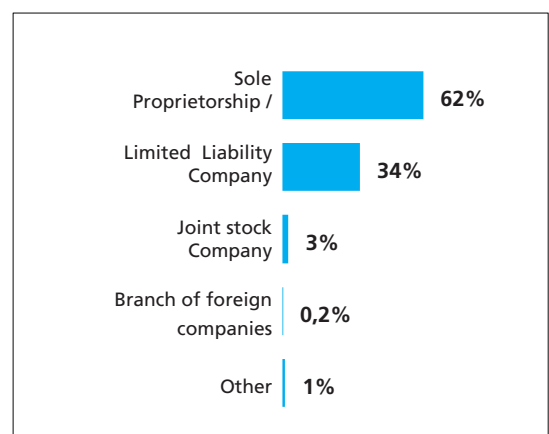
Secondary data desk research was also used in this assessment, through the analysis of existing documents and reports on Albania by relevant international and national institutions and agencies. For the sake of monitoring the progress/regress in particular areas, all data are shown chronologically for different years, in graphs and tables in each chapter. Countries used for comparative analysis are Serbia, Macedonia FRY, Kosovo, Montenegro and Bosnia & Herzegovina. They were chosen based on similar development levels, regional proximity and similarities in size. Slovenia was added as the EU country with a good development track, in order to be considered as a benchmark for the countries in the region, being also in a close regional proximity and similar in size.

## Business profile of the survey

Business size is one of the most important elements used to break down data in our analysis. 59% of our sample are micro firms (up to 4 employees), but even the other firm sizes are very important, as in many cases the size of the business influences a lot in its business environment aspects, and their respective opinions.

Over 62% of interviewing companies were registered as a Sole Proprietorship / Physical Person status. About 34% were Limited Liability Companies (sh.p.k) and the rest fell into the categories of either Joint Stock Companies (sh.a) or Branch of Foreign Companies.

**Figure 1. Legal status**



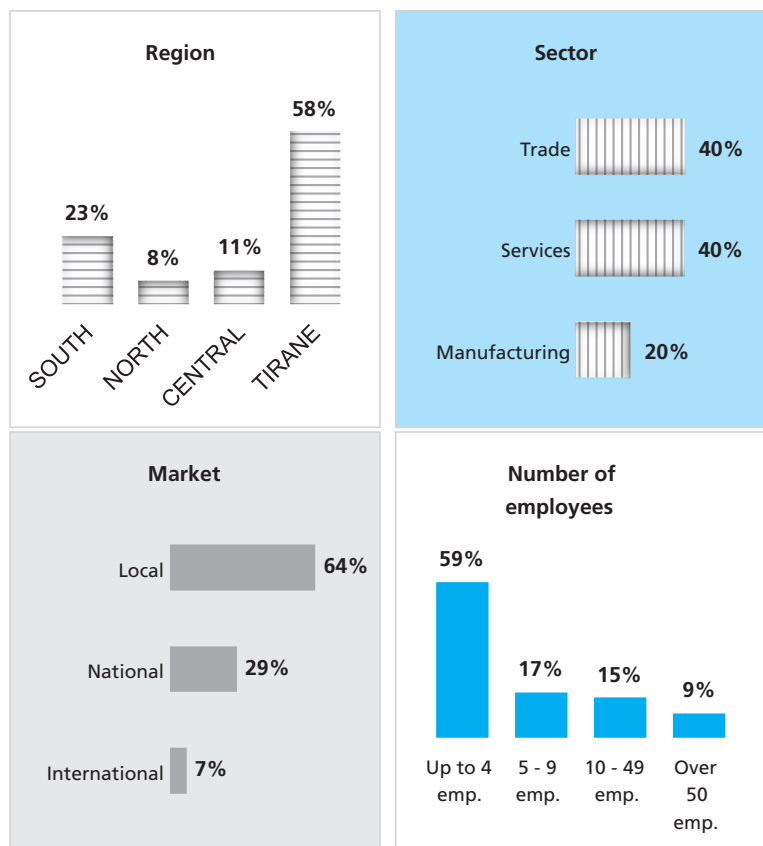
In terms of company position of respondents, about 63% of the interviews were conducted by the company owners or co-owners, 20% with company financial representatives and 14% of interviews with the company directors or managers.

Over 64% of the interviewed companies operate on Local Markets (within City/Town area) with only 29% operating nationally and 7% internationally.

The findings suggest that the respondents were indeed in positions of high decision-making in the companies they represented and their views, opinions and observations are projected on behalf of their company.

Intensity of the primary business activity division of interviewed companies mainly falls to Trade (40%) and Services (40%), meanwhile fewer companies were at Manufacturing (20%) sector.

**Figure 2. Business profile**



## Overview of the report

Our analysis starts with a general overview of the Business Climate in Albania and the main problems found in our survey according to sectors, firms size and regions. Then, it comprises the 5 main problems found in the focus groups and in the survey, which are: tax rates and tax administration, corruption, informality and informal competition, skills and training, and the last one is legal and regulatory framework. At the end there are some other relevant issues for business collected and presented in the last chapter, which include business-government dialogue, infrastructure, trust in the government, and business organisations membership.

# 1. Business Climate in Albania

## 1.1. Actual situation of doing business

Albania made big strides in improving its business environment in key areas of business regulations, according to the Doing Business 2017: Equal Opportunity for all, the World Bank Group's annual report on the ease of doing business. Albania moved up 32 positions, ranking 58 compared to a ranking of 90 in the previous year. The improvements in the business regulatory environment are linked to various reforms that government of Albania initiated.

During 2015/16 Albania made substantive improvements to its local regulatory framework in three main areas. It made dealing with construction permits easier by lifting the moratorium on and re-introducing the issuance of building permits, and by streamlining the process of receiving the final inspection and compliance certificate. Getting electricity was made easier by speeding up the process for obtaining a new connection. Finally, Albania made paying taxes easier by introducing an online system for filing and paying taxes.

In the distance to frontier measure, Albania's score went up from 61.30 in Doing Business 2016 to 68.90 in Doing Business 2017 thereby improving its business regulations as captured by the Doing Business.

In terms of "global competitiveness" as indicated by World Economic Forum Albania also made improvements. The Global Competitiveness Index consists of three main sub-indexes (basic requirements, efficiency enhancers and innovation and sophistication factors) which split in further 12 pillars. Albania did improve substantially in the Global Competitiveness Index (GCI) rating, getting to the 80th spot in 2016, after some years in lower rankings. Albania ranks 74th in the basic requirements sub index, while having a worse situation in the innovation sub index at 106th place.

GCI uses the World Economic Forum's Executive Opinion Survey to ask about the five most problematic factors for doing business. Informality and legal framework are not included in the list, and as such, business executives in Albania have ranked Corruption, Tax rates and Inadequately educated workforce as the most problematic problems of 2016.

Figure 3. Most problematic factors for doing business in Albania by GCI

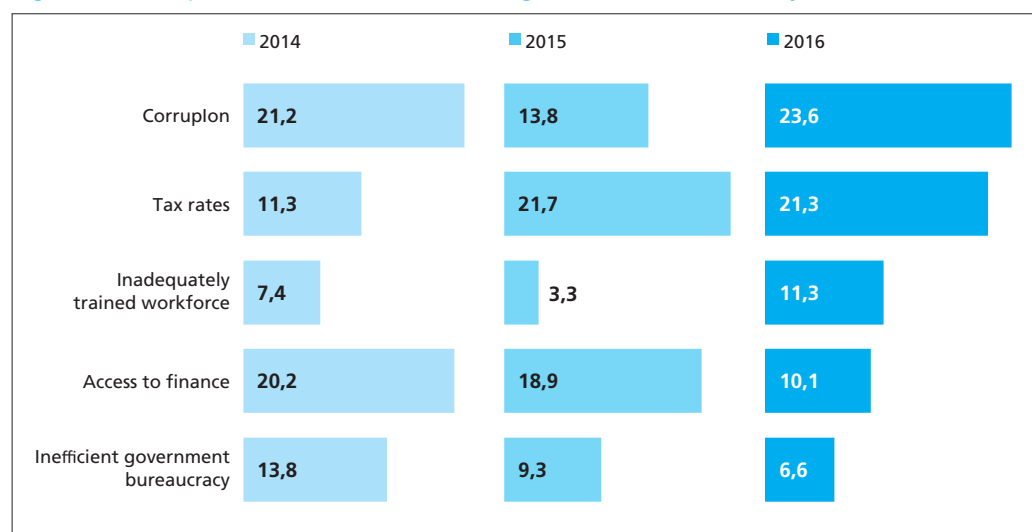
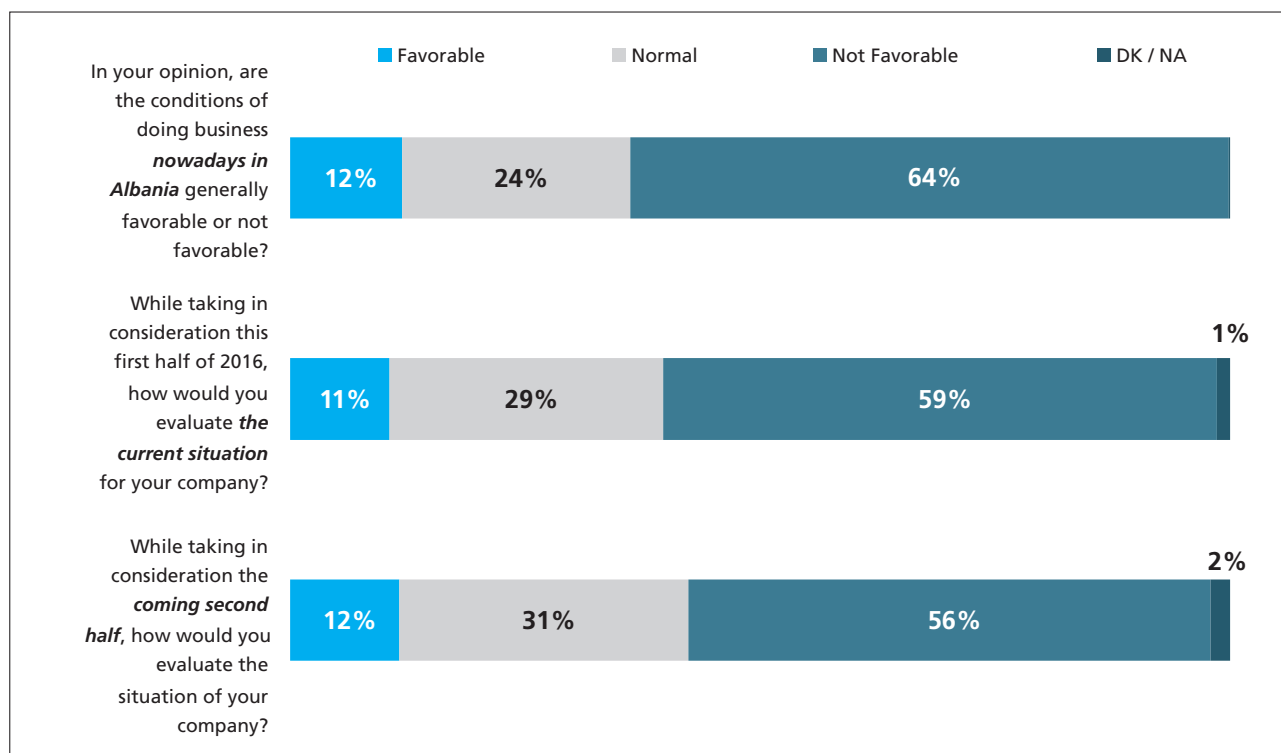


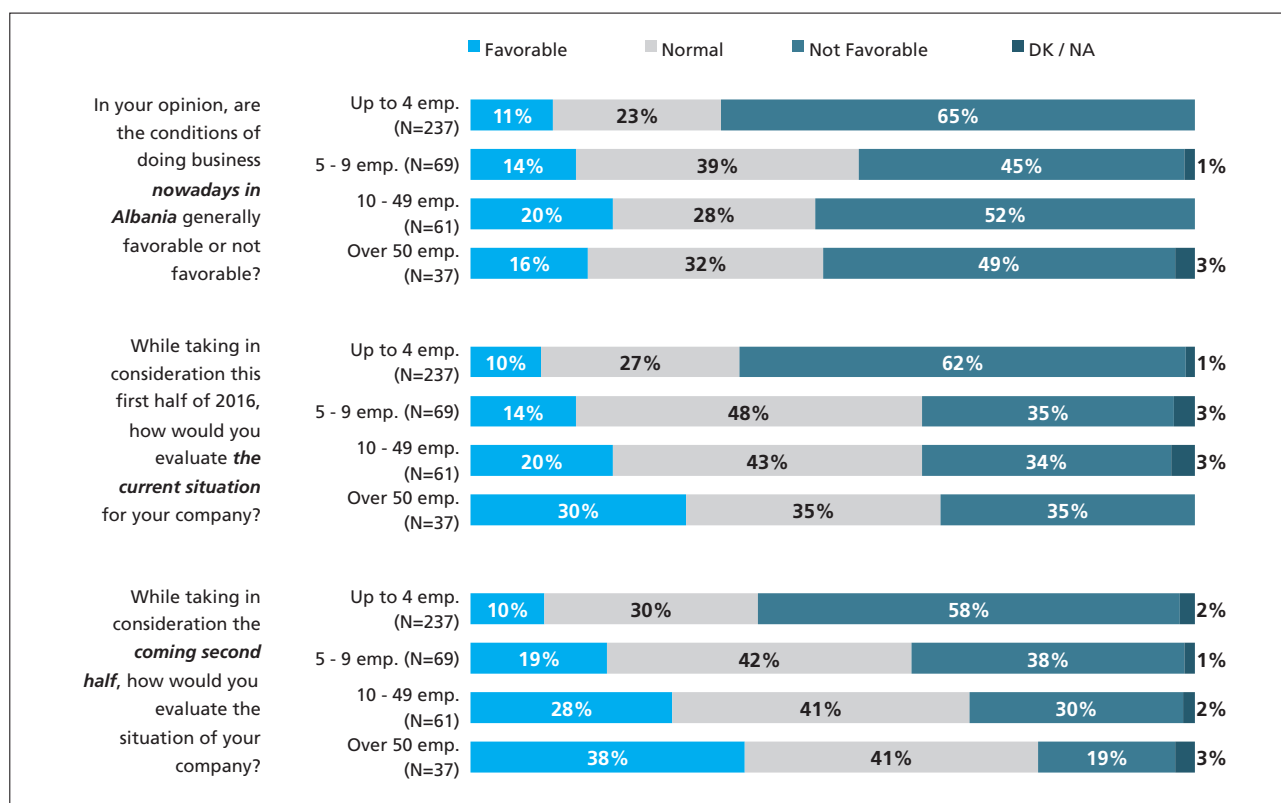
Figure 4. How would you evaluate the conditions of doing business...? Overall results (weighted)



The EESE Survey conducted by DRA on behalf of BiznesAlbania casts light on the perceptions about the conditions of doing business in Albania regarding three main aspects:

- conditions of doing business nowadays,
- evaluating the current situation and
- the next half of the year.

Figure 5. How would you evaluate the conditions of doing business... by number of employees?



The results show that the major part of businesses in Albania have not a favorable perception about the conditions of doing business nowadays or the current situation. Same picture we get when considering the coming second half of the year. In overall, those businesses, which declared that the conditions of doing business in Albania is favorable, is a small portion of them (less than 12%). A bit more than 1 in 4 enterprises evaluate as “normal” the conditions of doing business in Albania.

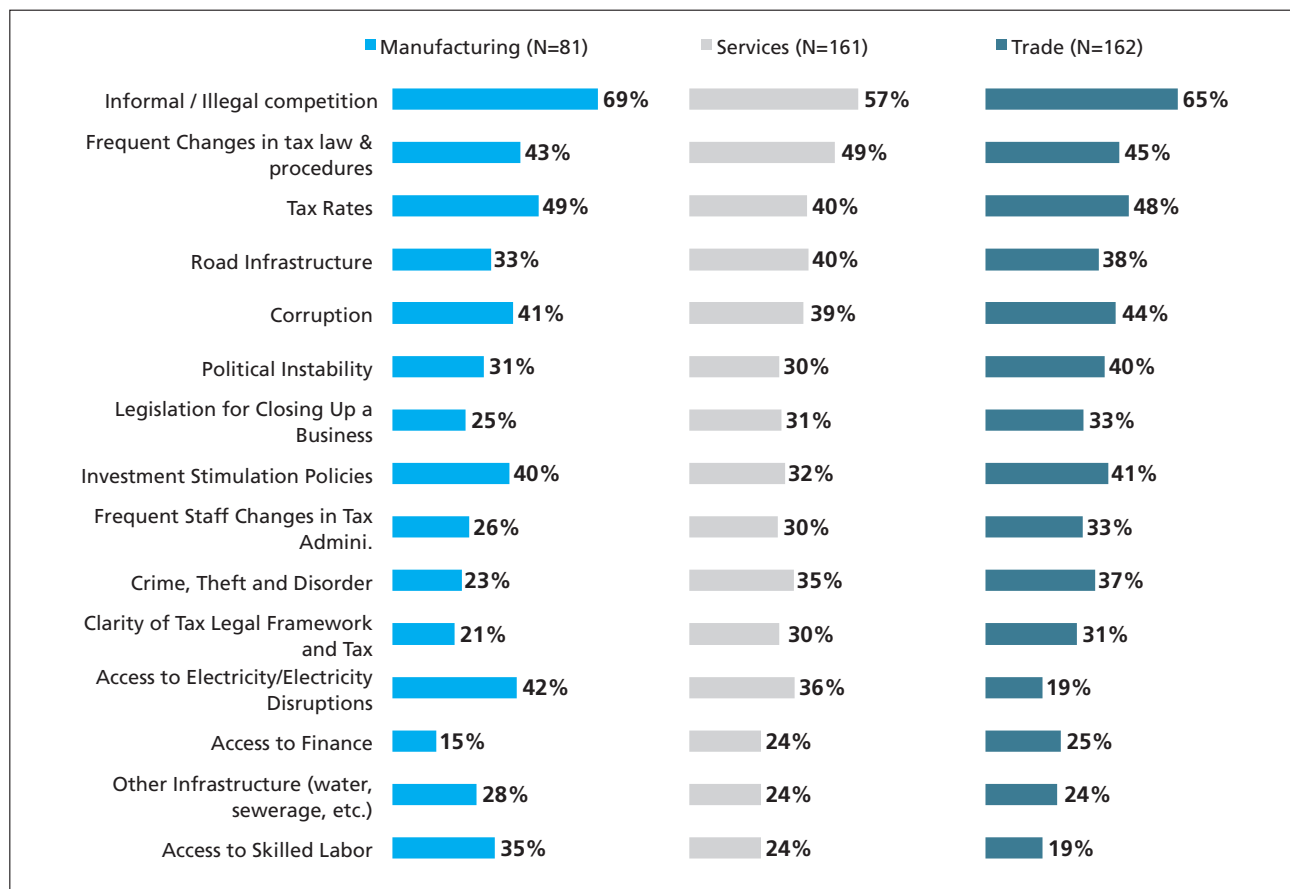
When disaggregated according to the business size (number of employees), the results of the survey show that small businesses, those which operate with no more than 4 employees, have the most negative perception about the conditions of doing business in Albania compared with other business categories.

It is worth mentioning, however, that big businesses that operate with more than 50 employees reflect a more positive perception when evaluating the conditions of doing business in the coming second half of the year (38% favorable vs. 19% not favorable). The opinion of bigger firms reflects more the latest results of doing Business, the Global Competitiveness Index, that appear to be more optimistic against the previous years.

## 1.2. Problems by sectors

Problems, broken down by sectors show that firms have very similar concerns in general and few problems are distinguished in particular sectors. Informal economy/illegal competition is the biggest problem for all three sectors analyzed. Access to Electricity appears to be a great problem (48%) for the manufacturing sector, as it is access to skilled labor (35%). On the other side, Access to finance (15%) and Clarity for tax laws and procedures (21%) rank low against the other sectors. The figure shows only those who evaluated ‘major problems’ and ‘severe problems’.

**Figure 6. Please, evaluate to what extent each of them poses a problem FOR YOUR BUSINESS. (by sector, shown only those who evaluate as ‘major’ and ‘severe problem’)**



Services sector firms look as they bear the burden of Frequent changes in tax laws and procedures (49%) and the lacking of clarity for the tax laws and procedures. Furthermore, the road infrastructure (40%) scores high, posing a major problem for service sector.



Trade sector firms have specific high concerns in some aspects. Corruption (44%), Political instability (40%) and Investment stimulation policies (41%) score high against the other sectors.

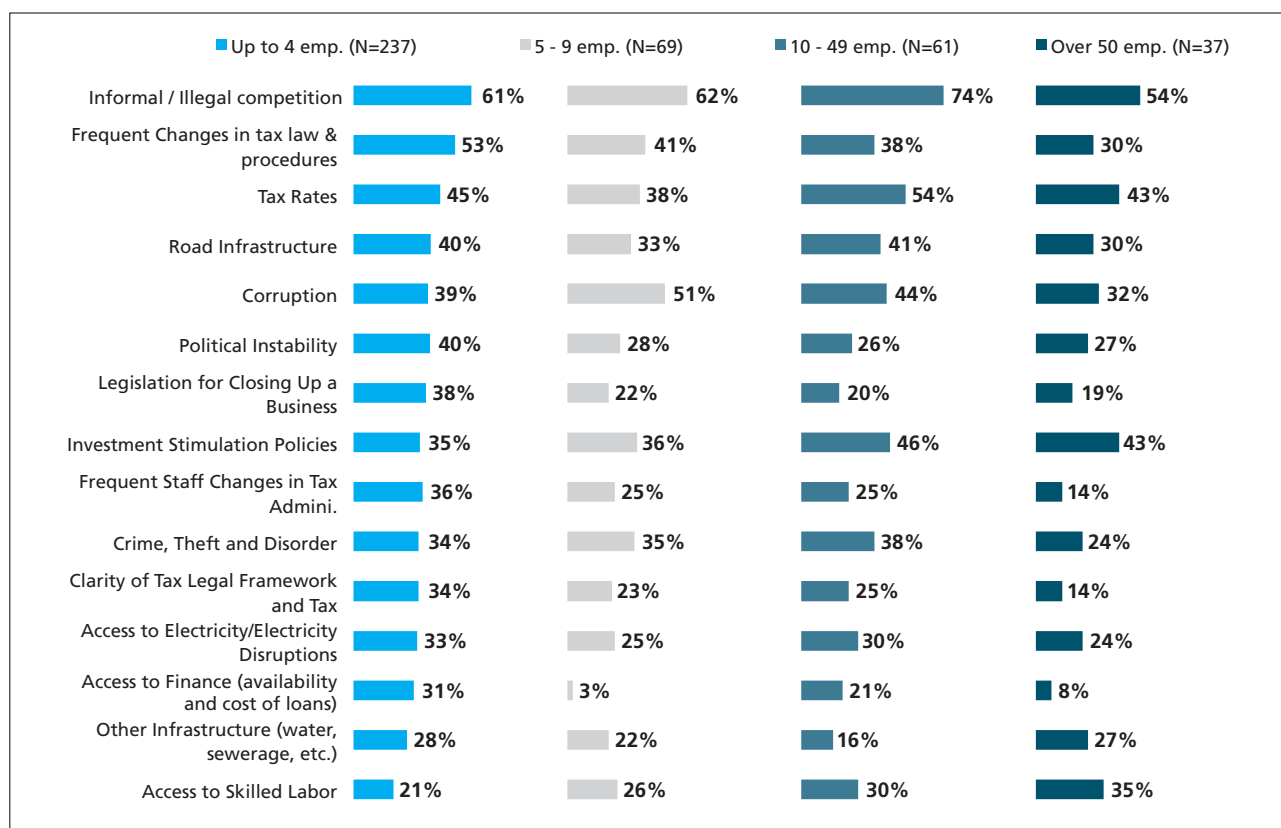
### 1.3. Problems by firms size

Micro size firms are inclined to consider almost everything as a problem, while bigger firms are more specific in showing their concern. Micro size firms consider tax issues as a multifaceted problem by micro size firms, as they appear as a problem for Frequent changes in tax laws (53%), Tax rates (45%), Staff changes in tax administration (36%) and Clarity of tax laws and procedures (34%). The figure shows only those who evaluated 'major' and 'severe problems'.

Small businesses (5 – 9 employees) see more problems in Informal competition (62%), Corruption (51%), and Crime, theft and disorder (35%). Access to finance is not considered a big problem, as probably the small businesses of this group still rely on their own funds and do not expect many other sources.

Moreover, all the issues cognate to the tax system are less problematic against the micro size businesses. That is expounded by the fact that small businesses were already used to the tax system and the whole informality campaign was not as arduous to this group as for the micro size firms

**Figure 7. Please, evaluate to what extent each of them poses a problem FOR YOUR BUSINESS. (by firm size, shown only those who evaluate as 'major' and 'severe problem')**



Medium size companies (10 – 49 employees) have very similar concerns with the big firms. They are very concerned about the informal competition (74%) and the lacking of investment promoting policies (46%). As the smaller firms do get some favors in terms of tax regime, the medium size companies consider tax rates, as a problem is 54% of the cases. They have also more problems with Road infrastructure (41%) and Access to electricity (30%).

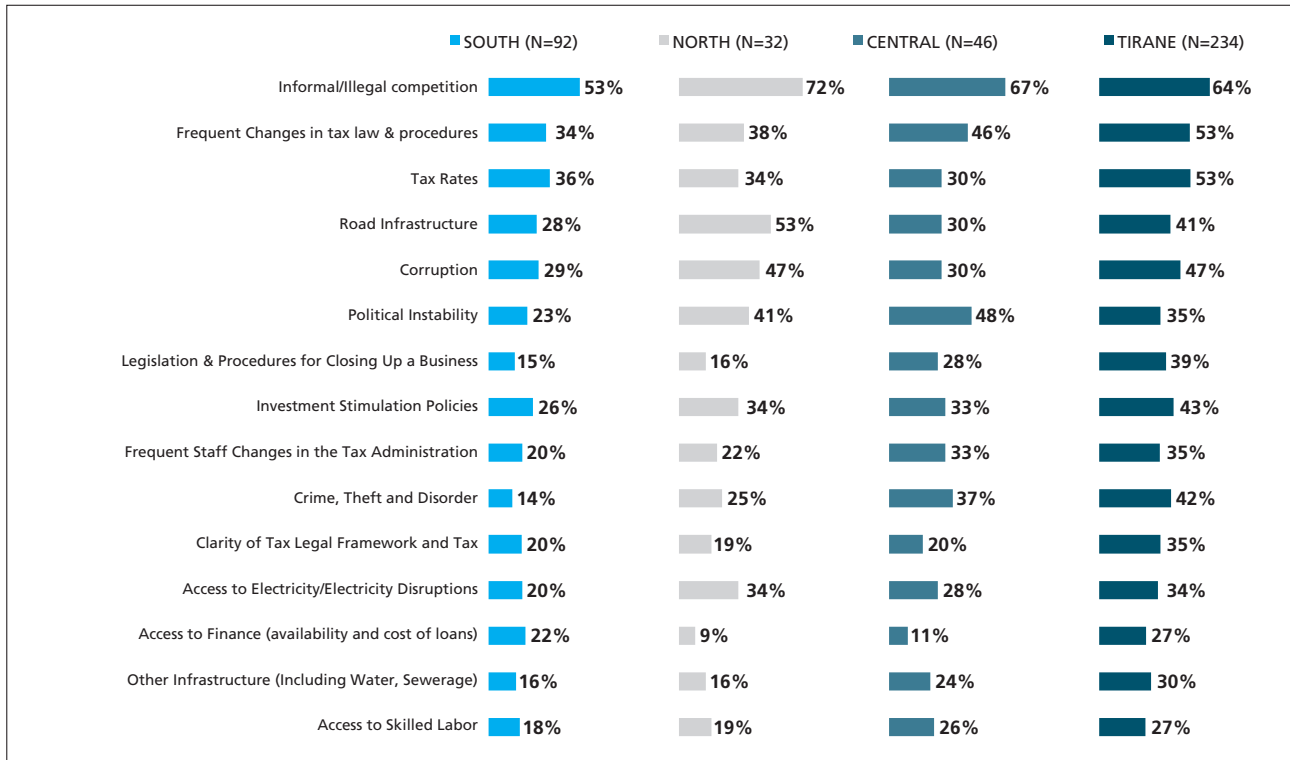
The bigger firms (over 50 employees) are more cautious in expressing their problems. Access to skilled labor (35%) is a major problem ranked fourth in their list of problems, although it is not the same for smaller firms. They have a common concern with smaller firms about the Tax rates (43%), but at the same time they require more Investment promoting policies (43%) to overcome the burden of the tax rates.

## 1.4. Problems by region

Tirana is the most developed area in Albania and probably has the best public services. Anyhow, firms in Tirana demand even more public services, as their list of problematic is very rich and round.

Informal competition is a huge problem in all regions of Albania. Frequent changes in tax law appear more to be a problem in Central Albania and Tirana. Tax rates seem to be a major problem for more than half of firms in Tirana, while in other parts of Albania is a problem in 1/3 of the firms.

