



*Albania Trade,  
Investment and  
Privatization Program  
Reports for the Period June  
1993 - March 1994 and  
Appendices*

Prepared by Deloitte & Touche and  
Development Alternatives, Inc.  
Delivery Order No. 23

Project No. 180-0014  
Contract No. EUR-0014-I-00-1056-00  
Eastern European Enterprise Restructuring  
and Privatization Project

U.S. Agency for International Development  
EUR/RME

# Deloitte Touche Tohmatsu



**Deloitte Touche Tohmatsu  
ILA Group Ltd.**  
1001 Pennsylvania Avenue, N.W.  
Suite 350N  
Washington, DC 20004-2594, USA

Telephone: (202) 879-5600  
Facsimile: (202) 879-5607

May 4, 1994

Mr. Mark Karns  
Agency for International Development  
320 21st Street, NW  
Washington, DC 20523  
a

Mr. Gary Maher  
Agency for International Development  
320 21st Street, NW  
Washington, DC 20523

**Re: Contract No. EUR-0014-I-00-1056-00, Delivery Order No.  
23, Albania Trade, Investment, and Privatization,  
Reports for the Period June, 1993 - March 1994 and Appendices**

Dear Mark and Gary:

In accordance with Article IV of the above-referenced Delivery Order and recent discussions, enclosed please find several reports on Albania Trade, Investment, and Privatization project, as listed on the enclosed Table of Contents.

These deliverables were prepared by Alan Osman of Development Alternatives, Inc. in Albania. If you have any questions concerning these deliverables, please call Anne Nisenson at (202) 879-5661.

Sincerely,



Lizann Prosser  
Senior Manager  
Central & Eastern Europe

**Deloitte Touche  
Tohmatsu  
International**

## **TABLE OF CONTENTS**

### **Reports for the Period June 1993 - March 1994**

1. Quarterly Report: June - August 1993
2. Quarterly Report: September - December 1993
3. Monthly Report: November 1993
4. Monthly Report: December 1993
5. Quarterly Report: January - March 1994
6. Monthly Report: January 1994
7. Monthly Report: February 1994
8. Monthly Report: March 1994
9. Memo to Mr. Selim Belortaja, March 24, 1994,  
re: Technical Assistance
10. Broad Outline of an Approach to Privatization of Large State-Owned  
Enterprises in the Republic of Albania
11. Memo to Mr. Selim Belortaja, March 24, 1994,  
re: Albania-EU Joint Commission - First Meeting

### **Appendices**

12. The American Albanian Small Enterprise Fund: A Draft Proposal
13. Investment and Privatization Program: Civil Service Reform
14. Investment and Privatization Program and SME Development Program:  
Recommendations for a Privatization Strategy

**INVESTMENT AND PRIVATIZATION PROGRAM**

**MINISTRY OF TRADE AND  
FOREIGN ECONOMIC COOPERATION**

**ALBANIA**

***QUARTERLY REPORT***

***June-August 1993***

Prepared by

Alan Osman  
Development Alternatives, Inc. Consultant  
USAID Policy Advisor

## INTRODUCTION

This first quarterly Activity Report covers June 18 through August 31, 1993, and includes policy advising in investment, privatization, development of small and medium enterprises (SMEs), and reorganization of the Ministry of Trade and Foreign Economic Cooperation (MOT). Activities also included meetings with government officials and donor representatives, both visiting and Tirana-based, short-term and long-term. The purpose of the meetings was to identify areas of complementarity and overlapping with the Investment and Privatization Program (IPP) and opportunities for leveraging other donors' projects.

## INVESTMENT

Work in this area primarily involved participating in the drafting of a new foreign investment law and participating in policy discussions with the Minister and the MOT Foreign Investment Director. The work on the drafting of the new law took place in committee meetings attended by representatives from MOT, the Ministry of Finance and Economy (MOF), the Center for the Promotion of Foreign Investment (CPFI), and the Commercial Law Development Program's (CLDP's) short-term advisor. Before his departure to the United States for an extended fellowship, former Vice Minister Naske Afezolli was active in the committee deliberations. After the Vice Minister's departure, the Minister assumed that role.

In the process of providing economic and financial rationale for the omission or inclusion of various provisions in the draft law, I focused on arguing for transparency, the reduction of uncertainty, and the minimization of restrictions in the investment environment. Specifically, I argued for — and the draft law reflects — the removal of removing restrictions on foreign investment in all sectors of the economy except land ownership (the latter being subject to sensitive external and internal political and social considerations). The Minister favors removal of this restriction, as well. Another restriction favored by MOF would have permitted the Central Bank of Albania to delay, for a specified period of time, the transfer of foreign investors' funds out of the country, for balance-of-payments considerations. I urged the removal of this restriction, and the draft law omits the restriction.

Pending the distribution of copies of the draft law to the ministries and the Government of Albania (GOA) bodies, and the receipt of the latter's feedback — and at the request of the Minister — I prepared a position paper consisting of a promotional introduction to the law and economic arguments in support of certain of its articles, for the Minister's use when the draft comes up for discussion at the Council of Ministers before its referral to the Parliament. Although the draft still included restrictions on foreign ownership of land, I included in the position paper strong arguments in favor of removing this restriction for non-agricultural land.

On an ad hoc basis, I reviewed and made recommendations on a British Petroleum (BP) proposal to provide refueling services for the international Tirana airport. The proposal was heavily biased in favor of BP. These recommendations were forwarded to the Ministry of Industry's negotiating team. I also discussed certain aspects of the proposal with the Director of Foreign Cooperation at said ministry, and discussed the proposal in general with the MOT Minister.

## PRIVATIZATION

My involvement in this area was at two levels: at MOT level and at the National Agency for Privatization (NAP) level. At the MOT level, I held discussions with the Minister and with the MOT Director for Privatization, the CLDP short-term advisor, and the American Bar Association/Central and East European Law Initiative (ABA/CEELI) long-term advisor about MOT's four Foreign Trade Enterprises (FTEs), especially with regard to FTE's foreign debts. Some in the Ministry leaned toward liquidating one FTE as a test case to gauge the response of its foreign creditors. I advised the Minister and MOT Director of Privatization against such a move, for the following reasons:

- This approach will alienate foreign creditors, who very likely will pursue international arbitration and resort to impounding Albanian assets abroad for full payment, as has already happened — not to mention the transaction costs that would be incurred and can ill be afforded by MOT.
- This approach can only tarnish the image of a country seeking to join the international community and eager to demonstrate responsible behavior.
- It is inconceivable that Albania and its remaining state-owned enterprises (SOEs) will not need to seek international credit. The trustworthiness and the credit reputation of Albania would suffer as a result of such a strategy.
- The Albanian constitution unambiguously states the responsibility of the state for the transactions of its enterprises. In fact, this constituted the argument of an Italian arbitration court in settling three claims against Albanian SOEs, and led to the seizure of Albanian assets abroad.
- Draft amendments to the constitution, which are under preparation and which may exonerate the state from its responsibility in this regard, will probably not stand in an arbitration court, which will, in all likelihood, deny retroactivity to such amendments.
- A negotiated settlement would be much less costly and would reflect good business behavior.

It seems that this liquidation strategy is no longer on the table, and not necessarily because of the above arguments. Privatizing MOT FTEs has been the subject of a U.N. Commission on Trade and Development (UNCTAD) project involving the work of an intermittent offshore consultant who would come to Tirana once every six weeks or so over a six-month period. Each visit resulted in a faxed report. The final report of July 1993 contained recommendations about privatizing MOT FTEs. This report will allow IPP to leverage the UNCTAD project in contributing to a NAP-level strategy for other FTEs. The draft of the IPP scope of work (SOW), apparently unaware of the UNCTAD project, called for preparing a strategy for privatizing MOT FTEs and using them to prepare a privatization method applicable to other GOA FTEs and SOEs.

When I became aware of the UNCTAD project (upon my return to Tirana in June), and per the IPP SOW, I proposed to NAP the direct involvement of IPP in a national strategy to privatize large SOEs. The proposal was accepted, and I was invited by the NAP Director to join an ad hoc committee to prepare a strategy for privatization, finalize a draft privatization law, and suggest modifications to

Decision 248 of the Council of Ministers, concerning the privatization of small and medium-scale enterprises.

The committee's other foreign advisor membership consists of three persons from the German Agency for Technical Cooperation (GTZ): a privatization specialist based at NAP, a restructuring specialist, and a legal advisor attached to MOF. Except for the Director of NAP, Albanian participation has been inconsistent and less than representative of GOA Ministries and other entities.

I met with Bashkim Kopliku, Deputy Prime Minister, Minister of Public Order, Chairman of NAP Board of Management, and Chairman of Economic Reform Commission, considered the driving force behind Decision 248, to discuss recommendations to modify the Decision. I sought his insights into the provisions of the Decision, and the extent of maneuvering room for amendments. Decision 248 appears to be endorsed by the majority Democratic Party.

One committee meeting was attended by Genc Ruli, Minister of Finance and Economy. He listened to the deliberations of the committee, elaborated his views on the entire spectrum of the privatization issue, and solicited a response from those present. Although the committee's brief excluded the banking and other so-called strategic enterprises, I took advantage of the invitation to digress into that area. I knew that Ruli's input into shaping government policy with regard to issues was greater than commensurate to his Finance and Economy portfolio. I argued against a delay in privatizing the financial and telecommunications sectors, without which bottlenecks in the drive toward a reasonably functioning market economy would soon develop, which would result in inefficient allocation and utilization of resources, leading to a higher cost of providing goods and services. Anecdotal evidence gathered in private talks with Albanian businesspeople indicates that they sometimes resort to costly methods of transferring funds in order to bypass an archaic and inefficient banking system.

### **SME SECTOR DEVELOPMENT**

Activity in this area involves working with the MOT's Department of Business Development, the only department headed by a Director General, Mikel Dushniku. The department was initially based in MOF and was officially transferred to MOT in May 1993.

The department consists of three sections: SME Policy, Research and Publications, and Relations with Trade Organizations. Each of these sections is headed by a director. The Director of SME Policy, Mimoza Shaban, is a graduate of a three-month internship with the U.S. Small Business Administration.

Since its transfer to MOT, the Department has been involved with the EC PHARE Credit Program, the oversight of which is in its domain. Since its inception, the EC PHARE Credit Program has been run, mostly independently, by a British consulting company, Lancashire. MOF did not appear to take an active oversight or auditing role on policy or operational aspects of the program while the program was under MOF jurisdiction.

In my mandate as long-term advisor, project activity in this area has meant working closely with this department. Policy work included the following:

- Reviewing, from policy and implementation angles, the PHARE Program and considering various means to rationalize its operation, which had become subject to heavy scrutiny by

MOT and whose procurement procedures provided material for investigative reports by an ABA/CEELI legal advisor to MOT. The reports were shared with the EC PHARE office in Brussels;

- Using credit programs as a policy instrument in the areas of the country that are lagging in economic development, addressing the needs of the socially and physically disadvantaged groups, and targeting women's entrepreneurial needs;
- Getting credit programs (PHARE and, prospectively, GTZ) to seek entrepreneurial activity in the light manufacturing sector, where the employment opportunities, spillover effects, and industrial/service linkages are greater;
- Helping establish contacts between MOT's SME Section and the U.S. Treasury Advisor to the Commercial Bank, Tirana — with whom I have established and maintained regular contact — in order to coordinate a strategy to draw the Bank into the credit program as the eventual vehicle for credit approval and funds channeling;
- Redefining credit criteria to raise borrowing interest rates to market levels (currently they are less than 50 percent); introducing a down payment requirement (none is currently required) to render the borrower commensurately at risk and to add seriousness to the entrepreneurial effort; and opening the procurement of equipment, currently monopolized by a firm in England, to existing Albanian enterprises and to entrepreneurial initiatives;
- Using the PHARE credit scheme to turn the existing Regional Business Agencies (RBAs) — a pre-credit support service to prospective borrowers, currently funded by the program — into private market enterprises open to competition from future entrepreneurial activity; the RBAs and the future entrepreneurial activity both will be eligible to benefit from the credit program. Such a plan would gradually eliminate subsidized services to the credit beneficiaries, except those provided for a time by other donors such as the Peace Corps, for example, through the RBAs;
- Attending discussion meetings between MOT SME (and at times the Minister) and Economic Community (EC) consultants who visited last July to assess the PHARE Credit Program and to discuss MOT's views of the program and its operation and MOT's terms of reference (TOR) regarding its future structure. If agreed to by EC, the TOR would serve as the basis for negotiating with MOT a modified structure for the credit program;
- Preparing a position paper for the Minister's use in meetings in July 1993 with EC PHARE Program consultants on MOT's position on a new structure for the credit program;
- Working closely with Dushniku before his departure to Brussels to negotiate the TOR for the next phase of the credit program (1993-1995); and
- Attending a meeting with the Minister, the SME Section, and a representative of the GTZ (a German multicomponent assistance program to Albania) to discuss setting up a bilateral SME credit program.

An EC consultant is expected to visit MOT in September 1993 to plan for implementing a new program structure — specifically, to draw up the statute and bylaws for a legal nongovernment not-for-

profit foundation. The foundation will serve as the executive body of the program and will be supported by a long-term advisor provided by EC and operationally working with the existing RBAs.

A strong MOT policy and supervisory input will guide the operation of the foundation. Dushniku is expected to serve as Chairman of the Board. The foundation will manage the program until the credit appraisal, approval, and channeling are transferred to the banking system (most probably to the Commercial Bank).

Having an awareness of ABA/CEELI Commercial Law Liaison and MOT Legal Advisor Roland Basset's background work in nonprofit organizations, I asked him if he would help with drafting the statute and bylaws. He welcomed the idea and so did Dushniku.

Finally, with regard to SME development, I frequently sought meetings with entrepreneurs and small business owners and foreign investors to learn their views of the business environment and impediments, if any, that hamper the development of their activities.

### **MOT REORGANIZATION**

This is the subject of a two-phase project financed by the World Bank (IBRD) involving the reorganization of MOT and MOF. At the Minister's request, I attended most meetings between the IBRD consulting team and MOT directors. These meetings consisted of three types:

- Exploratory and information gathering;
- Work planning and implementation; and
- Recommendations on reorganization and feedback from MOT.

My participation in these meetings permitted me to:

- Propose to MOT recommendations for reorganization in general and departmental changes in particular;
- Contribute input to the planned reorganization of departments and sections to optimize IPP tasks on management skills development, public relations and external communications, trade and business information, and data development; and
- Play an intermediary role to bridge gaps in the views of MOT directors and the project team. This facilitative role was well received by the consultants.

The final report will permit IPP to leverage this IBRD project because the latter outlines recommendations for management training.

## **COMMUNICATION WITH THE USAID REPRESENTATIVE**

Throughout this period, I maintained regular contact with USAID Representative Diane Blane. I have kept her apprised of project progress and sought the counsel of her experience in Albania. Also, I have regularly attended the monthly Nexus meetings where USAID-funded advisors and others gather to share informal progress reports and information. I also attended a meeting with members of the American advising community and a congressional delegation that was visiting the country. The delegation learned about projects and progress from the advisors.

## **MEETINGS WITH ALBANIAN OFFICIALS AND DONOR ORGANIZATIONS**

These meetings were requested by the MOT Minister, the donor organizations, or me. The list order does not refer to any ranking or priority.

### **Meetings with Albanian Officials**

Abdi Baleta, Member of Parliament

Ismet Ferizaj, Member of Parliament

George Konda, Deputy Minister, Ministry of Finance and Economy

Bashkim Kopliku, Deputy Prime Minister, Chairman of Board of National Agency for Privatization, Chairman of Commission on Economic Reform

Rustan Petrela, Chief of Staff, Prime Minister's office

### **Meetings with Donor Organizations**

Jack Buechner, Hawthorne Group (to promote Albania in the United States)

Dante Caponero, IBRD Consultant, Water Legislation

Christian Dick, GTZ Credit Program

Frank Dwinnell, SDSU, Institute for Central and Eastern Europe, San Diego University, Senior Fellow

Kutlay Ebiri, IBRD Resident Representative

Antonio Fanelli, EBRD Resident Representative

James Gale, OPIC Senior Associate

Gavin Gray, Central European (Business Magazine), Editor

Jeff Houghton, EEC PHARE Credit Program, Resident Advisor

Geoffrey Jackson, USTDA Regional Director

Ahmed Jehani, IBRD Senior Counsel, Legal Department

Jack Lemet, Land Tenure Center, Land Registration Project

Les Nemethy, IBRD Privatization Specialist

Jan Ovinge, Ministry of Agriculture, the Netherlands

E. Everett Post, IBRD Consultant, Albanian Housing Agency

Don Rubin, IBRD Legal Consultant

Adin Talbar, UNCTAD Privatization Specialist

Russell Thirkell, U.S. Treasury Advisor, Commercial Bank

Lois Varrick, USTDA Country Manager

Johan Verheyn, EEC Consultant, Food Aid

Claudio Viezzoli, EBRD Country Officer

**INVESTMENT AND PRIVATIZATION PROGRAM**

**MINISTRY OF INDUSTRY AND TRADE**

**ALBANIA**

***QUARTERLY REPORT***

***September-December 1993***

Prepared By

Alan Osman  
Development Alternatives, Inc. Consultant  
USAID Policy Advisor

8

## INTRODUCTION

This report covers investment, privatization, development of small and medium-scale enterprise (SME), ministry restructuring, and miscellaneous activity. For example, early in November, I met with Artan Hoxha, who had just been appointed the new Director of the National Agency for Privatization (NAP) under a government reshuffling of portfolios and a restructuring of ministries.

