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Deloitte & Touche

Albania Trade, Investment and Privatization Program

Draft Final Report

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

July 29, 1994

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July 29, 1994

Mr. Mark Karns
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Mr. Gary Maher
Agency for International Development
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Re: Contract No. EUR-0014-I-00-1056-00, Delivery Order No. 23, Albania Trade, Investment, and Privatization, Draft Final Report and Appendices

Dear Mark and Gary:

In accordance with Article IV of the above-referenced Delivery Order and recent discussions, enclosed please find the Draft Final Report on Albania Trade, Investment, and Privatization project, including appendices.

These deliverables were prepared by the Deloitte and Touche/Development Alternatives, Inc. in Albania. If you have any questions concerning these deliverables, please call Adrienne Brombaugh at (202) 879-5650.

Sincerely,

Lizann Prosser
Senior Manager
Central & Eastern Europe

Deloitte Touche Tohmatsu International

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I. Introduction

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This is the final report of the Deloitte & Touche Consortium's project to provide technical assistance to the Government of Albania's Ministry of Industry and Trade in privatization policy, trade and export promotion, and investment. (Delivery Order #23, Investment and Privatization Project)[1]. The project began in September 1992 and concluded in May 1994. The bulk of the assistance was provided between May 1993 and May 1994 when a long-term advisor took up extended residence in the country and the short-term technical assistance teams began full implementation.

The primary host-country beneficiaries were the Ministry of Industry and Trade (MIT) and the Foreign Trading Enterprises attached to that Ministry. The project also provided valuable information to the USAID representation in Albania and to AID/Washington on the progress of privatization and the development of an export market in Albania. It supported one of the stated US-policy goals of technical assistance to the Central and Eastern European region: achievement of economic reform, based on the emergence of a market-oriented economy with a substantial private sector.

The original objectives of this project were varied but focused institutionally on the MIT and included the following:

1. To support the emergence, development, and implementation of effective government policies in investment, small and medium enterprise development, and privatization.

2. To support institutional development of the MIT through technical assistance in management training and through daily interaction with a long-term advisor.

3. To support and foster the privatization of trading organizations to support the development of entrepreneurs and growth of a sustainable free market in Albania.

This final report summarizes the accomplishments of the delivery order, describes the activities and their significance to AID and the Albanian Government, describes the methods of work used, provides comments and recommendations concerning follow-on assistance, and describes the major accomplishments and outstanding issues in the Albanian privatization and export-oriented development process. Attached as appendices are the deliverables already produced and delivered separately under the delivery order.

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[1] This Final Report contains information required by Section C.3.(c)(2)(A)(i) of the main contract (EUR-0014-I-00-1056-00), and in Article IV of the Delivery Order contract, Delivery Order #23.

II. Summary Accomplishments and Description of Activities under the Delivery Order

This delivery order was divided into five discrete sections (or "tasks") based on the structure of the MIT and the original objectives. Activity in each task was closely coordinated with activity each of the other sections with the resident advisor acting as the central coordinating unit.

The tasks were as follows (detailed description will be provided below):

1. Long-term Advisor to the Minister of Industry and Trade

2. Management Skills Development and Training for Ministry staff

3. Privatization Strategy and Implementation for Foreign Trading Enterprises

4. A. Trade Promotion and External Linkages
   B. Analysis of the Light Industry Sector

5. Public Relations and External Communication

A sixth task providing assistance with creating a trade and business information database at the MIT was incorporated into the Long-term advisor's scope of work in order to enable the advisor to extend his time of residence in Albania. The following is a task-by-task description and summary of the project's accomplishments:

1. Long-term Advisor to the Minister of Industry and Trade

The long-term advisor to the Minister of Industry and Trade was resident in Albania from June 1993 to June 1994 and provided continuous assistance to the Ministry in a variety of areas. In particular, the advisor focused on investment promotion assistance, assistance with privatization policy development and implementation, and small and medium enterprise development. His scope of work was intended to be flexible and responsive to the needs of the Minister of Industry and Trade. In addition, the advisor also acted as a key facilitating element for the short term technical assistance tasks that formed the rest of this project. Overall, the advisor had the following responsibilities:

- Supporting on a regular and ongoing basis, the Ministry and its Directorates by assisting in the identification, review, and analysis of MIT institutional capabilities and organizational conditions impeding growth of trade and free market activities.