Figure 8. Please, evaluate to what extent each of them poses a problem FOR YOUR BUSINESS. (by region, shown only those who evaluate as 'major' and 'severe problem')



## 2. Tax rates and tax administration

Albania is part of a region when there are similar countries in size, economy, population and development, but with different challenges when it comes to taxation. Albania lags behind the neighbor countries, in most rankings in the area of paying taxes, as it will be described below.

**Table 3. Total tax rates by GCI**

	Total tax rates %	Rank of total tax rates
ALB	36.5	66
MKD	12.9	3
MNE	21.6	18
BIH	23.3	22
SRB	39.7	77
SVN	31.0	42

Source: *Global Competitiveness Index 2016*

The following table presents data on the total tax rate as percent of the firm profits. Firms in Albania pay one of the highest tax rates in the region, at 36.5% of the profits. Our region has a diverse situation in this indicator. Companies in Macedonia pay lowest taxes (12.9% of the profits), where as in the comparison countries, taxes are in the range of 26-35% of the profits. This leads to an excellent ranking of Macedonia in the area of taxes, at a third place worldwide in the GCI ranking. Montenegro and Bosnia and Herzegovina have a good ranking too, although BiH has very similar taxes to Albania.

In order to have a better picture for Albania we can compare the total tax incidence on business profits with the nominal corporate income tax. Although the nominal CIT rate has increased in 2014, the total tax rate incidence on profits was reduced in 2014 and 2015, with a recent climb to 36.5% in 2016.

On the other side businesses have increased their concern about tax rates, ranking it as the most problematic factor for doing business in 2015, and the second in 2016 in a pool of sixteen possible concerns. The mismatch between total tax rates and tax rates ranked as a problem is a crucial issue to be considered in the future.

**Table 4. Total tax rate and tax rate as a problem for Albania in GCI**

Year	Total tax rates (%)	CIT rate (%)	Tax rate as a problem (%)	Tax rate ranked from 16 problems
2012	38.5	10	5.2	6/16
2013	38.7	10	2.8	9/16
2014	31.7	15	11.3	4/16
2015	30.7	15	21.7	1/16
2016	36.5	15	21.3	2/16

Source: *Global Competitiveness Index 2012-2016*

In our survey the results are not very straight forward Micro businesses have the most favorable tax system, but agree more that the other businesses that their taxes are too high.

Firms with more than 10 employees are usually paid the standard tax regime, with no tax incentives, but more than 77% of them somewhat disagree that their taxes are too high. As a result, the perception is that taxes decrease with the increase of the firms' size. The three main sectors have similar results, except Services that appear a little more agreeing that their tax rates are too high.

Tax procedures and tax legislation could be another area of concern for the businesses in Albania. The Doing Business (World Bank) provides measures of the administrative burden of paying taxes in the world.

Figure 9: Kindly rate “Tax rates for businesses like mine are too high”

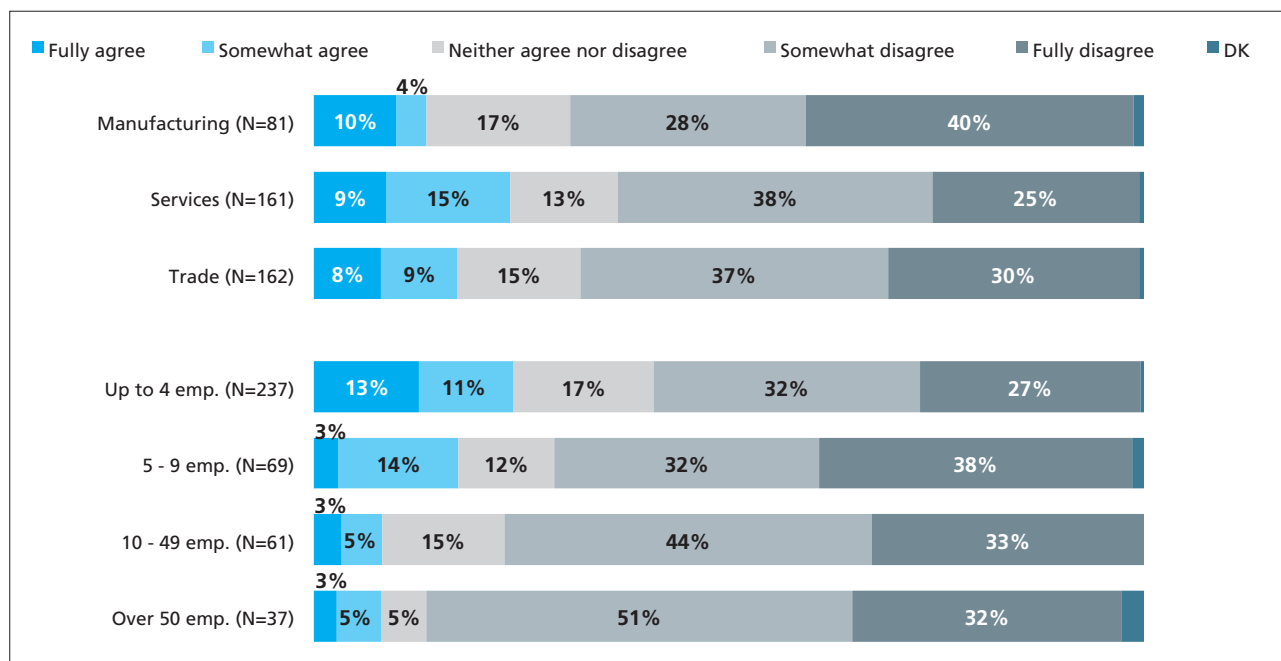


Table 5. Paying Taxes in Doing Business

Country	Paying Taxes rank 2015-16	Paying Taxes rank 2016-17	Time (hours per year)
ALB	109	97	261
MKD	8	9	119
KSV	77	43	155
MNE	72	57	300
SRB	98	78	225
BIH	151	133	411
SVN	24	24	245

Source: *Doing Business, The World Bank Group*.

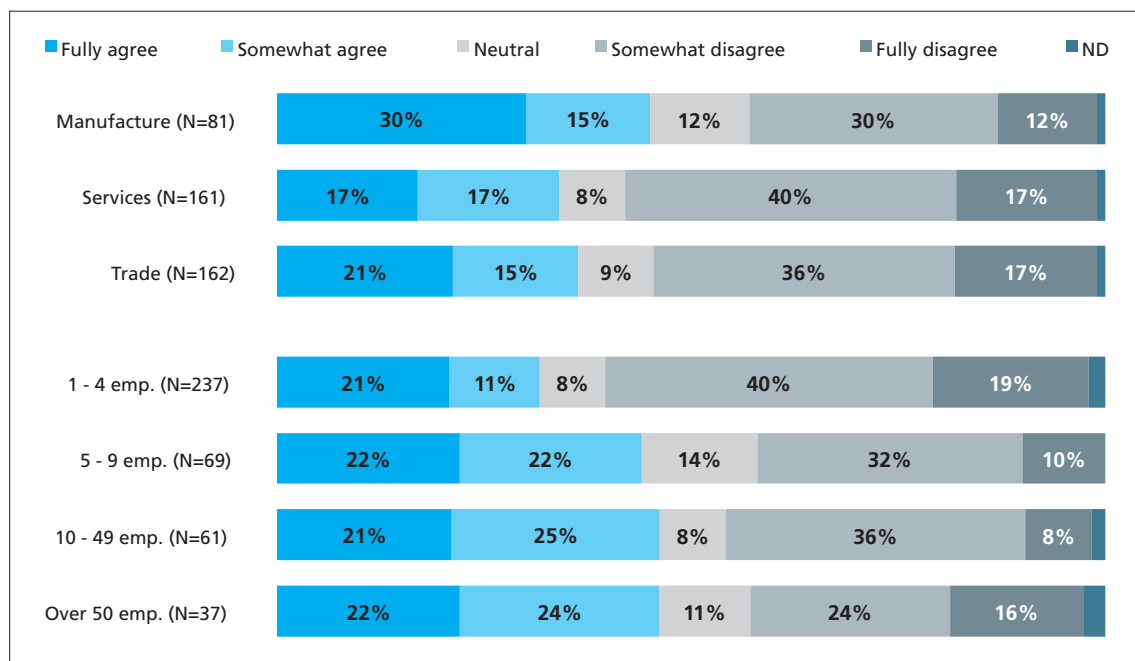
Almost all the Western Balkans countries seem to have improved substantially in Paying Taxes indicator of Doing Business. FYR Macedonia remains in the first places in the world. Albania has improved by 22 places in the latest ranking remaining in an average spot in the world ranking, but just ahead of BiH in the region. Kosovo is another country that has improved dramatically not only by achieving the 43th positions, but also by having ensured an average time of 155 hours per year in order to fill the tax declarations. Only Macedonia can do better in Western Balkans. Albania tax procedures and laws are still time consuming and firms need to spend 261 hours in a year for the tax statements.

As Albania appears at the average level of countries rank and time spent for tax declarations, even the local businesses in our survey show a mixed picture with their responses. Micro businesses (up to 4 employees) show in general that at least close to 60% of them somewhat disagree that tax procedures are complicated.

There are consistently more than one fifth of the businesses of all sizes that “fully agree” tax procedures are very complicated, and another quarter of the businesses of more than 10 employees “somewhat agree” of this topic. Manufacturing sector shows that the tax procedures are more complicated and probably time consuming. On the other hand, firms in the services sector are more inclined to state that the tax procedures are not that complicated.

When asked to rate a statement that is related more to the tax morale of the business in Albania, there are some surprising results. The largest companies in the sample fully agree on 73% of the cases that it is not justified to report all the revenues in order to pay fewer taxes, while there are no firms that disagree on this statement. 46% of micro businesses fully agree that it is justified the under-reporting of the revenues.

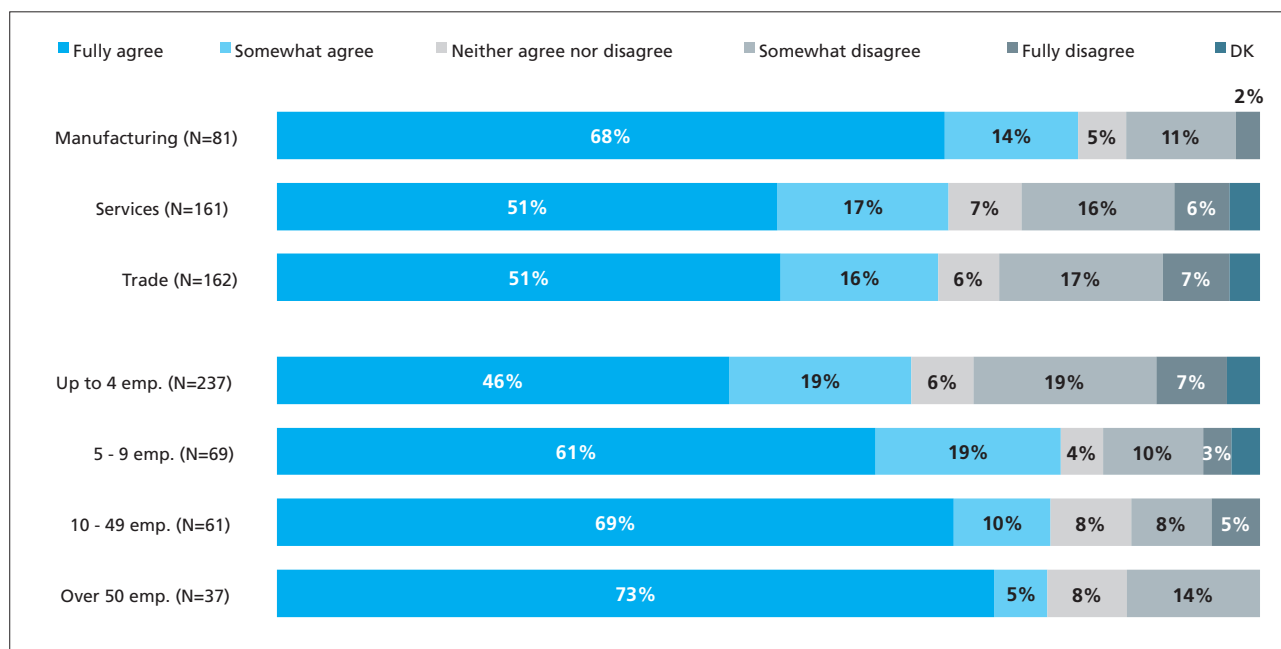
Figure 10. Kindly rate the statement “Tax procedures are very complicated”



While manufacturing sector was more inclined to consider tax procedures more complicated, they also agree more, on 68% of the cases on the justification of under-reporting in order to pay fewer taxes. Services sector and trade sector have a similar behavior, which slightly more than half of the cases where firms fully agree that tax under-reporting is justified.

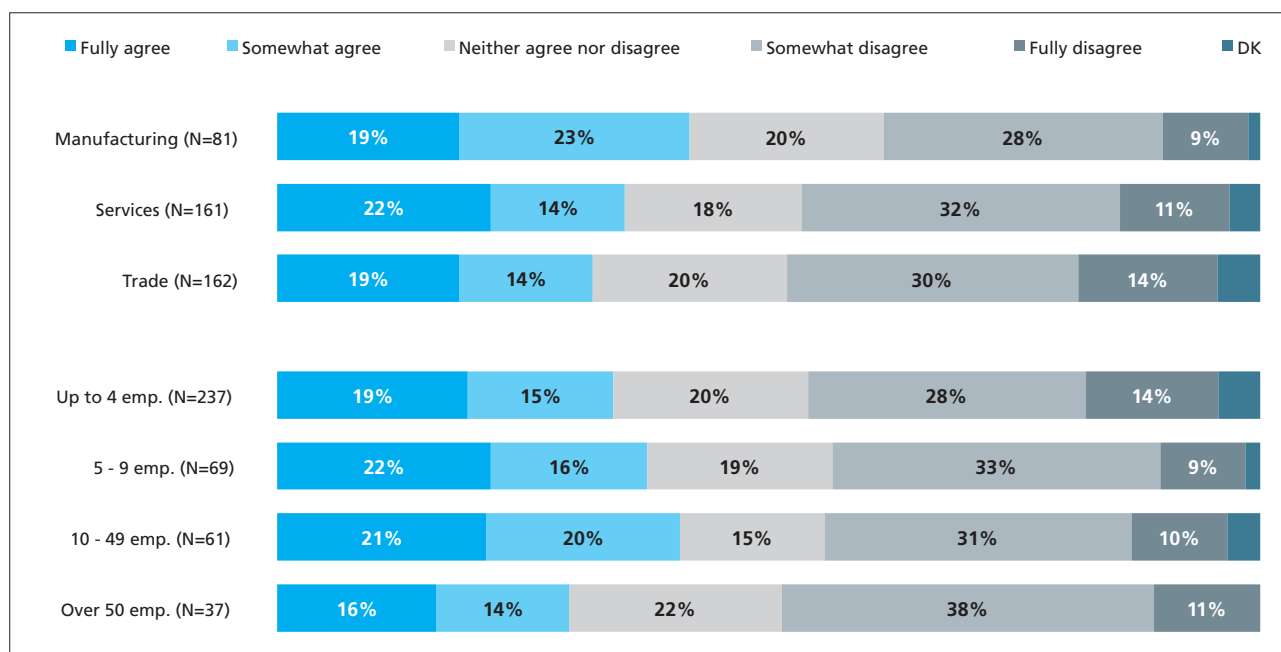
Government of Albania has tried to modernize the tax services, in order to reduce as much as possible the contact between tax officials and firms. Anyhow, on average only one fifth of the firms fully agree that tax officials are fair in their decisions. The largest business is less inclined to agree on that, as half of them somewhat disagree or fully disagree about the fairness delivered by the tax officials.

Figure 11. Kindly rate the statement “It is justifiable for a business not to declare all income in order to pay fewer taxes.”



Manufacturing sector shows less disagreement about the fairness of the tax officials, as only 37% of firms state that they somewhat disagree or fully disagree with the statement. On the other side the firms in the trade sector are more opposed to the assessments and decisions of the tax officials as only 33% of the firms, can somehow agree with their operations.

Figure 12. Kindly rate the statement “Tax officials are fair in their assessments and decisions”



According to the Doing Business 2017, which also includes an expansion to the Paying Taxes indicator that now covers post-filing processes, such as tax audits and VAT refunds. Albania performs quite well in these areas, with a compliance time for VAT refunds at nine hours, and compliance time for tax audit in three hours.

Table 6. Post-filing index in Doing Business 2016-2017

	Post-filing index (0-100)
ALB	83
SRB	94
MNE	85.5
MKD	84.2
KSV	61
BIH	47.9
SVN	95

The post-filing index has a maximum score of 100. Albania has a score that is being influenced by a short time spent for a corporate income tax audit. Serbia has the best score in the region, while Montenegro and Macedonia have a very similar score to Albania. Kosovo and Bosnia & Herzegovina have the lowest score, which shows that their VAT refund process and corporate income tax audit is more burdensome to the businesses. Slovenia is still a very good benchmark to compare even in this indicator, having the best index in the pool of countries as in the table.

Tax appeals have been very often an issue of controversy between tax administration and businesses. It has been a common belief between firms that if you appeal a tax assessment of the tax administration, the respective businesses would have been subject of additional tax audits and inspections. Our survey shows that this issue is not that big anymore, and firms on average somewhat disagree that the businesses that appeal taxes would be subject of additional tax inspections.

Firms in Manufacturing Sector fully agree on 16% of the cases that businesses that appeal their taxes would be subject of additional tax inspections, while only 7% of firms in the trade sector think the same. In general a quarter of the firms fully disagree with this statement, while 64% of firms in medium size businesses (10 – 49 employees) and more than half of firms in all sectors and sizes, at least somehow disagree with that issue.

Figure 13. Kindly rate the statement “Businesses that appeal their taxes are often subject to visits and inspections”.

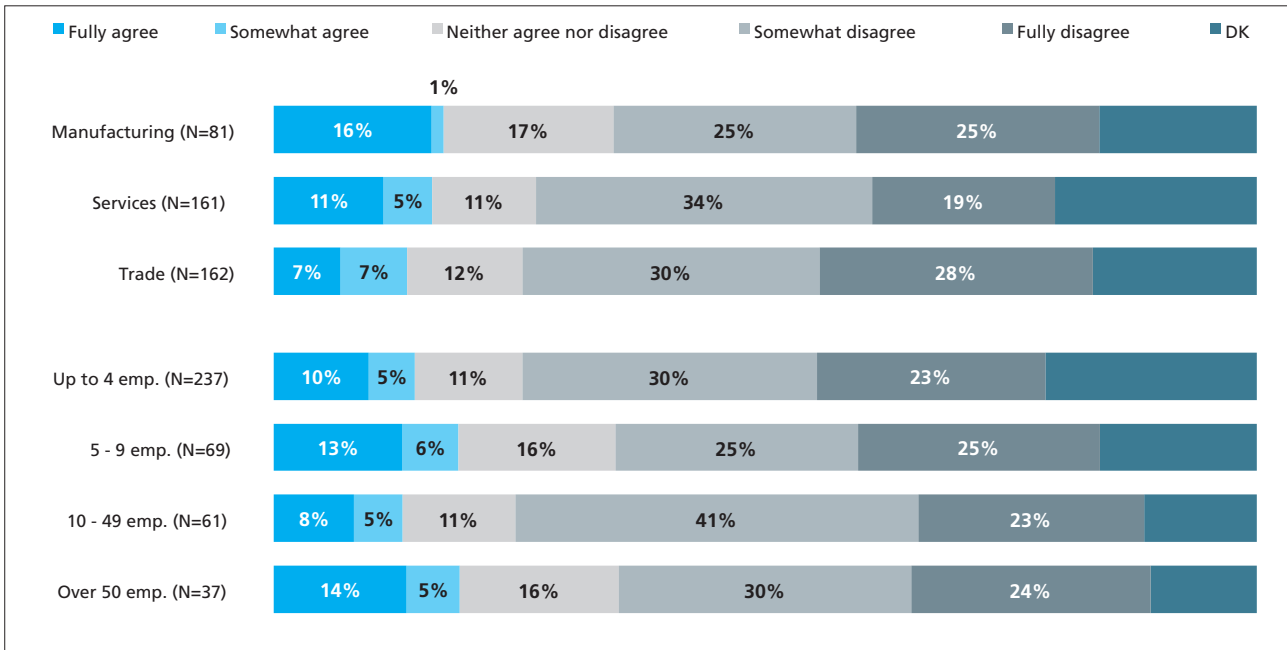
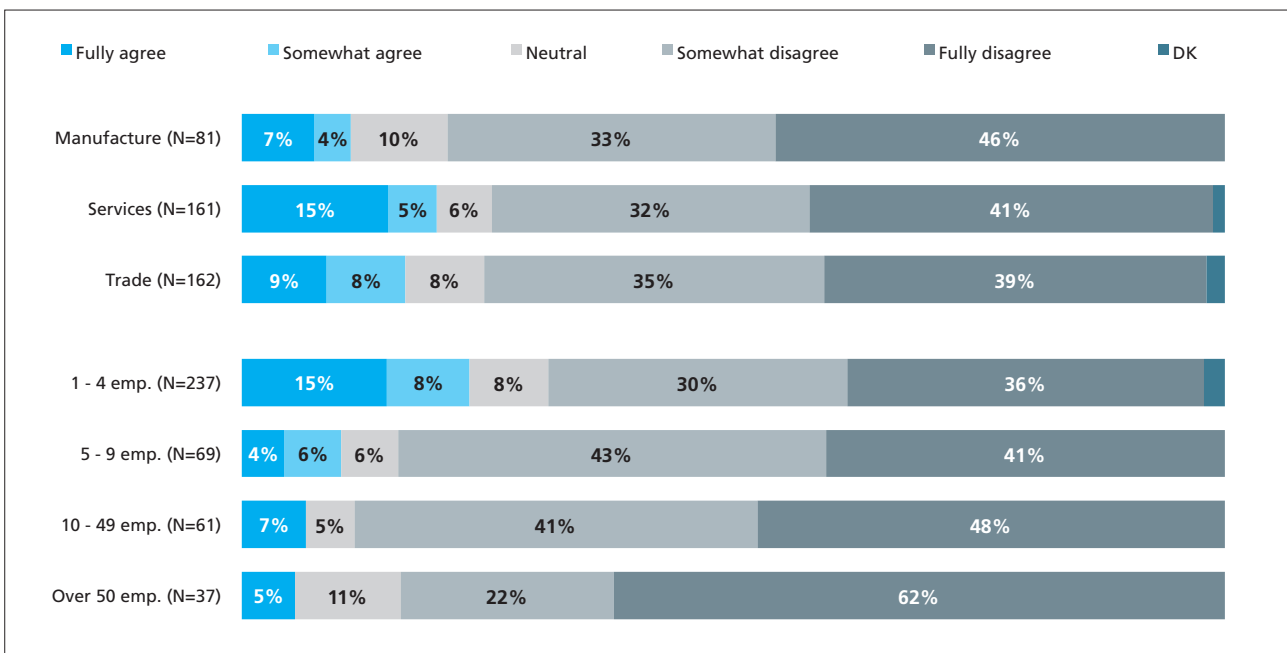


Figure 14. Kindly rate the statement “All information about tax compliance is easily available”



Tax administration seems to be somehow not very open to share all the information to the businesses. Big firms show the most disagreement with the accessibility of all information about tax compliance.

Micro firms (up to 4 employees) have a slightly better opinion on the availability of the tax information. Services sector appears to fully agree with the handiness of all tax information on 15% of the cases. In general the disagreement with this statement is very high, so the tax administration needs to have a more transparent approach about the tax compliance information, starting from the largest taxpayers in primis.

In general, tax compliance cost usually negatively correlate to the size of the firms. In our survey, it seems that small businesses (5 to 9 employees) somehow agree on 43% of the cases that tax compliance costs are more than the tax duties itself. Micro businesses (up to 4 employees) have the lowest somewhat approval with the statement in just 27% of the cases. Micro businesses have a favorable tax regime with less tax returns and as a result, it seems that the tax compliance costs are reduced.

The fact that one third of the largest firms somehow agree that tax compliance is very costly, is a big concern and should take in consideration for a further discussions with the government.

The tax administration costs appear to have similar influences in all the sectors, with a general opinion slightly favoring the disagreement with the statement that tax administration costs more than taxes.

Figure 15. Kindly rate the statement “Administration of taxes costs more than taxes alone”

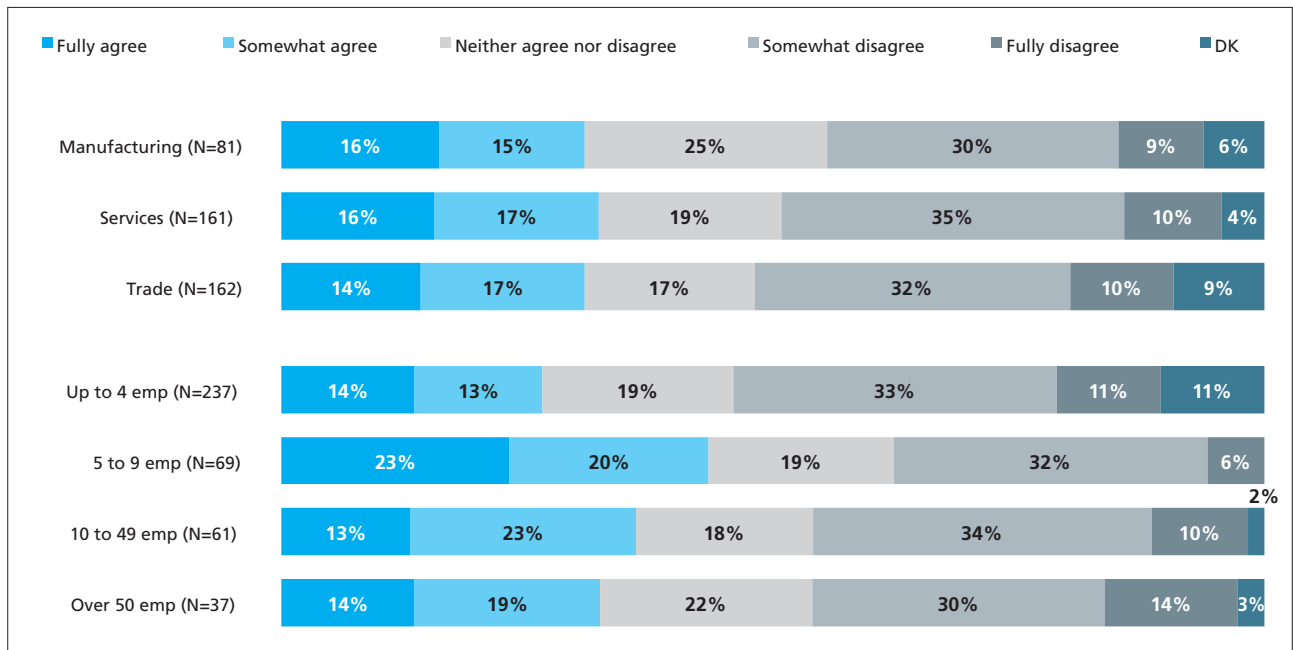
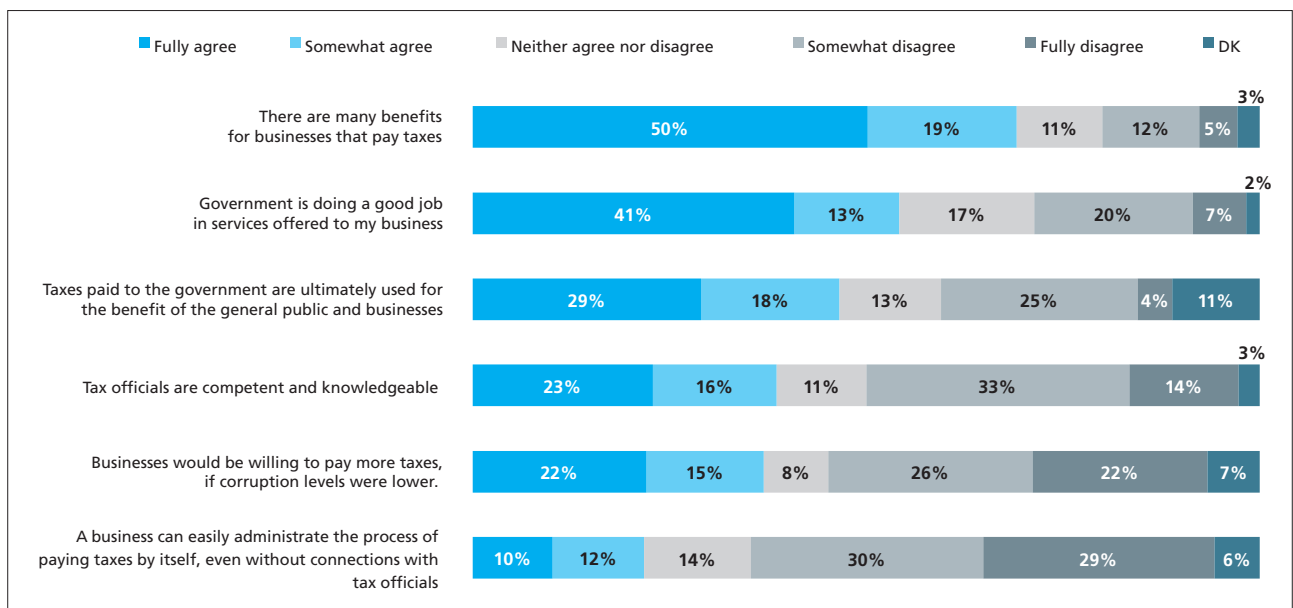


Figure 16. Kindly rate each of the statements on taxes



The businesses in the survey were asked to rate other statements that are related to the tax administration. The highest full approval of 50% of the respondents was given to the statement that paying taxes to give benefits to the businesses. Around 54% of the firms somehow approve the statement that the government is doing a good job in services that are offered to their business.