## MINISTERIAL RESTRUCTURING

After weeks of rumors, in October a government restructuring was announced that included two important ministerial changes, in addition to the arrest of the Deputy Governor of the National Commercial Bank on corruption charges and the forced resignation of the Governor of the Bank of Albania (the Central Bank). The Ministry of Finance and Economy became the Ministry of Finance. The economy function was reassigned to a new commission set up under the Council of Ministers. The commission's function remains undefined and, as far as is known, inactive. In this reorganization, the former Minister of Finance and Economy, Genc Ruli, lost his portfolio. However, he remains a member of Parliament.

The other ministry affected in this reorganization is the Ministry of Trade and Foreign Economic Cooperation, which became the Ministry of Industry and Trade after the departments responsible for industry (except heavy industry) in the Ministry of Industry, Mining, and Energy were transferred to it. Selim Belortaja became the new Minister of Industry and Trade. Previously, he was the Chairman of the Center for Foreign Investment Promotion. Before that, he was a faculty member in economics at the University of Tirana.

In our meeting, I spent some time explaining to Minister Belortaja the IPP project and its tasks, in some of which he expressed much interest, such as privatization and management training. I also explained to him my function as Policy Advisor to the ministry and the areas in which I had worked with former Minister Hoxha.

## INVESTMENT

### Foreign Investment Law

The Foreign Investment Law, in whose preparation I had actively participated as a member of an interministerial-interdonor committee convened in July 1993 by Minister Hoxha, was finally approved by the Council of Ministers and was submitted to the Parliament in October. Two Parliamentary committees conducted hearings to discuss the draft law. Minister Hoxha asked me to accompany him to these hearings, during which I responded to clarification questions from committee members. I took advantage of that opportunity to remind the members that the law is only a first step toward setting up an enabling environment attractive to potential foreign investors and that other policy initiatives are needed to lay the foundation for such an environment.

At Minister Hoxha's request, and for his use before the Council of Ministers and the two Parliamentary committees, I had prepared a position paper consisting of economic arguments in defense

of the draft law. The draft law was passed by the Parliament practically unchanged. Later, the minister asked me to accompany him and a couple of ministry staff members to a live television program to respond to a television host's questions on the new law. After I commended the Parliament for its decision to enact the law and President Berisha for his public endorsement of the law, I pointed out that a lot more in terms of policy initiatives and regulations was needed to attract serious long-term foreign investment.

In November, I was invited by the Public Relations office of the Chairman of the Parliament to attend a conference on the legal aspects of privatization, sponsored by the Council of Europe and the Albanian Parliament. In one of the sessions, the focus of presentations by a panel of visiting speakers was on the relationship between privatization and foreign investment in view of the recently enacted Foreign Investment Law.

Apparently, the Public Relations office had alerted the panel to my presence at the conference; the chairman announced my presence at the beginning of the session and asked if I would find it convenient to participate in the discussion. I responded that I would, pointing out that I was one of several committee members who worked on drafting the next law. The panel emphasized the importance of allowing foreigners to own land, which was, for sensitive political reasons, left out of the Foreign Investment Law and which currently requires an act of Parliament. The Parliament is supposed to take up this issue in 1995.

### **Proposed Agreement with British Petroleum**

In May 1993, I had reviewed and submitted some financial recommendations for changes in a proposed agreement drafted by British Petroleum (BP) that was heavily biased in its favor. The proposed agreement concerned granting BP exclusive rights to refueling services at the Tirana airport (Rinas). At the time, former Vice Minister Naske Afezolli was involved in arranging assistance for such negotiated agreements, although the negotiating line ministry in such a case was the Ministry of Industry, Mining, and Energy.

Apparently, the case lay dormant until October, when Minister Hoxha asked me for a copy of my recommendations. Soon thereafter, he asked me to go over each recommendation in detail and explain to him the rationale for it. He then passed the recommendations on to the Ministry of Industry. Two weeks later, Minister Hoxha advised me that BP had agreed to some of the changes.

### **Proposed Agreement with Premier Petroleum Company**

Also in October, Minister Hoxha asked me to help two officials from the Ministry of Industry, Mining, and Energy prepare for negotiating a draft agreement proposed by Premier Petroleum Company on investment in exploration and extraction in two onshore oil fields.

Roland Bassett, the American Bar Association/Central and Eastern European Law Initiative (ABA/CEELI) Coordinator for Albania and part-time legal advisor at the ministry, and I met with Xhelal Tahiraj, President of Albpetrol, and Albert Isaj, Vice Director of the National Petroleum Agency, to coach them in matters related to our areas of expertise. The two officials appeared knowledgeable in the technical aspects of the proposed venture but unknowledgeable in legal and financial matters. Roland and I went over the articles of the proposed agreement, explaining the legal and financial points involved and

suggesting changes where applicable. We also pointed out areas for clarifications needed from Premier Petroleum before we could give definitive recommendations in our next coaching meeting.

### **Training in Joint Venture Negotiation**

Unfortunately, many joint venture and other Albanian–foreign investor agreements are negotiated and signed without the benefit of appropriate advisory services. In some cases, the Albanian side seems unaware of what is required to negotiate such agreements. In other cases, it does not know where or how to obtain such service. So it ends up relying on the presumed fairness of the foreign side.

In a related matter, last July the Commercial Law Development Program (CLDP) put together a workshop on joint venture negotiations, held in the premises of the ministry and attended by a sizable number of staff members. Others came from other ministries. Unfortunately, a good number of the attendees, irrespective of ministry affiliation, did not appear to be those who would have benefited the most from such training. At that time, at least at the ministry (and no doubt at other ministries as well), attendance of staff members was somewhat haphazard. The ministries need to establish within their personnel offices guidelines for training.

The Ministry of Trade and the Ministry of Finance and Economy did however have at their disposal the recommendations of a World Bank project on ministry reorganization (whose findings on ministry staff training were leveraged for the benefit of the Investment and Privatization Program task on management training for the ministry). Whether these recommendations will be implemented is uncertain at this time.

## **PRIVATIZATION**

### **Discussions with Government Officials**

I met twice with Elisabeta Gjoni, the Economic Advisor to President Berisha, to discuss privatization issues. I shared with her an outline of a suggested basis for privatization strategy. The outline emphasizes the fundamental importance of addressing, in the wide debate on privatization, policy objectives in areas such as revenue from the sale of enterprises and assets, asset valuation, and economic versus social objectives. The public debate seems to ignore these policy foundations of privatization and seems so preoccupied with issues of implementation that not even an economic definition of privatization or a linkage of privatization to the policy objectives of the government or to the wider context of the economic development of the country has, as far as I know, been considered.

Attention seems focused entirely on getting state-owned enterprises (SOEs) transferred to private ownership, without any consideration for the existence, adequacy, and quality of infrastructure necessary for the efficient execution of the privatization process and, later, for the reasonably efficient operation — if not the survival — of privatized SOEs. This, of course, is more relevant to the privatization of medium-scale and large SOEs.

More important, the concentration on privatization as a high-priority issue — given its political appeal both domestically and internationally, especially in donor circles, and its effects with regard to the goal of economic transformation — seems to divert attention from considering other policy initiatives vital

//

to the birth and development of new entrepreneurial initiatives. These policy initiatives range from fiscal, legislative, and regulatory issues to institutional and administrative development and reform.

### **Banking and Telecommunications**

In the discussions with Ms. Gjoni and others, such as Bashkim Kopliku, the Deputy Prime Minister; Niko Glozheni, the Deputy Director of the National Agency for Privatization and the former Director of the Department of Privatization at the Ministry of Trade; Artan Hoxha, the recently appointed Director of NAP; and some Parliament members, and in discussions at privatization conferences, I always stressed the importance of including in the privatization agenda the banking and telecommunications sectors.

Such inclusion is essential to a less wasteful transformation of the economy to a reasonably functioning market system and is as vital to the survival of privatized enterprises and new business initiatives as the policies mentioned above. Yet, such inclusion — which some would readily accept in principle, and others, such as Hoxha, would favor acting upon as soon as is practicable — is a policy decision that seems to face inertia from various sources, political as well as institutional, such as the State Bank (the Albanian Central Bank).

### **Enterprise Restructuring**

The issues that seem to dominate the debate on privatization, especially at NAP, concern the legal transformation of the large SOEs (except in mining and petroleum) to private entities, the mechanics of mass privatization (vouchers and shares — yet no one seems to know the corollary policy issue of how much of the value of the assets is to be mass privatized), and the role of restructuring in privatization.

The Restructuring Advisor for the German Agency for Technical Cooperation (GTZ, a German donor organization with several technical assistance components in Albania) presses NAP at every opportunity to restructure nonviable large SOEs before privatizing them. However, when pressed for criteria for identifying nonviable SOEs, his answers lack specificity. At all venues where the GTZ Restructuring Advisor raises the issue, I have argued against rehabilitative restructuring and for legal, financial (disentanglement of enterprise obligations, especially to foreign creditors), management, and labor restructuring to encourage potential buying interest.

Complicating matters is the recent establishment of an Enterprise Restructuring Agency (ERA), whose technical advisory capacity, including a Restructuring Advisor, is funded by the World Bank, but whose budgetary resources for rehabilitative restructuring are underwritten by the Government of Albania from its own budget, to the tune of an ill-afforded \$25 million. ERA currently has about 30 large SOEs on its "sick list."

### **Undue Attention to Privatization**

The irony is that out of 300 or more large SOEs, only a small number would survive as ongoing concerns, because of obsolete equipment and technical processes, the upgrading of which would constitute a barrier to many a potential investor; price and trade liberalization; and the proceeding integration of the Albanian economy into the international economy, where these enterprises would be subject to

competition they would be unable to meet. In consequence of such circumstances, the remaining enterprises would end up on the block, with only some physical assets for sale.

Although great political and institutional efforts and financial and technical resources are being expended on the privatization endeavor, small business development has been overshadowed as a national policy objective and has been relegated to an understaffed and, except for its director, an underqualified Department in the Ministry of Industry and Trade. The lack of comprehensive and coordinated policy objectives for the development of the small and medium-scale business sector is probably because of the unrecognized potential role of this sector in the economic development of the country. The lukewarm attention on the part of the decision makers to the importance of this sector may be blamed on their lack of expertise in economic development matters and their unfamiliarity with such issues and with the experiences of other economies. Donor organizations, on the other hand, can try to steer the decision makers and provide technical and other assistance toward addressing this weak policy-setting environment.

### **Privatization Conferences**

In addition to the privatization conference of November, I was invited by the former NAP Director to attend a privatization conference in September, sponsored by the Organization for Economic Cooperation and Development (OECD). A panel included privatization specialists from Poland, the Czech Republic, Bulgaria, Hungary, Rumania, Germany, France, and England. At this conference, I argued against rehabilitative enterprise restructuring and against undue emphasis on asset valuation and on using privatization as a revenue-raising vehicle. I suggested that more resources would be wasted on pursuit of the latter two items than could be recouped by them.

## **SME DEVELOPMENT**

### **SME Report**

At the request of the U.S. Agency for International Development (USAID) in Washington, D.C., I prepared a report on the Albanian SME sector as a briefing document for the benefit of Mark Karn and Gary Maher's mission to Albania, in early November, to study the state of the small and medium-scale enterprise sector, among other things. I was pleased to have the opportunity to discuss the report's findings and recommendations with the team. Emphasis in the report was placed on highlighting the impediments to the development of the sector, the elements of an enabling environment, and recommendations for USAID assistance.

One recommendation advised waiting on a line of credit for SMEs through the PHARE credit channeling structure, which was being reorganized under the second phase of a credit program to Albania, until the new structure was firmly in place and fully operational. In another recommendation, I suggested setting up criteria for the USAID credit line separately from those determined by PHARE in agreement with the Ministry of Industry and Trade. This ministry includes the Directorate (or the Department, under the former Ministry of Trade) of Business Development.

### **MIT Business Development Directorate**

Among the impediments to business development I listed in the report, I included the understaffing of the Directorate of Business Development and the poor qualifications of its staff, with the exception of its Director, Mikel Dushniku. In his efforts to strengthen his Directorate, Mr. Dushniku recruited three able persons, only to lose them to other recruiters. One recruit, Gregor Dhaskali, became the Director of the Enterprise Restructuring Agency, and another, Agron Dhima, became an assistant for special projects to Minister Hoxha.

As a result of this understaffing and unqualified staff in the Directorate of Business Development, two sections there suffered severely. One is Business Development Policy, which is headed by Mimoza Shabani, a young woman who had spent several months with the U.S. Small Business Administration. Ms. Shabani seems unmotivated in her job and intent on returning to the United States for further study and for personal reasons. Her contribution to policy making was practically nil. That minimal contribution was rendered even less meaningful by Minister Hoxha's tendency to reach beyond department heads and call on their staff for assisting with various tasks.

The other section is that of Relations with Business Associations, for which Mr. Dushniku recruited the former Vice Chairman of the Chamber of Commerce. He, too, did not last long as the head of that section. The section never got off the ground, so that, for all practical purposes, the Directorate of Business Development functioned with one person, its Director, whose energy and time were completely devoted to working with PHARE and its consultants and, with my assistance, to setting up the new organizational structure to handle the credit line for small business borrowers.

### **PHARE Technical Assistance**

The new credit-handling structure consists of three components: the Regional Business Agencies (RBAs) — business services providers, one in each of seven districts, set up under Phase One of the PHARE credit program by Lancashire, a British consulting firm; the Foundation — a successor to the Albanian Services Support Unit (ASSU), the central administrative unit; and a special credit operations unit in the Savings Bank.

The terms of reference for Phase Two of the credit program called for the provision of three long-term advisors — one in policy to the ministry, one in accounting and finance to the Foundation, and one in credit and banking to the Savings Bank, to advise the credit operations unit. The terms of reference also called for a tender process to select a consulting firm for the provision of these advisors and several short-term advisors, mainly for training purposes at each of the three components of the structure. The minister requested from USAID/Tirana that I accompany an Albanian delegation to Brussels for the opening and evaluation of the bids to supply the long-term advisors. On the basis of my evaluation of the bids, I recommended to the delegation to fail all bids. A second round of tender was published soon thereafter, and a new bid evaluation was held in December, after which a German company was selected.

### **IPP PROGRESS REPORT**

During the latter part of October, three IPP missions came to Tirana to begin implementation of three project tasks: Jean Gilson and Doyle Peterson from Development Alternatives, Inc. (DAI) for the Privatization of Foreign Trade Enterprises (FTEs) under the Ministry of Trade; Anne McDermott from

DAI for the Light Industry Sectoral Analysis; and Ann Niesenson and, on a limited basis, Tom Larson from Deloitte and Touche for the Export Promotion Task.

With the assistance of my able ministry assistant, Majlinda Bako, I was able to facilitate the assignments of and set up appointments for each team. These appointments included meetings with ministry, Government, and enterprise officials in accordance with the scope of work for each task. A meeting with Minister Hoxha was held to explain the purpose of each task. A meeting also was held with USAID/Tirana at the start and at the end of the mission. The latter meeting was to explain each team's preliminary findings. Reports on the findings also were shared with USAID. The Privatization Task report included a profile of nine FTEs and a privatization model whose design was based on its possible applicability to enterprises of other ministries.

The Light Industry Sectoral Analysis drew a general picture of this sector and focused on the light processing industry (where inputs are shipped to Albania by the foreign partner, which might supply some equipment and training, and where the inputs are assembled into a final product that is shipped back to the foreign partner), such as shoe uppers, blouses, and other apparel items. The Light Industry Report also included a description of some impediments facing this processing sector and called for its promotion domestically and abroad because it holds promise for growth potential, given the slow rate of inflow of more committed foreign investment.

According to the report, the Albanian side needs to promote this sector to those countries that most rely on such arrangements in their efforts to avoid the high costs of their own domestic production. Domestically, also, the Albanian side needs to promote this sector by facilitating the setting up of such operations and by refraining from the contemplated imposition of import duties on the incoming inputs, because this might discourage the foreign investor and impose a heavy burden on the Albanian partner.

The Export Promotion Task focused on the export prospects of the light industry processing sector, where the ease of setting up such operations makes it easily accessible to a foreign partner or investor that takes charge of re-exporting the final product, and thus, in a sense, ensuring the export market for this sector.

Four missions are planned for the first quarter of 1994 for the continuation of work on these and other tasks:

- Ann McDermott will return to Tirana in January 1994 to finalize her report on the light industry analysis;
- In February 1994, Kent Ford of DAI and Todd Rossel of Deloitte and Touche will conduct a two-week workshop on management skills training;
- In February or March 1994, Doyle Peterson and Tom Larson will return to continue work on the privatization task; and
- In February or March 1994, Ann Niesenson will continue work on the export promotion task.

### **MISCELLANEOUS ACTIVITIES**

I held long discussions with Minister Hoxha to plan for the implementation of the recommendations of the World Bank project on ministry reorganization. At the request of Minister Hoxha, I participated in the preparation for, and attended a meeting with, an International Monetary Fund (IMF) visiting mission whose purpose was to get an update on progress made by the government toward the implementation of IMF program objectives and steps it planned to take in that direction.