- Assisting the MIT in analysis and implementation of policy initiatives to address the impediments identified above, and new policy initiatives in the priority areas of investment, privatization, and SME support.

With respect to privatization, the advisor worked with the Minister to help him understand privatization policy and draft a privatization strategy document. He assisted the Minister to act as a delegate from Albania at various privatization conferences in Western and Eastern Europe.

With respect to investment, he assisted the Minister to review foreign investment proposals and negotiate with investors. For example, he worked with the Minister to prepare him to meet with investors from Premier Petroleum Company who were interested in investing in two on-shore oil fields. He also review and provided comments on a proposed investment by British Petroleum in refueling services for the Tirana airport. In addition, he assisted the MIT in discussions with the EBRD who was interested in developing an industrial park in Tirana which would be used by foreign and joint-venture enterprises.

With respect to SME development, the advisor met regularly with the MIT representatives in charge of SME development and other foreign assistance teams concentrating on this area. He worked closely with EC Phare representatives who were providing a large amount of technical assistance and funds to develop a regional SME development program complete with Regional Business Agencies with the capacity to support SME development (through financing, training, and other forms of assistance) at the regional level.

- Coordinating the activities of the short-term technical assistance teams.

- To benefit the MIT's overall objectives, coordinating project and program activities with the Commercial Law Development Program Advisor and other foreign advisors in the MIT to avoid duplication of effort and to be most responsive to the MIT.

- Communicating on a regular basis with the USAID representative in Tirana to assure that the representative is aware of new developments and is able to participate to the extent desirable.

- Assisting the MIT to identify and develop linkages wherever possible with emerging entrepreneurs and institutions which support private business. This includes studying the impact of MIT policies and regulation on entrepreneurs and gaining an understanding of the business needs that the MIT will be expected to serve in order to suggest and support policies needed to make the MIT most responsive to the business service needs of the emerging private sector.

- Providing on-the-job training for the Ministry staff and assisting in coordinating the short-term management training programs offered by this project.

- Assisting the Statistics Directorate and other units within the MIT to develop a strategy for a trade and business information system to serve the needs of the MIT,

new Albanian businesses, and foreign investors.

During the course of his assignment, the Advisor produced monthly and quarterly reports which are attached here as Appendix 1. They provide detailed description of the above-mentioned tasks, as well as substantive information concerning the political and economic climate in Albania. These reports were provided to the USAID representative in Tirana and to the USAID project officer in Washington.

2. Management Training for Ministry Staff

Specialized human resources consultants from our team prepared and presented two management training seminars for MIT staff. The objective of the task was to provide training to the MIT management in the skills necessary to manage the resources of a growing and newly-restructured ministry. The first training seminar, held in October 93, was attended by mid-level and junior employees of the MIT. In April, after discussing options with higher-level Ministry staff, the second seminar was compressed in time and held off-site. This allowed the higher level staff to attend and to concentrate on the seminar once there, rather than being called back to their offices for meetings or phone calls.

The instruction methods utilized were a combination of lecture and group exercises and case studies with at least 50% of the time spent in working through exercises and case studies in a group setting. This method was initially not well-received, largely because the participants had had little exposure to this type of teaching approach. However, after a day or two, the participants had formed groups that were working together very well as small teams.

Although each management training seminar set out an agenda, the course itself remained flexible and the instructors took extra time to explain or investigate more fully certain areas of interest among the attendees. In particular, emphasis was placed on organizational structure, communications, training and development. The participants reacted very positively to the seminar -- they appreciated the use of real-world examples and the practical nature of the exercises. In the past, the Ministry staff had attended "training seminars" that were merely lectures on management science. Most attendees to the training seminars expressed a strong desire to have more training of this sort and confirmed that the would attend such sessions regularly if they were offered.