Another statement about the perception of firms about the usefulness of the tax paid for the benefit of the general public shows that around 47% of the respondents do somehow approved the statement, while 29% somehow disagree with that. This result shows that the businesses are not informed enough about the way that taxes are spent in Albania, and the Government must engage more in transparency about the taxes and expenditures.



Firms opinion about tax officials is mainly not favorable. 47% of the firms somehow don't agree that tax officials are competent and knowledgeable. On the other side there are around 39% of the businesses that somehow think that tax officials are competent. Anyhow, it remains an issue that the Tax Administration should ensure that tax officials are competent and provide a suitable taxpayers service for the firms.

Half of the firms somehow disagree, when asked if they would be ready to pay more taxes, in exchange for lower levels of corruption. The results show that the reduction of the corruption would not be converted immediately in more tax collections.

Confidence in the Tax Administration is not high as shown by the last question in the above figure. Close to 60% of the firms, state that their paying tax process could be easy only by having connections with tax officials. This is a very alarming figure that should be addressed by a better taxpayer service of the Tax Administration.

### 3. Corruption

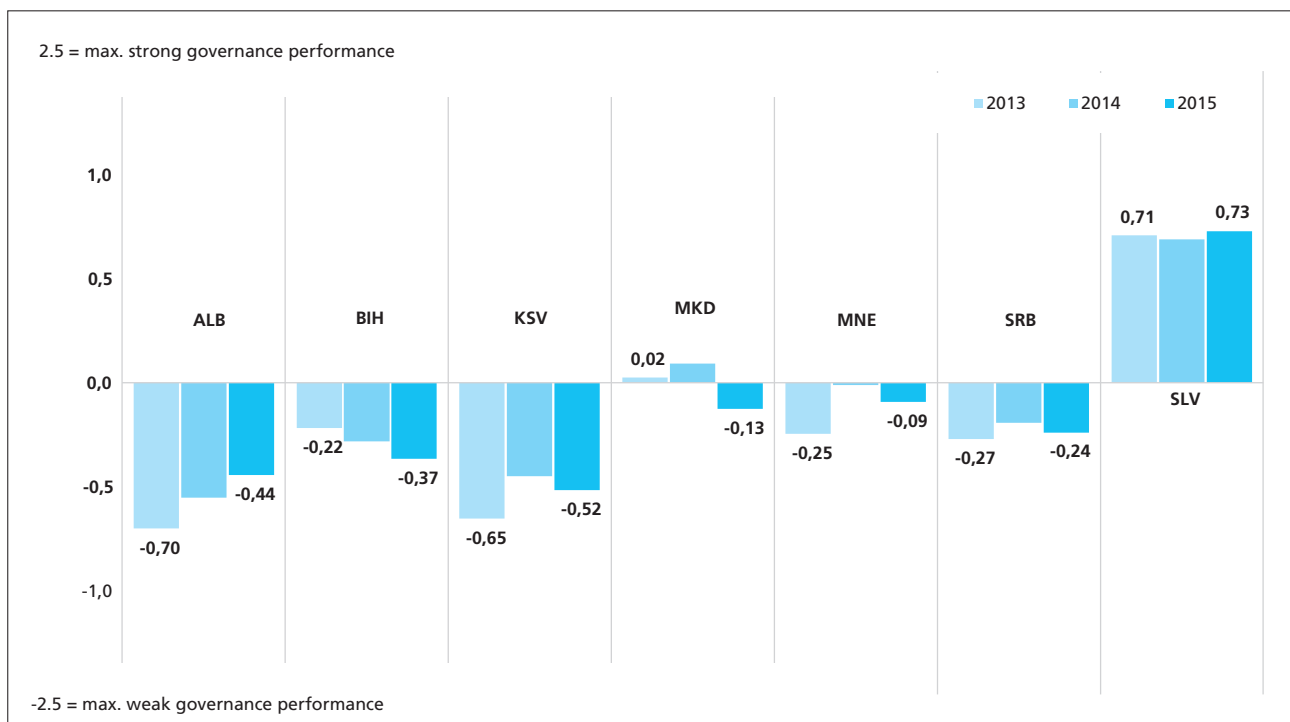
In the Albanian context, dealing effectively with corruption has been a necessary entrepreneurial skill that has been required to cope with transition problems and the chaotic change in traditional norms and informal institutions it has brought about in the last two decades. Although the affected entrepreneurs experience it as undesirable, those that learn to play the system in this way are apparently able to create more jobs than those who do not.

The Inter-Sectorial Strategy Against Corruption 2015-2021 (ISAC) and its Action Plan are the two main anti-corruption policy documents endorsed by the Council of Ministers through its Decision No. 247/2015. The Minister of State for Local Issues, who simultaneously serves as the National Coordinator against Corruption (the anti-corruption policy coordination body) is entrusted with the follow-up and implementation of these documents. ISAC is a stand-alone strategy setting out 3 major aims and 17 long-term policy objectives in the fight against corruption.

Secondary data confirm the picture described by respondents from the EESE survey, though it reflects a slightly more negative picture. "Control of Corruption" from "The Worldwide Governance Indicators" measures the extent to which public power is exercised for private gain and the state is captured by elites and private interests, on a scale from -2.5 and 2.5 where higher values reflect better performance. Macedonia seems to perform generally well, except lately when political instability seems to reflect even the corruption control, while Bosnia & Herzegovina has slowly worsened its rating. Albania generally performs poorly, although it has the best improvement degree during these years.

Though Albania improved in 2015-2016, it performs more poorly than other countries used for comparison, having the worst result in 2013, but changing gradually while reflecting a level of -0.44 in 2015. This is slightly lower than the scores recorded for the other countries except Kosovo. Montenegro and Macedonia performed the strongest, but still below the base level, while Slovenia is by far a very different story, with a very good performance.

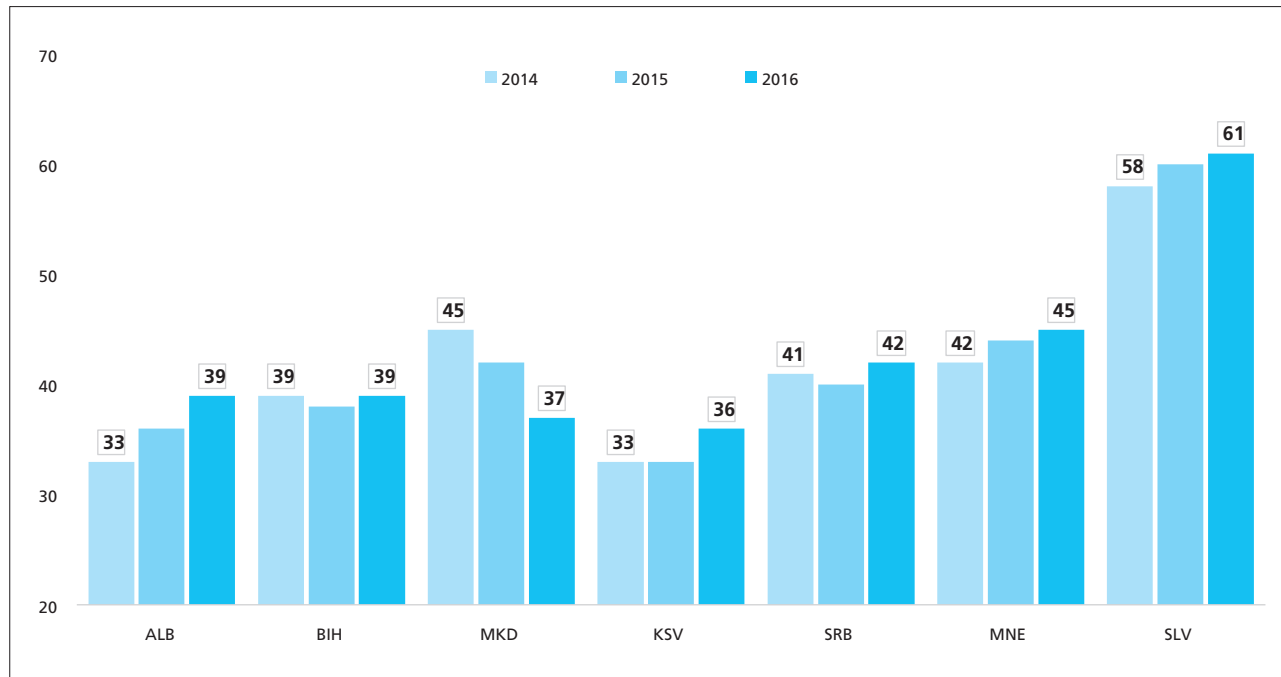
Figure 17. Control of Corruption. Source: The Worldwide Governance Indicators (WGI) , World Bank 2016



In the "Corruption Perception Index", Transparency International reflects a similar picture. On a scale from 0 ("highly corrupt") to 100 ("highly clean"), Although Slovenia is in the Balkan region, it is the also a country which is part of the European Union and it has been included in this report as a success story, which is reflected in the much higher result compared to its peer countries.

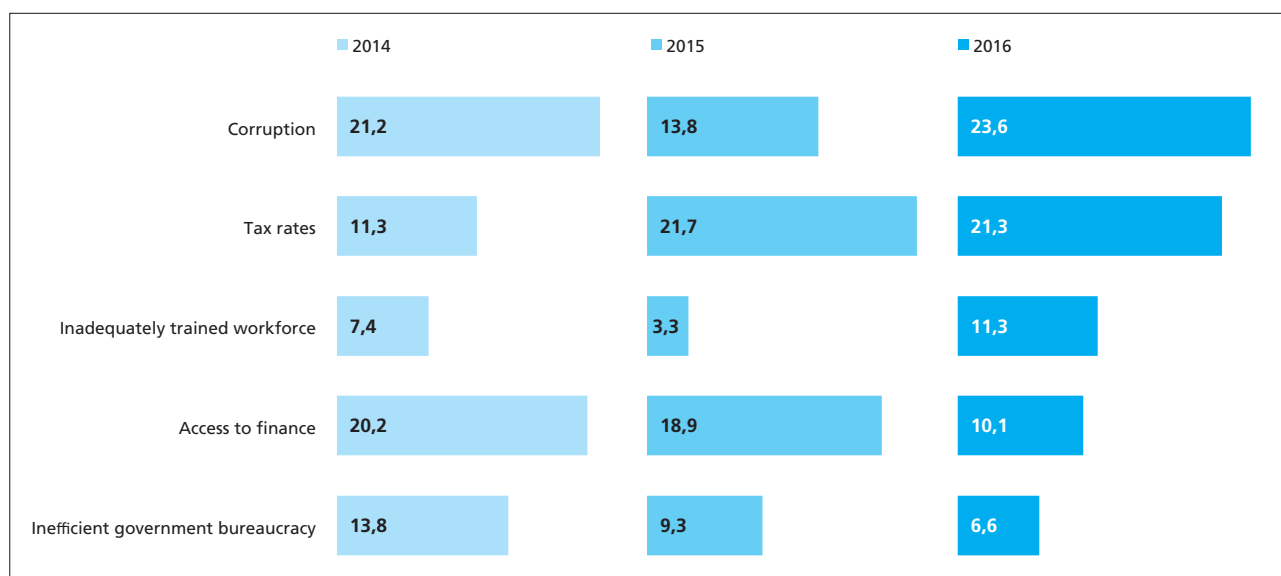
Albania has increased from 33 in 2014 to 39 in 2016. However, this is still somewhat low relative to Serbia and Montenegro, while Macedonia has worsened over this period. Kosovo generally has to lowest score, albeit starting from the same score with Albania in 2014.

Figure 18. Corruption Perception Index. Source: Transparency International



Though corruption levels seem to have decreased in later years, it remains as the most problematic factor for doing business in the Albania according to the World Economic Forum, GCI Report 2014 to 2016. According to these reports, which asks business executives in Albania, companies are more negative about dealing with corruption, than they are towards inefficient government bureaucracy, policy instability, or weak infrastructure. Except corruption, in the WEF list of most problematic factors for business, there are also access to finance, tax rates, inadequately educated workforce and inefficient government bureaucracy as mentioned above. WEF list of most problematic factors of doing business changes every year a lot.

Figure 19. Most problematic factors of doing business, with a total score of 100. Source: WEF, Executive Opinion Survey 2016.



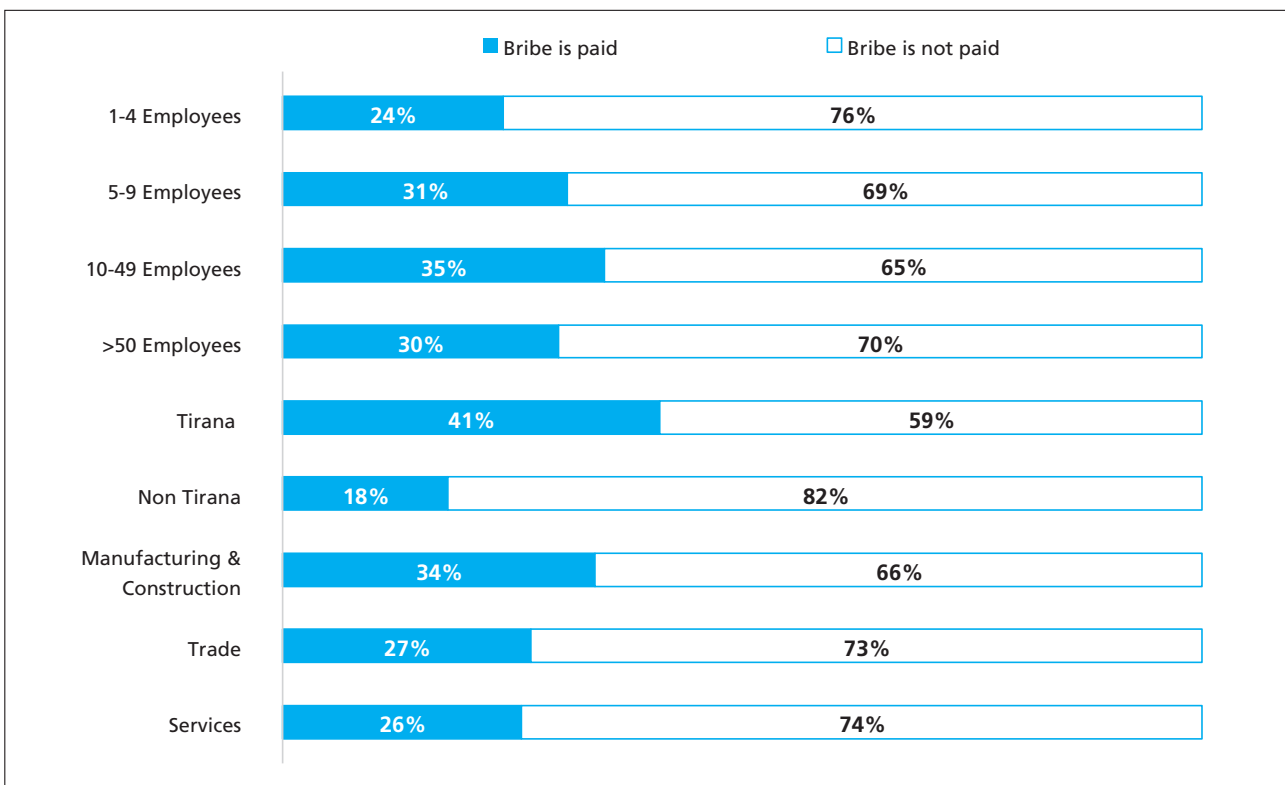
The other countries in the region have a wider pool of problematic factors with similar scores in GCI reports, while in Albania the concerns are concentrated in fewer factors with higher scores in the most mentioned problems. Corruption relates to other factors too. The BiznesAlbania should strive more for underlining problems that relate to the corruption, in order to tackle better this problematic issue.

### 3.1. Paying bribes

OSCE Anti-Bribery Business Survey 2015 collected opinions from around 800 businesses in Albania. Frequencies of this anti-bribery survey registered high levels of bribery prevalence. While looking at their main sample broken down by different categories, a pattern noticed in the data shows that bigger businesses have a tendency to pay more bribes. Micro-businesses have 24% of cases when a bribe is paid to a public official (within one year).

The prevalence increases for small businesses (5-9 employees) up to 31% and for medium size businesses up to 35%. There is also sign that the frequency of bribes is higher among businesses who are in the “Manufacturing” sector compared to those in Trade & Services with the frequencies varying from 34% for Manufacturing and Construction, 27% for Trade and 26% for the Services.

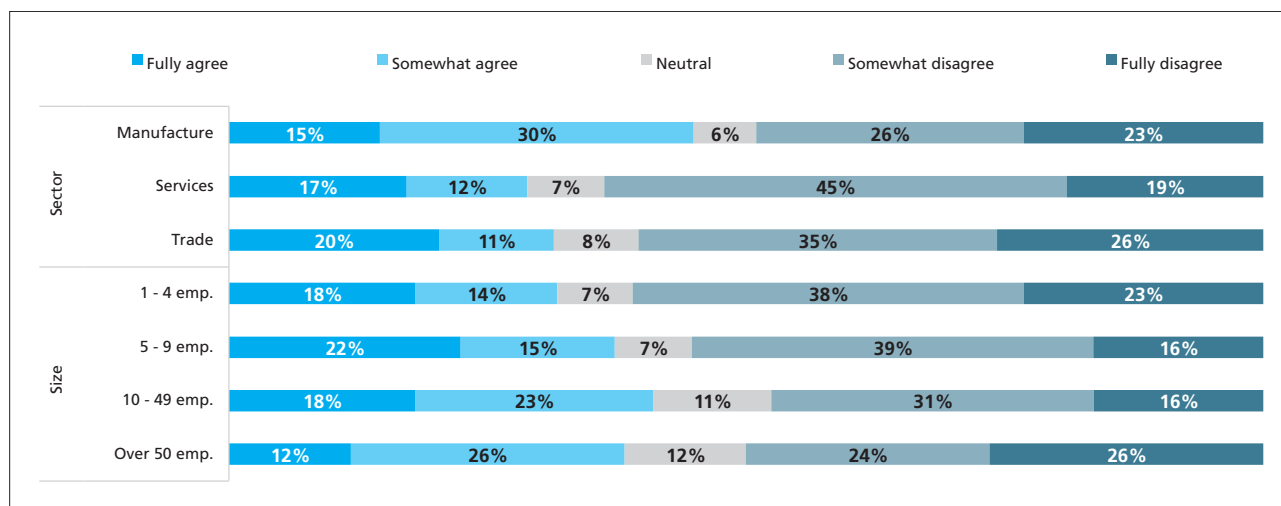
Figure 20. Frequency of Bribe, OSCE Anti-bribery Business Survey, 2015



More than 1/2 of surveyed businesses declare that somehow business in Albania cannot be done without having to pay bribes, implying that bribery is a common practice in Albania. On the other side in the manufacturing sector, there are close to 45% of the firms that agree that somehow firms can operate by having to pay bribes, while more than 60% of the firms in services and trade sector have the opposite opinion. Some differences are noticed when breaking down the sample according to the business size. The biggest firms (over 49 employees) display the lowest level of agreement with the statement ‘businesses can operate by not having to pay bribes’.

On the other side, another quarter of the biggest firms fully disagree that business is possible without bribes, implying a big concern about this issue. Micro businesses (up to 4 employees) have the largest general disapproval with the statement in more than 60% of the cases, although in general they have fewer contacts with public officials. This suggests that the perception of bribery is much higher than its prevalence, as in the OSCE Anti-Bribery Report 2015.

Figure 21. Kindly rate the statement “Business can be done in Albania without having to pay bribes”



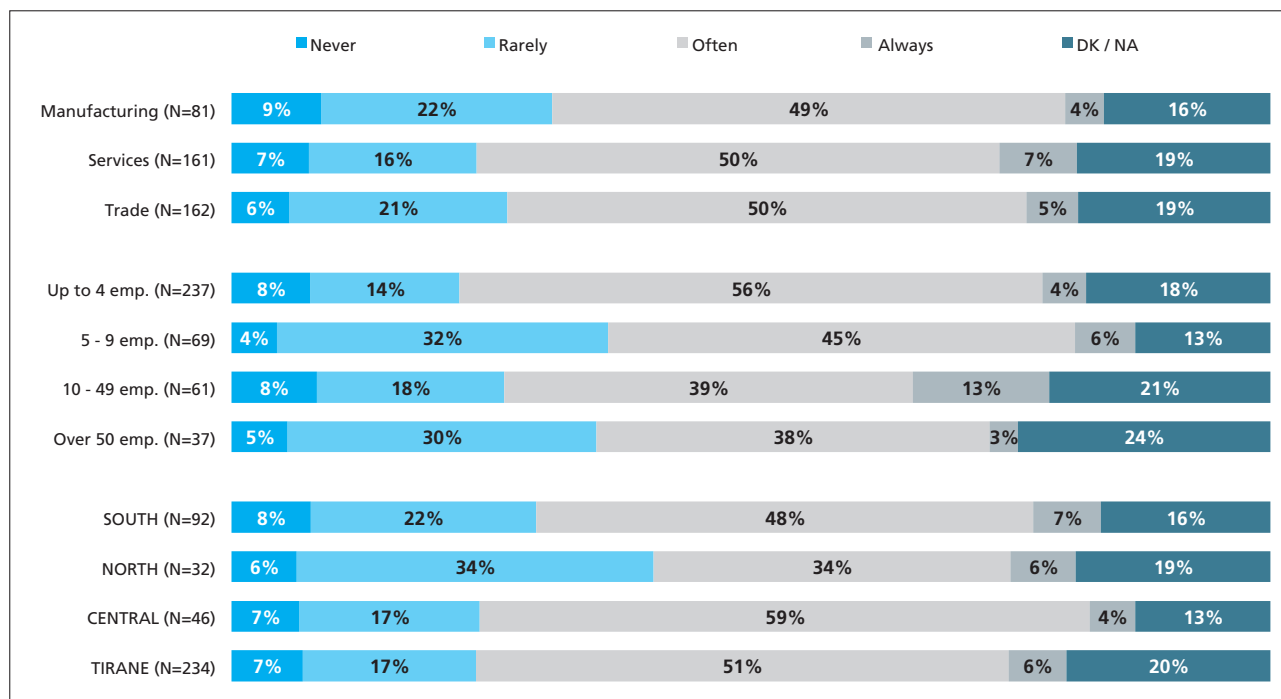
Relations between senior government figures and private sector could involve bribes and our survey tried to get the opinion of the businesses about that issue.

While looking at main sample broken down by different categories, a pattern is noticed in the data that shows bigger businesses have a tendency to have a more balanced opinion about the issue of relations involving bribes. While for micro-businesses, it prevails in 60% of the cases the opinion that informal relations between officials and private sector involve bribes and other contributions.

Businesses opinion in relation involving bribes does not differ that much by the sector they operate, as more than 55% of firms in each sector declare that they bribes are often part of that relations.

Firms in North Albania are less propelled to think that relations between businesses and senior officials involve bribes, while firms in Tirana and Central Albania have a clear stand, in more than 55% of the cases that the relations of firms and officials involve bribes.

Figure 22. Do you think that relations between senior government figures and some elements of the private sector involve bribes or other contributions



### 3.2. Involvement of firms in political activities

Sometimes, as in Albania, there is a thin line of separation between the political parties' finances and businesses. Our survey tended to evaluate this perception in businesses opinions.

Firms in different sectors seem to have similar opinions about business involvement in the local political parties' activities. It should be noted that a high number of firms choose not to answer to this question. Surprisingly the big and medium size firms, state in more than 50% of cases that businesses are somewhat not involved in political party activities.

Firms in South of Albania mostly share the opinion that firms are not involved in local political activities. Firms in North of Albania are more convinced that the involvement of businesses in political activities is considerable.

Figure 23. In your view, are firms in the country involved in local political activities?

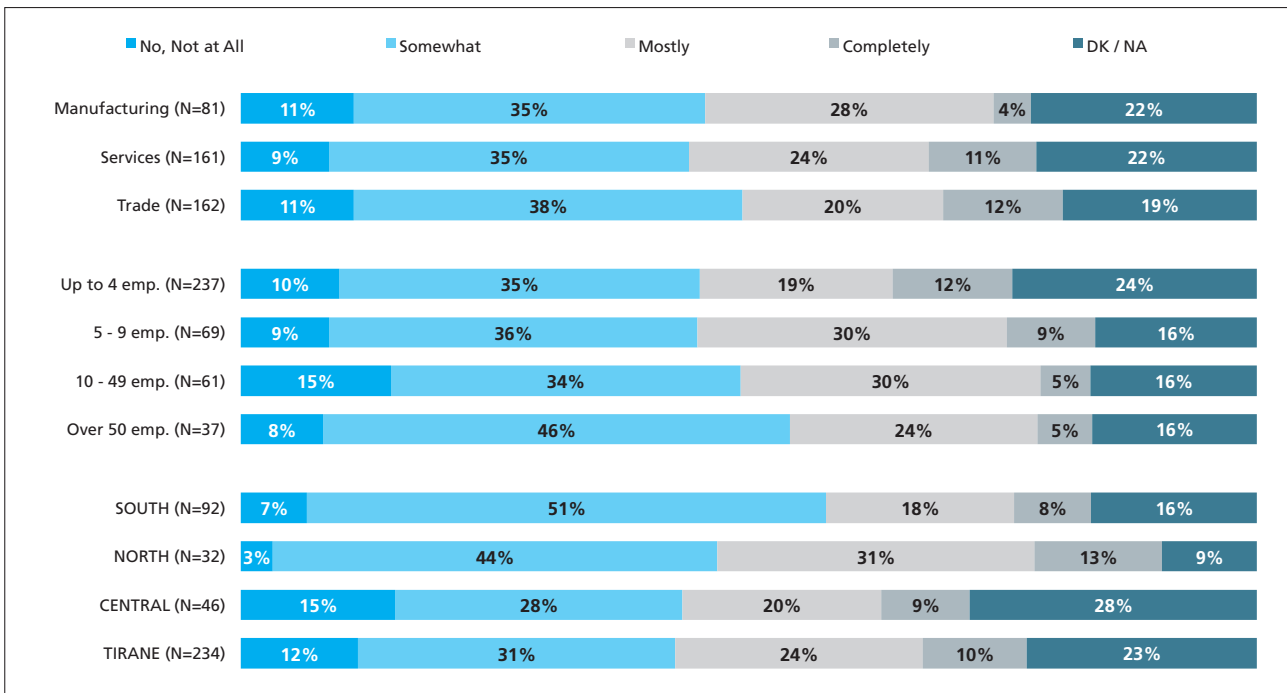
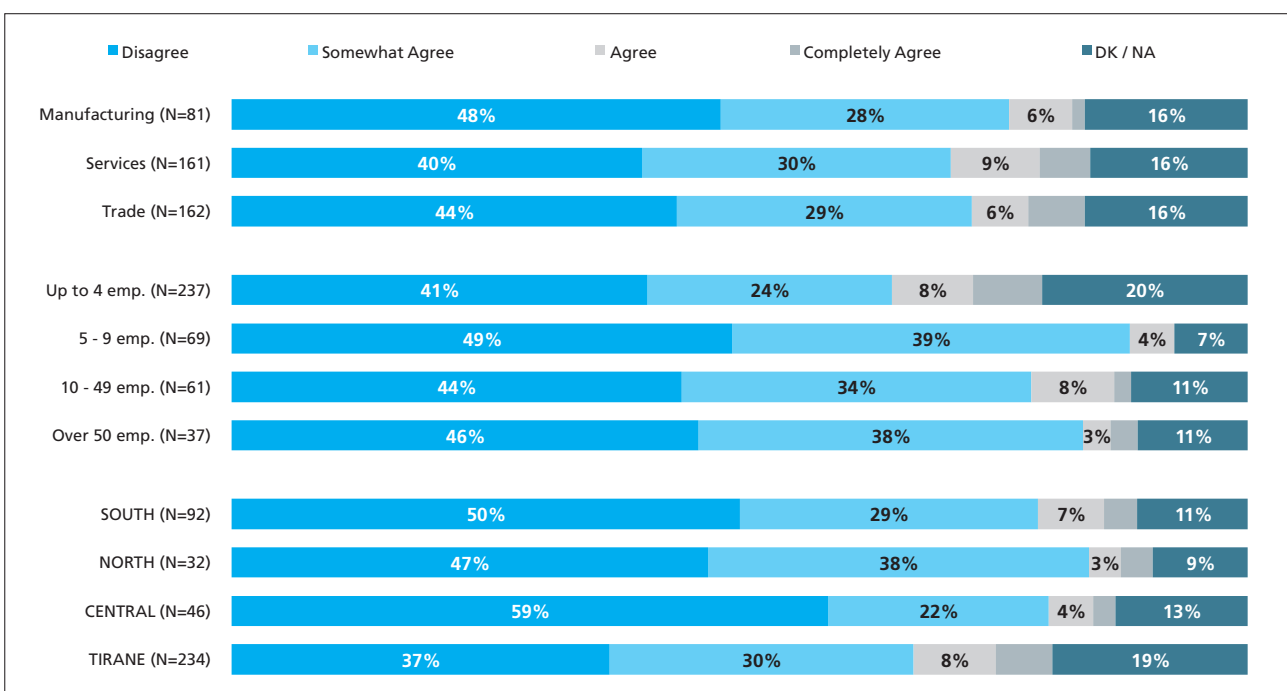


Figure 24. To what extent do you agree with the statement "relations between the private sector and senior government figures are always transparent and above board"?