Also, I participated in a planning meeting called by Minister Hoxha to prepare for a plenary meeting on legislative matters, which would include GTZ, ABA/CEELI, and staff from various ministries. The purpose of the plenary meeting was to prepare for the setting up of an interministerial and interdonor committee to work on the completion of legislative initiatives under the civil code. I continued to maintain regular contact with the USAID office about IPP project implementation and related activities, such as attending Nexus and other meetings.

**ANNEX**  
**MEETINGS**

**MEETINGS WITH ALBANIAN OFFICIALS**

Mrs. Elisabeta Gjoni, Economic Advisor to the President

Xhelal Tahiraj, President of Albpetrol

Albert Isaj, Vice Director, National Petroleum Agency

Luan Pustina, Director, Tirana District Tax Office

**MEETINGS WITH DONOR ORGANIZATIONS AND OTHERS**

U.N. Development Programme

EC PHARE, Brussels

Council of Europe

World Bank

Eastern Europe Specialist, French Embassy, Prague

Director, International Executive Development Center, Slovenija

International Monetary Fund

Several American potential investors in Albania

**INVESTMENT AND PRIVATIZATION PROGRAM**

**MINISTRY OF INDUSTRY AND TRADE**

**ALBANIA**

***MONTHLY REPORT***

***November 1993***

Prepared by

Alan Osman  
Development Alternatives, Inc. Consultant  
USAID Policy Advisor

**Investment and Privatization Program  
Ministry of Industry and Trade  
Albania**

**Monthly Report  
November 1993**

**Alan Osman  
DAI Consultant and USAID Policy Advisor**

### **Introduction**

This report outlines activity related to investment, privatization and SME development. Some details are included in the Fourth Quarter of 1993 Quarterly Report.

However, to be pointed out here is the recent government restructuring including that of the Ministry of Trade and Foreign Economic Cooperation to which were joined the departments responsible for light industry in the Ministry of Industry, Mining, Energy, creating the new Ministry of Industry and Trade (MIT).

Simultaneously, government portfolios were reassigned. Mr. Artan Hoxha, the Minister of Trade, was appointed Director of the National Agency of Privatization (NAP) was replaced as the Minister of MIT by Mr. Selim Belortaja, the former head of the Center for Foreign Investment Promotion (FIP).

### **Investment**

- Held coaching meetings with Xhelal Tahiraj, president of Albpetrol Oil and Gas Corporation, and Albert Isaj, Vice Director of the National Petroleum Agency regarding a proposal from Premier Petroleum Company to invest in two on-shore oil fields.
- Held meetings with the Minister Hoxha to discuss details of my recommendations (made in May, 1993) concerning refueling services by British Petroleum at Tirana airport.
- During the conference on Legal Aspects of Privatization, I responded to questions from a Council of Europe panel regarding the recently passed law on foreign investment.

- On November 11, 1993, Mr. Hoxha, two senior MIT staff and I appeared on a live television program to respond to questions on the law on foreign investment from a television host.

### **Privatization**

- In early November, held many discussions with and proposed to Minister Hoxha (he remained MIT Minister until November 9) a broad outline of a privatization strategy. This, in view of his upcoming assumption of the directorships of NAP.
- Discussed with NAP Director Hoxha a short policy position paper on privatization for his use at a G-24 meeting in Brussels on 11/15/93. (See attached copy.)

### **SME Development**

- At his request, I met with and reviewed for Everett Post, advisor to the National Housing Agency, MIT's policy objectives with regard to SME development, The PHARE Credit Program and the recently set up SME foundation.
- Exchanged views with Everett Post regarding possible financial institutional venues for a mortgage financing facility to potential buyers of some 13,000 almost finished apartments.
- Discussed and exchanged views with Mr. Charles Monck, PHARE consultant, concerning the PHARE credit program, the TOR and the tendering process for the selections of long-term advisors for the program and the transition process at the Foundation.

### **Miscellaneous**

- Participated in inter-ministerial and inter-donor meetings initiated by Minister Hoxha concerning resuming the work on the commercial code and various other laws relevant to business development.
- Participated in a meeting between Minister Hoxha and MIT department heads and an IMF delegation to review the progress made by the government in complying with IMF "conditionality."

- At Minister Hoxha's request, I reviewed and submitted comments and recommendations on a contract between the Government of Albania (GOA) and United States lobby firm, the Hawthorn Group/Jack Buecher (a principal of the firm). Minister Hoxha delivered the translated recommendations to the Prime Minister.
- Held a meeting with new MIT minister to review for his benefit the IPP project, its various tasks and my role as advisor and project manager.

**INVESTMENT AND PRIVATIZATION PROGRAM**

**MINISTRY OF INDUSTRY AND TRADE**

**ALBANIA**

***MONTHLY REPORT***

***December 1993***

Prepared by

Alan Osman  
Development Alternatives, Inc. Consultant  
USAID Policy Advisor

## INTRODUCTION

In December, I met with the Minister in Tirana and worked several days in the United States on a draft of policy recommendations for a privatization strategy. The draft is based on a proposed privatization outline and a position paper I had prepared for then-Director of the National Agency for Privatization (NAP), Artan Hoxha, for presentation at a G-24 meeting in Brussels in November. During a meeting with a visiting USAID mission (Mark Karns and Gary Maher) in early November, then-Minister of Trade Hoxha had asked that I continue to work with him when he moved to NAP. As a result, I had planned to review the draft policy recommendations with him and to propose using it as a policy position document in support of a privatization strategy that would be based on its conclusions.

## MEETING WITH MINISTER OF INDUSTRY AND TRADE

In the exploratory meeting to review the scope of work of the Investment and Privatization Program (IPP) and to explain my work as Policy Advisor to the Ministry and as Project Manager for the IPP tasks. I briefly described the tasks and summarized the progress on their implementation.

The Minister shared with me his feelings concerning what he thought to be a daunting task of integrating the industry part from the Ministry of Industry, Mining, and Energy with the Ministry of Trade into a new Ministry of Industry and Trade (MIT). I told the Minister that, upon my return to work in January, I would be happy to work with him on this process, given the fact that I had previously worked closely with the World Bank consultants who prepared the report on the reorganization of the Ministry of Trade and with Minister Hoxha on the process of implanting its recommendations.

## POLICY RECOMMENDATIONS FOR PRIVATIZATION

A proposed draft policy position paper for a privatization strategy includes the following policy issues: the Economics of Privatization, the Goal of Privatization, Privatization, Economic Efficiency vs. Social Justice, Privatization Alone Is Not Enough, Partial Privatization Is Not Enough, Privatization: How Fast?, Privatization and the Standard of Living, Privatize or Restructure First?, and Privatization and Revenue.<sup>1</sup>

---

<sup>1</sup> See Osman, "Investment and Privatization, and SME Development Program, Ministry of Industry and Trade, Albania: Recommendations for A Privatization Strategy."

**INVESTMENT AND PRIVATIZATION PROGRAM**

**THE MINISTRY OF INDUSTRY AND TRADE  
ALBANIA**

***QUARTERLY REPORT***

***January-March 1994***

Prepared by

Alan Osman  
Development Alternatives, Inc. Consultant  
USAID Policy Advisor

## INTRODUCTION

This report covers activities related to investment, privatization, SME development, coordination with the Commercial Law Development Program (CLDP), donor interaction, and miscellaneous items.

Two events worthy of note here are the dismissal of Artan Hoxha from the directorship of the National Agency for Privatization (NAP) and the physical merging of the Ministries of Industry and Trade.

## INVESTMENT

### Presentation at a Privatization Conference

I was invited to make a presentation on the foreign investment environment in Albania as it relates to privatization at a two-day conference in Tirana on privatization in the agroprocessing sector. The conference was sponsored by GTZ (a German donor organization), IFDC, and VOCA and was held on February 28 and March 1, 1994.

Briefly, my presentation highlighted Albania's investment features that are attractive to potential foreign investors, as well as the impediments that investors face. I placed special emphasis on the need for coordinated policy initiatives to establish an enabling environment that is not only attractive to foreign investment, but also supportive of privatized enterprises and, more importantly, of new entrepreneurial initiatives.

I mentioned that a new positive element in the privatization policy is the inclusion on the privatization agenda, at least in principle, of the financial and communications sectors. The current dearth or inefficiency and poor quality of services in these two sectors have played a part in frightening off potential foreign investors. I urged that immediate steps be taken to begin deliberating the means of privatizing (by management or by equity) both sectors, for two reasons:

- Privatizing banking and telecommunications is more complicated than privatizing other enterprises in other sectors, and thus will take longer.
- These two sectors are vital to the survival and efficient operation of all privatized enterprises, in terms of reducing their transactional costs, and vital to the development of an enabling environment essential to the birth of entrepreneurial initiatives.

At the conclusion of the conference, I was asked to review and comment on a list of conclusions and recommendations that was to be sent to various government officials. My comments related to limiting the role of restructuring in privatization and arguing against the following:

- Requiring business plans as part of privatization offers;
- Using a social impact criterion in evaluating offers; and
- Subsidizing potential buyers of state assets and enterprises.

## **Policy Impediments**

Whether related to foreign investment, industrial development, trade, or other domains, there is a glaring lack of a systematic approach to policy formulation, coordination, and communication, ranging from fiscal and legislative policies to institutional and administrative reforms.

I recently pointed out this lack of policy approach during a meeting with Edmond Seferi, the Chief of Staff to President Berisha. I tried to impress upon him the usefulness of adopting an approach to policy formulation based on the following guidelines:

- Concrete economic reform objectives;
- Coherence in policy formulation;
- Coordination of policies;
- Communication of these policies, within the government and publicly; and
- Control, in terms of implementation oversight.

## **Foreign Investment Promotion**

I also pointed out to Seferi the need to strengthen the Center for Foreign Investment Promotion, whose resources are woefully limited (it is reported that its annual budget is only \$20,000).

Furthermore, I underlined the need for coordinated efforts to provide relevant training and assistance to those involved in negotiating joint ventures with foreign investors. Many a joint-venture agreement is entered into by Albanian parties without the benefit of such training, resulting in unfavorable contractual terms for them. My involvement in reviewing and making recommendations for changes in a few draft agreements and advising the Albanian side on these has alerted me to this situation (see attached copy of a memo on an proposed agreement with British Petroleum).

Moreover, I emphasized to Seferi the lack of government support to, and promotion of, the light processing industry, both domestically and abroad. I pointed out that until the minimal elements of an environment friendly to foreign investors as well as to domestic entrepreneurial initiatives have been reasonably established, such industry should be supported and promoted, because it can generate employment opportunities, wage income, and hard currency. Admittedly, this industry subsector does not seem to attract long-term investment, nor does it contribute appreciably to the transfer of technical input sourcing, product marketing, international pricing, or other know-hows related to international business.

## **New Impediments to Foreign Investment**

In a memo to the MIT Minister, I drew his attention to the fact that the Customs Office was considering imposing duties on imported inputs that are then reexported as part of the final product. The Customs Office's rationale for this move is to deter Albanians from spiriting these inputs into the domestic market and to speed up the process of reexporting the final product. However, such duties would impose a heavy burden on the Albanian side in funds held in escrow and carrying costs. More

ominously, such duties might seriously deter foreign investors interested in establishing operations in Albania. Clearly, such a move is a policy matter that, by default, seems to have been decided by the Customs Office.

In a related action, I pointed out to the Director of International Economic Relations and other MIT staff that the recently enacted Foreign Investment Law apparently is not being fully implemented concerning licensing of joint-venture investments with the state. Lately, I have been approached by potential foreign investors who told me of their concerns about a development that concerns joint-venture cases where the Albanian partners wanted to change the terms of the ventures in mid-stream to gain additional benefits.

Incidentally, I had used the occasion of the agroprocessing privatization conference referred to above, which was attended by a large number of rural fertilizer dealers and agroprocessors, to caution against such tendencies, noting that they would severely impede potential foreign investment.

### **Recommendations for MIT Initiatives**

Yet, MIT could very well take the lead in initiating the policies to promote a positive environment for foreign investment, especially in industrial development. After all, it was this same Ministry (actually its predecessor, the Ministry of Trade under Artan Hoxha) that took the initiative in drafting the Foreign Investment Law. Although drafting that law was a less-focused endeavor, it did require interministerial communication and coordination. The former Ministry of Trade also took the initiative in convening a planning meeting involving various ministries and donors to draft and/or finalize various laws in the civil code necessary for defining the regulatory and legal frameworks that are critical for economic development and for attracting foreign investment.

However, such policy setting for the development of a foreign-investment-enabling environment for the industrial development of the country presupposes the existence of an industrial policy. Unfortunately, neither policy initiative has yet been undertaken at MIT, which is home to the Directorate of Trade and Industrial Policy. This is caused by many factors:

- The preoccupation of the Minister of MIT with short-term concerns of the Ministry and his apparent lack of expertise in policy matters (his previous directorship of the Center for Foreign Investment Promotion does not seem to have been very effective given the center's present state);
- The Minister's need to have a mission statement of the Ministry and a definition of its mandate before beginning long-term planning (in this regard, the Minister has the benefit of the IBRD project recommendations on the reorganization of the predecessor Ministry of Trade, at least as a guideline);
- The lack of expertise at the Directorate of Trade and Industrial Policy (this Directorate could certainly use a long-term industrial policy advisor);
- The preoccupation of the Directorate of Trade and Industrial Policy with special projects (the actual title of this Directorate is that of Trade and Industrial Policy and Special Projects, and its director was in charge of special projects under Hoxha);
- The recent merger of the Ministries of Trade and Industry; and

- The lack of a second Vice Minister in charge of the policy-making Directorates in the Ministry. Presently, there is only one Vice-Minister, a holdover from the former Ministry of Trade, where he had been in charge of administrative affairs and of the food aid allocation and distribution. Under former Minister Hoxha, he was never involved in policy matters, and I seriously doubt his qualifications in this area.

### **Counterpart Training**

In a related investment matter, I participated in a meeting between two emissaries of the Dutch Ministry of Agriculture and Albanian officials including MIT staff, the director of the PHARE-supported SME Foundation, and the coordinator of the Albanian-Dutch Program for the Agricultural Development of Fier (a region in Albania). The program involves assisting a number of Fier farmers to grow green peppers, to arrange for shipping these to a Tirana processing and cold storage facility, and to have the final product shipped to the Netherlands.

The purpose of the meeting was more to exchange views and explore the potential of the cooperative efforts than to negotiate the terms of the cooperation. However, I used the occasion to coach the Albanian side in asking probing questions related to the operational and structural relationships among the four parties to the program: the Fier farmers, the Tirana processing and cold storage facility, the Dutch importers, and the transporter between Fier and Tirana.

The coaching I did at the meeting led me to suggest to Larry McDonald, the CLDP Advisor to MIT, offering another round of the workshop on joint-venture negotiations that was conducted last year at MIT.

### **Agricultural Policy**

Agricultural development policy is also lacking. Should peace talks among the warring factions in former Yugoslavia (a more traditional vegetable trucking source than Albania for Western European countries) lead to some sort of peace agreements, as recent developments seem to indicate, foreign-supported endeavors such as the Fier program as well as other ventures tied to the vegetable export market would face severe competition from former Yugoslav republics. Hence, medium-term investment promotion planning for the agricultural sector is needed.

At this stage of development in the Albanian economy, it would be preferable to encourage agricultural production for the domestic market, to ensure that food needs are met and to avoid increasing agricultural sector unemployment. This, of course, should not necessarily discourage the export of products, if any, where Albania may be able to compete.

### **Albanian Industrial Park**

The EBRD representative in Tirana and I had a meeting to discuss his institution's activities in Albania and to exchange views on issues of concern to both of us, especially industrial development and credit lines for medium-sized enterprises.

EBRD has financed a feasibility study for an industrial park (to be developed by a foreign investor or developer) whose users — Albanian joint-venture partners and foreign manufacturers and processors

— would borrow from a credit line financed by EBRD. Loans would range between \$250,000 and \$2 million and would be handled by a finance company set up to service this credit. It is expected that EBRD would be a minority shareholder in the borrowers' ventures.

The second phase of the feasibility study has been on hold pending an approval from the government and because of delays in the selection of an appropriate site. The selection process seems to be hampered by two constraints: development costs of one potential site and restitution problems in another, more suitable site.

## **PRIVATIZATION**

### **NAP Director's Dismissal**

An unexpected development here concerns the dismissal of Artan Hoxha, the recently appointed Director of NAP and former Minister of Trade. I saw him the day he was to receive the official notice from the Prime Minister (later that day, I shared that information with Dee Dee Blane, USAID representative in Tirana, and included it in a fax to DAI).

There seems to be no consensus on the reason for Hoxha's dismissal. A translation of an interview Hoxha gave to a newspaper is attached. Several explanations have been proffered: one is that he was slated to be gradually eased out from the government during the change in ministerial portfolios last November by moving him to NAP. Another explanation has him dismissed because he had cut corners in approving certain enterprise privatizations, thus committing infractions of privatization rules. Given that the only current rules that govern privatization are those of Decision 248, the alleged infractions would then concern the privatization of small enterprises. A third explanation, a variation on the second, attributes Hoxha's firing to his sticking by the rules when influential persons approached him in favor of certain parties or privatization methods.

