

# GOVERNMENT POLICIES AFFECTING ENTREPRENEURSHIP AND DOING BUSINESS IN ALBANIA

*Dorina Koçi (Janku), PhD*

*Department of Finance, Faculty of Economics,  
University of Tirana – Tirana, Albania*

## Abstract

Government policies, that support a dynamic business environment, create greater opportunities for all stakeholders in one's country's economy. These supportive policies are more relevant to entrepreneurs, enabling them to make more investments, create more jobs and increase productivity of the country. One of the main challenges of the Albanian market is the survival of small and medium entrepreneurs by the pressure of the global market suppliers, who supply the domestic market with quality and competitive prices. According to Doing Business 2018 report, Albania has a drop of 7 levels in the "Easy of doing business" ranking compared to the previous report. The aim of this paper is to offer a comparative and interpretative analysis of the government policies that affect entrepreneurship and doing business in Albania, by using a methodology based on secondary data.

**Key words:** policies, entrepreneurship, business.

## 1. Introduction

Businesses are considered as the main partner in economic and social development, but also in the integration of the country. Although the Albanian government has undertaken a series of reforms in order to improve the business climate in the country, the business still needs time to change perception and create positive expectations about the business climate in the near future. Although these reforms have been undertaken in different areas, such as facilitated procedures or eliminated barriers, again the climate of doing business in our country remains "fragile", while the competition from neighboring countries remains high in this regard. The most problematic issues remain the implementation of the law, the effectiveness of the judiciary, the change of legislation and that

of taxation in particular, its stability, as the business thinks it is complex and volatile, often incomprehensible and difficult to implement. Business requires structural reforms and competitive policies. The business community has always valued, not the level of taxes, but the simplicity in paying them and the elimination of barriers from many public institutions. The business community first and foremost requires political stability and then clarity in legislative and fiscal policies. What is most important to business, is the creation and sustainability of a favorable business climate in Albania.

## **2. The impact of business regulation on business environment**

Good business regulations enable the private sector to prosper and help businesses to expand their transaction network. In this context, the regulations seem to safeguard economic activity and facilitate business operations. By other side, if regulations are poorly designed, they can become obstacles to doing business. Business regulations are part of institutional constraints. Regulation is an important variable in explaining the economic growth or stagnation of a country. In particular, the quality of regulation has a significant effect on the size of the informal economy and indirectly on economic growth. The empirical cross-country comparison shows that in general, countries where regulatory burdens in product markets and labor markets are heavier are characterized by higher levels of informality and slower economic growth. The poor regulatory framework creates incentives for firms to avoid compliance with regulations.<sup>1</sup> Heavier regulatory burden and lower quality of the institutional framework not only reduces macroeconomic growth, but also increases the macroeconomic volatility in a country.<sup>2</sup> Other empirical studies using company-level data show that firms tend to reduce their formal operations if tax and regulatory

---

<sup>1</sup> Loayza-Oviedo-Serven 2005

<sup>2</sup> Loayza – Oviedo - Serven 2004

burdens increase. However, if the enforcement of regulations and the fairness of courts improve, the growth of formal firms increases. This finding does not hold for informal companies, which are generally unable to take full advantage of the legal framework and the judicial system.<sup>3</sup> Central and local governments may positively influence the business environment by financing supported programs, creating institutions for interest reconciliation, supporting the self-regulation of enterprises, supporting the creation of extra-judiciary elected bodies for resolving disputes between companies, by refining the implementation of public procedures regarding ownership rights, warranty and insurance. Legislators issuing regulations must find a viable compromise between the interests of the above mentioned stakeholders and the governments must manage the potential conflicts between businesses on the one side and law enforcing government authorities on the other side in such a way that does not limit the efficient operation of enterprises. Regulation is one of the important aspects of the connection between the state and the enterprises. Therefore the examination of the necessity, fairness, simplicity, coherence and business-friendliness of legal rules is a prerequisite for creating a favorable legal environment for investors and for businesses in general. It is the task of the regulatory policy to “regulate the regulations” in order to satisfy the above requirements.

### ***2.1. Criteria of regulatory quality<sup>4</sup>***

During the past two decades, the following criteria of good quality regulation have gained importance. Regulatory rules should satisfy the following expectations:

➤ Burdens and costs for enterprises resulting from compliance with the regulation, and the public costs resulting from the implementation of the regulation should be justified by the aggregate

---

<sup>3</sup> Dabla-Norris and Inchauste 2007

<sup>4</sup> Futó, P. 2011. Evaluation and impact assessment of business climate development. Institute of Sociology and Social Policy, Corvinus University, Budapest.

social usefulness of the regulation.