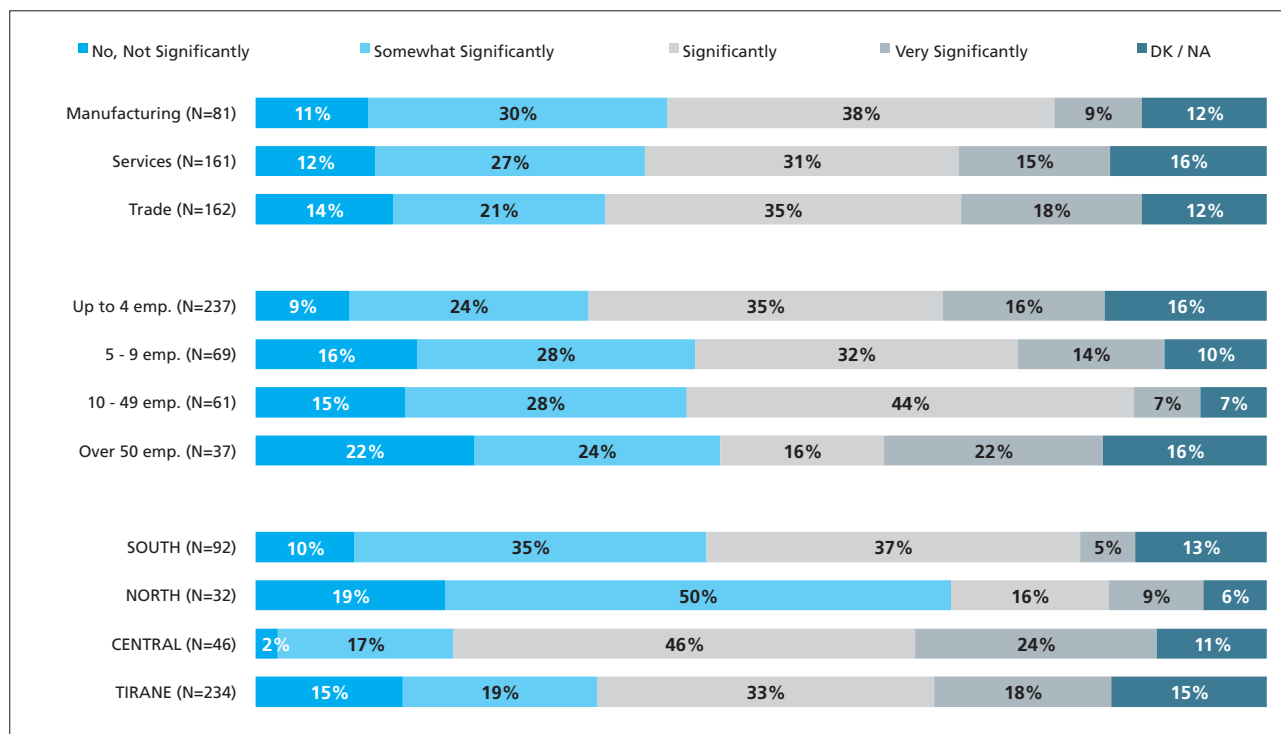
When asked about the transparency of relations between the private sector and senior government figures, the results strongly suggest the fact that transparency is missing a lot.

Firms in different sectors have similar opinions, with more than 70% of them, suggesting a low transparency in the private sector and high officials' relations. Surprisingly, even the firms of different sizes have similar opinions suggesting low transparency in more than 80% of responses, except micro size firms (up to 4 employees) that share that opinion in 2/3 of the cases.

In addition, firms in Tirana have mostly the same opinion in 2/3 of the cases, while firms in other regions are more skeptical, and have the perception that the transparency is mostly missing.

Political patronage could influence negatively the operations of firms in the private sector. The firms in our survey have very different opinions in this regard.

**Figure 25. Does political patronage negatively affect the operations of firms in the private sector?**



Firms in Trade sector, state that they notice the more influence by the political patronage, as 53% of them show that as a significant issue. On the other side, the Manufacturing firms are less prone to political patronage. While looking at main sample broken down by firm size, a pattern is noticed in the data that shows bigger businesses have a tendency to notice less impact of political patronage of the operations of the private sector. While for micro-businesses, the percentage of cases when they consider the political patronage to be important is more than in half of cases.

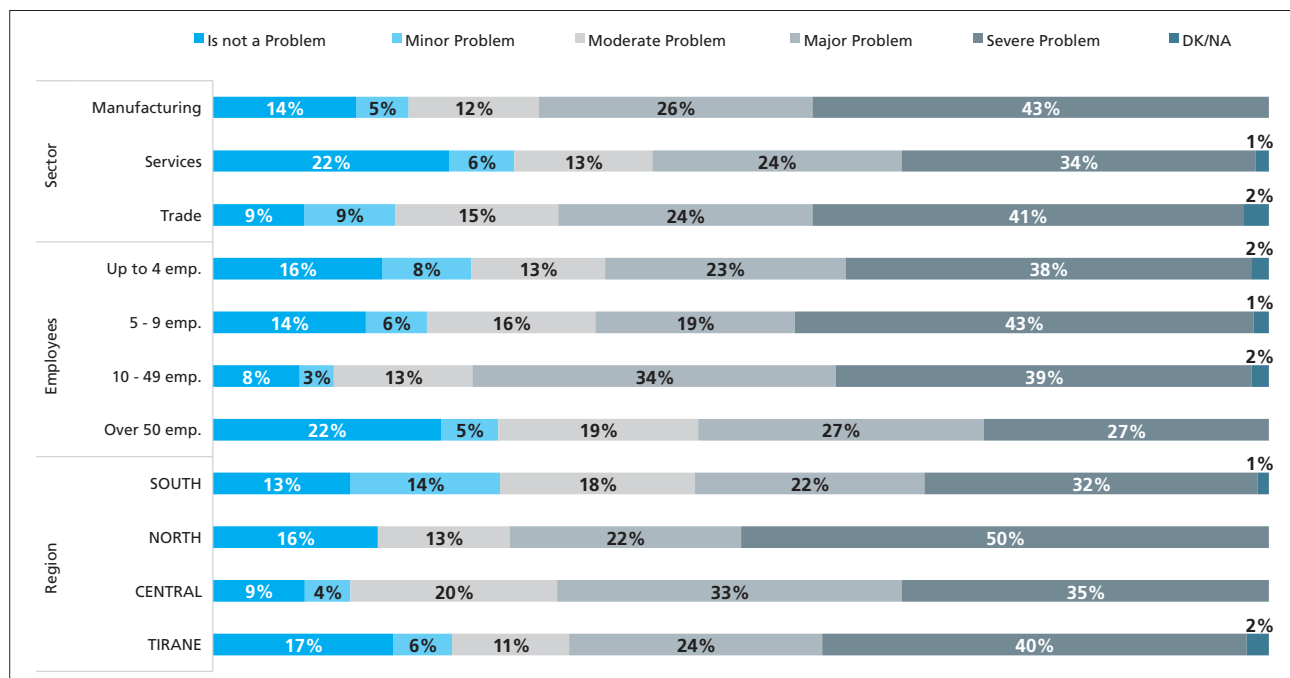
When checking the responses of firms in different regions, we can notice some very different results. Firms in Central Albania (excluding Tirana) show a staggering response rate of 70% about the significance of political patronage on the operations of firms in the private sector. The results firms in Tirana are high too, as more than, half of the businesses think that political patronage is that significant to influence in the private sector.

## 4. Informality and unfair competition

Informality and unfair competition are the most problematic problem mentioned in our focus groups and the responses of 404 firms in the questionnaire. Almost 70 percent of the firms in the Manufacturing sector appear to consider the informal competition as a major problem; while in addition, 65% of the firms in Trade sector have the same opinion.

Medium size firms (10 – 49 employees) have the highest concern against the informal competition and 73 percent of the firms in this group consider it a major or a severe problem. On the other side, the biggest companies (over 50 employees) appear to be concerned in 54% of the cases with informal competition, albeit less compared with the other firm sizes.

Figure 26. Informal Competition as a problem



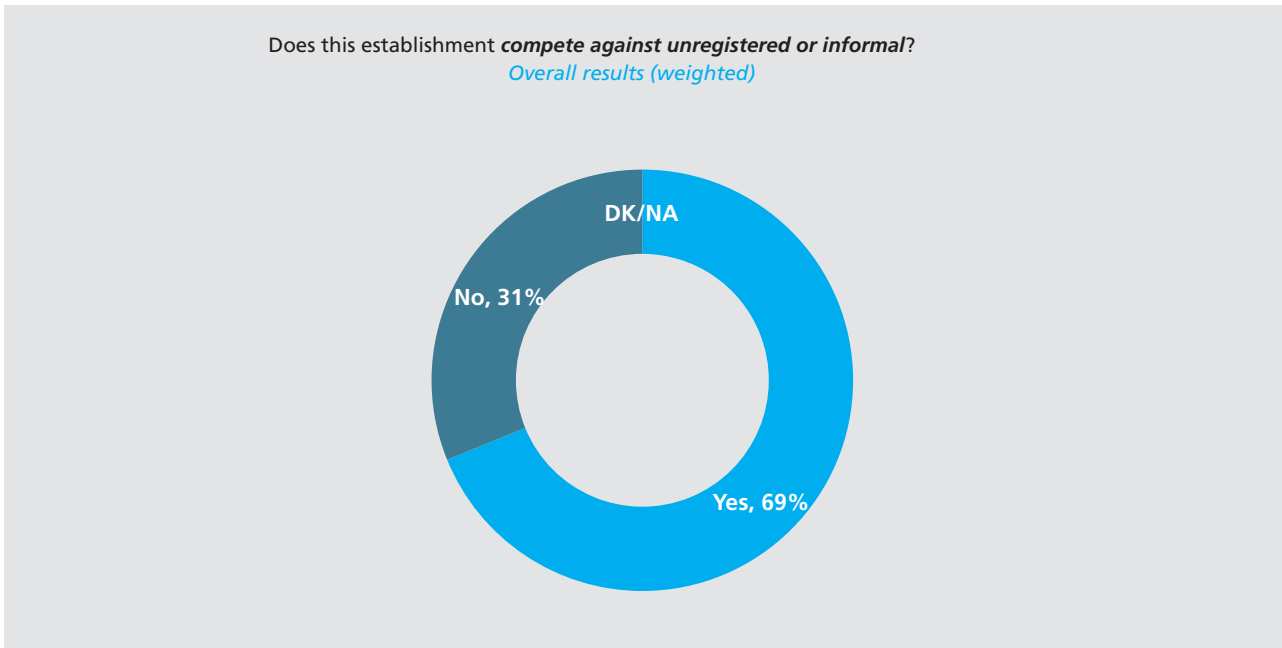
Surprisingly the Services sector appears to consider informal competition less as a problem, while Manufacturing and Trade sectors have a large concern over these issues.

Government of Albania initiated a large-scale anti-informality campaign in September 2015, which was introduced for the first time in a meeting of the National Economic Council (NEC). The discussion of the NEC concentrated on the “Action Plan against Informality”.

The Prime Minister emphasized the importance of the fight against informality, saying: “The fight against informality will be the object of the third 300 days of governance and will harmonize action between the General Directorate of Customs, Taxation, Labor Inspectorate and State Police, and other institutions. The campaign increased substantially the number of registered businesses and especially the number of registered employees in the whole country. The Strategy Monitoring Report for 2015 mentioned the results of the Anti-Informality Campaign, which resulted in more than 70,000 more employees registered at the end of 2015.



Figure 27. Does this establishment compete against unregistered or informal firms (? Overall results (weighted)

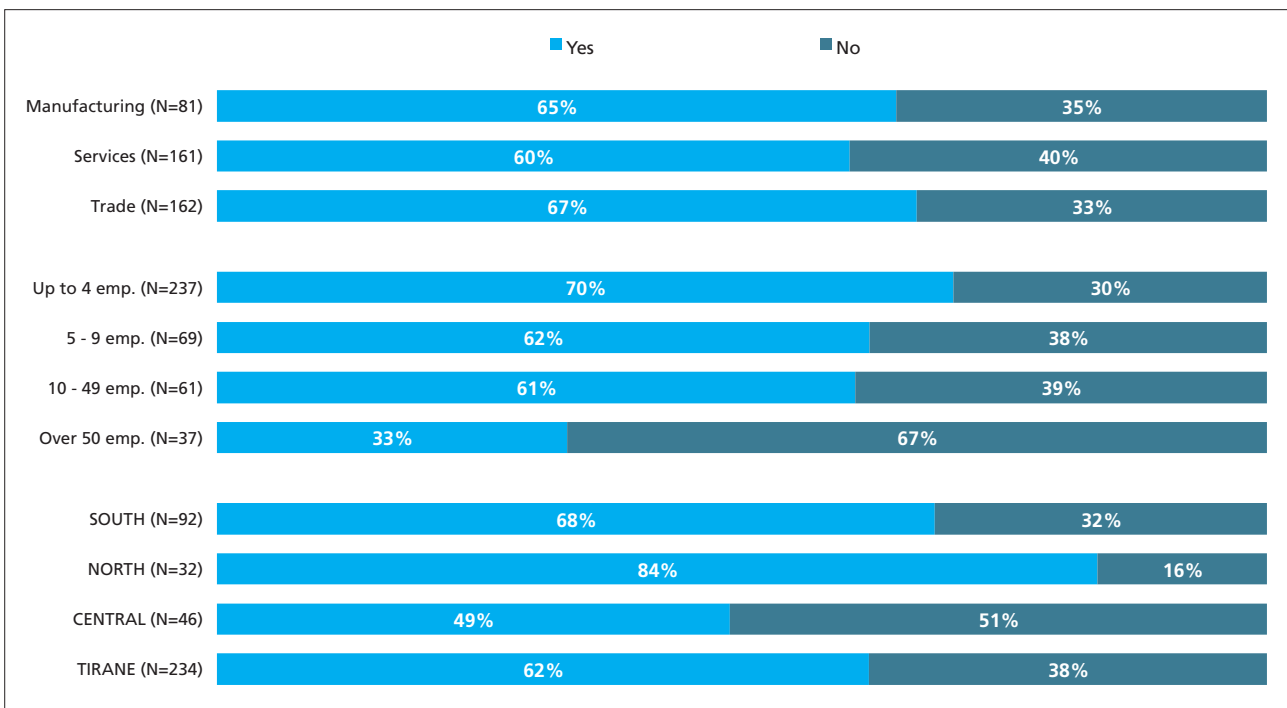


In our survey, the results are very diverse when firms are broken down according to company size, sector and region.

Businesses opinion on informality does not differ that much by the sector they operate, as more than 60% of firms in each sector declare that they compete against unregistered or informal firms.

Micro firms (up to 4 employees) face their informal competitors in 70% of the cases, more than any other type. Small firms and medium firms face similar informal competition at a little bit more than 60% of the cases, while the bigger firms (over 50 employees) are the ones that face much less unregistered competitors, in just 1/3 of the cases.

Figure 28. Does this establishment compete against unregistered or informal firms (whether unregistered, or registered but not completely formal, hiding part of activity or number of employees)?



Firms in different regions show different levels of informal competition. North has the highest informal competition, while Central Albania has the lowest. It is a big concern that firms in Tirana face informal competition with 62% of the cases.

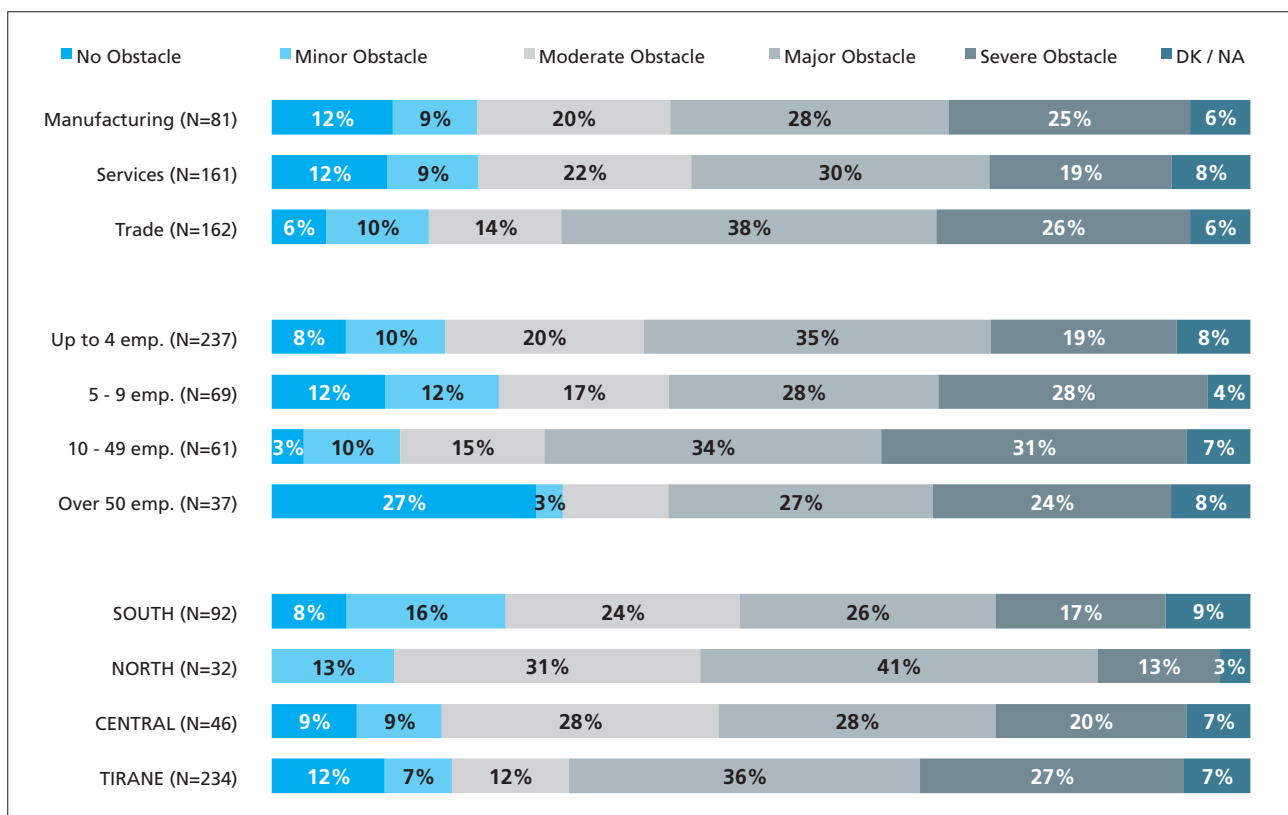
Firms in Albania consider informality as a major and severe obstacle in more than half of the cases.

Businesses opinion on informality as an obstacle does not differ that much in the sectors of manufacturing and services. Trade sector firms consider informality a major obstacle in close to 2/3 of the cases, showing a higher concern compared to the other sectors. Bigger firms have the highest number of cases (about 27%), when they state that informal competition is no obstacle to their activity.

Unexpectedly the medium size firms (10 – 49 employees) show the highest level of major obstacle of informal competition in their activities in close of 2/3 of cases.

Companies in the North face much fierce informal competition that hampers their activities, and unexpectedly firms in Tirana have high levels of obstacles too. Firms in South face in general, less major obstacles from informal competition in just 43% of the cases.

Figure 29. What do you think about the practices of competitors in the informal sector?



#### 4.1. Impact of informality campaign

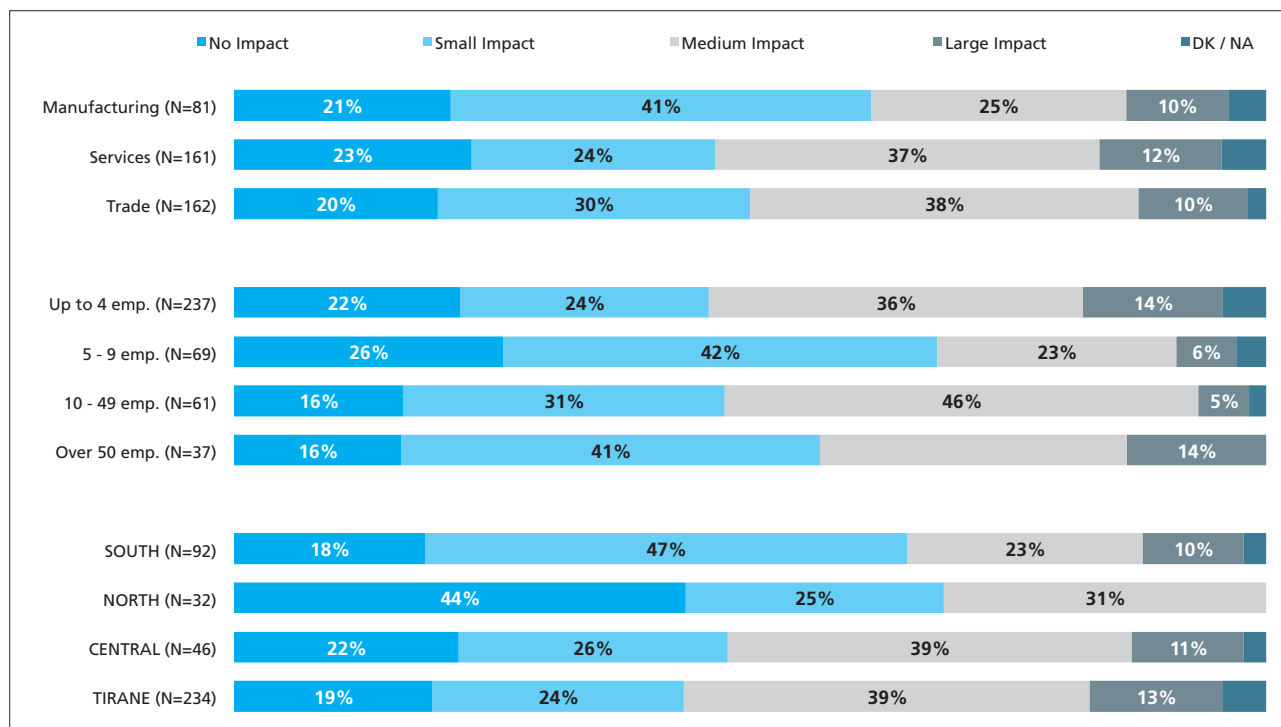
Above we mentioned that the Anti-Informality Campaign in 2015 resulted in more than 70,000 new employees registered at the end of 2015. Moreover, the number of tax receipts during the period September – December 2015 increased by 129% compared with the same period of the last year. Parliament did amend the Tax Procedures Code (Law 9920/2008) in November 2015 to provide tougher penalties for non-compliance. Government evaluated that the GDT had not the necessary human resources to realize a large-scale campaign. To enhance enforcement, 500 new provisional tax inspectors weretemporary hired in 2015. A steering committee chaired by the Prime Minister monitored the effort and its results on a weekly basis, and promoted closer collaboration between tax and customs administrations. Moreover, the Government has planned to add 500 new tax inspectors to the General Directorate of Taxation in 2017.

Our survey shows a variety of opinions that businesses have about the informality campaign. Firms in different sectors have a very similar opinion about the anti-informality campaign.

Firms in the manufacturing sector state on 35% of the cases that the campaign had medium or large impact, while in 41% they think the campaign had small impact. Services and Trade sector firms stated in half of the cases that the campaign had at least a medium impact.

Small firms (5 – 9 employees) state in 2/3 of the cases that the informality campaign had no or few impacts to reduce informal competition. Probably the campaign failed to deliver results in this segment of businesses. Half of Micro and medium size firms think that the campaign had a good impact, while the biggest firms (over 50 employees) are more skeptical to this question.

**Figure 30. Do you think that the Government’s initiative against informality has had an impact in reducing this phenomenon?**



Firms in North of Albania show that the informality campaign has had very few results there. Moreover, even in South Albania the results seem limited, as only 1/3 of the firms suggest that there was some impact to reduce informality. Informality campaign has had more results in Tirana, as shown by the firms that suggest that in more than 52% of the cases.

## 5. Skills and training

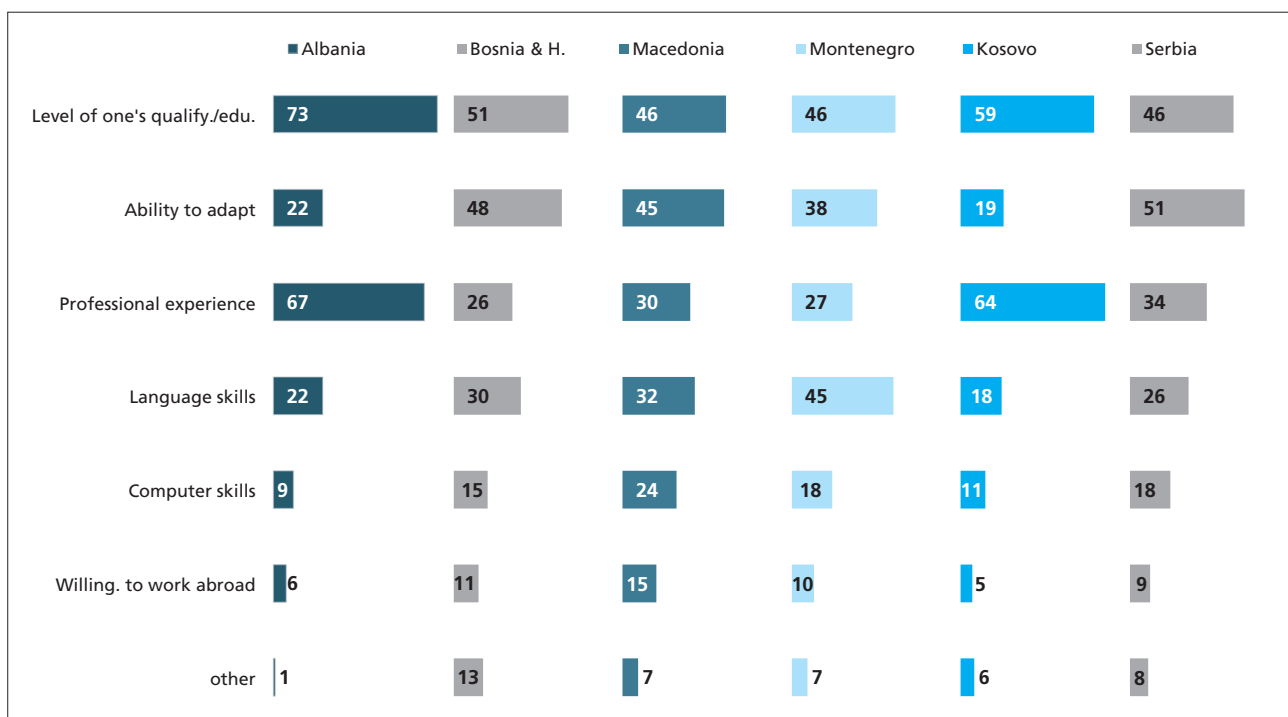
The Albanian labor market has changed drastically during the last two decades. Many types of skills tend to be obsolete and no longer in demand, whilst new skill requirements have emerged because of technological developments and innovation, labor force mobility etc. being directly connected to the dynamism of the current market. In addition, a deep mismatch between skills demanded by the business and graduates' fields of study has been occurring in Albania, mainly due to the education policy in place and resulting in an excess of graduates in education studies, business administration, finance, law, foreign languages etc., which has been causing distortions in the labor market (ILO & MSWY, 2014).

### 5.1. Most important competences and skills

In the Western Balkan region, there are three most important things, which a person should have in order to find easily a job such as qualification/education, ability to adapt and professional experience. However, these three things are not the most important for every country in the region. Ability to adapt and language skills are more important in other countries, than in Albania. Our country and Kosovo share very similar opinions about the two assets that appear to be more important to find a job today.

Namely, the biggest difference could be noticed in Albania and Kosovo, where qualification/education and professional experience are perceived as the most important compared to other countries in the region. In addition, the difference between these traits and the other features is very high compared to the other countries. Businesses must be more oriented in searching for much more diverse competences and skills, than just qualification and experience.