Finally, a fourth explanation involves me. According to this explanation, Hoxha presented at last November's G-24 meeting in Brussels a policy position paper on the privatization of large enterprises which, according to this hypothesis, was well received but seems to have upset some in Albanian circles. I had prepared, discussed with, and recommended to Hoxha that policy paper (a copy is attached). However, I seriously doubt the veracity of this version.

### **Decentralized Privatization by Default**

The change of leadership at NAP, twice in less than six months, has left it directionless at a critical period in the privatization process. The change has also had an effect that may, in a way, be considered positive. The lack of strong leadership at NAP and the lack of a well-thought-out privatization strategy and law have allowed various ministries to act independently in privatizing the enterprises under their jurisdiction, a move that has the effect of partially speeding up the process. However, this decentralization by default lacks the benefit of a coherent, coordinated privatization strategy and poses legal problems. Currently there are no provisions for the legal transformation of state-owned enterprises.

A by-product of this unplanned decentralization has been the uncoordinated appeal for technical assistance by at least one ministry, that of Industry and Trade, to donors and to a funding source that, in agreement with NAP, has already disengaged itself from such assistance, as is explained below.

## **NAP New Director**

Fortunately, this time it did not take long for a new director to be appointed. I understand that Bashkim Kopliku, the Deputy Prime Minister and Chairman of the Board of NAP, gave the Prime Minister a deadline to appoint a new director, failing which he, Kopliku, would get one appointed, which he did.

The new director is Niko Glozheni, the deputy director under Hoxha, who was appointed to that position by Kopliku a few months before Hoxha became director to fill part of the leadership gap after the former director, Dervishi, was removed from that position. I knew and worked closely with Glozheni during the time he was director of Privatization at the Ministry of Trade. When he was asked by Kopliku to serve as deputy director at NAP, he and I had long talks about this development in his career. Initially, he was very reluctant to accept. He wanted to move to the private sector to work with his father, who runs a coffee wholesale/retail operation. He remains overwhelmed by the demands of the job, at which he works practically every evening and on Saturdays. He is fully aware of his limitations and tries to familiarize himself with various countries' privatization experiences as they relate to methodologies of implementation.

Yet Glozheni is more willing than Kopliku to listen to views on policy objectives and on a systematic approach to privatization, given the ad hoc and haphazard approach that has long plagued the planning process for privatization, including Council of Ministers' Decision No. 248. The latter was practically written overnight by Kopliku himself and rammed through the Council for approval — hence its convoluted context. Kopliku did, however, have the benefit of intermittent short-term technical assistance from the World Bank's privatization specialist for Eastern Europe, who told me personally he takes no credit for the resulting product.

Glozheni's leadership style makes him deferential to Kopliku. Glozheni is fully aware of the weaknesses at NAP and is eager to address them by calling on appropriate technical assistance. Unlike Hoxha, Glozheni cannot be expected to be very imaginative or to produce original ideas, but he will work diligently to implement whatever strategy will eventually be conceptually and politically feasible. He will not argue forcefully in defense of ideas that do not appeal to Kopliku.

When Glozheni eventually moved to NAP as Deputy Director, I maintained close contact with him as I have since he became Director. We would spend hours, during and after work and on weekends, sometimes talking about the privatization strategy for medium and large enterprises and the progress made in privatizing small enterprises subject to Decision 248 (or objects, as they actually are often referred to, because in many cases they are modest physical assets and not ongoing enterprises).

Soon after my return to Tirana in January, I approached Glozheni about NAP's urgent need for proper technical assistance to organize the work of NAP and to rationalize the use of the resources presently available to it or to be acquired.

I had already discussed the subject of such technical assistance with Kopliku, who indicated interest. Glozheni discussed it further with him and later asked for a formal proposal. This I drafted and showed to Dee Dee Blane, who kindly took time out from her heavy work schedule to review and endorse it. Two weeks later, a NAP letter requesting a long-term advisor under IPP-Phase II was delivered to her office.

## USAID Technical Assistance

Various technical assistance elements are urgently needed at NAP. My close contact with NAP since July of last year and work for its two-month duration on an interministerial, inter-donor privatization committee convened by former NAP Director Dervishi have given me some perspective on NAP's shortcomings, which have beset the Agency for a long time:

- Lack of organizational and administrative experience of Directors and senior staff;
- Extreme lack of qualified staff;
- Ignorance of proper use of technical assistance;
- Confusion caused by the recommendations of various donors for privatization methodologies and the inability of NAP to rationalize and synthesize these various inputs;
- Absence, from past donors' recommendations and advisory assistance, of proper planning for the privatization effort, starting with setting of clear objectives, rather than reinforcing NAP's understanding of privatization as simply a transfer of ownership;
- Preoccupation with implementational and procedural issues to the exclusion of basic policy objectives, an approach exacerbated by the failure of past donors emphasize the importance of policy issues;
- Undue influence by GTZ advisors (one of whom is based at NAP), at least initially, in steering NAP toward the German model of privatization, whose applicability to the Albanian case has always been in doubt (It is noteworthy that the unhindered access of GTZ and the repeated selling of its views to former Director Dervishi have not encouraged NAP to initiate some independent thinking of its own and to try to rationalize the privatization proposals thrown at it from a half-dozen donors);
- Establishment of the Enterprise Restructuring Agency (ERA) with technical assistance from the World Bank before the policy and strategy issues concerning the role of restructuring in privatization have been addressed (Until a privatization plan is formulated, recent information from IBRD indicates that the ERA's role will be considerably curtailed and will focus on providing minimal asset and enterprise maintenance; nonetheless, the creation of ERA has diverted resources and efforts away from proper planning for privatization);
- The director's preoccupation with procedural issues and daily meetings with staff from NAP district branches, with various privatization petitioners, and with complainants;
- Lack of policy guidance from NAP Board of Directors, other than to call frequently for speeding up the work on the privatization strategy and the privatization law;
- Extreme deficiency in equipment, which aggravates the state of an operation that is inefficient to begin with; and
- Appointment of a dozen highly unqualified persons by former Director Hoxha (some would say a bad case of nepotism on his part), whose training is costlier and longer than it should be and presents a real problem given NAP's urgent need for more trained staff.

In view of the above, the need for a long-term advisor and other technical assistance is critical. USAID Gary Maher's upcoming trip to Albania comes at an opportune time, as he will be able to assess firsthand what technical assistance USAID can offer, in addition to the long-term advisor already requested, to address NAP's needs.

Generally speaking, the rehabilitation of NAP requires assistance in the following areas:

- Administrative restructuring;
- A staffing needs assessment;
- Assignment and reallocation of staff around NAP's functional areas, which need to be defined;
- Training in organizational and administrative skills; and
- A needs assessment for privatization assistance, such as for long-term advisor/coordinator, technical specialists in privatization implementation, legal assistance, privatization training, and the like.

## **NAP and Other Donor Assistance**

### **GTZ**

Currently, only GTZ is still providing assistance to NAP. This assistance consists of an NAP-based privatization specialist, a restructuring specialist, and the services, as needed, of a legal advisor who works with other government bodies. The privatization specialist, who for more than a year had assisted with the drafting of a privatization strategy that may need to be completely revamped, is currently working on a survey of 1,200 enterprises (the survey was originally commissioned to ASSU, the predecessor of the SME Foundation, and is now managed directly by GTZ) and, together with the restructuring specialist, on the physical and financial restructuring of two chemical products plants. The legal advisor is currently working with the interministerial committee initially convened by former Minister Hoxha to complete the work on the civil code.

Unofficially, NAP seems to feel that GTZ's technical assistance, with the partial exception perhaps of the legal advisor, has run its useful course. I do not foresee an active role for GTZ technical assistance in the rehabilitated NAP.

### **The PHARE Program**

As a result of a divergence of views between NAP and Coopers & Lybrand (regarding a disputed commitment to the latter by former Director Dervishi), PHARE decided earlier this year (as I was advised this past January by Lise Nielsen, the Brussels administrator for Albania) to reallocate the 1994 privatization budget from NAP to the tourism component of the PHARE program. Yet an official request for PHARE privatization technical assistance was made by the MIT Minister and the MIT Director of Privatization at the first meeting of the Joint Albanian-EC Commission on Economic Development and Cooperation that was held in Tirana on March 11, 1994. This, of course, is another example of the lack

of a comprehensive, efficiently coordinated, and widely communicated privatization program by NAP. And, as was pointed out above, it is the result of the intermittent leadership vacuum and poor organization at that agency. I pointed this contradiction out to the MIT Minister in a memo on the proceedings of the Joint Commission meeting (see attached copy).

However, still remaining to be resolved is the question of a half-million ECUs from the 1993 budget, most of which NAP would like to use for the purchase of badly needed equipment, but that PHARE would rather see spent on technical assistance. The last time Glozheni and I talked about this, he told me that PHARE seems to be bending a little on this issue.

### **The World Bank**

Having provided intermittent technical assistance through its privatization specialist for Eastern Europe (referred to above), the Bank at this time has no plans to provide additional privatization technical assistance. The specialist's March visit was to provide and discuss with NAP and Kopliku an outline of the advantages and disadvantages of mass privatization. I understand that Kopliku was not entirely satisfied with the outline.

### **Prospective Role of USAID in Privatization**

In view of the above, and except where PHARE might succeed in using part of the 1993 privatization budget referred to above for technical assistance, there appears to be a large role for USAID in privatization.

However, the extent of this role will hinge on whether NAP decides to request technical assistance from other sources, especially from the Czech Republic or other Central and Eastern European countries. Some of these points might be clarified during Gary Maher's trip to Albania.

### **Mass Privatization**

There seems to be a consensus in the government on mass privatization, yet no one, not even at NAP, seems to know the extent (in percent of asset value) to which this will be carried out. Nonetheless, the issue appears to figure so prominently in government circles that President Berisha has instructed a mission to go to Prague to study the Czech model of mass privatization, which is seen as the most applicable Eastern European model to Albanian circumstances. The team included Kopliku and Glozheni, and the one-week trip, starting March 21, was financed by the World Bank.

The president's initiative in this regard is an indication both of the government's continued commitment to the privatization effort and of frustration with the slow pace of implementation. However, there is some political opposition to fast privatization.

## **SME DEVELOPMENT**

### **PHARE Credit Program**

Two short-term technical assistance advisors from PHARE started work reconciling Phase I borrower payments with bank records and preparing the rules and regulations that will guide the relationship between the SME Foundation, the administrative and credit approval body Phase II of the program, and the Savings Bank that will handle disbursements and collections. A third short-term advisor gave unspecified assistance to the Foundation's director.

After having sat through numerous meetings to discuss the new program, I shared with Charles Monck, the PHARE consultant on the credit program, and with MIT Director of Business Development Mikel Dushniku my serious concerns regarding weaknesses in the program's structure at the regional level — namely, the lack of any concrete planning at the Regional Business Agencies for establishing technical, economic/financial, and procurement advisory capacity, as well as for credit analysis and evaluation at the Savings Bank branches. Subsequently, I recommended to the visiting USAID mission that USAID provide some technical assistance to help fill those gaps.

### **Prospective SME Technical Assistance**

At the request of two executives from Opportunity International (a London-based organization) who were looking into the prospects for additional credit lines from unspecified donors, I met with them to discuss the PHARE SME credit scheme. I recommended against considering additional SME credit for Albania because of my concern with the absorptive capacity of that sector. But I recommended they consider supporting the regional structure of the PHARE program through technical assistance.

I met with a consultant to the Dutch Ministry of Economic Development who reviewed exploratory efforts by that Ministry to provide technical assistance and possibly a credit line, and who asked for my recommendations. I gave him the same recommendations I gave to Opportunity International.

Finally, I met with Miles Wortman, the designer of the IPP scope of work, who is currently consulting for IFC and an Italian donor agency also considering an SME credit for Albania. I reviewed for him the SME credit scene and again recommended technical assistance but counseled against credit.

## **IPP TASK IMPLEMENTATION**

Two IPP tasks were active this quarter. DAI's Ann McDermott came to finalize her report on the light industry sector. A final draft was faxed to Tirana and submitted to Agron Dhima, Director of Trade and Industrial Policy, and to Anila Bashllari, Advisor to the Minister.

The first part of a two-week training workshop was conducted by Kent Ford of DAI and Todd Rossel of Deloitte & Touche for the benefit of some MIT staff. Unfortunately, and despite instructions from both the Minister and later from the Vice Minister, Ministry directors were unable to attend. At the conclusion of the workshop, the Minister asked me for, and I provided him with, a list of the attendees. Those who did attend found the workshop extremely useful and participated very actively.

Several ideas are under consideration to make it possible, if not imperative, for the directors to attend the second workshop.

Both McDermott and Ford had useful debriefing meetings with Dee Dee Blane at the end of their respective missions.

Also, two other tasks were resumed late in March as Doyle Peterson of DAI and Tom Larson of Deloitte & Touche worked on the privatization task for MIT's Foreign Trade Enterprises (FTEs) and Ann Niesenson and Terry Green of Deloitte & Touche continued the work begun by Ann in October of last year on the export promotion task.

Both teams had extensive and useful debriefing meetings with Dee Dee and Steve on the results of their missions. Terry Green and I had a meeting later to discuss the mission's draft report on export promotion. I provided some comments and recommendations on the export promotion strategy.

## **IPP - PHASE II**

### **The Ministry of Industry and Trade**

Starting in January, the Minister and his Directors were preoccupied with the physical — not to mention the ongoing functional — integration of certain departments from the Ministry of Industry, Mining, and Energy with the Ministry of Trade. This restructuring necessitated laying off some 30 Ministry staff. The Minister was also preoccupied with the duties of a Ministry he is having to learn on the go amid the daily grind of administrative concerns. He complained to me about having to make frequent trips abroad that take him away from the pressing demands of the Ministry. All this prevented the Minister from having the opportunity to discuss with me long-term planning for the Ministry. Yet he never fails to mention to me his desire to get to this task as soon as possible. But despite my repeated reminders, he has so far been unable to commit time to it.

Before my return to the United States last December, I explained to the Minister about IPP and its scope of work as it relates to me as long-term advisor and to short-term technical assistance in various areas. I explained the scope of work three more times after my return to Tirana in January, including once with Dee Dee, to gauge his thinking regarding additional USAID technical assistance, both long and short term. However, as he was only willing to consider the discrepancy between my end-of-contract date (late March) and the date of completion for the rest of the project (June 24), he moved to request from USAID an extension of my deadline. The Minister's hope is that while I continue to manage and coordinate the completion of IPP tasks, he and I will be able to concentrate on analyzing Ministry needs for technical assistance. In the meantime, pending my return to MIT under the extension of my deadline, he hopes to do his own assessment of the Ministry's needs for technical assistance. I believe he will discover this hope is too optimistic.

Late in March, a Ministry director confided in me that the Minister's thinking concerning technical assistance, especially long-term assistance. The Minister has said that if a directorate can justify its need for technical assistance, then MIT will request it. Also, this director said the Minister is likely to limit the work of advisors to the directorates to which they are attached and to liaise with one of his staff advisors, Anila Bashllari, whom he has already designated for that task.

In a related matter, the Minister told me that some in the government (my guess is either in the Council of Ministers or in the External Aid Coordination Unit at the Ministry of Finance and headed by a Vice Minister) have been alleging that his Ministry has too much technical assistance and too many advisors. It is possible that this may have been the reason he limited the role of advisors.

Soon after, I sent the Minister a memo (see attached copy) that, among other things, dealt with this issue and suggested ways to deflect those allegations, which seemed to be based purely on the mistaken notion that the absolute number of advisors is all that matters in judging the adequacy of the advisory assistance.

The Minister had practically no idea as to how many advisors were attached to the Ministry at that time or the nature of their work. He mentioned some advisors' names and asked me about their work. Only then did he learn who was doing what and that some of them had already completed their missions and left the country.

### **The Center for Foreign Investment Promotion**

Arben Paparisto, the Deputy Chairman, asked me whether USAID can provide technical assistance in staff training in financial analysis for projects. He indicated that this training is badly needed, especially this year. He would rather not lose time waiting until funds became available from a UNDP project for this purpose in 1995. I mentioned this to Dee Dee and furthered his request to DAI.

### **COORDINATION WITH CLDP PROGRAM**

I met and maintained contact with Larry McDonald, the CLDP Trade Advisor to MIT, to initiate and continue coordination efforts with his program.

I reviewed for him the scope of work of IPP and the various short-term tasks. Presently, he is preoccupied with, and working hard on, preparing the GATT Memorandum. Also, for a while he was involved in planning for the second round of the "Ethics in Government" workshop offered in March.

### **INTERFACING WITH USAID/ALBANIA**

I maintained regular and close contact with the USAID representative, Dee Dee Blane, through individual meetings and through attendance at Nexus and new monthly focus group meetings on economic restructuring. The groups are an excellent idea. USAID/Albania is to be commended on initiating three different focus groups.

Also, Ms. Blane's input and suggestions throughout the process of structuring Phase II of IPP are most appreciated.

## **MISCELLANEOUS ACTIVITIES**

### **Contacts with Other Donors and Advisors**

I maintained regular contact with a number of other donors. I met biweekly and sometimes weekly with the World Bank representative, who is generous with his time, insights, and background information.

Less frequently, I met with other Tirana-based donors and visiting donor representatives and consultants, including the EBRD representative, the EC Food Aid Administrator, the ILO Advisor to the recently established and officially inaugurated Albanian Public Management Center, two advisors to the National Housing Agency, and the newly arrived ABA/CEELI Albania Liaison for the Rule of Law program.