Deliverables for this task are attached as Appendix 2.

3. Privatization of Foreign Trading Enterprises

Privatization of the Foreign Trade Enterprises (FTE) took on a significant role in the implementation of the project for a number reasons. First, privatization of the FTE's would infuse needed trading expertise into the private sector from the skilled employees of these enterprises. Second, the FTE's are an important source of trading contacts for the industrial

sector, both large and the new smaller private enterprises, as the industrial sector rebuilds its capability. Third, Albania's admission to GATT will require that a focussed and ongoing (or successful) privatization of the FTE's has occurred to eliminate any vestiges of the former trading monopolies that existed. Fourth, privatization of the FTE's would create a number of new small and medium sized trading companies with the capacity to provide support and business to an even larger number of distribution and manufacturing concerns.

During the initial meeting with the implementation team, then-Minister of Industry and Trade Hoxha expressed a very strong interest in seeing the FTE's privatized. The Minister suggested that he was open to the team's suggestions on whether there was significant value to the economy to be obtained through privatization or if the FTE's should simply be closed down. He asked that the team's initial evaluation and recommendations indicate any benefits to privatization versus liquidation of the companies and how implementation of the recommendations could be accomplished. The Minister indicated that the team would have the full support of the Ministry in the implementation of whichever alternative approach the team felt justified for each of the FTE's controlled by the MIT and that he would work to include the team's recommendations in the agenda of other ministries as well. There was a clear indication that Minister Hoxha believed he had the support of NAP in implementing privatization if it was justified for these enterprises.

The team first visited the FTE's to determine their suitability for privatization. A ranking system to allow evaluation of the privatization potential was developed and used during interviews with the senior staff of each of the enterprises. The team also visited the warehouse and processing sites of those FTE's with facilities outside of Tirana. Profiles of each of the FTE's were prepared in order to provide an overview of the key elements of each company's operations and capabilities for the MIT and USAID. The team determined that there was significant value to the economy of Albania in maintaining the international contacts and the trading resources of the companies. It was also clear that the key individuals working in these companies had a significant interest in continuing to work together and that they shared a common interest in being part of the privatized enterprises. It was recommended by the team that the FTE's be restructured to include only the key trading elements, that employment be reduced by approximately 50%, that their assets, including warehouses and offices, be converted to private ownership with the right of the FTE to lease needed space, and that the FTE's be privatized as soon as possible. These recommendations were provided to USAID and presented to Minister Hoxha.

The team's next visit was delayed for several months by the reorganization of the Ministry and appointment of a new Minister and a new Director for the Privatization Department of the MIT. We were assured by the new Minister and by Mr. Mentar Bujari, the Director of the Privatization Department, that the Ministry wished to move forward with privatization. The Minister met with the Directors of all the FTE's during this visit by the team and mandated the directors to begin the process of asset valuation in preparation for privatization. The team worked closely with the two firms, Mekalbi and Artimportexport, selected from the initial ranking as the best candidates for pilot work and development of a strategy for

privatization. Financial information for the two firms was collected and analyzed and projections of expected operations of the privatized company were prepared.

The team presented the projected financials, the privatization strategy, and reviewed operating plans with the senior staff and financial directors of the pilot enterprises. The enterprises were introduced to the concept of western style business planning since there was no time available to fully elaborate business plans as part of the project work plan. The team also reviewed the operating plans of the companies. The two pilot firms had convinced three other FTE's to combine with them to petition the NAP and the MIT for privatization. A briefing concerning this petition was prepared by the team for Mr. Bujari and Mr. Niko Glozheni, the Director of the National Agency for Privatization. The team also prepared a proposal for privatization outlining the objectives and intent of the five FTE's in requesting privatization. The final presentation of the strategy, request for privatization, and proposal for restructuring of the FTE's included Steve Haynes and Deborah Crane of USAID, the Directors of each of the FTE's, the Director of NAP, Martin Mata of NAP, and Mr. Larsen and Mr. Peterson. Unfortunately, Mr. Bujari of the MIT, although scheduled to attend, had instead chosen to attend a seminar on Albania's accession to the GATT.