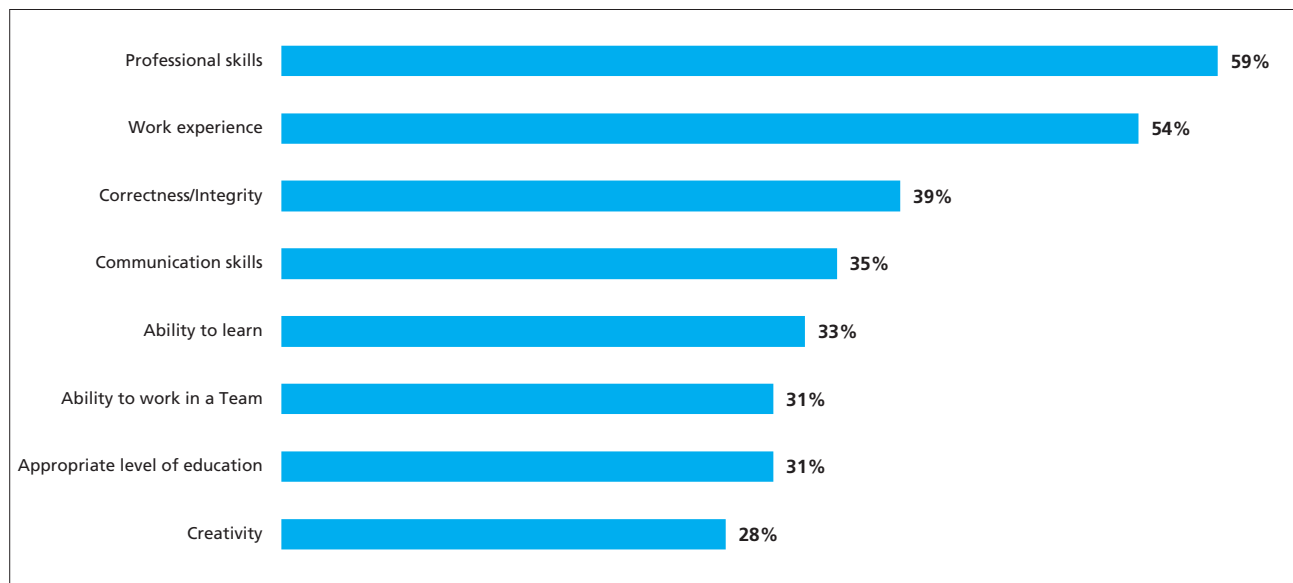
Figure 31. In your opinion, which two assets should one emphasize in order to find easily a job today? (Max. two answers) Source: Balkan Barometer 2015, Public Opinion Survey, RCC



The last Skill Need Analysis (SNA) by the Government was performed in 2014 and was funded by the European Union and implemented by the ILO. SNA 2014 is still the best identification of the skills and employee profile shortage in the labor force. Professional skills and Work experience are the skills/requirements most often considered as difficult to find in the market. On the other side of the spectrum, "reading and writing skills", "gender", and "insufficient salary at the company" are very rarely a difficulty or a significant barrier to hiring people in the required profession. SNA has found similar results to the Balkan Barometer 2015, as described above.

Integrity, communication skills and ability to learn are other requirements that are requested by the companies that are trying to fill their skill shortages. As in the Balkan Barometer, Ability to Learn (or to Adapt) is still not a top priority for Albanian companies, although more important in the other Western Balkans countries (except Kosovo).

**Figure 32. Frequencies of skills and other requirements lacking for the 5 most selected profession groups with skills shortage** Source: ILO & MSWY, 2014, page 48.



In our survey we put an open question about the most important competences and skills that employers of that firm are supposed to have. Overall results (weighted) show that communication skills and professional skills are tied at 46% as the most important skills that employees should have. Integrity and appropriate level of education are also mentioned by a fair amount of companies.

Communication skills are not part of the Balkan Barometer 2015, but are ranked high in both SNA 2015 and our survey (weighted). On the other hand, ability to work in a team, and ability to learn are still ranked low according to the companies in Albania. Unexpectedly "Work experience" is ranked very low, at only 14% of the firms, influenced by the high number of small businesses, which seems that do not give a strong support to this trait of the employees.

If we rank the results of our survey, according to the most requested competences by the biggest companies, we get a very different picture (figure 34). Professional skills remain first, but the "appropriate level of education" seems to be the second most sought over competence in half of the cases of the biggest businesses, in a very different fashion compared to the micro ones. Communication skills remain highly requested in all companies, while "ability to learn" seems to correlate negatively with the size of the company, remaining one of the skills that is much neglected in Albania.

Figure 33. What are the most important competences and skills that employees of your firm are supposed to have? Overall results (weighted).

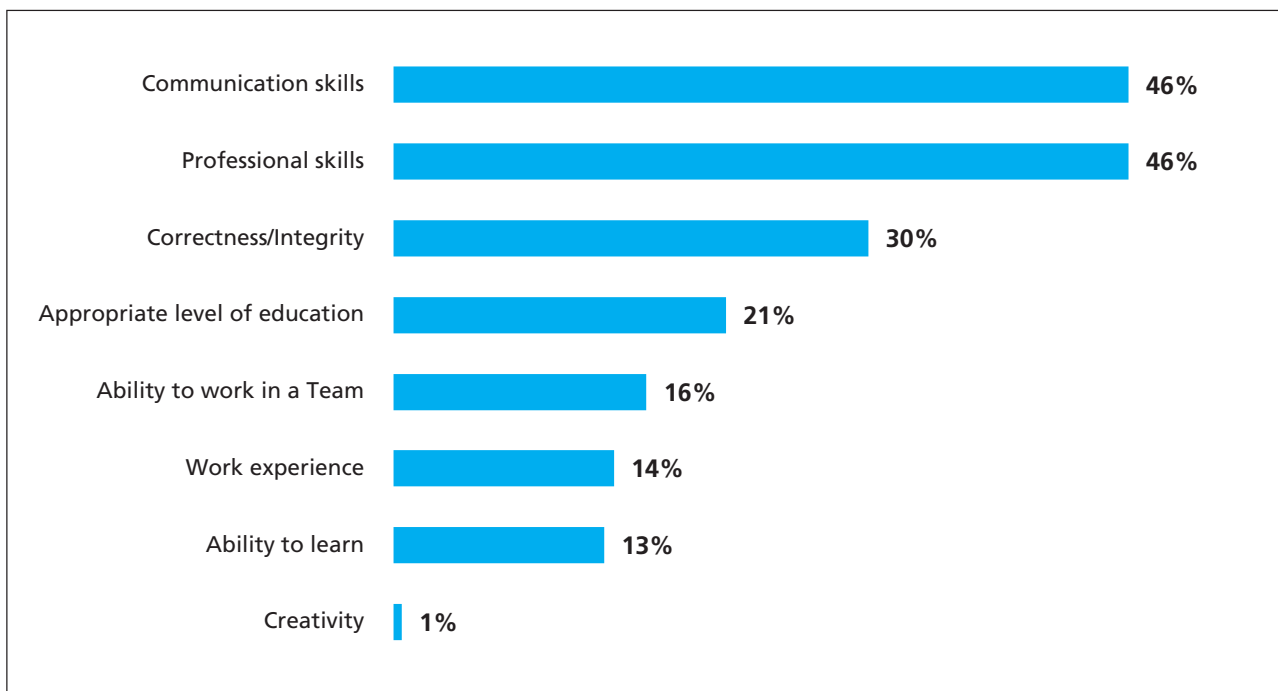
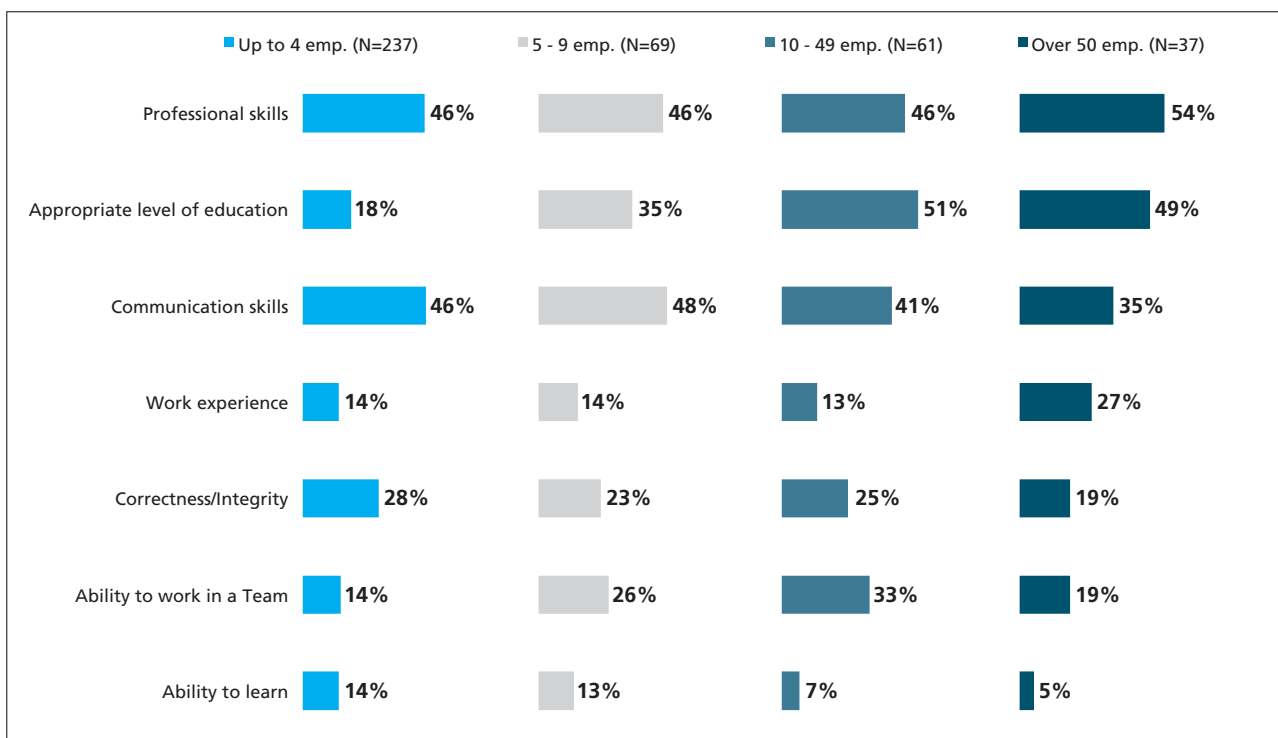


Figure 34. What are the most important competences and skills that employees of your firm are supposed to have?



## 5.2. Difficulties in hiring staff

The Skill Need Analysis 2014 shows the positive correlation between the size of the company and the chances to have one recruitment in the next 12 months. In that report, inside the Micro size subgroup, 17.4% expect to have new recruitment. For the other size subgroups, there is more important the number of recruitments, rather than whether they will or will not have recruitments. In our survey, we have used some slightly different business size groups, but the trend should be similar. Anyhow, the fact that the micro size subgroup usually foresees a very low number of new hiring, it is possible that it influences their perception about the difficulties in hiring staff.

Figure 35. Businesses in 2014 that foresee recruitment of new staff in the incoming 12 months. Source: (ILO & MSWY, 2014)

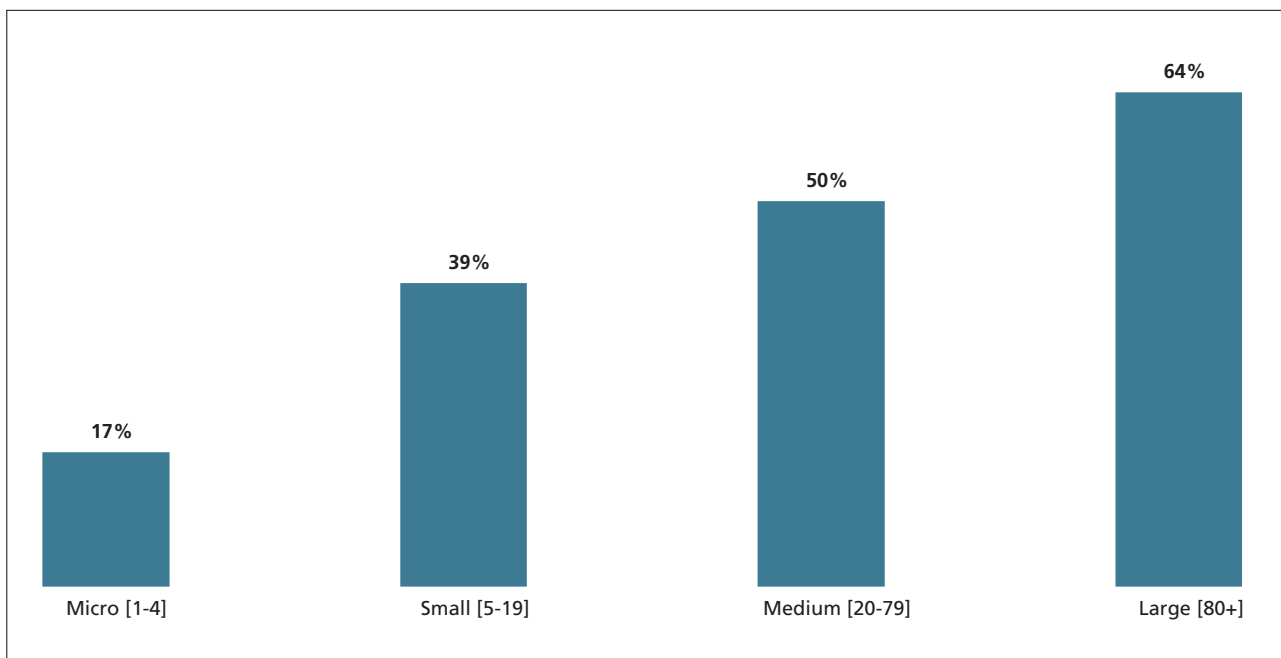
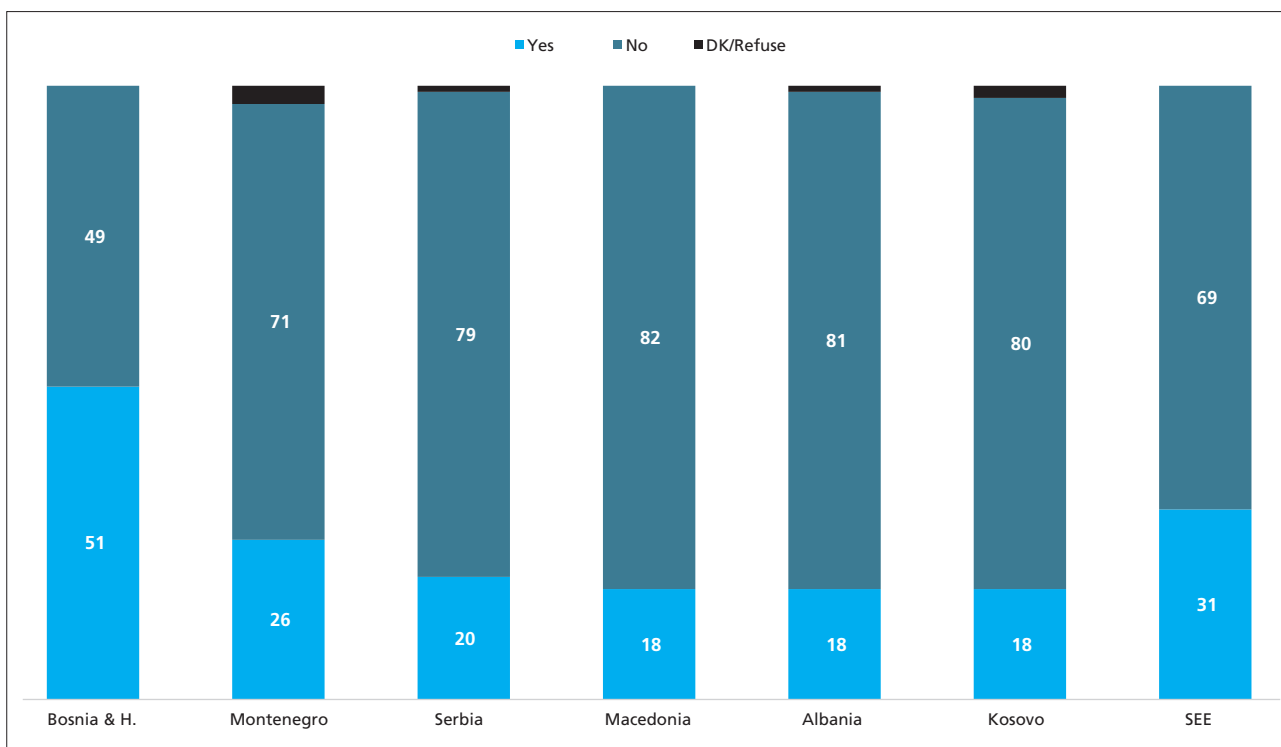


Figure 36. Did you have any vacancies that proved hard to fill over the past 12 months? Source: Balkan Barometer 2016, Business Survey, RCC



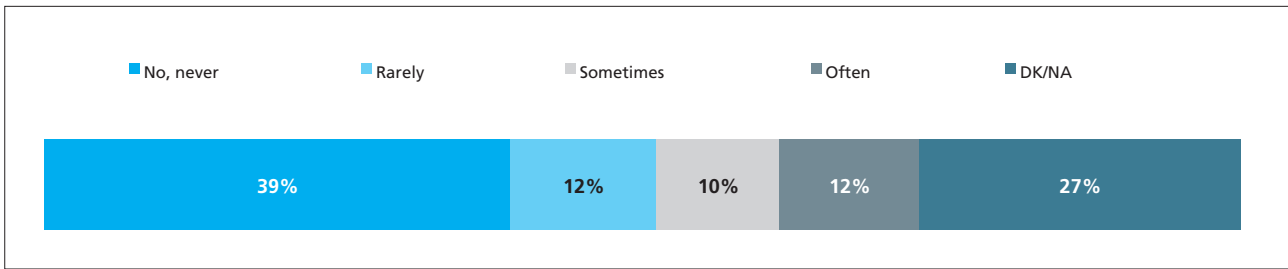
In Balkan Barometer 2016, the number of companies that had difficulty in filling vacancies was significantly higher in later years. Companies from Bosnia and Herzegovina (49%) and Montenegro struggle most with filling open positions.

Albania, Kosovo and Macedonia have the same result when asked if they had any vacancies that proved hard to fill over the past year.

The same report (Balkan Barometer 2016) found that, the problem of filling vacancies is proportionate to company size (49% of the biggest companies, but only 28% of small companies agreed). Exporters, more mature firms, mining and construction companies also emphasized this problem.

In our survey, in general, it seems that 39% of the companies did not have any difficulties in hiring staff with necessary skills in the recent 3 years. This result is influenced by the high number of companies with a legal status of physical person (self-employed), which operate with no or few staff. On the other hand, around 22% of the companies sometimes or often have had trouble in hiring staff.

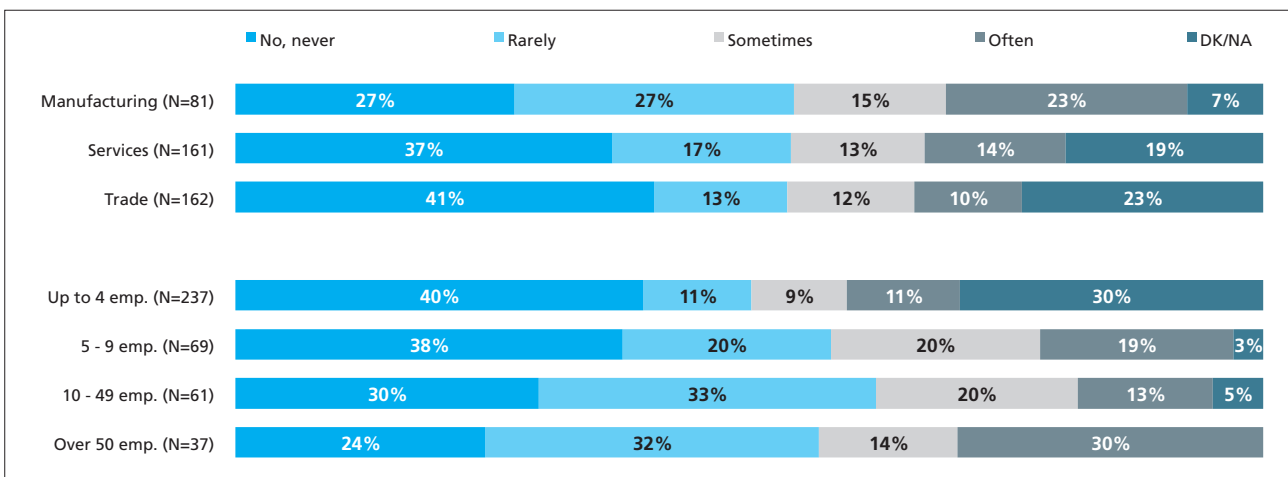
**Figure 37. Did your firm experienced important difficulties in hiring staff with necessary competences and skills over the recent 3 years? Overall results (weighted).**



If we analyze the results according to sectors and the number of employees, there is a more colorful picture. Manufacturing sector seems to have more difficulties in finding the suitable staff over the recent 3 years. 38% of companies in the manufacturing sector had faced sometimes or often important difficulties in hiring staff, while in the service sector this figure mounts 27%.

The size of the companies is also correlated to the difficulties in hiring staff. Micro sized firms (up to 4 employees) have faced often problems in finding suitable staff only on 11% of the cases. On the other side, the bigger firms (over 50 employees) have faced difficulties in hiring staff in around 44% of the cases (sometimes 14% and often 30%). Mid-size companies (10 – 49 employees) face difficulties in hiring staff in one third of the cases.

**Figure 38. Did you firm experienced important difficulties in hiring staff with necessary competences and skills over the recent 3 years?**



### Shortage of skilled workers impact on business

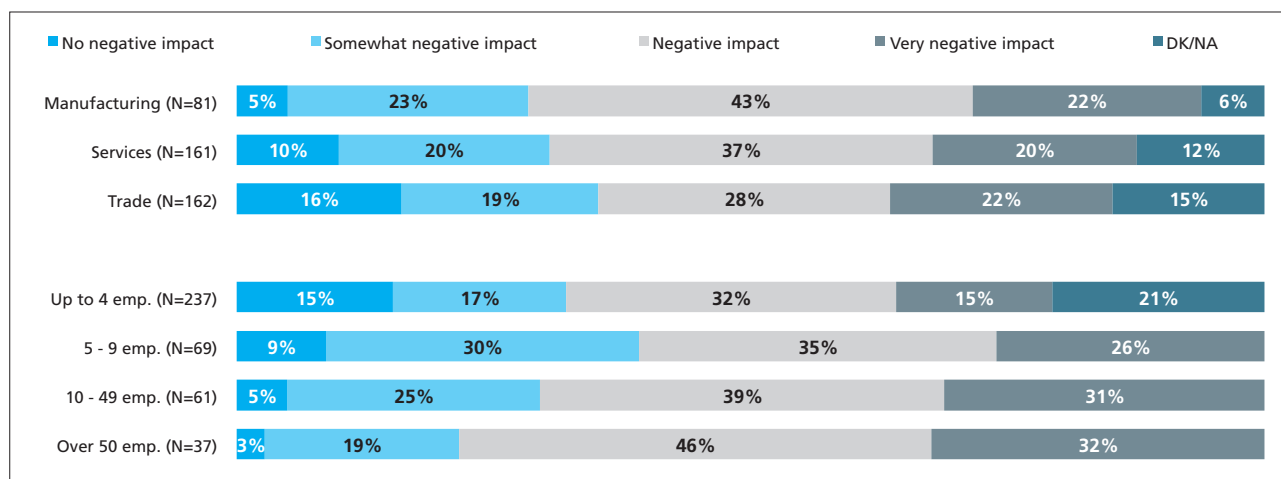
Shortage of skilled workers has a real negative impact on the business development of different sectors in Albania. Manufacturing seems to be more influenced by a shortage of skilled workers, with 43% of the respondents stating it a negative impact, while 22% more businesses name it with a very negative impact (figure).

Even the service sector seems that it could be hit negatively by a shortage of skilled workers in around 57% of the cases (37% with negative impact and 20% with very negative impact).

Shortage of skilled workers, affecting negatively on the business development correlates positively with the size of the businesses. The biggest businesses (over 50 employers) would have the worst impact, with 46% of them that would have a negative impact, and 32% of them that would have the very negative impact.



**Figure 39. To what extent would a shortage of skilled workers negatively affect the business development?**



**Conclusions:**

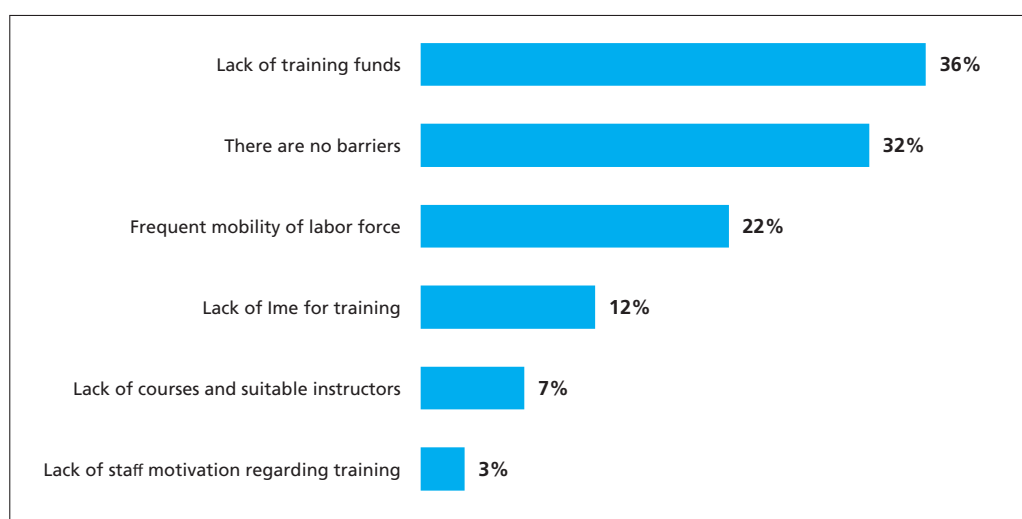
ESEE respondents place great importance on the professional skills and the appropriate level of education in considering the most important competencies and skills that employees are supposed to have. However, almost half of the bigger firms and a fair amount of companies in the manufacturing sector feel that they are having difficulties in hiring staff with the necessary skills and competences. The shortage of skilled workers raises the impact in correlation with the size of the companies. Other surveys show that the professional skills and work experience are the abilities that are lacking in the most selected professions with shortages.

However, the Balkan Barometer Survey demonstrates that the other countries in the region appear to emphasize even the ability to adapt and the language skills, which are not so important for the Albanian firms.

**5.3. Barriers to Training**

Skills Need Analysis 2014 conducted a thorough survey on barriers to training of companies in Albania. Lack of training funds is the most selected barrier (36% of companies) that hinders the investment in the continuous training of the staff. (ILO & MSWY, 2014)

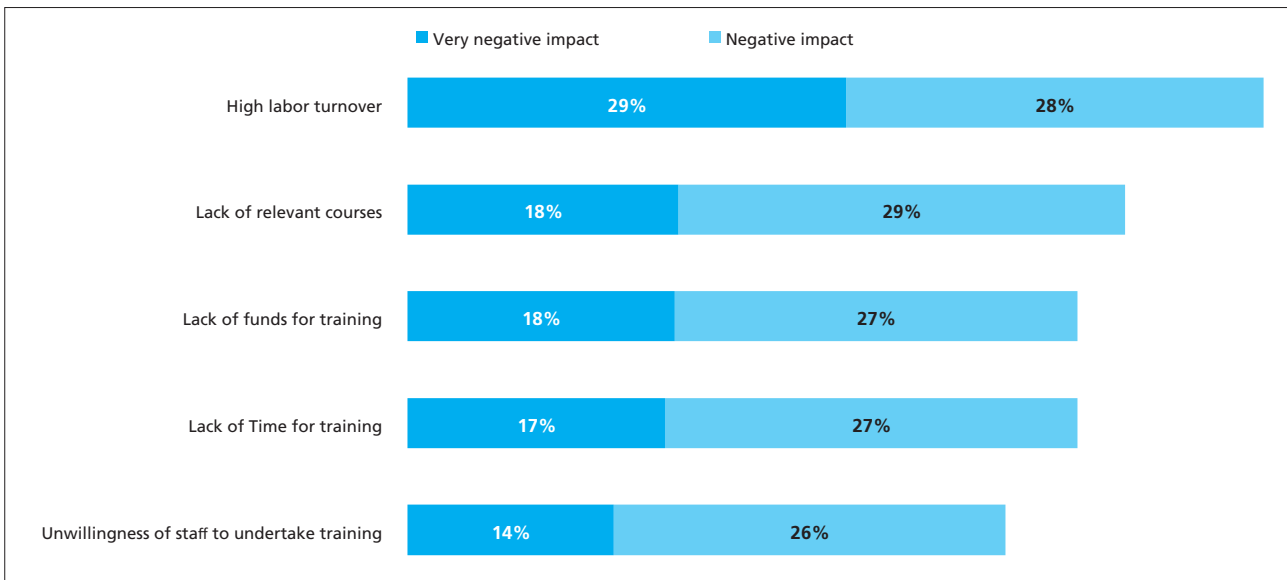
**Figure 40. Frequencies of barriers that hinder the continuous training of the staff**  
Source: ILO & MSWY, 2014



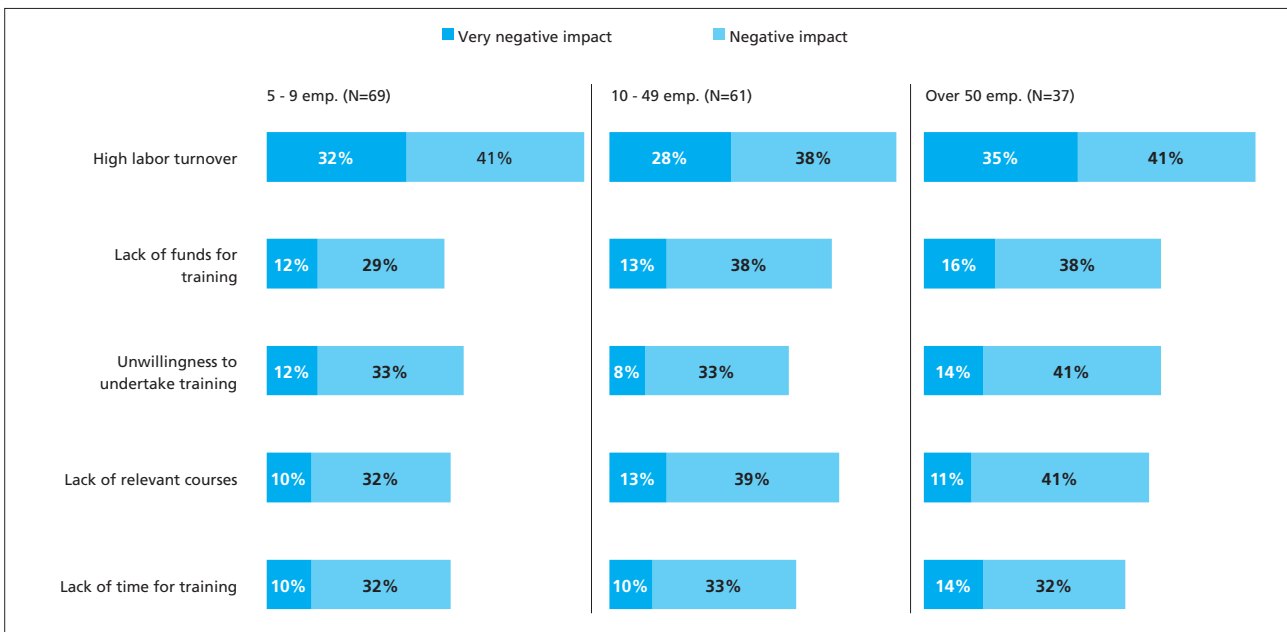
Frequent mobility of the labor force is a considerable barrier, selected by 22% of the companies. Businesses are worried to invest funds in the staff training because the trainees might leave the company not very long after they are trained. Approximately one third of the businesses (32%) do not see any barrier that hinders the staff training.