### **Contacts with Government Officials**

I met twice with Kopliku to discuss privatization in general and of banking and telecommunications sectors in particular, and the possible provision of a USAID-IPP II long-term advisor to NAP.

As mentioned above, I also met with Edmond Seferi, Chief of Staff to President Berisha, to discuss and make recommendations concerning issues related to privatization, policy initiation and coordination, foreign investment promotion and the Center for Foreign Investment Promotion, the needs of the light processing industry, and the impact of potential import duties on this sector.

Finally, I met Genz Ruli, a member of Parliament and the former Minister of Finance and Economy, and George Konda, Vice Minister of Finance and Director of the Office of External Aid Coordination. Both kindly encouraged me to meet with them later for mutually useful discussions.

## **MEETINGS WITH GOVERNMENT OFFICIALS**

Bashkim Kopliku, Deputy Prime Minister  
 Edmond Seferi, Chief of Staff to President Berisha  
 Niko Glozheni, NAP Director  
 Susanna Pani, Executive Director, Public Management Center  
 Arben Papparisto, Deputy Chairman, Center for Foreign Investment Promotion

**MEETINGS WITH PERSONS FROM DONOR ORGANIZATIONS**

IBRD  
EBRD  
FAO  
ILO  
EC  
PHARE-Brussels  
Peace Corps  
ORT  
IFDC  
VOCA  
GTZ  
Dutch Ministry of Economic Development  
Dutch Ministry of Agriculture  
ABA/CEELI  
Eastern Europe Specialist, French Embassy, Prague

**INVESTMENT AND PRIVATIZATION PROGRAM**

**MINISTRY OF INDUSTRY AND TRADE**

**ALBANIA**

***MONTHLY REPORT***

***January 1994***

Prepared by

Alan Osman  
Development Alternatives, Inc. Consultant  
USAID Policy Advisor

## INTRODUCTION

The activities covered in this report relate to the dismissal of Artan Hoxha from the directorship of the National Agency for Privatization (NAP); the physical merger of that part of the Ministry of Industry, Mining, and Energy (MIME) responsible for Industry (except heavy industry) with the Ministry of Trade and Foreign Economic Cooperation to form the new Ministry of Industry and Trade (MIT); assessment of technical assistance needs at NAP; PHARE Credit Program progress in forming the new credit channeling structure; progress in IPP task implementation; and coordination with the CLDP advisor.

### DISMISSAL OF NAP DIRECTOR

The dismissal of Artan Hoxha from the Directorship of NAP puzzled many in privatization circles. Many explanations have been offered, but none seems to be widely accepted, as is usually the case with such events.

His is the second case of a NAP Director's removal from office, unusual only in that his tenure lasted less than three months and his removal was final, whereas his predecessor's came after more than a year and was followed by an appointment to a lesser position at the Albanian Embassy in Sweden.

One plausible explanation for Hoxha's dismissal is that he was too aggressive in his privatization drive and that, in the process, he breached some unspecified privatization regulations.

### NEW MINISTRY OF INDUSTRY AND TRADE

#### Restructuring

The merger of the Industry part of the Ministry of Industry, Mining, and Energy with the Ministry of Trade and Foreign Economic Cooperation to form the new Ministry of Industry and Trade had been announced in late October 1993.

Selim Belortaja replaced Artan Hoxha as the new Minister of MIT. Previously, he was the Chairman of the Center for Foreign Investment Promotion. As he indicated to me, he is overwhelmed by his duties and by the demands of a newly created ministry. The job of integrating the relevant part of MIME into the Ministry of Trade weighed heavily on his mind and drained his energy.

During the second half of January, the Minister and the directors working for him were preoccupied with designing an organizational chart and deciding the layoffs of some 30 staff members. The directors spent days deciding whom to fire. Names were added to the list only to be removed and replaced in a process that seemed to sap the energy of many who were involved. It is doubtful that the process was entirely based on criteria of qualifications and experience.

Only one director from the former Ministry of Trade, Emira Hakani, lost her directorship in the restructuring. At one point she was even included on the list of fires, only to be saved at the last minute by the suggestion of Anila Bashllari, one of four staff advisors to the Minister, to reassign her. Emira now works under Leida Kokona, the Director of the International Economic Relations Directorate.

Anila was my assistant from the time I arrived at the Ministry in June 1993 until last October when Minister Hoxha, who had assigned her to be my assistant, made her his advisor. He also appointed her as the Chairperson of the newly established foundation (the central administrative unit for the PHARE Credit Program for the support of small and medium enterprises).

Anila is very able and takes her duties seriously. Last year, she followed an intermittent course of study at the International Executive Development Center in Slovenija that included extended field trips to various countries in Western and Eastern Europe. She obtained a degree equivalent to an MBA.

My other former assistant, Majlinda Bako, was also saved from the layoffs by Anila, who managed to add her to the staff of Kokona's Directorate.

### **Ministry Organization**

The Ministry is now divided into two main areas: a policy area and an administrative and services area. The policy area consists of the following directorates: Business Development, headed by Mikel Dushniku; Industrial and Trade Policy and Special Projects, headed by Agron Dhima; International Economic Relations, headed by Leida Kokona; and Privatization and Investment, headed by Mentar Bujari (from the former Ministry of Industry).

The administrative and services area consists of the following directorates: Finance, headed by Ahmet Stojna; Employee Relations and Payroll, headed by Kosta Qerama; Personnel; Legal, headed by Guliem Shoshi; Domestic Trade Enterprises and Food Aid, headed by Llukan Jani; Public Relations (a one-person Directorate), headed by Dritan Curaj, who also is the personal interpreter of the Minister; Light Industry (not a policy body), headed by Genc Luarasi; and Statistics and Information, headed by Minella Papakostandini.

Incidentally, a Directorate of Macro Economic Research and Analysis was on an earlier draft of Ministry organization and was to be headed by Lulzim Hana, a former Director of the Business Development Department until former Minister Hoxha replaced him with Dushniku early in 1993. However, Hana's work on an EC research fellowship that will keep him busy until September 1995 made him turn down the offer of the directorship.

Hana holds an Albanian Ph.D. in economics (communist curriculum) and was a faculty member at the University of Tirana before joining the Ministry of Trade. Former Minister Hoxha did not think much of Hana's qualifications or ability. Soon after he learned he was being considered for the Macro Economic Directorate, Hana came to me and explained his doubts as to the need for a macro policy in Albania. According to him, all that Albania needed to stimulate economic development was based on the microeconomics of putting small business and industry to work.

Unfortunately, the unavailability of Hana led to the elimination of this directorate because the search for a suitable candidate from outside the Ministry would have required too much time and effort from the Minister. It is unfortunate because, with the proper technical assistance, such a directorate would have been very useful to the government in economic policy formulation. The Council of Ministers might not have necessarily heeded, yet might not have been able to ignore completely, this directorate's policy recommendations.

Having seen two examples of Hana's work — a medium-term strategy for the Ministry of Trade and a draft Executive Summary of his intended fellowship research, which he asked me to critique — I

believe his technical assistance counterpart's on-the-job training and coaching would have had to be energetic, disciplined, and demanding. Without this determined technical assistance, Hana's decision not to assume the position offered was of no great loss to the Ministry.

### **TECHNICAL ASSISTANCE TO NAP UNDER IPP-PHASE II**

I had several discussions with Bashkim Koplaku, Deputy Prime Minister and Chairman of the NAP Board of Management, and with Niko Glozheni, NAP Deputy Director, concerning NAP needs for technical assistance to be provided under IPP-Phase II.

Both expressed interest in such assistance, with Koplaku, and more so Glozheni, responding favorably to the idea of an overall advisor/coordinator to guide the planning for the privatization strategy and to rationalize the use of all technical assistance currently available to, or to be acquired by, NAP.

At the time, discussions and a debate were ongoing between NAP and the PHARE Program regarding the program's privatization component and a disputed commitment made by former Director Dervishi to use Cooper and Lybrand for additional technical assistance. Earlier privatization technical assistance provided by the latter firm and funded by PHARE is now seen by NAP as very unsatisfactory.

As a result of this disputed commitment (the balance of PHARE funds from the 1993 allocation is half a million ECUs) and the insistence of NAP on using said funds for the purchase of badly needed equipment, the PHARE Program, as Lilse Nilson told me late in January, decided to transfer the 1994 allocations for privatization to the tourism component of the PHARE Program for Albania.

### **PHARE CREDIT CHANNELING**

Soon after my return to Tirana this month, the administrator for the PHARE Credit Program for Albania (Lilse Nilson), the program's consultant who wrote the Business Plan for the new organizational structure (Charles Monck), and three short-term consultants — one of whom was helping with the design of the structure — were in town to finalize the design work.

I attended and participated in practically all the meetings that were not concurrent, both at the Ministry and at the Savings Bank (which will handle off-balance-sheet credit channeling without being at risk for the funds).

I also had long discussions on the credit scheme with Monck, with whom I have had a close relationship since he was involved in the World Bank project for the reorganization of the Ministry of Trade. I shared with him my concerns almost several weaknesses in the structure, mainly at the regional level. These included the lack of serious planning for the provision of technical expertise in economic, financial, marketing, and technical analysis for the preparation of feasibility studies at the Regional Business Agencies (RBAs) designed to help potential borrowers with business planning.

Lack of serious planning also characterizes provision of technical expertise in credit and financial evaluation of credit applications and feasibility studies at the Savings Bank branches in the districts where the RBAs are located.

This same lack of planning applies to equipment procurement, now that the target constituency for the credit line is made up of small and medium-sized manufacturing and processing ventures instead of bakeries, cafés, and sausage and pasta makers.

Admittedly, the PHARE Credit Program provides short-term technical assistance for training the relevant staff in various areas of expertise. But staff are not yet in place and cannot be trained in time to commence operations by May or June 1994, which seems to be the time frame for the projected launch.

## **IPP TASK IMPLEMENTATION**

### **The Light Industry Sectoral Analysis**

Ann McDermott returned to Tirana to resume her research into the comparative advantages, if any, of products made by the light industry sector and to finish her survey of a sample of light industry processing enterprises, mostly joint venture operations.

A draft report identified some impediments to the development of this sector. These included the lack of promotional efforts by the appropriate Albanian bodies, both domestically and abroad, to attract foreign investors and the contemplated imposition of an import duty on the inputs provided by the foreign partner for processing into a reexported product. The highest comparative advantage, under the proper economic conditions, was found to lie in the production of shoe uppers, in blouse assembly, and in Qilim carpets.

At the end of her mission, Ann had a very good briefing meeting and discussion with Dee Dee Blane and Steve Haynes of USAID.

## **COORDINATION WITH CLDP ADVISOR**

On the second day of my stay in Tirana, I had a meeting with Larry McDonald, the CLDP Advisor to the Ministry. I sought the meeting to describe to him my scope of work as USAID Policy Advisor under the IPP project and the various tasks I coordinate. Because he was very busy with the with the GATT Memorandum, we agreed to meet again at a later date to discuss his work.

**INVESTMENT AND PRIVATIZATION PROGRAM**

**MINISTRY OF INDUSTRY AND TRADE**

**ALBANIA**

***MONTHLY REPORT***

***March 1994***

Prepared by

Alan Osman  
Development Alternatives, Inc. Consultant  
USAID Policy Advisor

## **INTRODUCTION**

The activities covered in this report relate to investment, privatization, implementation of Investment and Privatization Program (IPP) tasks, coordination with USAID, and miscellaneous activities. Highlighted in this report are the National Agency for Privatization's (NAP's) request to USAID for a long-term privatization advisor, and a meeting with Edmond Seferi, President Berisha's Chief of Staff.

## **INVESTMENT**

### **Albanian Industrial Park**

I continued the dialogue with the representative from the European Bank for Reconstruction and Development (ERBD) with regard to the Industrial Park. The first phase of the feasibility study has been completed. The project consists of developing a site with the help of a foreign investor or developer for use by potential foreign and joint venture enterprises that would be eligible for start-up loans from a financial entity to be set up with a loan from the EBRD and possibly other sources. The loans to individual enterprises would range from \$250,000 to \$2 million. EBRD may also be a minority shareholder in the borrowers' ventures.

We exchanged views about site selection and some of the alternatives for avoiding restitution problems with land owners. Also, we explored possible channels for the finance entity, including setting up a company for that and other complementary purposes.

### **The Light Industry Sector**

In a memo to the Minister about an evaluation he had asked me to write on a meeting with a European Community (EC) delegation to the Albania-EC Joint Commission on Economic Development and Cooperation, I directed his attention to the need for a serious look at the potential of the light industry processing sector. I pointed out that the returns on efforts to promote this sector are more immediate than in other industrial sectors and, considering the prevailing impediments to long-term and more substantial foreign investments, the light industry sector is more attractive to foreign investors. The foreign investor does not have to commit large investments, equipment requirements are relatively small, and little training is needed. The contractual agreements are less complicated, and physical plants are usually already available, though some may require minor rehabilitation.

## **PRIVATIZATION**

Niko Glozheni, NAP Director, and Bashkim Kopliku, Deputy Prime Minister and Chairman of NAP's Board of Management, sent a letter to USAID/Tirana requesting a long-term Privatization Advisor/Coordinator.

NAP needs this advisor to coordinate resources to carry out the formulation of a privatization strategy, the review and finalizing of a draft privatization law, and the implementation of the strategy. A copy of the proposed terms of reference for the position was shared with USAID. In addition, the mandate of this advisor may include coordinating assistance to reform the organization and administration of NAP, which presently seem to be ad hoc, at best.

In a meeting Dee Dee Blane and I had with Glozheni, he emphasized his Agency's need for technical assistance, both in coordinating the privatization effort and in reforming the Agency's organizational and administrative set-up.

## **IPP TASK IMPLEMENTATION**

### **Privatization of the Ministry's Foreign Trade Enterprises**

During this month, two IPP tasks were carried out. Doyle Peterson of DAI and Tom Larson of Deloitte & Touche resumed work on privatizing the Ministry of Industry and Trade's (MIT's) Foreign Trade Enterprises (FTEs). Ann Nisenson and Terry Green of Deloitte & Touche resumed work on the export promotion task.

Work on the privatization task began with a meeting with Mentar Bujari, the Ministry's Privatization Director, who reiterated the Minister's commitment to the privatization of MIT's FTEs. Progress toward that end has been slowed by delays in getting the enterprises to submit valuation data for their assets. This exercise is required by law, and more than one deadline has passed for turning in these valuations. The last deadline was April 15, 1994. Also, Bujari indicated to the team his interest in technical assistance to help MIT with the implementation stage.

At the end of this privatization mission, a draft report on its findings was given to USAID and a debriefing meeting held. A third mission is planned for May.

### **Export Promotion**

The export promotion task consists of two parts: one relates to identifying light industry subsectors for export promotion, and the other concerns designing promotional material for promotional strategies. The promotion team visited several light industry processing enterprises, most of which are joint ventures; of these, a few are private. The team conducted a seminar for staff of MIT's Industrial and Trade Policy Directorate to outline a draft strategy. This seminar lasted twice the time planned for it, because of the considerable interest it generated among the attendees. A second seminar has been scheduled for late April to present samples of promotional materials to the Policy Directorate and to discuss tailoring a promotional strategy.

A debriefing meeting was held at USAID, at which the team presented a draft strategy outline. Later, Terry Green and I met to discuss the draft outline, and I provided some comments and recommendations on the export promotion strategy.

## **COORDINATION WITH USAID**

In identifying technical assistance to be provided under IPP Phase II, Dee Dee Blane discussed with me prospective users' needs that are compatible with USAID objectives. She had already visited with the Minister of Industry and Trade and met with Niko Glozheni, NAP Director, to discuss the same issue. She spent time reviewing with me the draft project plan for IPP Phase II and made valuable suggestions and recommendations. She was always willing to discuss issues related to the implementation of the current project.

## **MISCELLANEOUS ACTIVITIES**

### **Meeting with President's Chief of Staff**

At my request, Edmond Seferi, the Chief of Staff to President Berisha, met with me. In our meeting, I pointed out the lack of a coherent approach by the government to policy formulation, coordination, and communication. I also shared with him my concerns regarding the lack of coordinated efforts to promote inward foreign investment and indicated the Center for Foreign Investment Promotion requires greater financial support.

I cautioned against letting concern with privatization overshadow the urgent need for policy initiatives to encourage development of an enabling environment that would stimulate new business creation. I emphasized that the future of economic development in Albania will depend more on small and medium-scale enterprise development than on privatizing large enterprises. I suggested setting up a Council on Small Business whose mandate would be to review, monitor, and propose policies and regulations to further the development of this economic sector.

### **Albania-EC Joint Commission**

At the request of the MIT Minister, I attended the first meeting of the Joint Albanian-EC Commission on Economic Development and Cooperation. The Minister wanted an evaluation of the meeting and of the Albanian side's effectiveness in presenting and discussing the issues. The Albanian delegation was chaired by the Minister and consisted of an interministerial body whose members presented papers on previously agreed topics. The EC delegation consisted of one member from each EC member country.

Later, I sent the Minister a memo on my observations, with specific references to two main areas: policies and procedures. I critiqued the Albanian presentations on human rights, exports to EC, the private sector in Albania, privatization, and ministerial reorganization. A copy of my memo is attached to the January-March Quarterly Report.