➤ Regulations should not lead to a distortion of the market. In particular, they should not lead to monopolies or social injustice by imposing a heavier burden on certain selected groups of entrepreneurs or employees.

➤ The unwanted side effects of a planned regulation should be negligible in order to avoid the necessity of a subsequent modification of the regulation or the need for introducing supplementary rules.

### **3. The business climate in Albania**

The business climate is a term which indicates how business development is supported by state, regional and local policies, by local communities, how business-to-business networks and labor relationships facilitate business activities. A good business climate allows businesses to conduct their affairs with minimal interference from the authorities, while enabling the access to high quality inputs and to customers at low costs, offering investment possibilities with few risks and higher returns when compared to other places. The key factors used in the measure of business climate include macroeconomic stability, business and income tax levels, workforce availability, energy costs, market size, cost, availability and quality of services, real estate and infrastructure, business friendliness of the regulatory framework, access to financing, capital and incentives. Albania during the transition period has established a framework of laws and regulations to enable the operation of the business in a country that constantly evolve towards an open and competitive economy. Before we touch upon some problems and issues stemming from the practice of progress of implementation and impact of these laws, let us bring a brief description of the legislative development during this period. In Albania many business fields are regulated by law, such as: commercial register, licensing, privatization, competition, state aid, financing, insurance, intellectual property rights, the immovable assets, bankruptcy, tax framework, labor market relations, administrative

procedures and a number of others that are in the process of improvement and evolution. Also the government as part of its fight against informality and corruption is in the process of improving the legal framework, especially in order to facilitate the administrative barriers to business registration, tax environment, which will ultimately increase the credibility of domestic and foreign investors, legal transparency and fair competition in the market. Referring to Doing Business report (Doing Business 2018), Albania ranks on 65 places for ease of doing business among 190 world economies. While two reforms represent the progress made during 2017. Albania strengthened access to credit by introducing amendments to the Civil Code and the Law on Securing Charges and by adopting a new insolvency law. Albania amended legislation to reduce the maximum number of hours allowed in a workweek and to mandate that women and men be given equal remuneration for work of equal value.

**Table 1**

**Ease of Doing Business in Albania**

Ease of...	DB 2018 rank	DB 2017 rank	Change in rank	DTF score
Doing Business (Overall Ranking)	65	58	-7	68.7
Starting a Business	45	46	+1	91.49
Dealing with Construction Permits	106	106	0	66.27
Registering Property	103	106	+3	59.28
Getting Credit	42	44	+2	70
Protecting Investors	20	19	-1	71.67
Paying Taxes	125	97	-28	63.94
Trading Across Borders	24	24	0	96.29
Enforcing Contracts	120	116	-4	53.66
Resolving Insolvency	41	43	+2	66.13
Getting electricity	157	156	-1	48.31

Source: Doing Business Website

By other side, regarding the payment of taxes, Albania has a drop of 28 places in the ranking compared to one year before. The business

solvency is not the same as in the capital, as in major cities, or in smaller peripheral cities. In this case, there is a need to harmonize fiscal policies between central and local government. This would make the business feel good at every corner of the country where it conducts economic activity. Despite the progress, it should be noted that the business climate of Albania still reflects problems related to the regulatory environment, the degree of informality, corruption, etc. This situation is reflected in the table below, that shows negative changes between years in ranking Albania through different indicators on easy of doing business.

Entrepreneurship in Albania deals with different constraints. There are still problems with access to electricity and widespread practices in the informal sector. According to firms in Albania, including interviews with foreign investors or businesses, electricity and corruption ranks as major obstacles to doing business. Firms need access to a reliable electricity supply, efficient transport links and modern telecommunications services to have the incentives to invest more. Good access to infrastructure allows firms to become more productive, reduce costs and expand their businesses.

The table below gives the rankings of the Balkan countries regarding the ease of getting electricity measured by different indicators. As we can see from the data, getting electricity in Albania remains a constraint to entrepreneurship, especially in terms of time to get the electricity and the cost.

**Table 2**

**Getting electricity**

<b>Country</b>	<b>Getting Electricity rank</b>	<b>Procedures (number)</b>	<b>Time (days)</b>	<b>Cost (% of income per capita)</b>	<b>Reliability of supply and transparency of tariffs index (0-8)</b>
Albania	157	6	134	513	0
Bosnia & Herzegovina	122	8	125	357.7	6
Croatia	75	5	65	298.5	5

Greece	76	7	55	70.1	7
Kosovo	106	6	36	219.1	2
Macedonia, FYR	53	3	97	200.1	5
Monte Negro	127	7	142	425.6	5
Serbia	96	5	125	223.5	5
Slovenia	19	5	38	107.1	8

*Source:* Doing Business (2018) report.