NAP expressed strong support for the concept of privatization of the FTE's. They were also supportive of the companies leasing of necessary assets. The concept of a joint venture between the employees of the FTE's and the Government was introduced and accepted by NAP and the Directors of the FTE's as long as the Government role was limited to less than a 50% interest. This can be accomplished through leasing of real assets and allowing the FTE's to sell the government owned inventories on a commission basis. The MIT was, however, not supportive of the proposals and was unwilling to discuss the options and alternatives for implementation. NAP agreed that they would continue to support the efforts of the employees of the FTE's to seek privatization approval and support from the MIT. In addition the USAID Trade Policy Advisor, Larry McDonald, who is advising the MIT on their GATT application also agreed to seek support from MIT for privatization of the enterprises because of the positive effect it would have on his work with GATT.

The benefit of the strategy developed by the implementation for privatization of the FTE's is that it maintained the linkage to foreign import and export organizations important to Albania. The strategy allowed the firms to be downsized so they were competitive but unable to expert monopoly power or influence government policy. It allowed the employees who had developed highly specialized skills to continue to use these skills in an environment were incentives of private ownership existed. Finally, it provided an impetus to the emerging manufacturing sectors in Albania with linkages such as contract processing of clothing and other value added products.

Given the lack of movement within the MIT for privatization of the FTEs, the team prepared a summary of potential follow-on tasks that would attempt to move the privatization forward. They rely, however, on support for the concept within the MIT.

The following tasks could be carried out in follow up to the work completed by the implementation team. These tasks would continue the work begun by the team and move the FTE's toward final privatization.

1. Obtain the support of the MIT, both the Minister and the Director of Privatization, for FTE privatization.

2. Develop final restructuring plans for each of the five FTE's including inventories, investment, and operations plans.

3. Support NAP in the review of the remaining FTE's (seven) and determine how these companies should be restructured including a detailed plan for liquidation of assets.

4. Assist the enterprises to be privatized, including the two pilot enterprises, in the develop of a full business plan.

5. Contribute to the valuation of assets contributed to the enterprises, including the value of leases for government owned property in preparation for the transfer to private ownership.

6. Finalize the plan for eventual employee buyout of the Government interest in the FTE's over the next 3-5 years.

The deliverables for this task, in the form of the first and second visit reports, strategy plans financial projections for the FTEs, and other documents are attached as Appendix 3.

4a. Export Development and External Linkages

This task was undertaken by short-term technical assistance teams from Deloitte & Touche. We utilized consultants from our Washington, London, and Brussels offices to offer the MIT expertise that would be appropriate from Europe as well as the US. The major objective of the task was to work with the appropriate MIT representatives to develop a clear export promotion strategy which would serve to guide the MIT and the Government of Albania in developing appropriate export and import policies and regulations, facilitating trade linkages, and developing potential trading partners. A summary of the accomplishments of this task is as follows:

- The team surveyed Albanian economic sectors (utilizing information from the Light Industry Analysis, described in the following section) to identify those with the best potential for export development.

- Working with the MIT staff from the Directorate of Industrial and Trade Policy (headed by Mr. Agron Dhima), the team developed a clear export development policy

for the MIT which was accepted by Mr. Dhima and which, we hope, will allow the MIT to make its needs clear to the Council of Ministers of the Government of Albania and which will serve as a mission statement for the Ministry as it shifts from its traditional role as a director of trade and manager of state owned industries.

- The team also developed draft export promotion materials in the format of a simple brochure highlighting Albania's advantages as a trading partner for private enterprise. The team researched appropriate recipients of the brochure and provided the MIT with approximately 10,000 mailing labels for recipients both in the US and in Europe. The team worked with the MIT, the Albanian Center for Foreign Investment Promotion and the Albanian Chamber of Commerce to establish a protocol and division of responsibility to actually print, organize, and mail the brochures. The content of these brochures was agreed with the Ministry and USAID funding was made available to finalize, print, and distribute the brochures.

