

Comments on: “Improving Business Environment in Albania”

Shyqyri Llaci
Vasilika Kume

Leaving aside other problems, we are already aware that the transformation process of our economy was accompanied with some special features of the new emerging businesses, which have to face various difficulties and problems. Nowadays, as the severity of the market competition is expected to be more emphasized and environment is changing rapidly, the need for increased effectiveness in the businesses' management is becoming more evident.

Medium-term strategy for SME development

Medium -Term strategy approved by Government in 2001 included some objectives:

- Institutional development and strengthening of the cooperation government-foreign donators and business community.
- Improvement of fiscal and legal framework
- Improvement of SME-s operational management
- Improvement of SME crediting System
- Supporting of SME development, in order to have sectorial and regional equilibrium. (*agro-business, underdeveloped regions, promotion of new businesses in these regions*)

Administrative barriers for business

Some findings of the survey initiated by the Government in the Spring 2002 with the assistance of the Foreign Investment Service

- The businesses in average are not satisfied with both the quality of regulations and administrative requirements as well as with the bureaucratic behavior affecting businesses in Albania.
- It results that the most problematic areas for businesses to operate and growth are the customs regulations and the tax administration.
- The management of businesses spend an average of 10.5% of their time dealing with regulatory and administrative requirements.
- The registration process is expensive and time consuming.
- The overall business environment in Albania is between moderately and not very supportive.

Government Policies Supporting SMEs

In order to improve the business environment:

- Specific policies have been designed and implemented for restructuring of former state enterprises.
- SME development have been going through several institutional strengthening policies on the 3 levels (strategic, tactic and operational):
- A positive predictable legal; and fiscal framework, conducive to SME development (consisting on a database on laws and fiscal measures affecting SMEs, scrutinizing draft legislation etc);
- A comprehensive training program for improving operational management of SMEs;

General Access to Financing

HOWEVER:

- The access of SMEs to different sources of finance is rather difficult;
- A great number of SMEs that applied for loans at some stage of their development, most of them either did not succeed to get it or withdrew their application before a decision was taken;
- High interest rates quoted by the lending sources is the main reason for rejecting loans delivery to SMEs;
- Albanian banking sector has not yet succeed in establishing appropriate mechanisms for the purpose of risk-assessment and also they lack professionalism in evaluating business-plans;
- Knowledge of entrepreneur is another reason mostly taken in account by banks during loan request's evaluation and thus there is a tendency that large firms –rather than small firms- are more likely to get loans if they apply;
- Large companies are more likely to the banks than small companies to be successful in their application;
- Pricing of some credit lines is unrealistically high, resulting in low pay-back rates;

Policy, legal and procedure changes

Proposed Changes in Current Policies

- A key role of the Government would be to keep a comprehensive review and summary of all legislation and monitoring their effects on SMEs;
- Establish a consistent definition of SMEs in order to simplify administration and provide a clear profile of government policy between different Line Ministries (define sector priorities and associated fiscal policies);
- Consider SME policy as integral part of the global development of industrial sector, regional policies and legislation;

- The SMEs strategy must have the endorsement and final agreement of all Line Ministries once it is broadcaster to all of them;
- Promote export-oriented policies in sectors that use domestic resources;
- Improving competitiveness of private sector, reviewing VAT levels;
- Caring out a well grounded and efficient policy for agro-businesses.

Proposed changes in current procedures

- Due to the fact that unfair competition of informal economy to legitimate businesses, the Government should make a vigorous and sustained effort to reduce the size of informal economy (through selective tax incentives);
- The role of business advisory services should be expanded covering not simply business-plan formulation but also marketing mix, accounting and cost management etc;
- As a first step developing the set of approval procedures needed for starting a new activity/business (all kind of permissions issued by local or central government..
- Later on setting up a network of centers which will assist all investors/entrepreneurs for starting new activities/businesses.
- Computerization of information in national level near the Directory of customs in order to provide information for all SME-s “Universe”.
- Computerization of information in national level near the Directory of Customs and Directory of Taxes in order to provide information for all SME-s Community.
- Establishing a National Center for information collecting and processing regarding the Annual Reports of private businesses.
- Cooperation among the Ministry of Economy, Faculty of Economics and INSTAT for developing, following and analyzing performance indicators of SME-s. Including in Public Statistics National Programe the SME-s Performance Indicators.
- Implementation of contemporaneous statistical techniques for informal economy evaluation.