Similar results were verified in our survey. High labor turnover was a potential barrier of the 57% (including Very negative impact and Negative impact) of the companies in the frame. Lack of relevant courses and lack of funds for training are also important potential barriers to training and maintaining competent employees.

**Figure 41. What would be the impact of the following potential barriers for training and maintaining competent employees? (Overall results, weighted – shown only those who evaluate as “Negative impact” and ‘Very negative impact’)**



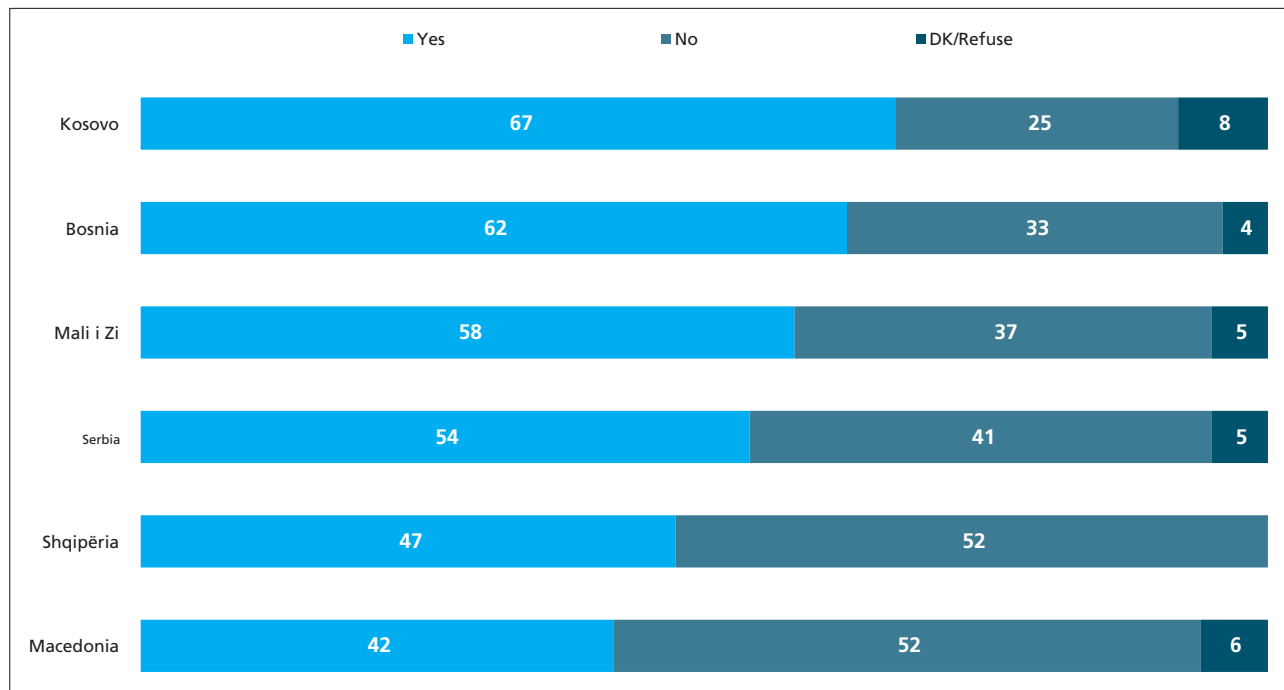
**Figure 42 What would be the impact of the following potential barriers for training and maintaining competent employees? (By number of employees).**



The size of firms has a great influence on the identification of the potential barriers to training and maintaining competent employees. High labor turnover remains the biggest problem across all the groups, while unwillingness for trainings and lack of relevant courses seems to be more robust in the biggest businesses (over 50 employees).

Balkan Barometer verifies the reluctance to attend new courses, where in Albania only 47% of the respondents would consider attending additional courses to help in finding a job. Other countries in the region have a more proactive workforce in relation to willingness for training.

**Figure 43. Would you consider attending additional education/courses to help you find a job?.** Source: Balkan Barometer 2015, RCC, page 60.



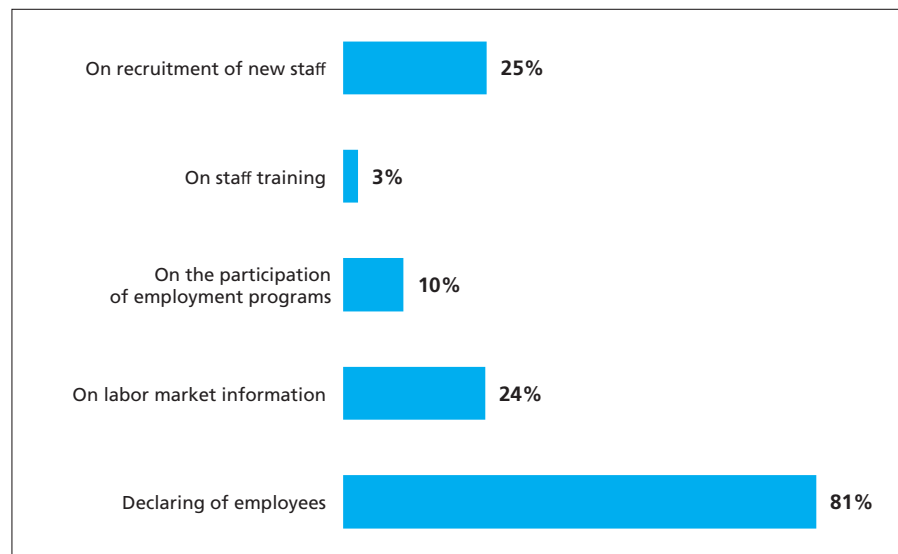
## 5.4. Training/skills support

### Training by VET providers or business organizations

SNA 2014 identified the relationship between the National Employment Office (NES) and businesses. NES fosters job opportunities through effective labor policies and offers quality vocational education and training for youth and adults. There is a legal obligation that explains why the majority of companies keep relations with the NES, which is a declaration of the employees, identified by 80.7% of the businesses. Indeed, this number could be a little higher, as the periodical “declaring of employees” is compulsory.

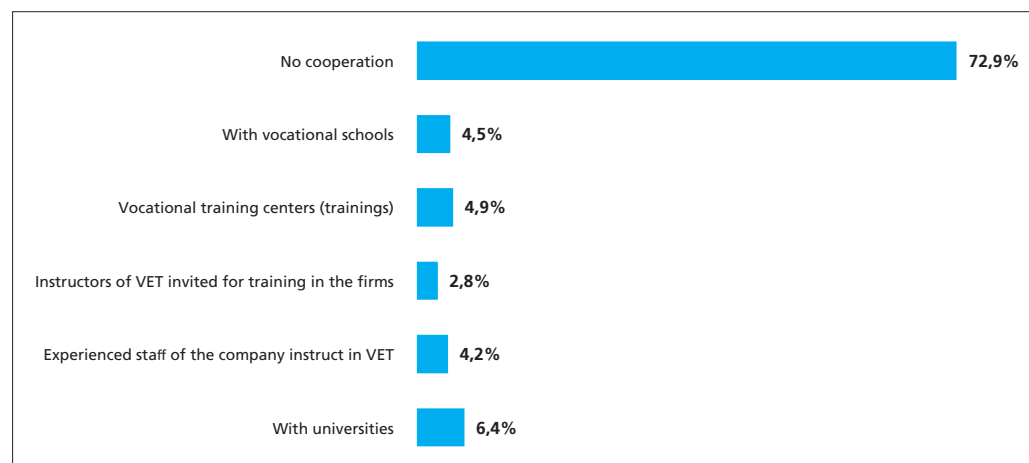
In SNA 2014, only 10% of the companies had had relations with NES by participating or getting information about employment promotion programs, which could include trainings. Just 3% of the companies have had relations with NES about staff training. The most important fact is that businesses know the NES in general and that NES services can be used for further enlarge the participation of businesses in training programs.

**Figure 44. Frequencies of matters of relations with the Employment Office (ILO & MSWY, 2014)**



SNA 2014 analyzed even the forms of collaboration between business and training systems. The study indicates that there is a very poor collaboration of businesses with the vocational education system and vocational training system. In addition, very low number of businesses (6.4%) collaborate with universities, while collaboration with any other vocational training/education system is even lower.

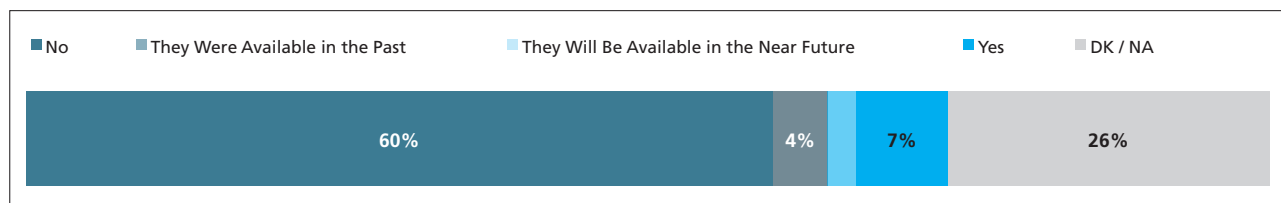
**Figure 45. Number of businesses and % collaborated with vocational education and training system (ILO & MSWY, 2014)**



4.9% of the businesses have cooperated with Vocational Training Centers that are operated by NES. Moreover, there are some firms that have invited instructors of VET centers, or their experiences staff has been invited to instruct in VET centers. Anyhow, there is more need to shorten the distance between businesses and training systems.

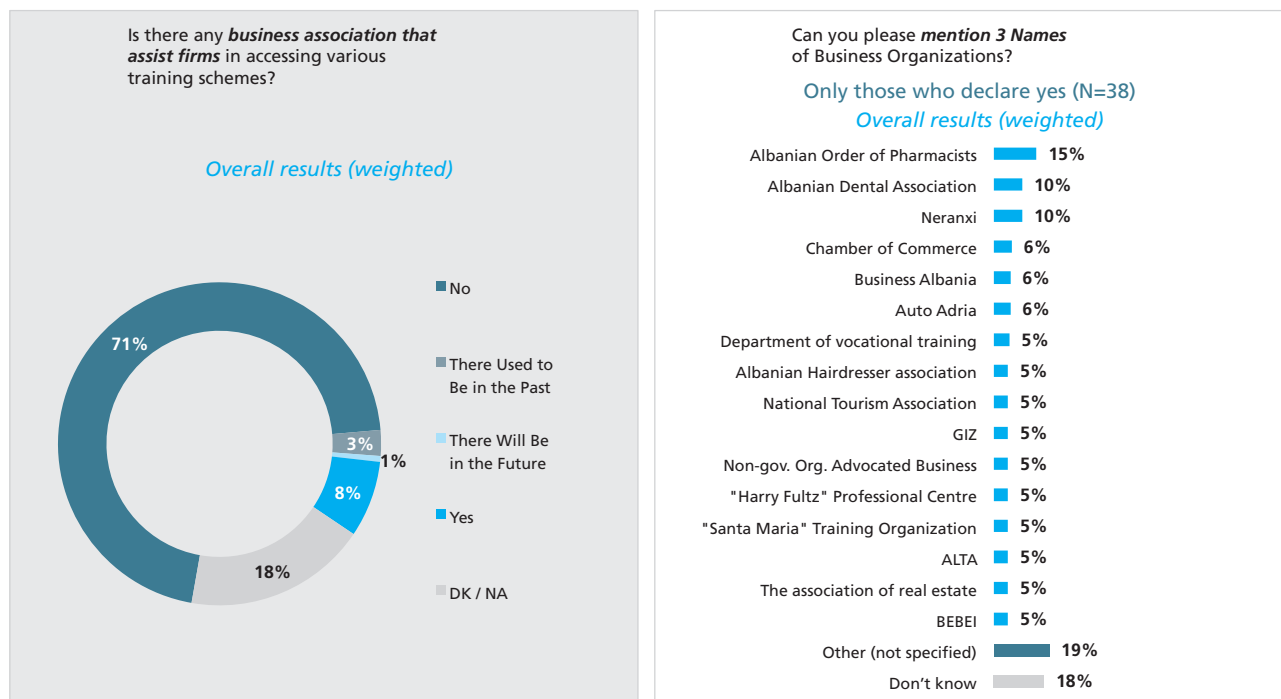
Similar results are reflected even in our survey. 60% of the businesses have no information about government programs that support professional training to fill up the gaps in staff competencies, while in SNA 73% of the businesses had no cooperation. Only 7% of the businesses have got information about staff training, while the SNA 2014 had only 3% of firms that used staff training. The results show that there is a need to inform businesses about the opportunities to train staff in governmental programs.

**Figure 46. Do any governmental programs for professional training exist that would support your firm in filling up the gaps in staff competences?**



In our survey, we inquired about the influence of business associations in providing and assisting firms in various training schemes. The absolute majority of the companies have no information about that. Just 8% of the firms had some information about any business association that helps in some way firms to access training schemes. There is a great need to have more assistance from business associations in this area, and to foster cooperation between business associations, NES and firms in order to have more suitable training schemes for the employees.

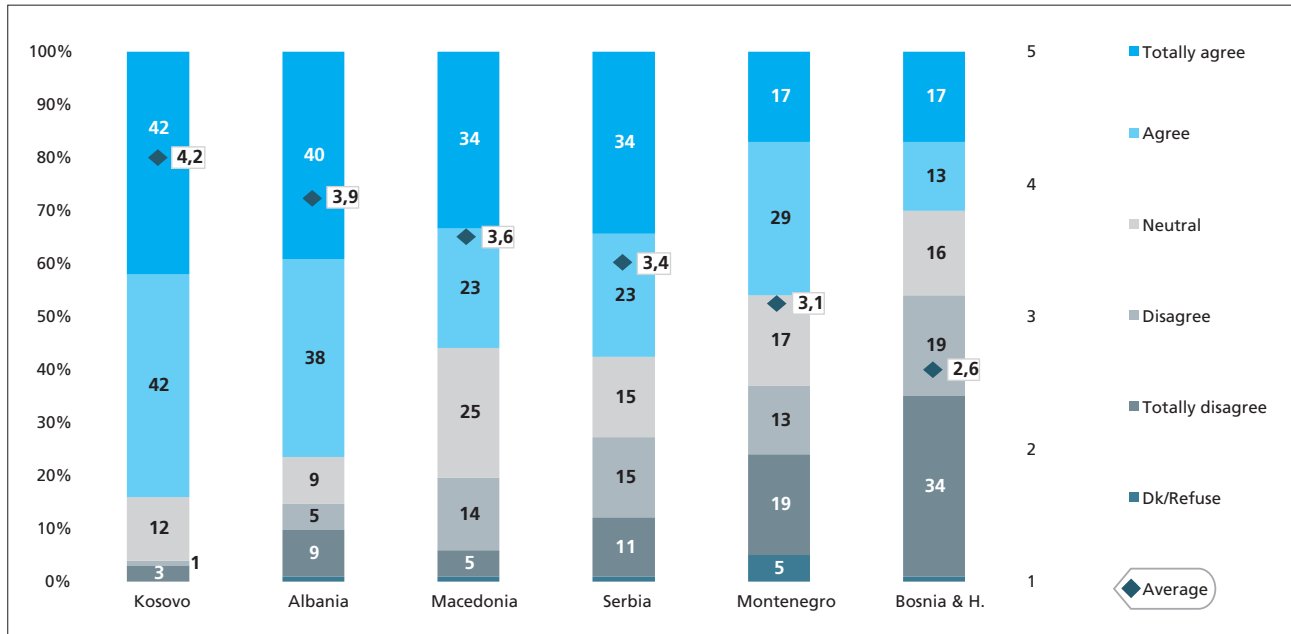
**Figure 47. Business association that assist firms in accessing various training schemes Overall results (weighted).**



## Skills taught in the education system

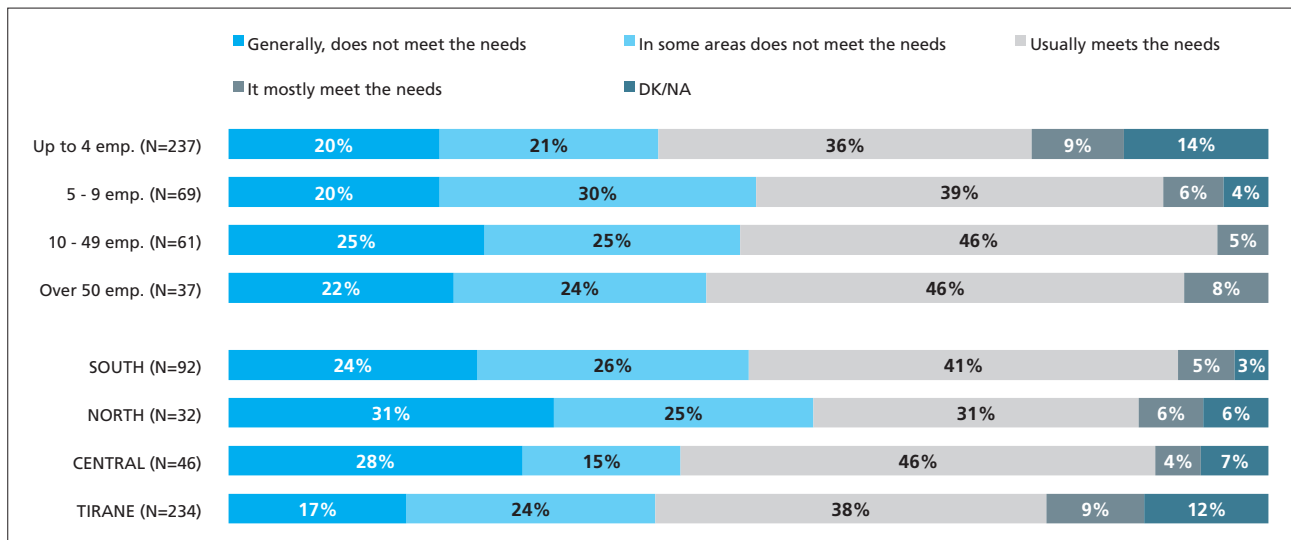
At regional level as stated in Balkan Barometer 2016, more than half (majority) of the business representatives are satisfied with the educational system with a view of meeting the needs of their enterprise. In Albania and Kosovo in more than three quarters of the cases, the respondents appreciate the knowledge and skills, which can be acquired through the education system in their economy. Montenegro and Bosnia & Herzegovina business community are more unsatisfied with their local educational system (RCC, 2016).

Figure 48. Would you agree that the skills taught in your local educational system meet the needs of your firm? Source: Balkan Barometer 2016, Business Opinion Survey, RCC, page 98



Our survey shows some more diverse results. In general only around half of the respondents stated that the tertiary and vocational education meets the needs of the business community. Businesses in Tirana have the lowest displeasure with only 17% of the cases where they state that educational system do not meet the needs of the businesses. Moreover the biggest businesses (over 50 employees) are a little bit more satisfied than the other groups of businesses, in contrary with the perception that larger companies demand more competences and skills of the local educational system. Company size does not influence that much the perception on this aspect.

Figure 49. To what extent tertiary and vocational education in Albania meets the needs of the business community?

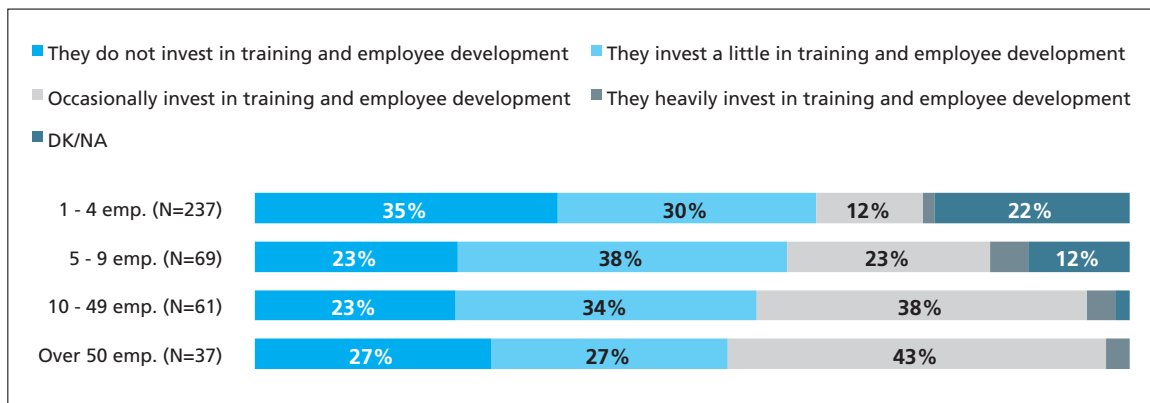


## Skills taught in the companies

There is almost a consensus that larger businesses do not invest heavily in training and employee development. Just 43% of the biggest businesses in our sample state that the largest businesses invest occasionally in training and employee development. On the other hand, 27% state that large businesses do not invest at all in training their staff.

Smaller businesses are more skeptical about the general approach of the large businesses about human resources trainings. National Employment Service offices and Business Association must do more to raise the awareness of the large businesses to invest more in human resources development.

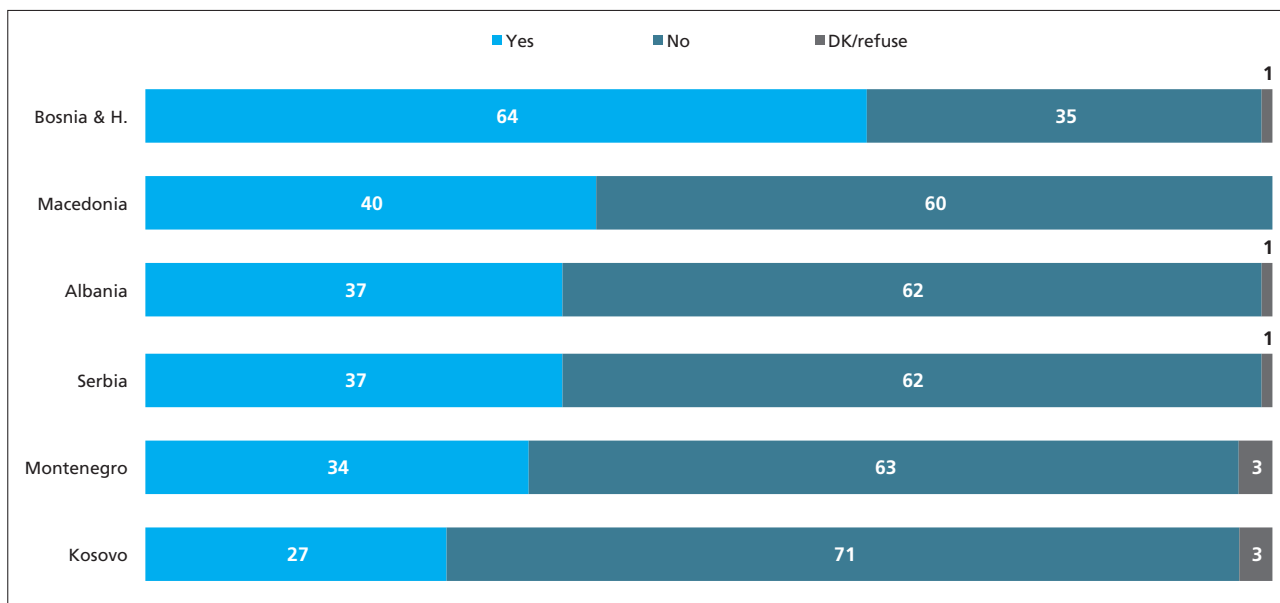
**Figure 50. How would you describe the general approach of large enterprises in Albania to human resource development?**



The Balkan Barometer 2016 shows some different results between countries about the trainings organized by the business for its own staff.

More than one third of the business leaders in Albania claim that they have organized additional trainings for their employees in the past year. Compared to the rest, firms in Bosnia and Herzegovina invest more in staff development, 64% confirm that they organized training for their staff, while Kosovo companies are the less active firms in this aspect.

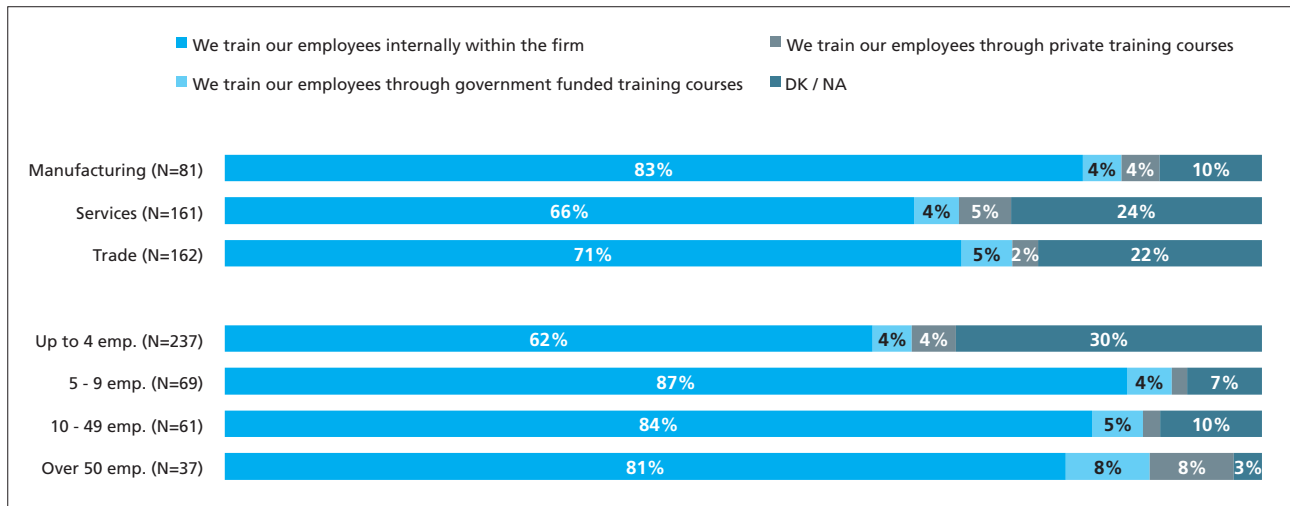
**Figure 51. Over the past 12 months, has your business funded or arranged any training and development for staff in the organization? Balkan Barometer 2016, Business Opinion Survey,**



Companies tend to train employees internally within the firm, or at least they claim it in the case they do not organize any training in a formal way. Very few companies seek the training of the employees through government funded training courses or through private training courses.

The biggest companies (over 50 employees) are more oriented to outside trainings for their employees, but still in only 16% of the cases. Companies sector's does not influence so much this aspect too, except for the fact that Manufacturing sector seems to train more employees internally than the other sectors.

Figure 52. How does your firm manage skill deficiencies of your employees?