- In addition to the brochure, the team helped the MIT and the Chamber of Commerce develop linkages with foreign trading entities by providing these groups with contact information for major trade associations, and schedules of trade fairs and other promotional opportunities in the target areas of the export development strategy (namely wood processing and garment and shoe manufacturing).

During implementation, this task was closely linked with the Public Relations and External Communication task. The structures developed to support the export promotion strategy also served to support the communications strategy. Deliverables for this task, in the form of the Export Development Strategy and supporting documents and examples of the brochure and mailing list information are attached as Appendix 4A.

4b. Analysis of the Light Industry Sector

As a counterpart to the Export Development Task, a short-term team of consultants worked with the MIT to conduct an analysis of the light industry sector to determine the comparative advantage of different production units within the sector. The team worked in cooperation with the appropriate "line" ministries (including the MIT) to analyze the condition, resources, potential, and regulatory environment of the light industry sector in order to produce a comparative advantage analysis of the sector with the international market which could be used by the MIT as a guide for resource utilization and to target investment towards the most economically efficient firms and sectors of the industry.

The short-term team undertook a rapid survey of 12 firms in Tirana, Durres and Korce. The survey was designed to yield information on each directors' assessment of the evolution of demand for his or her market since 1990, the firms' response to the market changes, and a rough estimate of production costs for one or more products produced by each firm. The information was used to produce a study which evaluated the production costs and responses

to market changes and developed a ranking of the comparatively most advantageous lines of production within the light industry sector.

The final report concluded that three products appear to have strong comparative advantage. Two are export processing outputs (called *a façon* manufacturing in Albania: blouse assembly and sports shoe upper assembly; and one is manufacturing of kilim-type (flat weave) rugs.

This report was widely circulated within the MIT and presented to USAID. The MIT found the information it contained to be illuminating and useful for future planning purposes. The MIT expressed a desire to have additional studies done to evaluate other industrial sectors according to the same methodology.

The deliverable for this product consisted of a report evaluating the comparative advantage of the different light industry sub-sectors. It is attached as appendix 4B.

5. Public Relations and External Communication

The objective of this task was to assist the MIT to develop a capacity to disseminate information regarding trade, regulations, reforms, and relevant donor activities to a wide audience -- including the general public in Albania as well as the foreign media and private enterprise. The short-term team that undertook this task surveyed the existing external communications methods and materials of the MIT and prepared a plan for improving these methods and increasing the visibility of information about Albania.

As mentioned above, this task was closely linked to the export development task discussed above. The team utilized the communications tools and processes being developed for export promotion in the overall external communications program. In particular, the team recommended several steps:

- Creating a press release system and target mailing list so that it will be possible for the MIT to send out an item of good news relating to business in Albania at least once very two to three weeks. Our team recommended an organizational structure to accomplish this task -- ultimately fostering a strong link between the MIT and the Chamber of Commerce and using the Chamber to actually write and distribute the press releases. The team also supplied the following items to the MIT and the Chamber to assist them in implementing the proposed press release system:

  - A guide developed by the team specifically for Albania on how to produce and distribute press releases.
  - Examples of press releases that could have been written about developments in Albania.
  - A mailing list of newspapers, journals, and magazines in several countries likely to carry stories on Albania.
  - An internal list of organizations and individuals within Albania who should

also be informed of new developments.

- Two specialized mailing lists of sectoral trade publications in wood processing and textiles sectors and clothing sectors for distributing specific information in these areas.

- Using the brochure produced as part of the Export Development task to increase awareness of Albania as a potential investment destination.

- Producing a regular newsletter to use as a tool to stay in touch with particular companies and organizations of interest. The team urged the MIT to support the Chamber of Commerce's efforts to publish a monthly newsletter in English.

- Longer-term actions such as setting up seminars and training programs concerning MIT regulations and programs to assist entrepreneurs, participating in international trade fares, and organizing and conducting outward and inward trade missions.