The cost of getting electricity is the highest one among the Balcan countries. A very important issue is the lack of reliability of supply and transparency of tariffs. On a scale 0-8, this index is the lowest in Albania. In this context, control of corruption, rule of law or political risk of the country has not undergone. However, the positive fact is that foreign and domestic investors have equal rights to ownership of the company in Albania, except in air transportation and television broadcasting sectors, these sectors with significant revenue.

Taxes in the field of business, but not only, are another obstacle. Regarding table 1 above, even here Albania ranks quite 28 countries worse than paying taxes in 2017. The state system is not adequate efficiency in solving business problems and tax. The conclusion is that structural reforms are needed for sustainable business development in our country. The weaknesses of the business environment are an obstacle to investment and growth in a medium-term. Weaknesses in the legal framework, particularly in property rights and contract enforcement, continue to be major problems. An arbitrary collection of fees undermines the effectiveness of lower tax rates in Albania. Employment in the informal sector, widespread calls to make formal employment more flexible. Improving the accuracy of the data, especially in national and foreign accounts, and timelines will contribute towards developing effective oversight and better policy.

#### 4. “Distance to the Frontier” index.

The “Distance to Frontier” measure shows the distance of each economy to the “frontier,” which represents the highest performance observed on each of the indicators across all economies included in *Doing Business* since each indicator was included in *Doing Business*. An economy’s distance to the frontier is indicated on a scale from 0 to 100, where 0 represents the lowest performance and 100 the frontier. For example, a score of 75 in *Doing Business* 2012 means an economy was 25 percentage points away from the frontier constructed from the best performances across all economies and across time. A score of 80 in *Doing Business* 2013 would indicate the economy is improving. In this way the distance to frontier measure complements the yearly ease of doing business ranking, which compares the economies with one another at a point in time.

As we can see from the table 1, Albania economy is 31.3 percentage points away from the frontier and in comparison to its neighbors it ranks in last place with the major distance from the frontier. Even though, there is a positive change in the ranking toward the previous year. According *Doing Business* Report 2018, reform efforts in Southeast Balkan have focused especially on making it easier to start a new business, protecting investors, paying taxes and resolving insolvency. Greece, Serbia and Slovenia have undertaken more than 2 positive reforms in business regulations. Albania has made progress in starting a business and strengthening access to credit. A progress has been made, but much more remains to be done regarding the improvements in other criteria.

#### 5. Conclusions

➤ Structural reforms are needed for sustainable business development in our country.

➤ The weaknesses of the business environment are an obstacle to investment and growth in a medium-term.



➤ Weaknesses in paying taxes and getting electricity, continue to be major problems.

➤ The harmonization of fiscal policies between central and local government is considered a good way to soften the burden of taxes, especially for businesses in small cities.

➤ The government must continue to work to further improve the business climate, safety and economic security.

## 6. References

1. Dixon, Ll., Gates, S., Kapur, K., Seabury, S & Talley, E. 2006. The impact of regulation and litigation on Small Business and Entrepreneurship, *RAND Working Paper Series.*, online: [http://www.rand.org/content/dam/rand/pubs/working\\_papers/2006/RAND\\_WR317.pdf](http://www.rand.org/content/dam/rand/pubs/working_papers/2006/RAND_WR317.pdf)

2. Doing Business (2018), *Reforming to create jobs* 15<sup>th</sup> edition.

3. Doing Business (2017), *Equal Opportunity for all* 14<sup>th</sup> edition.

4. Doing Business database, online: <http://www.doingbusiness.org>

5. Futó, P. 2011. Evaluation and impact assessment of business climate development. Institute of Sociology and Social Policy, Corvinus University, Budapest.

6. Norris, E., Inchauste, G. 2007. Informality and Regulations: What Drives Firm Growth? IMF Working Paper. Middle East and Central Asia and IMF Institute.

7. Radaelli, C., De Francesco, F. 2007. *Regulatory Quality in Europe, Concepts, Measures, and Policy Processes*, Manchester University Press.

8. World Bank, online: <http://www.worldbank.org/en/country/albania>

### Contacts:

Dorina Koçi (Janku), PhD

E-mail: [dorinajanku@feut.edu.al](mailto:dorinajanku@feut.edu.al)