## 6. Legal and Regulatory Framework

The Global Competitiveness Index captures some aspects of the burden of government regulations and the efficiency of challenging them and the results are very different comparing to other countries. The burden of government regulations comprises costs in order to comply with regulations and includes the time and work that has to be expanded on filling in forms, obtaining licenses, and the like, etc. Albania appears to have the smallest burden of government regulations, ranked 11th in the world, with a total score of 4.6 with a maximum score of 7. Montenegro and Macedonia fare better in the ranking too, while the other countries seem to have a big burden of government regulations on their activity.

On the other side, despite having fewer regulations, the efficiency of legal framework to challenge the legality of government actions and/or regulations is poor, with a value of just 2.8 from the maximum score of 7. Serbia and Bosnia & Herzegovina seem to have a big burden of government regulation that is followed by the high inefficiency of the legal framework to challenge the regulations.

**Table 7. Burden of Government regulation**

	Burden of government regulation (rank of 138 countries)	Value (max 7)	Efficiency of legal framework in challenging regulations (rank of 138 countries)	Value (max 7)
ALB	11	4.6	109	2.8
MNE	58	3.6	77	3.3
MKD	49	3.7	92	3.1
SRB	128	2.4	115	2.7
BIH	125	2.6	123	2.6
SLV	116	2.7	89	3.1

Albania has a big advantage in not applying excessive regulation that could restrict willingness to start companies, and could deter the creation of new professions and jobs, but this enormous advantage is hampered by the inability of the legal framework for private businesses to challenge the legality of government actions and/ or regulations.

Regulatory Quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector. The Worldwide Governance Indicators (WGI) project reports aggregate and individual governance indicators for over 200 countries and territories over the period 1996–2015

Regulatory Quality Index of Albania has been 0.20 in 2016, while having a stable index in the last three years. Albania fares better the rest of the countries in the Western Balkans, except Macedonia, while Slovenia shows again the benchmark that the region should follow. Kosovo and BiH have deteriorated their index in the last years, while Montenegro has improved it by a good margin.

Our first question inquires if the government has provided a regulatory framework to encourage firm growth.

Firms in different sectors have similar negative opinion about the quality of the regulatory framework provided by the government. Around half of respondents do not see a regulatory framework, while more than a quarter can somehow notice a basic regulatory framework.

Firms of different sizes have the same similar negative opinion, but with some twists. Around 14% of largest businesses state that the government mostly provides a regulatory framework to encourage growth, while more than 80% in all firm sizes are somehow skeptical about this mechanism.

Figure 53. Regulatory Quality index (Worldwide Governance Indicators)

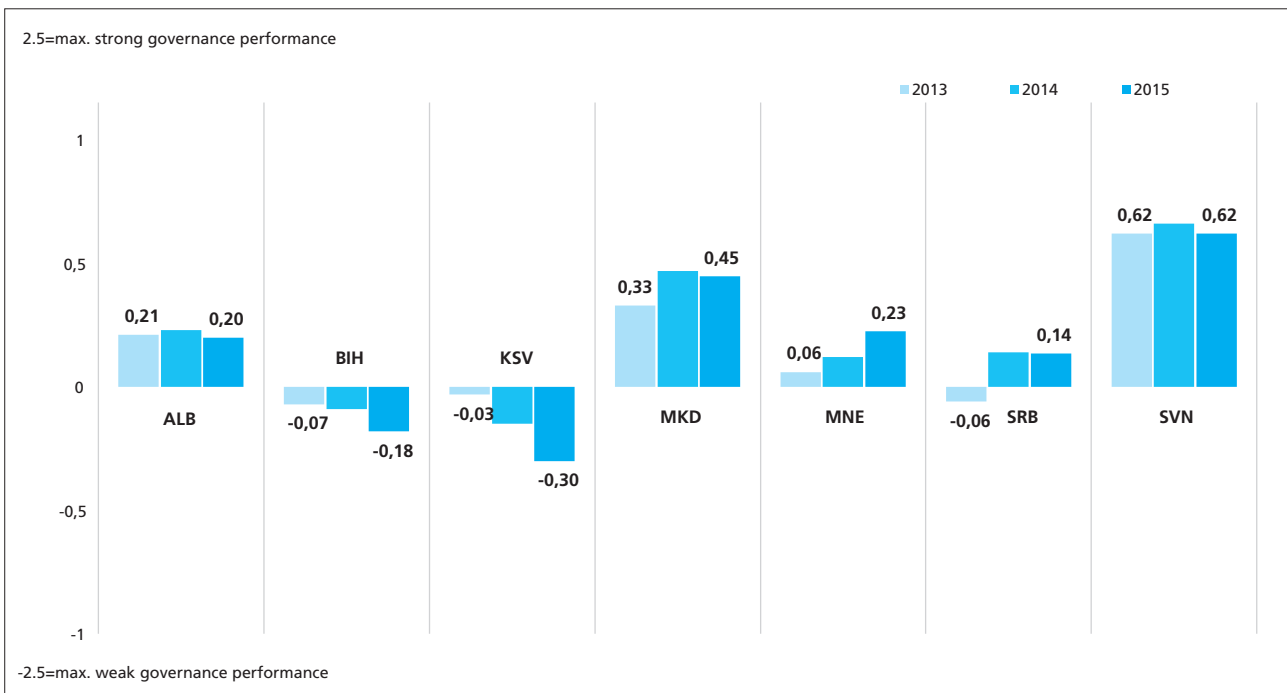
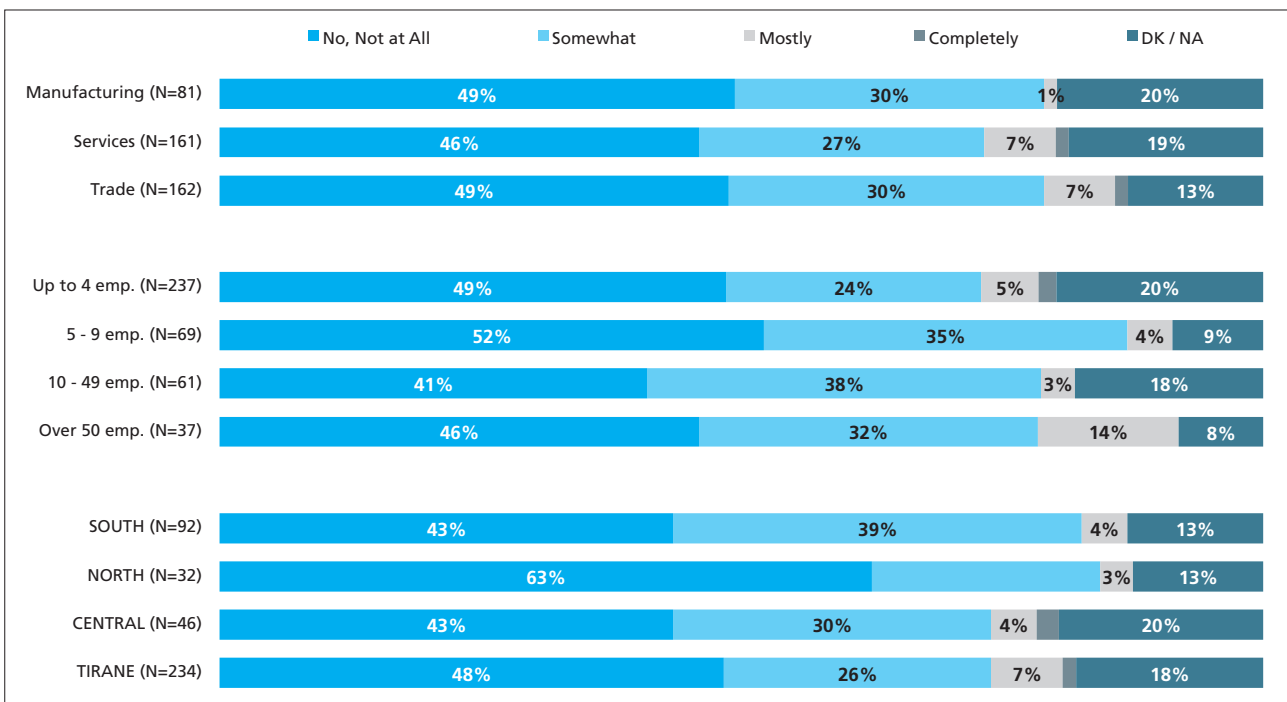


Figure 54. In your view, does the government provide a regulatory framework that encourages firms to expand their operations, if the business case permits?



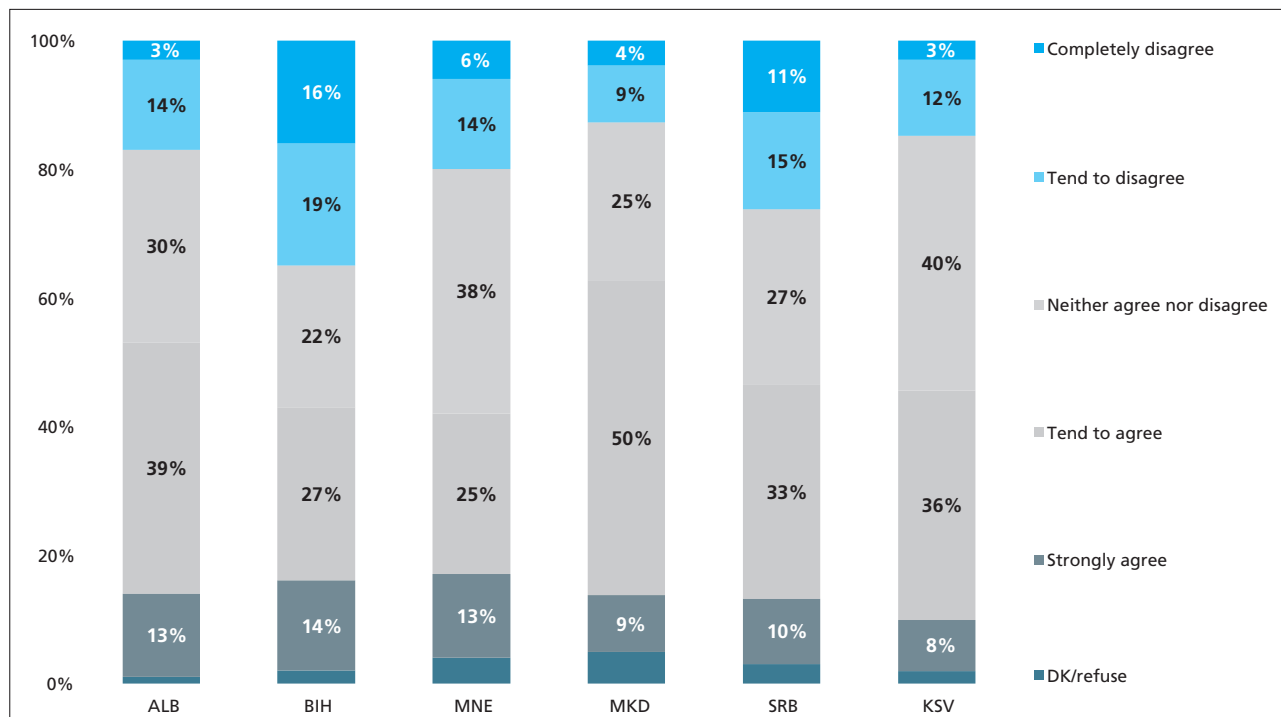
### 6.1. Consistency and predictability of laws and regulations

One of the main concerns of the firms is that the laws and regulations change very often, and sometimes unpredictably. Balkan Barometer Business Survey 2016, asked the firms about the interpretation of laws and regulations affecting the respondent in the survey. When asked directly about the fact that the laws or regulations are consistent and predictable, only 17% of firms in Albania appear to have a disagreement in relation to their experience.

Firms in Bosnia & Herzegovina and firms in Serbia seem to complain more on their direct experience with non-predictable laws and regulations.

On the other side, around half of the firms in Albania tend to agree that regulations affecting their activities are consistent and predictable. Only firms in Macedonia fare better in this aspect, with close to 60 percent of them that consider laws and regulations to be consistent in connection with their activity.

**Figure 55. Interpretations of laws and regulations affecting my firm are consistent and predictable.**



On a scale of four possible answers, the majority of responses is concentrated on the second option, which means that laws and regulations are sometimes consistent and predictable, but mostly not. Fair amounts of answers are also at the most extreme response, which considers the laws and regulations almost not consistent and predictable.

While looking at the main sample broken down by different sectors, the Manufacturing firms seem to have more problems with changing laws and regulations unexpectedly in more than 87% of the cases (combined “not at all” and “somewhat”).

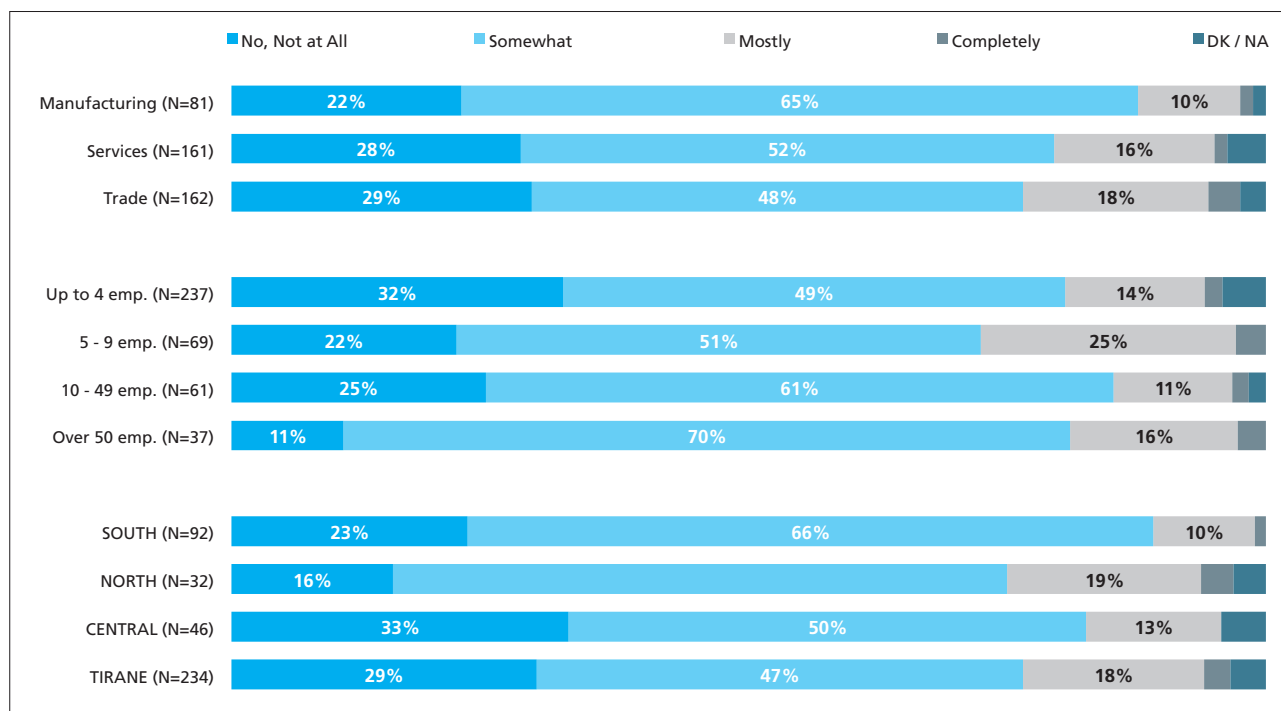
Considering the size of firms, the results are very different in the first option. The large firms’ responses are very few at only 11% on the most extreme answer of having no consistency and predictability of the laws and regulations, while the other groups on a quarter of the responses prefer to say that.

Firms in different regions show some differences in the evaluation the consistency and predictability of the law and regulations. Firms in South of Albania consider in 89% of the responses that laws are mostly inconsistent and unpredictable, while firms in Tirana show the same attitude in ¾ of the response.

A striking result of this question is the lack of responses that laws and regulations are completely consistent and predictable (just 2-3% in general). This is an area where government should cooperate more with employers and business associations and other stakeholders.

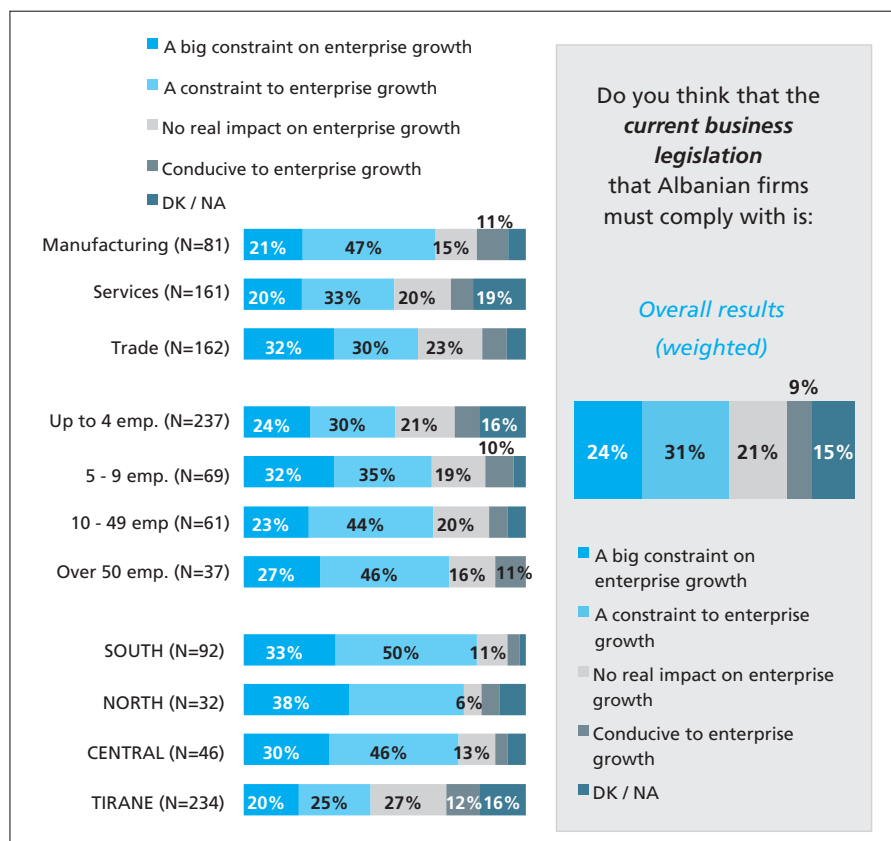
When asked about the influence of the current legislation to the company growth the results are showing that the impact is mostly negative, although with a diversity of responses especially in sectors and regions.

Figure 56. In your view, are the laws and regulations affecting firms both consistent and predictable?



While looking at the main sample broken down by different sectors, the services sector shows that legislation creates constraints to growth in just over half of the responses, while the manufacturing sector states the constraints in 68% of the responses. On the other side, a small but steady part of the responses in each sector, around 11%, show that the current legislation is favorable to the enterprise growth.

Figure 57. Do you think that the current business legislation that Albanian firms must comply with is?



Micro size firms could face in general with less legislation requirements; as they also show that legislation create constraints in 54% of the responses. The bigger the business, the more constraints, it faces, as the survey shows that the biggest firms (over 50 employees) face constraints of the legislation in 73% of the responses.

Firms in different regions show a different attitude in relation to the impact of legislation on firm growth. Firms in the Tirana state that legislation could be a restraint only in 45% of the cases, while it is favourable in 12% of the responses. Firms in other regions show similar results with each other.

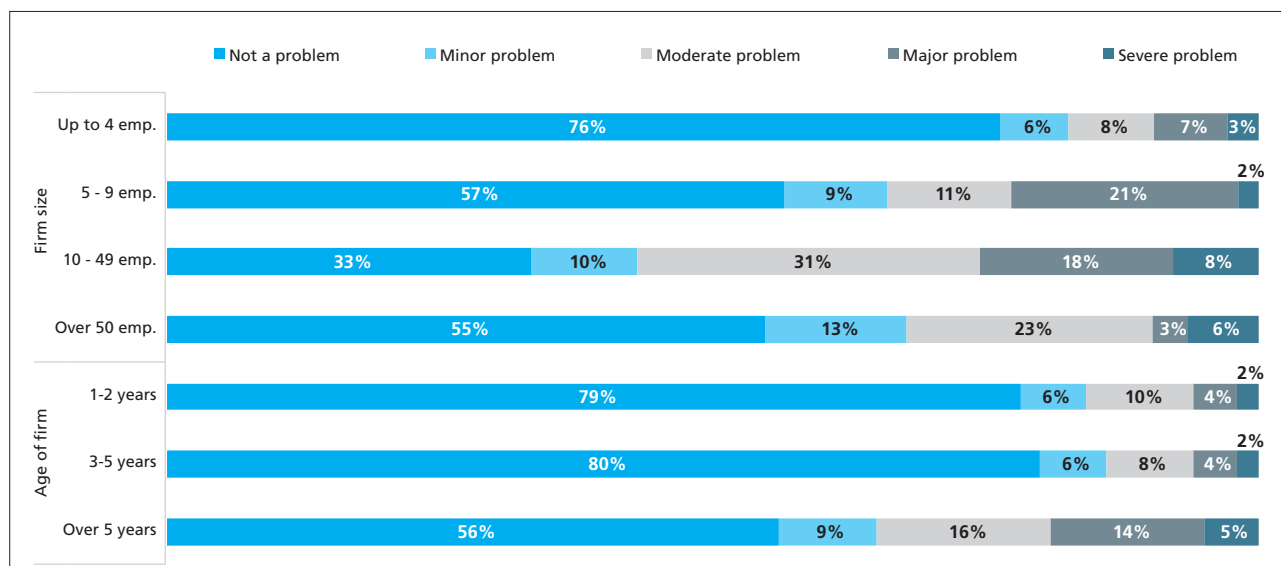
## 6.2. Enforcements of regulations

The Global Competitiveness Index showed that Albania has many problems with the enforcement of the regulations. Albania was the last country in the region to adopt an Administrative Court in 2013.

### Administrative court

ESEE respondents appear to have different opinions in relation to their firms' size. Medium size companies (10 – 49 employees) seem to be more skeptical about the performance of the administrative court, as close to 60% of them consider it as at least a moderate problem. Moreover, the older firms (over 5 years of lifetime) have concerns about the administrative court, as one fifth of them consider its performance as a major problem.

Figure 58. Performance of the Administrative Court



### Insolvency procedures

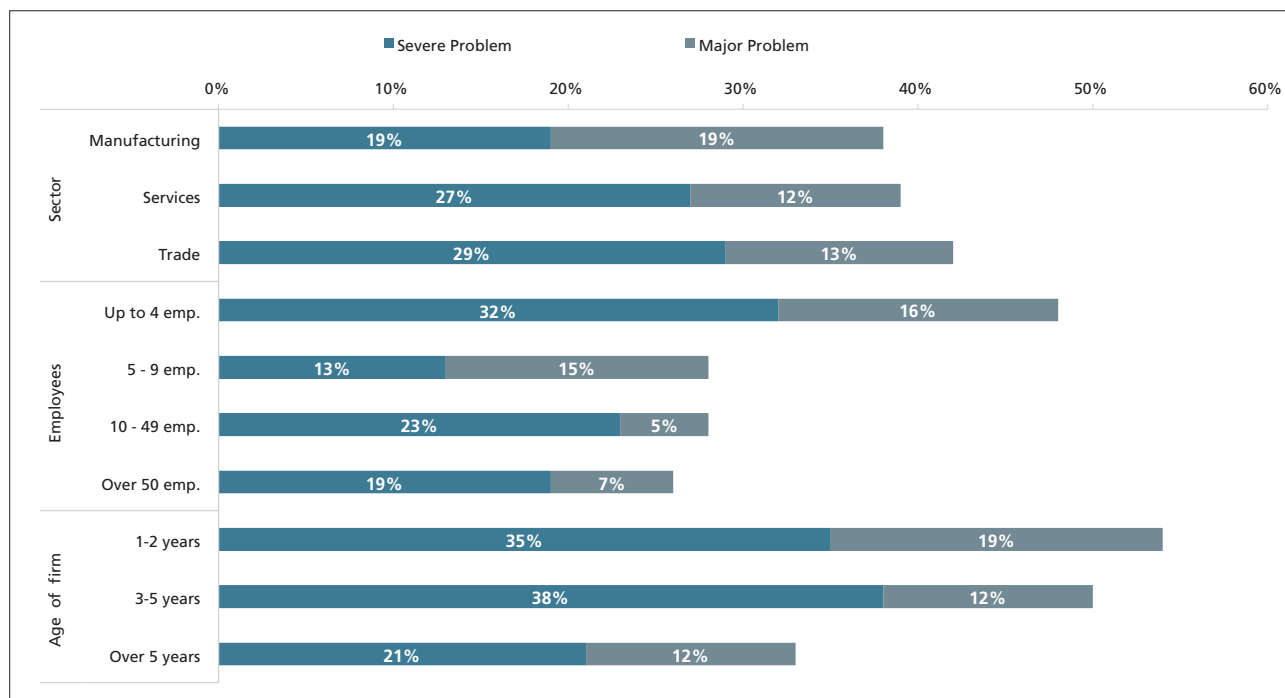
Insolvency procedures involve the time and cost required to resolve bankruptcies or liquidations. The existing bankruptcy law is being replaced by a new law, which enters into force in May 2017. World Bank did organize a wide process of consultations with stakeholders in order to have a broad opinion on the issues.

Trade sector appears to have the most negative experience with insolvency procedures, as 29 percent of the firms in the sector reflect a severe problem with these procedures.

Moreover, the micro size businesses (up to 4 employees) reveal that in half of the cases they consider the procedures of closing up a business as troublesome and problematic.

Young firms have the most problematic situation in relation to the business closure.

Figure 59. Legislation & Procedures for Closing Up a Business



It appears that firms in the first years of the activity face the possibility of closing the activity and they perceive major and severe problems in the whole process.

Although the Government has set up a new law on Insolvency, it appears that the problems are more troublesome for the micro size firms and young firms. As such, the legal regulations should include more simplified procedures for closing the smaller businesses

## 7. Other RELEVANT issues

### 7.1. Business-Government Dialogue

The Government of Albania has increased its focus on fostering a dialogue with the private sector through new mechanisms like National Economic Council (NEC) and Investment Council (IC).

National Economic Council is established to guarantee the institutional collaboration and public – private partnership for the development of economic policies, ensure dialogue and consultation between government administration bodies and the private sector.

NEC will be consulted in relation to policies which have an impact on the economic areas like Investment promotion policies; and The monitoring of the impact of bureaucratic practices on business climate, etc.

Investment Council is a platform set up by the Albanian authorities with support from the EBRD to intensify the dialogue between the government and the private sector, improve the business climate and promote good governance. Investment Council has in its composition, senior government officials, representatives from business associations and multilateral agencies.

The work of the Council is supported by a Secretariat, an independent body of professionals selected and contracted by the EBRD to directly engage with the business community. The Secretariat provides organisational, analytical and professional support to the IC members. IC is designed to provide a platform for dialogue between the private sector and the authorities, with the ultimate aim of leveraging the private sector's experience to enhance the content and priorities of policy reforms.

Although the Government has created more tools to provide platforms for dialogue and to improve the business climate, our survey shows that it is still early to have some results on that.

### Companies participation in Business Associations

The participation of firms in Business Associations is still very low.

Only 62 firms from a total sample of 400 firms, confirm that they are members of Business Associations.

Associations based on professions appear to have a notable presence in the sample. Pharmacists, dentists, and taxi drivers have more than 10% each of those firms who confirm to be part of a Business Association.

The Chamber of Commerce and Business Albania rank in the middle of the list. Some local business organizations have a presence in different regions.

Firms' size matters a lot in order to be a member of a business association. The bigger firms (over 50 employees) are members of business associations in 41% of the cases. Small firms (up to 9 employees) have much less interest in business associations, as shown in the figure.

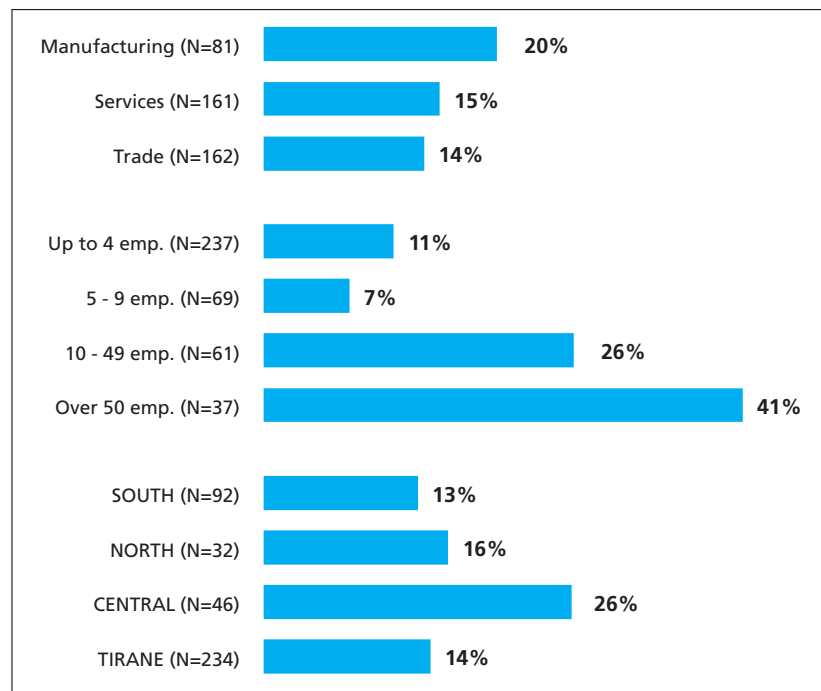
Manufacturing firms have a slightly more interest in being part of a business organization.