The MIT and the Chamber of Commerce were receptive to the team's recommendations and found the concrete examples provided in the press release guide to be very useful. The deliverables for this task, a Communications Action Plan and the press release guidelines, are attached as Appendix 5.

III. Methods of Work Used

In general, the work conducted under this delivery order consisted of field research in Albania, provision of informed advice to key decision makers based on regional expertise and experience of the consultants, and preparation of reports based on the results of the research. One of the most effective aspects of this project was our ability to consistently maintain a long-term advisor in Albania for virtually the entire contract period. Written reports notwithstanding, the information and assistance provided by our advisors in direct response to questions asked by Albanian Government officials in interviews and meetings was highly valuable to the Albanians. Copies of the deliverables were presented to our Albanian counterparts and distributed within the Government.

IV. Training

This project's formal training component consisted of the two Management Training Seminars described above. In addition, the presence of the long-term advisor created an environment where continuous training on an informal basis occurred. Also, the short-term technical assistance teams provided informal on-the-job training as part of their interaction with their Albanian counterparts.

V. Comments and Recommendations Concerning Project Continuation

During the course of our project, we discussed with the MIT and with USAID various options for continuation of technical assistance to the MIT. Unfortunately, at the close of this project, the USAID representatives familiar with this project concluded that the MIT was not ready to absorb additional technical assistance currently and that scarce resources might be better directed at the National Agency for Privatization as it begins to implement its privatization mandate. However, as the result of our experience and discussions, we prepared a brief sample proposal for a new project which would represent a continuation of the current assistance to the MIT as well as assistance to the NAP. We present the outline of this project below since it continues to represent the type of technical assistance that would be valuable to the MIT in the future if USAID resources and MIT leaders permit.

A. Summary of the Program

The program described herein is designed to support the emergence, development, privatization, and implementation of effective government policies in investment privatization, and small and medium enterprise development; to support institutional development of the MIT and NAP through technical, administrative, and management development; and to support and foster the development of the private sector and entrepreneurs working within the free market in Albania. The program has been designed to provide continuity to the existing technical assistance work and institutional support with an integrated set of discrete short-term tasks for each of the subcomponents. In order to meet these objectives assistance will be provided in the following areas of institutional development, privatization, and commercialization under the program:

- policy analysis and implementation;
- institutional management and technical implementation skills
- trade and business information development and dissemination
- public relations and external communications
- privatization strategy
- privatization implementation
- linkage to external markets through trade promotion and facilitation
- sectoral comparative advantage analysis of key industrial and service sectors of the economy

B. Overview

It is the intention of this project to provide continuity to the existing Investment and Privatization Project (IPP) activities as well as extension of the project into further implementation. The existing project activities will be continued where that is possible and built upon to develop follow on activities where that can be done effectively. The general objectives of the two proposed subcomponents of the project are:

- Component One - Privatization

  The privatization subcomponent will provide continuing support to privatization of the foreign trading enterprises (FTE) and implementation of the strategy developed during the first phase of this project. In addition, this subcomponent will provide training to NAP to improve the technical skills of the staff and to help implement a program of advancement based on job descriptions related to training and capabilities in NAP. Several additional strategies for privatization will be completed in sectors of the economy selected for their importance to the GOA and potential for economic growth as determined by comparative advantage studies completed in selected industrial sectors under component two, trade and investment. Finally, the subcomponent will provide pilot implementation of these strategies including foreign and domestic capital mobilization. Phase II also provides for a timely public awareness campaign.

- Component Two - Trade and Investment

  The trade and investment subcomponent will provide for the preparation of additional subsector analyses of comparative advantage for components of the economy that are considered important to the GOA and to the goal of economic growth, these will be used in component one to determine the industries or sectors to be the focus of additional privatization. The subcomponent will continue the programs for management training and small and medium enterprise (SME) development. The training programs will be coordinated with existing efforts of the prime minister's office to develop minimum skills requirements and job descriptions for advancement and new placement of employees. SME activity will continue to be a major effort of the MIT including the fostering of an active small enterprise sector in the economy by coordinating aid programs from USAID and EC Phare and the SME foundation, which are developed with the MIT. Finally, the trade and investment promotion programs started during the initial project will be continued, including public relations work on behalf of Albania trade, promotion and mobilization of capital for private investment, and external linkages of trading companies.