Date: March 24, 1994  
To: Mr. Selim Belortaja  
Minister  
From: Alan Osman  
USAID Policy Advisor  
Subject: Technical Assistance

Dear Minister,

This Memo covers the following items:

1. The claim that MIT has too much technical assistance (TA)
2. Progress Report on various sub-projects of the Investment and Privatization Program (IPP) and plans for completing them
3. USAID Policy Advisor: activity highlights since June 1993

#### **I. Technical Assistance to MIT**

With reference to our recent discussion and in an effort to counter the comments that this Ministry has too much technical assistance (TA), I would like to suggest the following:

To simply use the "absolute" number of foreign advisors attached to one ministry as the measure of the size of TA is unproductive. For example, to say that one Ministry has five advisors and another has three is simplistic. For, it is very possible that the first may have too few advisors and the second too many.

These comments ignore an essential point: that the number of advisors in any ministry is a function of the mission of the ministry; the number, nature, and objectives of Ministry Directorates and functional areas; and the internal availability and required degree of expertise.

The major consideration here is that when the Directors are convinced that, in order to achieve the objectives of their respective Directorates, they may decide they need specialized expertise which, if not available within the Ministry, would require technical assistance, regardless of the amount of TA already in use in the Ministry or to be acquired elsewhere within it.

As Ministry of Industry and Trade, this Ministry has significant policy functions:

1. Investment Policy
2. Foreign Trade Policy
3. Domestic Trade Policy
4. Industrial Policy
5. SME Business Development Policy
6. Privatization Strategy for Foreign Trading Enterprises (FTEs) (with strong policy connection)

Additionally, the Ministry has the following service functions:

1. Trade and Business Statistics and Information
2. Relations with business organizations/associations in the Business Development Directorate
3. Training Section in the Personnel Directorate
4. Legislation Monitoring Section in the Industrial and Trade Policy and Special Projects Directorate

## II. IPP Sub-Projects & Technical Assistance

All of the above policy and service areas may require technical assistance in order for them to meet their objectives. In this Ministry, the only current short term technical assistance I am aware of is that provided by the Investment and Privatization Program (IPP) which I manage, in addition to serving in the capacity of Policy Advisor in various areas.

The various short term technical assistance tasks (sub-projects) under IPP were **specifically designed** to respond to some of the needs of this Ministry:

1. **Light Industry Sector Analysis:** To identify Albania's comparative advantage in the international market in that sector with important relevance to formulating International Trade Policy. A final draft report has been made available to the Director of the Industrial and Trade Policy Directorate and to Anila Bashllari. Based on less than completely reliable information, the report finds that, in the absence of extreme market distortions, which is not the case yet in Albania, the highest level of comparative advantage under a variety of assumptions would lie in the following light industry sub-sectors:
  - a) Processed shoe uppers
  - b) Qilim
  - c) Processed blouses

Other sub-sectors become competitive only under a specific set of assumptions related to wages and the foreign exchange rate such as:

- a) Kiosk assembly
- b) Wool yarn
- c) Wool blankets

The report, also, makes the following recommendations to promote this sector:

- a) Promote Albania's processing industry in Western European countries such as Germany and the Benelux countries who rely much on this arrangement;
- b) Promote within Albania a favorable environment for the processing industry which seems to receive less than serious consideration;
- c) Request Technical Assistance to help with assessing foreign proposals to, and evaluating contractual arrangements with, enterprises in this sector;
- d) Expand the comparative advantage analysis to other sectors such as agro-processing;
- e) Eliminate import duties on re-exportable inputs for this sector;
- f) Promote 100% foreign ownership of processing enterprises in order to encourage serious and committed foreign capital investment.

2. **Privatization of Foreign Trade Enterprises:** To recommend a model privatization strategy useful for application by other ministries. This sub-project is a high priority objective of this Ministry and is of direct relevance to this Ministry's Privatization Directorate. If IPP is extended beyond June 1994, planning for implementing the strategy resulting from the current sub-project can begin soon thereafter. A second mission to continue the work on the strategy is already in Tirana. A preliminary report based on profiles of a sample of nine Foreign Trade Enterprises (FTEs) has been made available to the Director of the Privatization Directorate and to Anila Bashllari. It recommends the following privatization/restructuring model:
  - a) Substantial staff reduction;
  - b) Privately owned trading company with offices leased from State or private owners;
  - c) Processing plant, if any, to be sold to domestic investors (including management and workers) or to private joint venture;
  - d) Warehouses and offices can remain State owned or privatized;
  - e) Inventory remains State owned and may be sold for commission by the new Trading Company;
  - f) Foreign debt to be assumed by State (foreign creditors may be interested in a debt-for-equity swap; others may be interested in buying the debt for a equity share).
  
3. **Export Promotion and External Linkages:** Designed to analyze Albania's export potential and its promotional aspects and to help in establishing links with potential foreign importers of Albanian products. A TA mission to collect information was completed in October 1993. A second mission is already in Tirana and working with the Directorate of Industrial and Trade Policy.
  
4. **Trade and Business Information and Data Development:** Will assist MIT in developing its capacity to establish a data base of relevant trade and business statistics and essential information. This Task responds directly to the extreme needs of the Directorate of Information and Statistics. Work on this Task should begin in late April.
  
5. **Management Skills Development and Training:** To provide basic skills necessary to manage the resources of a newly restructured ministry in order for these resources to respond efficiently to the requirements of a transforming economy. The first workshop was completed in February 1994. the second workshop is tentatively planned for April/May and will be structured in such a way as to encourage senior staff attendance.
  
6. **Public relations and External Communication:** Designed to help the Ministry in the essential task of providing information on trade regulations, reforms, and relevant donor activities to various ministries and government bodies, public and private sector enterprises, albanian and foreign business media, and the general public. This Task is in the planning stage and complements the Task on Trade and Business Information and Data Development and is relevant practically to all other Directorates.

### III. IPP Long Term Technical Assistance USAID Policy Advisor

As for long term technical assistance, with the recent arrival of the Phare Policy Advisor to the Business Development Directorate, the number of advisors has gone up to three. Larry McDonald from the CLDP program is working very hard on the GATT Memorandum.

The SME Policy Advisor's function was conceived as part of the advisory assistance to the Phare credit channeling structure and would carry on the assistance to the Business Development Directorate, provided by the USAID Policy Advisor since June 1993. However, I am always available to the Business Development Directorate and the new advisor to provide a measure of continuity, having been involved from the beginning in the process of setting up the new structure.

Finally, in other and wide-ranging policy areas, I have since June 1993 been the Policy Advisor to the Minister and his senior staff. Incidentally, a Long Term Policy Advisor serving in this capacity was requested by the former Minister in a letter to the American Embassy in Tirara. I am pleased to have been selected for this position.

From the middle of June 1993, I have intensively worked in a wide range of activities including the following:

1. The Foreign Investment Law (FDI Law)
  - a) Provide economic/financial analysis and recommendations;
  - b) Prepare for the Minister's use a paper consisting of economic arguments that support the proposed law;
  - c) Accompany Minister to two parliamentary commissions to defend the proposed draft;
  - d) Appeared with the Minister and two Ministry staff on a live television program to respond to questions on the law from a television host. I explained the view that the Law is only a first step toward creating an environment favorable to foreign investment. Additional reform and development policy initiatives in areas such as financial, communication, legislative, fiscal, institutional, and administrative are essential. Otherwise, the Law would not produce the desired results.
  
2. Privatization
  - a) At a request to the Minister from Mr. Dervishi, the former Director of the National Agency for Privatization (NAP, I served on a NAP inter-ministerial inter-donor committee to exchange views, formulate a draft privatization strategy, and finalize a draft privatization law for large State-owned enterprises. In this regard, I argued, as I still do:
    - a-1) For viewing privatization as only one part, necessary but insufficient, in a comprehensive, coherent, and coordinated set of policies aimed at an integrated approach to economic transformation and development;
    - a-2) That leaving banking and telecommunication sectors out of the privatization strategy was unwise, as their privatized contribution to business development is absolutely vital. (Now it appears that this is no longer the case, at least in principle. However, immediate and serious discussions of the subject should be initiated);

- a-3) That the selection of a privatization approach should be made only after agreeing on the **objective(s)** of privatization and not on an **a priori appeal** of this or that model;
- a-4) That privatization should be accompanied (if not preceded) by that set of policy initiatives argued for in (a-1) above without which privatization will fail to deliver the hoped-for results in economic growth and improved standard of living;
- a-5) Against excessive concerns for the valuation of enterprise assets. Any efforts in this regard would almost certainly not be cost effective and would delay the process (short term budgetary concerns, tax implications, and the likelihood of selling assets cheaply, notwithstanding);
- a-6) That any enterprise physical restructuring that requires injecting additional capital into an enterprise for the hope of adding more than commensurate value to its worth is a waste of money ill afforded by the government for the following reasons:
  - The history of such efforts has been disappointing. Recouping, much less making a gain on, injected capital has been rare;
  - The effort runs counter to the underlying assumption in privatization: that the government should get out of the business of making business investment decisions;
  - Neither the government nor its expensive consultants can reasonably predict the wishes of the ultimate decision maker: the market place as it signals the potential investor;
- b) Prepared for circulation and discussion a recommended comprehensive privatization strategy outline that takes into account policy issues;
- c) Prepared for NAP Director (Hoxha) a recommended position paper on privatization for possible use at a G-24 meeting on November 15, 1993; A copy has been made available to Anila Bashllari;
- d) Participated in privatization conferences in Tirana where the above views were presented and elaborated.

### 3. **SME Development**

- a) Worked very closely and intensively with the Director of the Business Development Department in the area of SME Development policy and advised on the design of the new credit structure;
- b) Accompanied Ministry delegation to Brussels for the first evaluation of bids for TA to the new credit structure. Advised against all bids;
- c) In February of this year, participated in meetings with all parties involved in finalizing the credit structure in order for me to:
  - c-1) Review and evaluate the final design of the structure;
  - c-2) Evaluate its readiness to commence operations;
  - c-3) Evaluate the structure's ability to integrate its three component parts into a coordinated and reasonably functioning multi-component system;
  - c-4) Identify areas, if any, in need of strengthening which otherwise may weaken the entire structure and hinder its effectiveness. The following recommendations with regard to these areas and to other concerns were made to MIT, the Phare

consultant, and to the USAID team that visited Tirana in February and whose mission was to assess the need of the structure for additional TA:

- Procurement: advisory assistance and processing mechanism is presently unclear; RBA expertise is lacking;
- Business Plans: technical and economic analysis expertise is lacking;
- Bank Branches: expertise in credit analysis is lacking;
- Independent and separate judgement on loan applications is cumbersome and results in some duplication of effort, considering the process will be repeated at the central level. Coordination of feasibility study preparation (economic/financial/market/cash flow/sensitivity/and Credit analysis) between RBA and Bank Branches is preferable;
- Credit Analysis Panel at the Foundation (with Bank representation) to be independent of the Bank-based Supervisory Committee.

c-5) To Advise the USAID mission referred to above on the optimum use of TA resources. Given the limited budget for its project, I advised the mission as follows:

- Place two Long Term Advisors (LTAs) in each of two selected RBA districts (total four LTAs), one economic/finance specialist in the RBA and one in the Bank Branch;

c-6) Advised the Mission that, should USAID consider a credit line for SME development, it should be based on the following criteria;

- Commercial rates;
- Loan ceiling not exceeding eighty (80%) percent of fixed investment and operating capital;
- No cash payments to borrowers, except for working capital with certain safeguards to be worked out;

4. **Ministry Reorganization:** At the direction of the Minister, I actively participated in a series of meetings with IBRD consultants and Ministry Directors and their staff in order for me to:

- a) Provide input where necessary to reconcile divergent views regarding the design of the Ministry structure and to coordinate with my project (Investment and Privatization Program), as both projects were inter-related;
- b) Prepare and discuss at length with the Minister a summary of major project recommendations;
- c) Work with the Minister on the final structure and staffing of the various Directorates and their constituent Sections;

5. **SME Sector Report:** Researched and wrote a report on the SME sector in Albania, with the aim of identifying impediments to the development of the sector and of making recommendations for USAID assistance (copies have been made available to Mikel Dushniku and Anila Bashllari).

Impediments in the following major areas were identified:

- a) Communications
- b) Financial and banking

- c) Legal
- d) Institutional
  - d-1) Ministry of Trade
  - d-2) Chamber of Commerce
  - d-3) Customs Office
  - d-4) Quality Standards Institute
- e) Fiscal

Required elements of an enabling environment for economic development in the following areas were cited:

- a) Imports tariffs policy
- b) Tax policy
- c) Privatization
- d) Bank licensing
- e) Institutional reform
- f) Customs Office reorganization
- g) New legislation
- h) Small Business Incubators
- i) Council on Small Business
- j) Business/Trade Organizations
- k) Business Support services

Recommendations were made for USAID assistance in institutional support and credit.

6. **Position Papers on USAID Credit Line:** Prepared for the Minister's use in meetings with a USAID/State Department mission two short policy position papers on the proposed American-Albanian Enterprise Fund.
7. **Foreign Joint-Venture Proposals and Other Agreements:**
  - a) Analyzed, and recommended changes to, a draft agreement proposed by British Petroleum (BP) to former Ministry of Industry regarding refuelling services at Rinas airport;
  - b) Analyzed, and recommended changes to, a draft agreement proposed by Premier Petroleum to Albpetrol regarding exploration and exploitation in two oil fields;
  - c) Analyzed, and recommended changes to, a contract between the Government of Albania and an American firm where the latter will represent Albanian interests in the United States.
8. **Foreign Investment Inquiries:** Meet with foreign businessmen and potential investors to discuss the investment environment and the Government's policy initiatives in various areas aimed at facilitating the inflow of foreign investment.
9. **Meetings with Albanian Businessmen:** Seek and meet with Albanian businessmen to discuss their views of domestic business conditions, and their concerns with the

Government's policies in business development, for background input into recommendations for policy initiatives to facilitate business development.

10. **Other:**

- a) Brief the Minister prior to, participate with him in, and brief him after, meetings with various donor representatives, visiting foreign missions, etc.;
- b) Participate in meetings with various donor representatives and their consultants to discuss policy and implementational issues of relevance to the Ministry, especially in the areas of investment, privatization, and SME development;
- c) Meet regularly with Tirana-based donor representatives for exchange of views and to obtain updates on their activities that are of relevance to the Ministry;
- d) Advise Minister on Ministry needs for TA.
- e) Make a presentation on the foreign investment environment in Albania as it relates to privatization process at a conference on privatization in the agroprocessing sector, in Tirana, March 1, 1994.

# **BROAD OUTLINE OF AN APPROACH TO PRIVATIZATION OF LARGE STATE-OWNED ENTERPRISES IN THE REPUBLIC OF ALBANIA**

(Prepared for Artan Hoxha, Director of National Agency for  
Privatization, who presented it at G-24 meeting in Brussels,  
on November 15, 1993)

## **INTRODUCTION**

The following are brief comments on a broad outline of an approach to a privatization strategy in Albania. It, however, does not include implementation aspects of privatization nor a privatization methodology. It is not an exhaustive outline. We are still in the process of evaluating various ideas and proposals for a comprehensive strategy and a draft privatization law for large state-owned enterprises.

## **COMMITMENT TO PRIVATIZATION**

With regard to this issue, Albania is fortunate in that there is an unmistakable commitment to privatization by various bodies in the country from the government, to the parliament, to the business community and the growing private sector, and the general population.

This is not to say of course that there is consensus also on the methods of privatization. It would be idealistic if not naive to expect such a consensus to exist.

The absence of such a consensus ought to be seen as a healthy sign in a society in the process of transformation. It allows divergent views to be heard and evaluated and good ideas to develop and to contribute to an eventual privatization strategy.

We are fortunate to have before us the experience of other privatizing countries. We shall benefit from studying that experience but we realize, also, that our strategy shall be based on what we believe will be workable in, and applicable, to Albania.

## **OBJECTIVE OF PRIVATIZATION**

The ultimate objective of privatization is to help move the economy in the direction of full employment and economic growth. Privatization does that by contributing to the transformation of the economy into a competitive and efficient market system through the transfer of state-owned means of production to private ownership.

Given the appropriate environment, this would lead to the efficient utilization and, eventually as well, to the efficient allocation of the society's scarce resources.

Thus, the underlying objective of privatization is to optimize economic efficiency. In other words, other traditional objectives such as social justice, revenue maximization, and speed of

privatization, would be accommodated only as long as they do not compromise the economic efficiency objective.

### **PRIVATIZATION ALONE IS NOT ENOUGH**

We do not view privatization as some sort of a panacea. yet, we do need to heed the caveat that privatization is only one element in a broad economic reform. And, that privatization is a necessary, **BUT NOT A SUFFICIENT**, condition to the desired transformation of the economy into an efficiently productive and competitive market system.

That can only be attained with the adoption of enabling policies such as trade, tax, and regulatory reforms, and with the development of reasonable functioning financial, legal, and communication infrastructures.

Ideally, some, if not all, of these policies should precede the privatization process. However, the absence of this ideal should only serve to speed up the process of formulating and implementing those policies that would lead to the creation of an enabling environment not only for the privatization enterprises, but, more importantly, for all entrepreneurial initiatives as well.