Firms in Tirana have a very low rate of membership (14%) in business organizations, similar to firms in the South and North Albania. On the other side, firms in Central Albania appear to be more active (26%).

Figure 60. Firms in Business Organizations



Figure 61. Being part of a Business organizations in Albania



The majority of firms are not part of any business organization.

The last question of the survey deals with the reasons why firms are not members of a business organization.

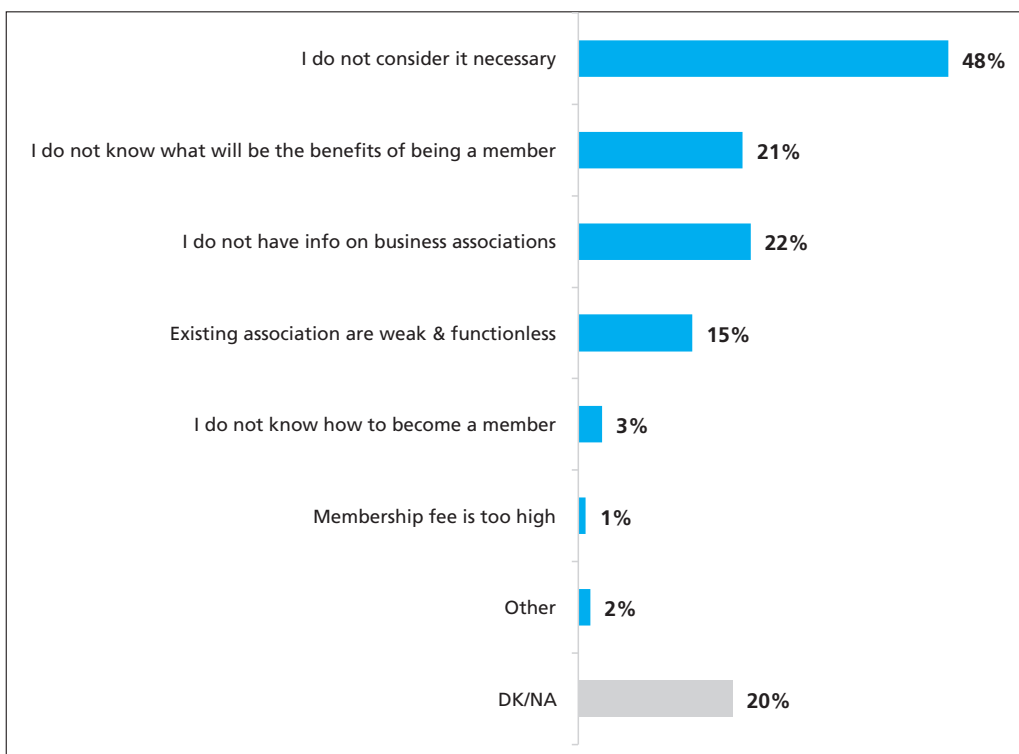
Firms, in 48% of the responses, do not consider necessary the membership in business organization. Moreover, 21-22% of the firms do not know the benefits of membership, and do not have information about business associations.

Another 15% of the firms have a negative opinion for business organizations, by stating that existing associations are weak.

All these reasons should be enough to understand the real goals of the business association in Albania.



Figure 62. Why aren't you a member of a Business Organizations? (those who are NOT member at any business organizations)



## Recommendation

Business associations should promote and state clearly the benefits that they provide for their members. Members should be informed about the dialogue between government and business associations, and the tripartite dialogue in other sectors (government, business organizations, and trade unions).

Capacity building of existing business organizations should be accompanied by a more extensive fieldwork to spread information on possible members.

## 7.2. Public investments for priorities

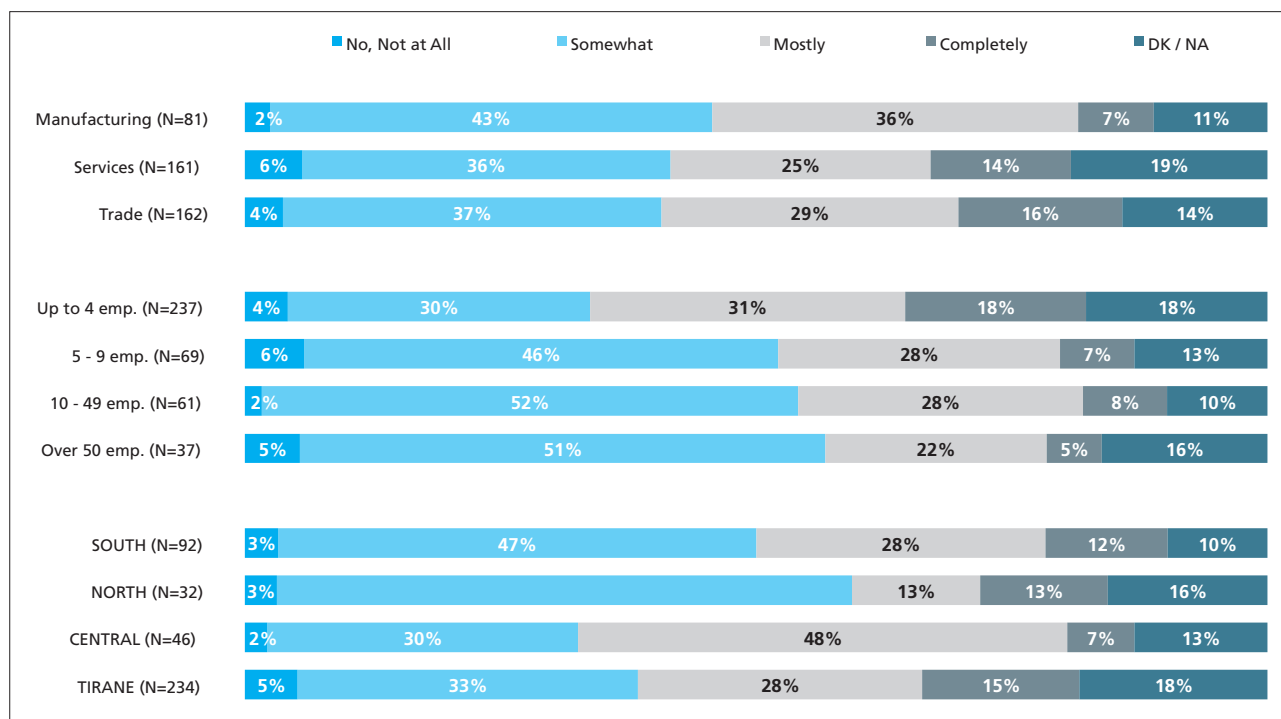
The government collects taxes to deliver public expenditures, but there is a concern about the destination of the funds.

This question has four possible answers, but the majority of responses is concentrated on the "somewhat", which means that some of the funds are wasted, and on the "mostly", which means that most funds are wasted.

Firms in different sectors have somehow similar opinions about the usefulness of the funds spent by the government. Around 14-16% of firms in services and trade sector imply that the government wastes completely its funds.

Firms in different sizes show two different pictures. On one side, there are the micro size firms, which seem very pessimistic about the government's funds destination.

Figure 63. Does the government waste funds earmarked for public services?



Half of the micro size firms, state that government funds are mostly wasted. That is a very high level of disbelief in government operations, and more has to be done in order to inform the small businesses about the destination of the expenses by the state budget. The biggest firm's statements in just 27% of the responses that the government funds are mostly wasted.

Firms in different regions show different answers. Surprisingly firms in the North and South of Albania have lower disbelief in the management of the government funds. Firms in the Tirana state in 43% of the responses that government funds are mostly wasted.

An important factor of business climate is the physical and social infrastructure of Albania, which includes roads, energy, ports, water and telecommunications as well as basic education and health. The construction of these basic services has a double benefit: improving living standards, and facilitating the growth of businesses. Technical inefficiency at road infrastructure, railroads, electricity and water has caused huge losses within the transition years.

Poor infrastructure, close regional markets and lower production confront many large manufacturers with critical shortages of inputs. Albania had a very poor infrastructure in the beginning of the nineties and has made many efforts to somehow improve the situation. Anyhow, there remains a lot to do in this area of public sector.

Global Competitiveness Index's second pillar calculates the infrastructure quality, and it comprises the quality of roads, railroad, ports, air transport, electricity supply, etc. Albania ranks fairly well in the last report (GCI 2016-2017) in the quality of roads having a score of 4.4 from 7. Previous reports show that Albania's score in GCI 2014-2015 was 3.9, and in GCI 2015-2016 increased more to 4.3 scores.

This score gives to Albania the 56th rank in the World, way ahead of other countries in the region, and just the same score with Slovenia.

Overall infrastructure includes even quality of ports, air transport, which still have a good score for Albania (4.2 for ports, and 4.4 for air transport), while railroad quality has the lowest score of just 1.4. As a result the overall infrastructure score of Albania is 4.1, achieved the rank of 68th country in the CGI rank, just ahead of Macedonia.

**Table 8. Quality of roads and overall infrastructure at GCI**

	Quality of roads – value (max 7)	Quality of roads – rank (138)	Quality of overall infrastructure - rank
ALB	4.4	56	68
MKD	3.7	82	71
MNE	3.2	102	96
SRB	2.9	115	107
BIH	2.9	116	104
SLV	4.4	52	40

Source: Global Competitiveness Index 2016-2017

Our first question about infrastructure tends to evaluate the needs of the businesses for more and better-maintained highways.

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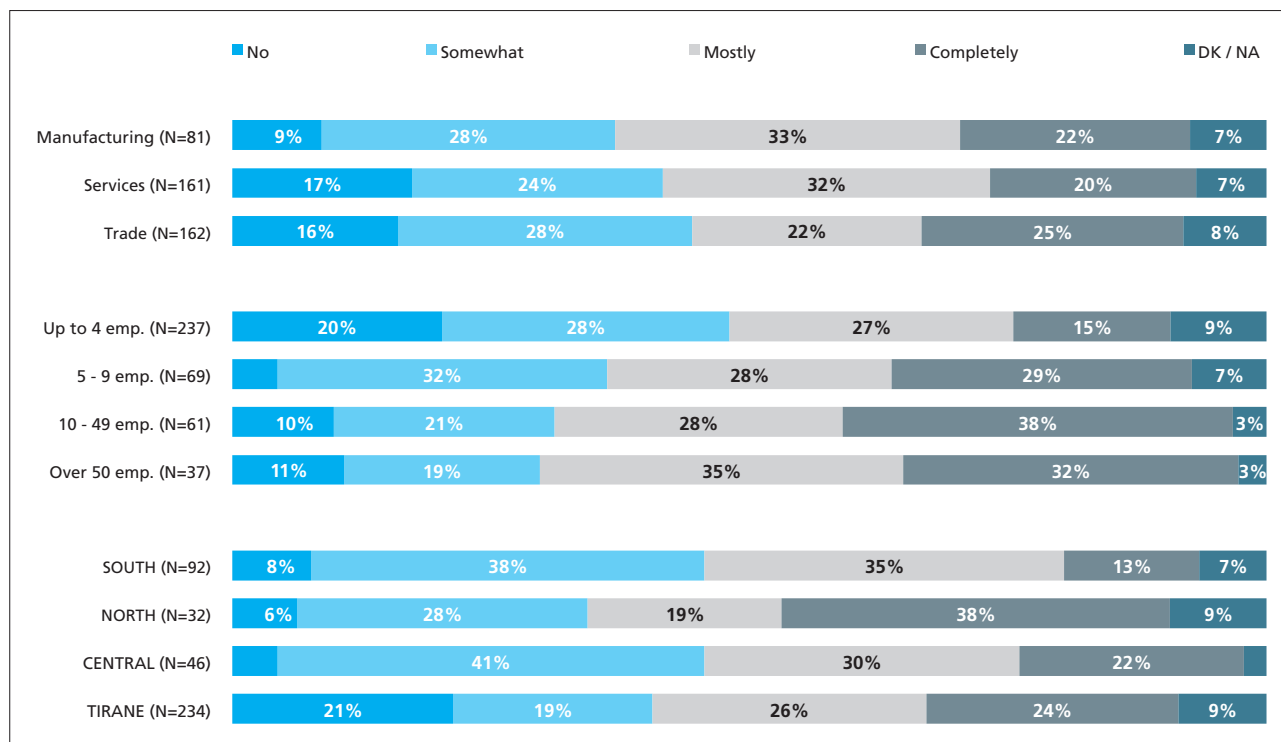
Firms in the manufacturing and services sector consider mostly a priority, in more than half of the cases, the maintaining and extension of the highway network.

The medium and big size firms (10 – 49 over 50 employees) are more inclined to consider highways as a priority in 2/3 of the responses. Micro size (up to 4 employees) firms are more indifferent in relation to investments in infrastructure, as just 42% of them consider that as a priority.

Firms in North of Albania still see roads as a high priority, a bit more than the other regions. Moreover, 50% of the responses in Tirana consider investments in infrastructure as a priority.

As many firms still have problems with the infrastructure, the survey did include a question about the chances that businesses inform authorities about their infrastructure needs in order to target future investments.

**Figure 64. Is maintaining and extending the network of highways a priority for the private sector?**



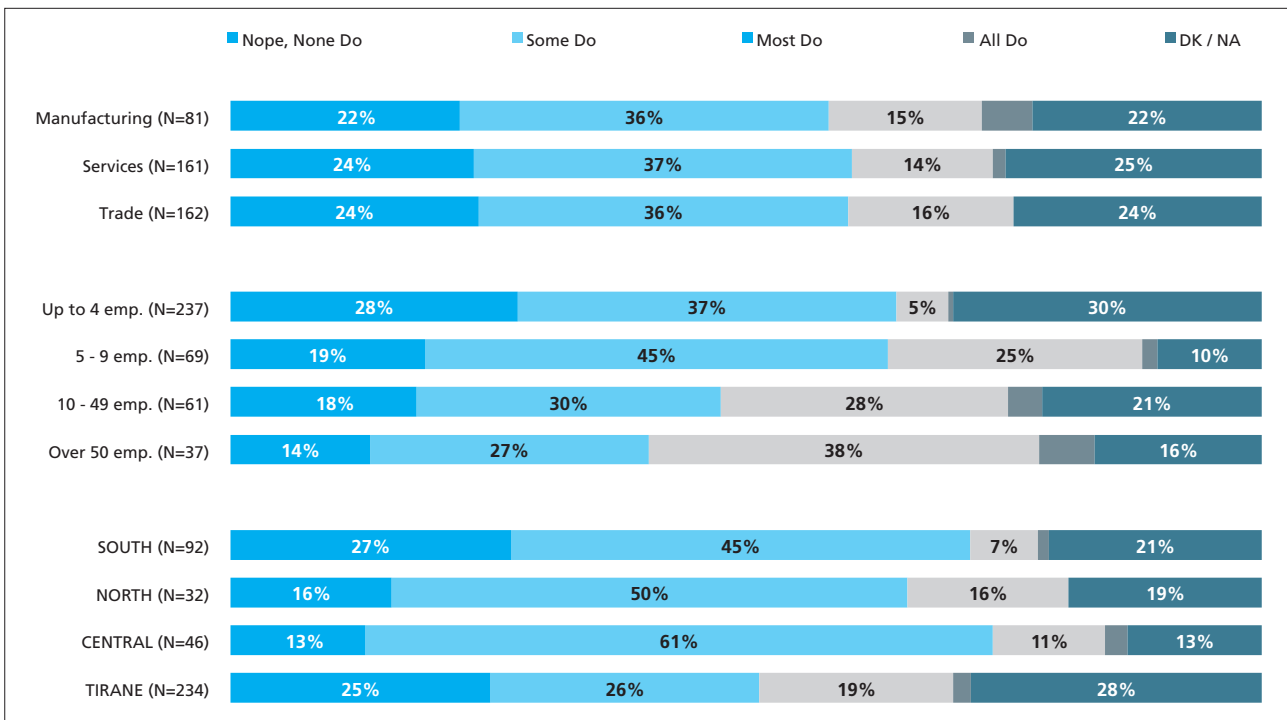
This question has four possible answers, but the majority of responses is concentrated on the “some do”, which means that fewer firms inform authorities about their infrastructure needs.

Firms in all sectors seem to have the same opinion about this issue, expressing that around 60% of the firms do not provide information about their needs, or provide it rarely.

Micro size firms are more indifferent in their infrastructure needs. The bigger the business, the more urge it has for providing information about the infrastructure needs, as the survey shows that the biggest firms (over 50 employees) require investments in more than 40% of the responses.

Firms in Tirana seem more interested in informing authorities on their infrastructure needs, while firms in other regions are less involved in that aspect.

**Figure 65. Do any firms provide information on their needs to the relevant authorities charged with infrastructure development?**



All firms gave their opinion of the impact of four main types of public investments.

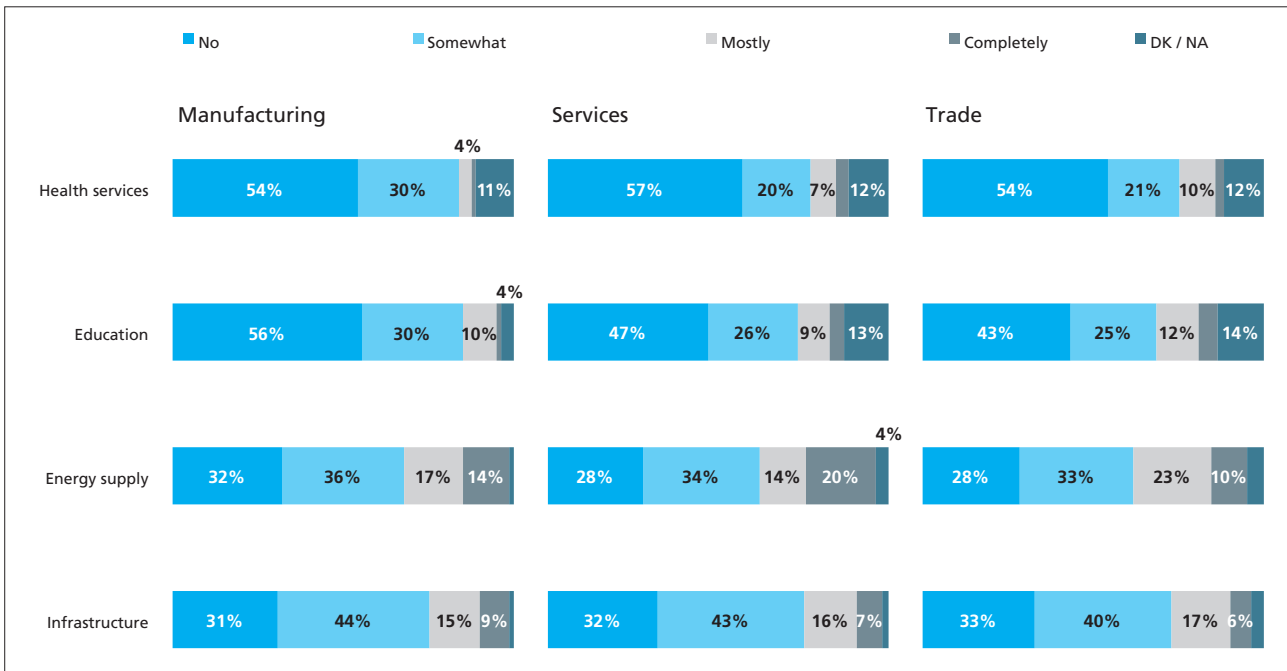
It seems that investments in health services have had a very small impact on businesses across sectors. The only trade sector seems to have around 12% of firms, which admit that investments in health sector have had a good impact on their activities.

Public investments in education have some different results in the three sectors. Manufacturing firms, confirm in 56% of the responses that investments in education have had no impact in their activities, while 18% of the firms in the trade sector state that investments in education have had a good impact.

Investments in Energy have had more impact on businesses in Albania. 1/3 of firms in all sectors consider that investments in Energy have had a good impact on their activities, while firms in Service sector are even more convinced of a great positive impact on 20% of the cases. The three sectors sisters taken in consideration have very similar results, suggesting that investments in energy have a cross-sectional effect in all the economy.

Investments in Infrastructure have had some impact in more than 40% of the firms in our sample. One third of the companies do not consider the public investments to have had a positive impact on their operations. On the other side, almost a quarter of the businesses consider that investments in infrastructure have had a good impact. The three sectors taken in consideration have very similar results, suggesting that investments in infrastructure have a cross-sectional effect in all the economy.

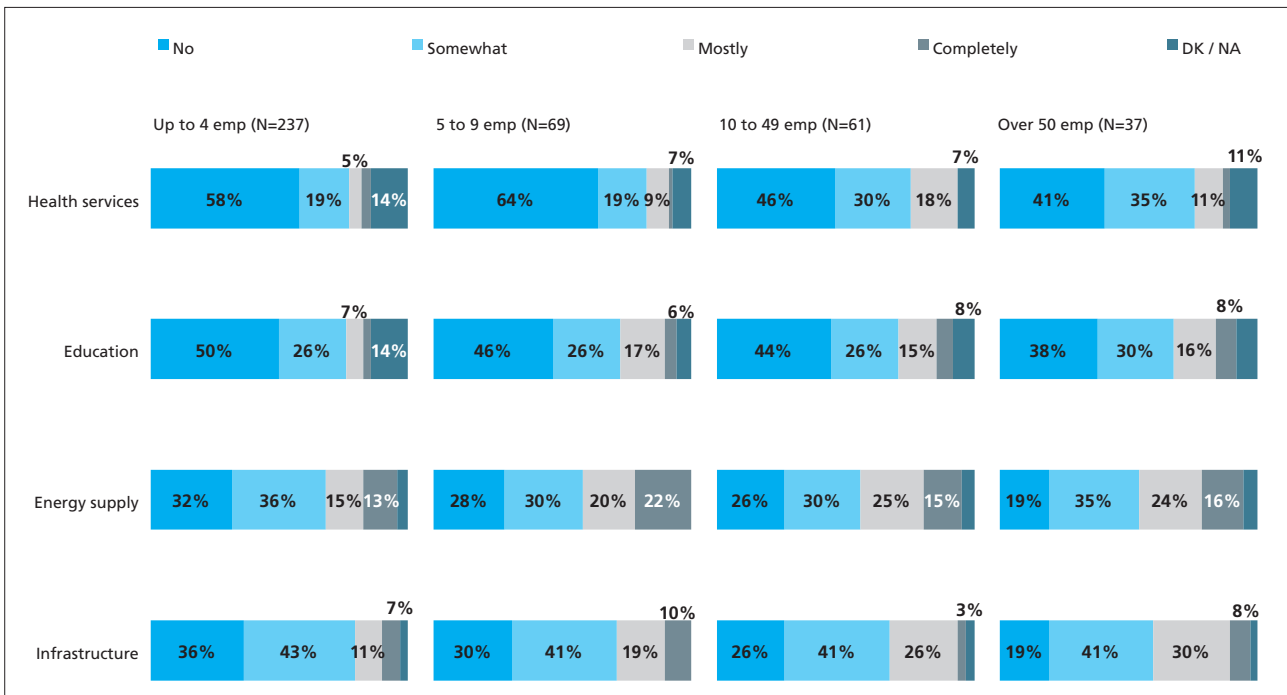
Figure 66. Has public investment in the following sectors had a direct and positive impact on your firm's operations?



The analysis of public investments, according to firm size, reveals some more diverse results. In general, the firm size correlates positively with the impact of public investments in the firm's operations. The biggest firms (over 50 employees) appear to have the best impact from the public investments. Investments in health services appear to have very small impact on micro and small businesses. Medium size firms (10 – 49 employees) and bigger firms (over 50 employees) are more inclined to evaluate some impact of health services in their operations.

Public investments in education have different results according to the business size. Larger firms are more interested in better education outputs, and it appears that 54% of them have had some impact from investments in education. On the other side, the half of micro sized firms, state that investment in education have had no positive impact on their activities.

Figure 67. Has public investment in the following sectors had a direct and positive impact on your firm's operations?



Investments in Energy have had an impact in all firm sizes. The biggest firms (over 50 employees) have the least number of responses that refuse to admit any impact of investments in energy in their operations. Even the micro size firms (up to 4 employees) appear to admit that investments in energy sector have had at least some impact in more than 60% of the responses.

Investments in Infrastructure have different results according to the business size. Larger firms appear to state in 38% of the responses the good impact of investments in infrastructure, while the micro size firms are satisfied with the good impact only in 18% of the responses.

### 7.3. Trust in the Government

The heritage Foundation produces the Index of Economic Freedom that focuses on four categories of economic environment. One of the categories is the Rule of Law, and within this category, there is a sub-category/aspect about the Government Integrity. Government Integrity includes public trust in politicians, transparency in government policy-making, etc. The whole region appears to have sensible changes in the last years. Albania and Kosovo had the lowest score at 2014, but achieved to improve considerably in 2017.

Macedonia is another case of gradual improvement and has the highest score, except Slovenia, which is used here as a benchmark country. Serbia and BiH have had mixed results and rank at bottom places in the region.

In general, Montenegro and Macedonia have the most stable and high scores, demonstrating a good governance against the neighbors. Slovenia fares much better than any country, showing a good lead of governance in the region, although it appears to have a slowdown in 2017.

**Table 9. Government Integrity at Economic Freedom (100 - max integrity)**

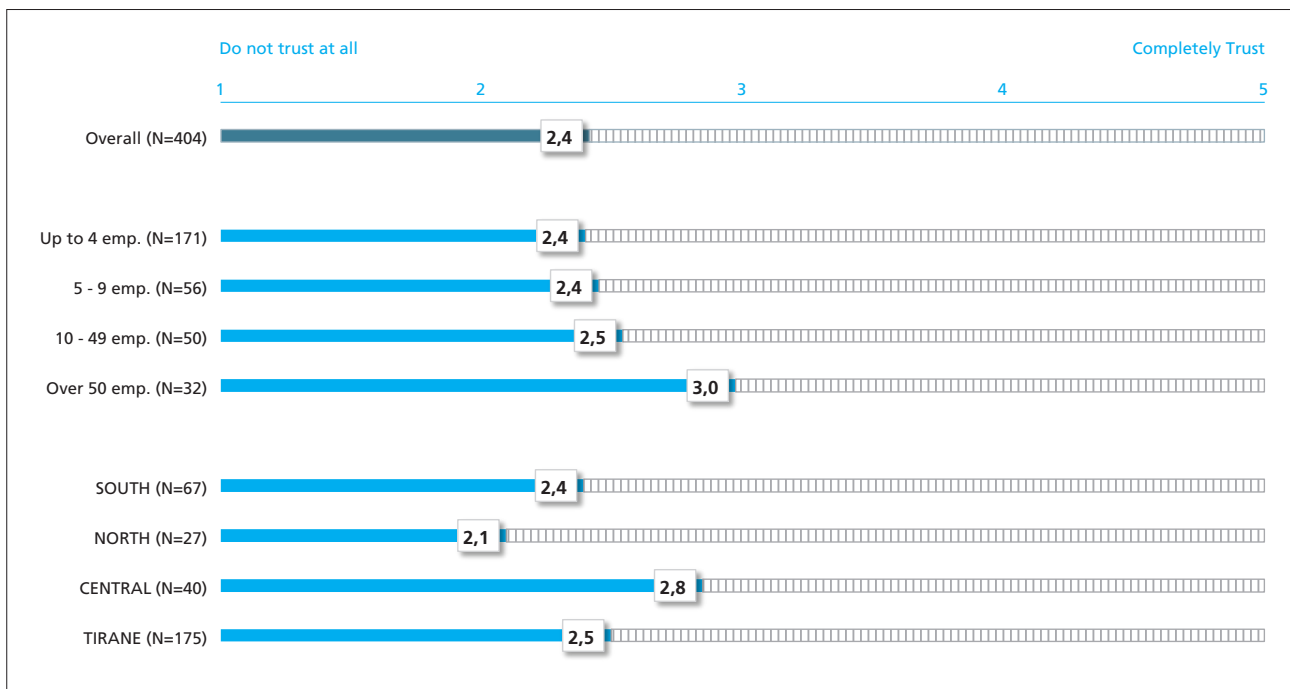
Country	2014	2015	2016	2017
Albania	30.4	31	33	39.7
MKD	39.6	44	45	52
KSV	28.6	33	33	45.9
MNE	37.8	44	42	43.4
SRB	34	42	41	38.2
BIH	33.9	42	39	32.7
SLV	61	57	58	53.6

Source: Heritage Foundation

Our survey shows similar results. The trust of the firms for the Government fares below the average score at 2.4 points from 5 points.

The results appear to correlate with the size of the firms. The bigger firms (over 50 employees) show exactly the average score of 3, while smaller firms have much smaller trust in the government. Firms in different regions show very different trust in the Albanian government. Firm in North has the lowest trust, as they appear to have less public services even in other questions of the survey. Firms in Central of Albania seem to be more optimistic. Firms in Tirana show a score of 2.5, which is below average in general, but also an average between the scores of all firms in Albania. As shown in the figure 68.

Figure 68. To what extent would you say you trust the Albanian Government?



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