### **PARTIAL PRIVATIZATION IS NOT ENOUGH**

We do recognize that the expected economic benefits from privatization will remain very limited as long as the private sector remains hostage to an inefficient transactional environment, especially in the critical sectors of banking and telecommunications.

The obvious conclusion is that if anything ought to be privatized first, and rapidly so, it is these two sectors.

### **PRIVATIZATION: HOW FAST?**

We are committed to as speedy a privatization as is practicable. There may be several reasons for emphasizing rapid privatization: some are politically prudent and others have compelling economic urgency.

However, the hope for speed must be tempered by the recognition that the privatization of large enterprises, especially, will be launched into an environment that, at present, is not yet ready to receive them with an adequately nurturing support system of policies, regulations, and institutions. Hence, the emphasis placed on establishing such a support system, at least simultaneously with the privatization process.

### **PRIVATIZATION AND RESTRUCTURING**

Some calls are made for restructuring non-viable enterprises before privatizing them. Some questions first. How does one identify non-viable enterprises? Who is more qualified to answer this question? The market place, or some group of experts? What is restructuring?

Restructuring include rehabilitative, physical, financial, labor/management, and legal components.

First, we believe that the market place should have the first try at identifying non-viable enterprises. And for those that are not, let the market make its best offer. Otherwise, too much time and money would be wasted on trying to guess what the market would be looking for in those enterprises.

Second, to let the market place know that the government would be ready to perform financial, labor/management, and even perhaps legal restructuring, **BUT NOT REHABILITATIVE RESTRUCTURING.**

### **PRIVATIZATION AND REVENUE-RAISING**

Also, some may give restructuring a revenue-driven rationale, in that it assumes that restructuring adds a greater than commensurate value to the enterprises. That is, without restructuring, some enterprises will be undervalued by the market place and that restructuring will correct for that.

Such an assumption, however, is too optimistic. There is little evidence, if at all, of such cost recovery. Not to mention, of course, the implied but erroneous assumption here that the government or its restructuring agents know the enterprise's market value.

## MEMORANDUM

**Date:** March 24, 1994

**To:** Mr. Selim Belortaja  
Minister

**From:** Alan Osman  
USAID Policy Advisor

**Subject:** Albanian-EU Joint Commission-First Meeting

Dear Minister,

### INTRODUCTION

As we discussed in our meeting of March 10, 1994, please find in this memo some comments and recommendations on the first meeting of the Joint Albanian-EU Commission on Trade and Economic Cooperation, of Friday March 11, 1994.

This memo covers the following topics: policy issues; Albanian side presentation of papers; and procedures concerning the conduct of the meeting.

Having had some experience in planning and organizing meetings and conferences, let me take the liberty of pointing out that I could have been of some help, in terms of offering suggestions and recommendations, to the entire process of preparing for the meeting had I been involved in the planning for it.

### POLICY ISSUES

#### Human Rights

It is no secret that the underlying aim of Western aid to the reforming countries of Central and Eastern Europe including Albania is for the purpose of supporting, facilitating, and influencing the democratization process with its corollary change towards economic transformation and a private market system.

Obviously, furthering human rights is a major objective of the democratization process. Thus, the EU side's strong stress that progress on the Human Rights front will determine the future of relations between Albania and EU.

The emphasis on this topic should have been anticipated given the known concern of EU and other donors with measures towards democratization. A report highlighting past progress in furthering human rights in Albania, and legislation/regulations, if any, under consideration or in the planning/drafting stage, would have been effective in this regard.

The Ministry of Foreign Affairs has an office that deals with the human rights area and should have been contacted to solicit their input.

I suggest that it would still be useful to prepare in the very near future a report on this issue and have it sent to the EU side of the Commission. Also, a formal presentation should be planned for the next meeting.

### **Albania's Exports to EU**

In an answer to a question on which Albania production sector has potential for growth of exports to EU, the Albanian side singled out Agriculture. This may not entirely be so, as Albania's strongest comparative advantage prospects may lie in another sector.

The sector that should have been given some exposure is the light industry processing sub-sector (facon) which seems to receive less than serious consideration in official and business circles. To the latter, it is not serious production.

Yet, despite a very liberal foreign investment law and until the basics of a receptive investment environment are laid down with facilitative policy, regulatory, institutional, and administrative initiatives, the foreign investor will not likely consider Albania for committed and long-term capital investment.

Considering that these initiatives will require medium to long term timeframe, the return on supportive efforts in the light industry processing sector are more immediate.

It is true that processing operations do not attract much physical investment, provides little training, does not transfer much technical know-how in manufacturing, if at all, nor experience in sourcing materials, international marketing of products, international pricing, and other international experience, they nonetheless generate direct benefits in employment, above average wage income, foreign exchange, and reduced social assistance.

The meeting could have been used as a platform from which to promote this industrial sub-sector to the representatives from the twelve member states.

### **The Private Sector**

A more detailed presentation of this subject would have been more effective and useful to the EU delegation. After all, the development of a private economy is a corner stone on which to base the transformation of the economy.

Giving a few statistical data is useful but some analytical perspective on the prospects of developing a market economy would have been more enlightening to the EU side and perhaps more promotional to the Albanian position.

## **Privatization**

Again, this area being of great importance to the transformation process, the absence of a National Agency for Privatization (NAP) representative was significant, at least to me.

Given the significance of such issue to the EU side and the latter's strong interest in it, a coordinated input into a comprehensive presentation would definitely have been well received and greatly appreciated by the EU side.

The lack of this coordination may eventually create some confusion as a result of the strong appeal made by MIT for technical assistance in this area. The reason being that, as far as I know and as advised by the Phare program Administrator for Albania who visited Tirana in January of this year, the program has shifted its allocation of assistance from privatization to tourism for the current fiscal year after some divergence of views with NAP.

Also, it would have been very enlightening to the Eu side to know that the banking and telecommunication sectors are on the privatization agency, at least in principle.

## **Reorganization of Ministries**

The presentation of information on the resulting structures of the Ministry of Trade and the Ministry of Finance and Economy was no doubt useful to the EU side.

However, in light of the interest of the West in the transition process in Albania, it would have been even more useful to the EU side to hear about how administrative/civil service reforms will respond to the policy and institutional requirements of an economy in the process of transition to a market oriented system.

That is the reason for the "Introduction" and "General Management Issues" sections in the paper on Civil Service Reform. Given the time constraint of the meeting, the latter two items would have been preferable to the organizational details which were actually presented.

## **PROCEDURES**

All presentations should have been prepared in English and copies sent to the delegation prior to its arrival in Tirana, or immediately thereupon.

This would have given its members the chance to read the material beforehand. The meeting would then have been used for questions, clarifications, and some discussions, and this would probably have cut the time in half.

**THE AMERICAN ALBANIAN  
SMALL ENTERPRISE FUND:**

***A DRAFT PROPOSAL***

**MINISTRY OF INDUSTRY AND TRADE**

**ALBANIA**

Prepared by Alan Osman, Development Alternatives, Inc. Consultant and USAID Policy Advisor, for the Minister's use in a meeting with a USAID delegation, Tirana, May 7, 1993

## INTRODUCTION

1. Albania is moving towards a free enterprise system and a democratic structure.
2. However, a multi-party system, free elections, and a decentralized economic decision making are necessary but not sufficient to nurture, sustain, and develop a truly functioning democratic society and a free market structure.
3. Unemployment, and underemployment are unacceptably high and the informal sector, though income generating at the household level, is fiscally and socially undesirable.
4. Unless considerably reduced, unemployment, underemployment, and the informal sector could result in social tension and unrest which may very well undermine Albania's struggle toward completing the process of democratization.
5. It is an accepted fact that small and medium size enterprises (SMEs) in many countries, including the United States, are a major contributor of employment opportunities.
6. Cognizant of this, the Government of Albania has established a unit in charge of promoting the growth of SMEs which, very recently, has been moved to the Ministry of Trade (MOT).

## IMPEDIMENTS TO SME DEVELOPMENT

1. Given a favorable political, regulatory, and legal environments towards which Albania is persistently moving, the critical enabling contributors to sustainable growth in the SME sector are: a) capital availability, b) banking system, c) management and other business know-how, and d) market information.
2. This proposal addresses directly capital needs and by association the ability of a member of the banking system, namely the Commercial Bank, to channel the proceeds of the American Albanian SME Fund the MOT hopes USAID will consider favorably before too long.

## CURRENT INTERNATIONAL AID TO SME SECTOR

1. Presently, there are a number of multilateral and bilateral donors of financial and technical aid to the SME sector. The meeting of May 5, 1993 covered the various donors and the nature and the particulars of this aid.
2. One type of aid consists of micro loans of up to \$300, such as provided by the World Bank. Another is the EC credit administered by a British consulting company, Lancashire, whose loans average some \$8,500.

3. The Lancashire/EC credit is limited to the purchase of equipment. However, one unsatisfactory aspect of the Lancashire is that the latter serves as a sales agent or broker for equipment suppliers, which raises issues of impropriety and conflict of interest.
4. Moreover, the training in business planning which Lancashire is providing to loan applicants seems to be limited to assistance with filling application forms.
5. However, as envisioned by MOT, and by leveraging the services of other donors, such as the Peace Corps business volunteers in the various districts, an SME Board of Governance will emphasize training in management and business planning.
6. Furthermore, currently, loans are made available to entrepreneurs in the retail trade and services where the impact on employment for the foreseeable future is quite limited. However, SMEs in manufacturing and related operations have, so far, been practically left out of these credit schemes.

#### **PROPOSED FOCUS OF AMERICAN ALBANIAN FUND**

1. Credit will not be limited to purchase of equipment, but will include operating capital loans, loans to purchase assets from the State, and, possibly, venture-capital investment.
2. Mindful of its employment generating opportunities, the Board of Governance of the Fund will target manufacturing SMEs and will also foster the business preparation of venture-capital applicants by leveraging existing training services of other donors and services to be established in the regional Chambers of Commerce.
3. Certain regions of Albania are economically more disadvantaged than others. MOT proposes to channel some of the funds towards SME start-ups in those regions for economic and social reasons.
4. Also, MOT proposes to promote the availability of loans to persons severely disadvantaged under the former regime, handicapped persons (who might find income generating opportunities in cottage/handicraft industries) and women.
5. Given the intended purpose of the Fund as explained above, MOT proposes to raise the limit of the credit per applicant to the range of \$50,000-100,000.

#### **FUNDS TRANSFER**

1. The Commercial Bank has a functioning branch network of 28 branches which can handle funds transfer.
2. The reason the EC Fund does not rely on the Commercial Bank is probably due to the fact that the Fund's establishment preceded the reorganization of the Bank.

3. Also, by the time the American-Albanian Fund becomes operational, the Commercial Bank anticipates that it will have set up the necessary mechanism to handle checking and saving accounts throughout its branch network, thus facilitating loan repayment and reducing transaction costs and improving the economic efficiency of resource utilization.

### **DECENTRALIZED LOAN APPLICATION**

1. MOT proposes to set up regional loan application processing centers in various districts, as compared to the EC program for example where final approval is centralized in Tirana, thus reducing the time and efforts expended by prospective applicants. And as mentioned above, this would in turn reduce the transaction costs associated with starting up an SME and thus increasing the efficient utilization of scarce resources.
2. This should also spread out the knowledge and experience relevant to financial intermediation with likely spill-over effects into other businesses.

# **INVESTMENT AND PRIVATIZATION PROGRAM**

## **MINISTRY OF INDUSTRY AND TRADE**

### **ALBANIA**

#### ***CIVIL SERVICE REFORM***

Prepared by Alan Osman, Development Alternatives, Inc. Consultant and USAID Policy Advisor, for use by MIT officials at the first meeting of the Albanian-EC Joint Commission on Economic Development and Cooperation, Tirana, March 1994

## INTRODUCTION

Albania's transformation from total government domination of the means of production (human as well as physical) to a market economy is unique. This required no less than the creation of all the structural elements that constitute a market economy, physical as well as relational. By necessity, the public sector now faces a different set of demands from an economy moving toward market-oriented production. As a result, the government finds itself going through an evolutionary process. Not only must it adopt policy initiatives and establish a corollary regulatory framework to stimulate the economy toward full employment of resources, price stability, and economic growth, but it also must be politically and organizationally responsive and adaptive to the evolving needs of a market economy.

In recognition of this evolutionary process, the Government of Albania embarked on an organizational and civil service reform that began in 1992 with a study financed by the World Bank. Two ministries were selected as pilot projects for the study and for the implementation of its recommendations: the Ministry of Finance and Economy and the Ministry of Trade and Foreign Economic Cooperation. However, the evolutionary process overtook the study's final report when these same two ministries were reorganized; the Ministry of Finance and Economy became the Ministry of Finance, and the Ministry of Trade and Foreign Cooperation became the Ministry of Industry and Trade.

In consideration of the restructuring and the results of the study, the two Ministries have reorganized along clearly identified functions. These functions have, of course, been defined in terms of the two Ministries' roles in the new economic order and of the objectives of economic development as reflected in full employment of resources, price stability, and improved standard of living.

### THE MINISTRY OF INDUSTRY AND TRADE

The policy objectives defined for this Ministry the following functions:

- Initiate and monitor legislation in favor of the development of a market economy;
- Initiate policies to stimulate the development of a private sector;
- Initiate policies to stimulate the export sector and facilitate the inflow of foreign investment;  
and
- Initiate trade and consumer protection measures.

These functions are carried out by the following Ministry Directorates:

- Business Development;
- Trade and Industrial Policy;
- Privatization and Investment; and
- International Relations.

Also, there are supporting service Directorates, such as:

- Information and Statistics Directorate;
- Personnel Directorate;
- Legal Directorate;
- Advisors to the Minister; and
- Public Relations.

### **THE MINISTRY OF FINANCE**

Again, in view of its role in the new economy, the main function of this Ministry is the planning and implementation of the public expenditure program. This function is carried out by two Directorates:

- Budget and Treasury Directorate, consisting of:
  - Budget Section,
  - Treasury Section, and
  - Debt Management Section; and
- Revenue Management Directorate, which consists of:
  - Counterpart Funds Section,
  - Tax Section,
  - Customs Section, and
  - Fiscal Affairs Section.

### **GENERAL MANAGEMENT ISSUES**

The Government of Albania is examining other recommendations of the study in the areas of:

- Civil service management, with clear rules and objectives combined with the delegation of managerial responsibility and accountability, and with clearly defined lines of reporting;
- Motivation and incentives;
- Management skills;
- Professional skills;

- Administrative support;
- Intraministerial communication; and
- Training and technical assistance requirements, covering the following areas:
  - Specialized training,
  - Management training,
  - Centralized Training Directorate, and
  - Ministry training committees.

Finally, it should be noted that the recently inaugurated Public Management Institute, supported by the United Nations Development Programme and the International Labour Organisation, offered its first management training modules at the Ministry of Industry and Trade in March 1994.

**INVESTMENT AND PRIVATIZATION PROGRAM AND  
SME DEVELOPMENT PROGRAM**

**MINISTRY OF INDUSTRY AND TRADE**

**ALBANIA**

***RECOMMENDATIONS FOR A  
PRIVATIZATION STRATEGY***

Prepared by

Alan Osman  
Development Alternatives, Inc.

## THE ECONOMICS OF PRIVATIZATION

### AN INTRODUCTION

This introduction is important for understanding the concepts associated with privatization, and the full implications and limitations of a less than comprehensive look at the subject. To begin, what is miraculous about privatization is not the act itself. Rather, it is the market system to whose creation it will contribute. A market system based on private ownership of resources and the right to freedom of choice is optimum only because it is the only system that allows individuals (within defined limits) to exercise an assumed innate propensity to rational maximization of self-interest. Rational maximization means the optimization of a benefit or a profit or, the other side of the same coin, minimization of an effort or a cost. Cost minimization is what production efficiency is all about: all other things equal, production efficiency means producing something at the least cost possible.<sup>1</sup> Costs here are in resources (land, labor, and physical capital) taken away from some other, valued activity.

Given an appropriate regulatory environment, market participants are in constant competition with each other for the greatest possible profit or for the least costly production. Accordingly, the drive for cost minimization means that when resources are not wasted in inefficient production, they become available to produce a bigger national output and income. Inefficient production wastes scarce resources and keeps national income and the standard of living from reaching their potential.

In addition to the direct costs of production (both fixed and variable), there are transaction costs. These refer mainly to the cost of information gathering, transportation, and time required to complete a transaction. When roads are bad, telecommunication poor, and institutional procedures (customs clearance, money transfers, and so on) cumbersome and multilayered, transactional costs are high and increase the cost of production commensurately. Worse yet, an environment that impedes the flow of information and resource mobility seriously restricts competition and sharply reduces its benefits to the economy.

The environment into which privatized enterprises are to be launched will not only determine how many enterprises will receive offers of interest in the first place, but also how much benefit these enterprises will be able to contribute to the society. Similarly, an environment with high transaction costs will be inhospitable to entrepreneurial initiatives. By definition, entrepreneurs are risk-takers. But when the risks go beyond certain tolerance levels, entrepreneurial initiatives are stifled.

Directly related to, but often confused with, efficiency is productivity and the work effort of labor. Production efficiency is measured in the cost of resources used to produce something. Productivity is the amount of output produced within a defined period of time. Given a certain wage, the more productive a worker is, the less his/her product costs per unit and the more efficient he/she is. That is the reason for the often-placed emphasis on worker and management participation in the ownership of privatized enterprises. As owners, workers will try to be more productive than otherwise, because it is their own profit they will be trying to optimize.

The same goes for the core investors in privatized enterprises. Though they may not be directly involved in the running of those enterprises, they will make all efforts to ensure that they are run efficiently. Otherwise, their profit will not be maximized.

---

<sup>1</sup>The term "economic efficiency" includes production efficiency and resource allocation efficiency.

But, one might ask, if ownership or the right to a future income is the determining factor in enterprise efficiency and profit maximization, why then not have as wide as possible a distribution of shares in the ownership of privatized enterprises? Because ownership is not the determining factor. All other things equal, ownership is not a sufficient condition for influencing enterprise efficiency. The sufficient condition is that if the enterprise were not run efficiently, the perceived value of the future foregone income, as a result of inefficiency, would have to be high enough for it to justify spending the necessary efforts (transactional costs) to prevent inefficiency from happening or to treat it when it does happen.

Of the four potential owner groups, the core investors, the employees, the managers, and the public at large, only the first three have the incentives to monitor enterprise efficiency. The opportunity costs of information, transportation, and time requirements to citizen shareholders (the value of their efforts) to ensure enterprise efficiency are considerably greater than the income foregone through lack of action. In other words, individual citizen shareholders are rational maximizers too. Inaction on their part to prevent inefficiency in enterprise operations costs them less. Inaction, in this case, is rational. Consequently, and other things equal, the larger and the more concentrated the share in enterprise profits, the greater the incentive to try to ensure its efficient operation.

The other component of economic efficiency is resource allocation efficiency. This refers to the employment of society's resources in their most market-valued uses as determined by consumer preferences. Allocation efficiency is fundamentally based on resource mobility in response to market forces.

Essential for both productive and allocative efficiencies, and hence to a competitive market system, is the unhindered flow of information on technologies, opportunities, ideas, and so forth. Without access to information of minimal cost, the benefits of competition are reduced, resource utilization and allocation are less than efficient, and national income is less than its potential. In short, and on average, everybody is worse off than otherwise.

In conclusion, private ownership, the right to freedom of choice, information systems, and resource mobility are essential to competition. This competition and the market-oriented system within which it can function are, in turn, driven by self-interest maximization and require a certain amount of protection through a regulatory framework such as antimonopoly law and consumer protection law.

## **THE GOALS OF PRIVATIZATION**

The main goals of economic policy are full employment of resources (human and physical), price stability, and economic growth sufficient for the progressive raising of the standard of living (per capita income) of the population. As proposed here, the ultimate objective of privatization is to help move the economy in the direction of full employment and economic growth — to support the transformation of the economy into a competitive and efficient market system through the transfer of state-owned means of production to private ownership. Given the necessary environment, this leads to the efficient utilization and, eventually, to the efficient allocation of the society's scarce resources.

If the paramount objective of privatization is to optimize economic efficiency, all other traditional objectives (social justice, revenue maximization, speed of privatization) would, then, have to be pursued subject to this constraint (efficiency optimization). That is, social justice, revenue, and speed would be accommodated as long as they do not compromise the economic efficiency objective. Consequently, in and of itself, privatization is a means to achieve a sought-for economy. Of the three subobjectives (social

justice, revenue, and speed), only revenue maximization is least subject to political considerations. But only political will and farsightedness will decide the extent to which the economic efficiency objective will be pursued with consistency, determination, and faithfulness.

### **PRIVATIZATION: ECONOMIC EFFICIENCY VERSUS SOCIAL JUSTICE**

How much room to assign in privatization strategy for social justice considerations is a political decision and the advisor/specialist is not, and should not be, in a position to make recommendations here. However, the economic consequences of political decisions can certainly be evaluated. And the priority of economic efficiency considerations do not entirely preclude addressing some social justice concerns. For example, concerns about justice may argue for a free allocation of certain ownership rights in privatized enterprises to former political prisoners, or allocation at a discount to former owners and, possibly, current and retired workers, and at full value to the rest of the population. The first two groups may be justifiably considered to have already prepaid enough for that discount in past foregone income opportunities.

However, and with reference to the introduction, economic efficiency concerns would still dictate that such ownership rights be kept to the lowest politically prudent minimum. For widely dispersed ownership, although politically desirable, lacks two elements essential for enterprise success and maximum profitability. The first missing element is the immediacy and directness of self-interest that characterize such owners as core investors and worker/manager owners. And the second is the ultimate oversight and control mechanisms and the disciplinary potential over enterprise operations that are available to these two groups. Self-interest and the authority to control constitute the driving force behind efficient resource utilization and productivity in an enterprise.

When economic efficiency may, upon privatization, require the redundancy of a large number of the employees of an enterprise, to require the prospective owner, on social equity grounds, to retain them for a negotiated period of time will generate more disruptive economic consequences than an alternative subsidization scheme for the maintenance of those workers.

Society-wide ownership of privatized enterprises would provide more in short-lived pride of ownership than in long-term maximum monetary rewards to the owners individually or, in economic benefits, to the society collectively. Less than potential efficiency associated with widely dispersed ownership results in waste of resources causing less national output and income. Social justice concerns may favor the wider public, former owners, and former political prisoners. Economic efficiency considerations favor prospective core investors in, and the employees and managers of, these enterprises. The core investors may be both domestic and foreign. However, again, considerations for economic efficiency resulting from the potential transfer of foreign technology and innovations, as well as investment capital, may favor foreign investors.

### **PRIVATIZATION ALONE IS NOT ENOUGH**

Lest privatization be viewed as some sort of a panacea, as noted above privatization is only one element in a broad economic reform. An efficiently productive and competitive market system can only be attained with the adoption of enabling policies such as trade, tax, and regulatory reforms, and with the development of reasonably functioning financial, legal, and communication infrastructures. Not to

recognize the urgency of formulating these and other fundamental and comprehensive policies will impede the optimization of the economic efficiency objective.

Ideally, some, if not all, of these policies should precede the privatization process. However, the absence of this ideal environmental structure should speed up the process of formulating and implementing those policies that will lead to the creation of an enabling environment not only for the privatized enterprises, but for all entrepreneurial initiatives as well. This environment can, and ought to, be developed in parallel with the privatization process.

Prospective investors, both domestic and foreign, in to-be-privatized enterprises will be expected to make investment decisions in the face of a number of uncertainties — in the legal/commercial and tax environments, for example. A tax reform (VAT, personal income tax, sales tax, corporate income tax, investment tax credits, capital gains tax) would remove some of these constraining uncertainties and would not only facilitate and speed up the process of privatization itself, but also considerably facilitate the future business planning and efficient operation of all enterprises, privatized as well as newly created.

The efficient allocation of resources, where these are employed in their most market valued uses, will not be achieved without, in the case of labor for example, labor mobility and labor market information, made possible by an appropriate housing policy and a relevant information infrastructure. Nor will these expected benefits from privatization materialize without the ability of privatized resources to enter and exit markets in reaction to profit signals in the absence of well-defined enabling commercial, financial, and fiscal environments.

### **PRIVATIZE OR RESTRUCTURE FIRST?**

Some calls are made for restructuring nonviable enterprises before privatizing them. Restructuring may mean singling out viable units of certain enterprises and then spinning them off for privatization and liquidating the rest of the units. It may also mean rehabilitating whole enterprises and some or all of those ultimately viable units of other enterprises, a process that would necessitate an injection of new capital whose provision would put an added burden on the government's budget.

Whichever definition is preferred, the choice of restructuring first has policy implications and implies certain assumptions. The policy implications concern the speed of the privatization process that would be slowed down under a restructuring-first strategy. The assumptions are, first, that the restructuring agents know better than prospective private investors and the market place what the optimum structure of the enterprise should be. Second, in the case where restructuring requires the expenditure of additional capital to rehabilitate supposedly ultimately viable enterprises, restructuring assumes that the market place would offer for the rehabilitated enterprise a price that would cover the nominal cost of the rehabilitation, not to speak of its opportunity cost. There is little evidence, if at all, of such cost recovery. Also, the idea itself of the government investing additional capital in those enterprises seems to be contrary to the spirit of privatization.

Some may give restructuring a revenue-driven rationale in that it assumes that restructuring adds a greater than commensurate value to the enterprises than they had before restructuring. In other words, some enterprises will be unduly undervalued by the market place and restructuring will correct for that. Such an assumption, however, is too optimistic. Additionally, such a gain, if any, will be far offset by the additional subsidies required by delayed privatization.

Some may argue in good faith for the adoption of the German model (which produced impressive results for East Germany), which supposedly followed a restructuring-first strategy. In reality, that model was generally based on privatizing first and, only when that failed in the case of some enterprises, on resorting to restructuring. The only enterprises that were restructured first were the large conglomerates/holding companies (Kombinate) that included activities unrelated to their core businesses.<sup>2</sup>

The message here is clear: let the market decide which enterprises are or are not viable and sellable in the first place. Those that are not will then require another look. However, the state's help and involvement may be solicited by the prospective owners in settling labor, management, and financial disentanglement.

Yet, there may be plausible reasons for restructuring initially. First, to break up unrelated components of large conglomerates into separate business lines for improved efficiency in production. Even here, however, the concern for monopolistic operation should not delay the process because privatized monopolies will still be far more efficient especially as they come face to face with international competition. What is more important here than restructuring monopolistic enterprises is their potential contribution to national income through more efficient production and perhaps even through efficient resource allocation given capital and labor mobility.

Second, it would be useful to break up monopolistic enterprises into smaller competitive units, with the possible shedding of some nonviable units with due consideration for their economies of scale, if any. Monopolies are not always based on economies of scale.

A third reason for restructuring would be to break up large enterprises into viable units to make them affordable to local investors. And fourth, if labor and management rationalization is considered part of restructuring, then it should be handled by the state prior to privatization.

## **RECOMMENDATIONS**

### **Improve Telecommunications and Banking**

The expected economic benefits from privatization will remain very limited as long as the private sector remains hostage to an extremely inefficient transactional environment in the critical sectors of banking and telecommunications. In efficiently run banking and telecommunications sectors, the service cost to user firms is relatively low. But it is not the direct cost to the user firms in Albania that is the question here (actually, phone and other utility service costs in Albania are extremely low). Rather, it is a question of the indirect costs associated with unreliable, intermittent, inadequate, antiquated, and insufficient telecommunication services and slow, multiprocedural, technically lagging, and service-variety-lacking banking services. These costs, in turn, result in low productivity of other resources, both human and physical, and inefficiency for the entire economy.

In their current state, the banking and telecommunications sectors are not only extremely constraining to privatized enterprises and entrepreneurial initiatives of all sizes but, ironically yet understandably, inherently unfriendly to the privatization process itself: the banking sector, because of

---

<sup>2</sup>This argument fails to consider that the Treuhandanstalt ultimately required the services of 4,000 staff, not to mention the services of several large law firms, and could reach into the deep pockets of a well-endowed brother, notwithstanding the fact that it had to handle 8,000 enterprises by comparison with an estimated 1,500 in Albania.

its inability to perform the financing role needed by prospective investors and entrepreneurs; and the telecommunications sector, because of its inability to provide adequate communication services essential for a reasonably efficient flow of information fundamental to all those involved in the privatization process, from NAP and its district offices to prospective buyers and those on whose counsel they must rely in their decision-making process.

Privatizing the banking and telecommunications sectors would lead to rationalizing their use and operation. This would be reflected in a higher service cost but a much lower indirect transactional costs, thus resulting in more efficient resource utilization and higher resource productivity at prices approaching their economic costs. The obvious conclusion is that if anything ought to be privatized first, and rapidly so, it is these two sectors.

### **Privatize Quickly**

Another political consideration concerns the speed of the privatization process as a whole. Speed is of the essence in drawing up a privatization plan and carrying out a selected privatization strategy.<sup>3</sup> There may be several reasons for emphasizing rapid privatization: some are politically prudent and others have compelling economic urgency.

Privatization is subject to delay by supply-side reasons including structure-first strategy, time-consuming asset valuation process, and bureaucratic inertia; and by demand-side buyer expectations such as the unavailability of proper and complementary information on markets, products, and marketing; uncertainty regarding former ownership and the restitution process; financing constraints; the corollary supply-side unwillingness or the lack of knowledge and experience with regard to providing enabling financing terms; and lack of proper information on enterprise performance.

The longer state-owned enterprises remain unprivatized, the longer will some of them remain idle, others be engaged in inefficient production and probably far below capacity utilization, still others maintaining presence thanks only to state subsidy, and the longer the delay in the transformation of the economy.

It is essential, for social and economic stability, that the highest priority be placed on facilitating the urgent return of the unemployed to work. For the economy has already invested substantial and valuable resources in them. Prudently rapid privatization of large enterprises is a critical move in that direction. The longer it takes to reintegrate the unemployed into the economy, the less restrainable will they become and the greater rehabilitative efforts they will require. Idleness breeds frustration, anger, and the temptation to acquire income by illicit and eventually criminal means, thus exacerbating already trying economic conditions. Not to mention the additional demands this puts on government and social resources, badly needed elsewhere for economic rebuilding.

This frustration can be seen in the large number of people trying to leave the country for employment opportunities elsewhere, and in the reported tendency of some to change their names for the

---

<sup>3</sup>Privatization will have consequences for other relevant decisions. The latter include whether to restructure first; whether to consider indirect privatization methods as well, such as leasing and management contracts; and whether to adopt a mass privatization approach. The hoped-for speed must be tempered by the recognition that, in Albania, the privatization of large enterprises will be launched into an environment that, at present, is not yet ready to receive them with an adequately nurturing support system of policies and regulations.

purpose of supporting claims to an alternative origin, hence to the right of access to the respective country. In a country where pride in one's origin is very strong, this must be a sign of true desperation.

The longer these enterprises remain idle or underemployed, the longer will this economy depend on the import of such domestically producible products as beer, soft drinks, bottled water, and ice cream, to mention just a few examples. The continued drain on foreign exchange reserves and the negative effect on the balance of payments of the country are obvious consequences.

For Albania to proceed with the transformation process to a reasonably functioning market economy (with the promise of a much improved standard of living for its people), it is imperative that its decision makers undertake all necessary measures to facilitate and speed up the privatization process, but also to begin the process of formulating the policy reforms mentioned earlier. The sooner this is accomplished, the sooner will the government be able to concentrate entirely on the legitimate business of developing the enabling environment of economic, legal, physical, and social infrastructures. Without such an environment, the private economy will fall far short of its potential and of the promise of a better life so far out of reach of a people long deserving of it.

Moreover, allocation of shares in privatized enterprises among various groups may serve as a long-term macro policy instrument towards the goal of improving the standard of living of Albanians. Such a goal implies increasing economic output faster than the reportedly high rate of population growth of 1.9 percent. Other things equal, increasing economic output at a rate greater than 1.9 percent requires a corresponding increase in the rate of investment in the productive capacity of the economy. Investment, in turn, depends on savings, internal and external. External savings, in the form of inward foreign investment, loans, or grants may not be forthcoming or sufficient — hence the importance of domestic savings.

Accepting that higher income groups (the managerial and professional classes) tend to have a higher propensity to save and invest (financial and physical investments) and a lower propensity to produce children, and that the lowest income classes have a higher propensity to procreate, may imply awarding these two groups greater shares than otherwise in the privatized enterprises. The one, to encourage saving and investment and the other, to discourage the birth rate by improving income and enhancing wealth accumulation.

### **Don't Get Hung Up on Valuation**

Admittedly, to the government, revenue from asset sales is an important short-term concern. Of importance to it and to others, also, is the satisfaction of knowing that the assets will not be sold cheaply, especially if foreign investors are involved. However, this satisfaction can be obtained only with assurances that the relevant assets have been subject to a "proper" valuation.

There are several methods of valuation. The more complete and thorough the method, the longer it will take and the costlier it will be. The additional value imparted to the assets by the valuation may not justify the additional cost and delay. And, regardless of its level of sophistication, as long as the method used is sound, approximation is valid and practicable if only limited to setting some bidding floor price.

Insisting on exactness in valuation will not only delay the process of privatizing the assets in question themselves, but delay their integration into the market system with a number of consequences to the economy. Not least of these consequences is withholding the relevant enterprises from contributing

the investments inherent in them to the trans utilization, and the creation of employment of

Except for short-term revenue consi privatized state assets may be allayed by the t

- First, and except where foreign b foregone to the government's bud will be retained by the private se additional investment, ultimately income to the government is not of transfer payment.
- Second, the sooner large, and privatized, the sooner they will a revenues, all magnified by the m
- Third, the sooner subsidized ente and revenue deficit commensura economic reform if revenue fron thus delaying the painful proces also delay a commensurate incre

n of the economy, the rationalization of resource ties.

s, concerns regarding getting the full value of of three compensating factors.

e involved, the amount of any asset undervaluation ch may necessitate additional taxing or borrowing), pend on additional consumption or, perhaps, even ng additional tax revenue. Thus, what is foregone e economy and the matter becomes a simple case

nably undervalued, state-owned enterprises are he ability to generate employment income and tax effect and industrial/service linkages.

re privatized, the sooner these subsidies will cease ease. However, it would weaken the purpose of ales is seen as a quick fix to budgetary shortfall, al reform, notwithstanding the fact that they may xes.