Long Term Advisors

Each of the subcomponents will have a long term advisor. The role of the long term advisors will be to provide policy and technical support to either the MIT or to NAP and to

coordinate and implement the short term technical assistance (STTA) under the contract. One advisor will work within the MIT and will specialize in investment, trade promotion, SME development and implementation, and economic analysis. The other advisor will work within NAP and will specialize in privatization strategy, implementation, coordination of programs, and training.

C. Objectives

The MIT and NAP believe that the privatization and reorientation to Western markets and standards of key sectors of the economy is of critical importance for securing rapid and visible success in economic transformation. Several sectors will be selected for further study and privatization strategy development as a result of this two component study. Both components, and the sectors selected for further study and support, are expected to become the engines for new economic growth by attracting significant direct foreign investment, creating new jobs, and generating export income. This program will be implemented through a coordinated effort targeted at institutional and organizational strengthening for the NAP and MIT. Through implementation of the two component program in each respective area, this project will capitalize on the existing investment of the GOA and increase the sustainable contribution to the national economy of the industrial sectors selected for further study. The key objective overall is the development of replicable commercialization/privatization and investment/trade models.

The general objectives of the proposed program for this project are the following:

- to provide analysis of alternatives for privatization;
- to encourage foreign direct investment and technical assistance;
- to develop a strategy based on comparative advantage for promoting trade, investment, and privatization;
- to provide coordination of aid efforts to NAP and MIT;
- to encourage development of the small and medium enterprise sector;
- to increase exports and aid in employment creation;
- to provide training and advisory services to the government for privatization and administrative management that complement the government's efforts to develop a skill and training basis for placement and advancement; and
- to implement training and target privatization.

D. Scope of Work

This scope of work will result in the implementation of privatization and investment and trade promotion. The privatization will include pilot privatization in industry sectors suggested by the comparative advantage studies. During the period of this project the contractor will work closely with the MIT and NAP in the implementation of the project and their pilot components. Since some of the laws related to private ownership, investment, and privatization are still in a state of flux, it is important to monitor legal and legislative developments in Albania and to maintain flexibility in the implementation process. It is also important to have legal and regulatory assistance included as part of the STTA that will be provided for either drafting legislation or providing a background for other technical practitioners.

The scope of work is divided into two components. One component comprises investment and trade promotion. The second component is made up of privatization support work. The contractor will evaluate the alternative forms of privatization and investment promotion support work that can be implemented based on the characteristics of the industry being supported and the businesses selected for support to ensure the companies selected have sufficient resources and capability to serve as models in each area of development. The program of work has been designed to have immediate as well as broad and long lasting benefits in Albania. The elements of the program have been designed to be sustainable and replicable in the other subsectors of the economy. The key benefits that will be derived from the project include:

- pilot privatization;
- strategies to guide the planning process for promotion and privatization;
- market development in the export and domestic markets and support for business services provided by the MIT;
- education and training related to the process of administration, promotion, and privatization that support the government effort to establish job descriptions for key jobs in NAP and MIT; and
- development of external linkages.

Long Term Privatization Advisor \ Coordinator to NAP

The long term privatization advisor will:

- interact on a daily basis with NAP directorate and staff, assisting in the identification, review, and analysis of policies, institutional capabilities, and organizational initiatives

affecting or impeding the growth of privatization and a strong private sector;

- assist in the mobilization and management of short term technical assistance "task forces", providing substantial input to facilitate their activities, leveraging activities of other donors, and generally serving as the project manager in order to provide maximum value to NAP and the GOA;

- coordinate, oversee, and implement STTA work in conjunction with NAP to include services in privatization strategy development, privatization implementation, public relations, training, capital development and mobilization, legal analysis, and investment promotion;

- work with the USAID representative for Albania and NAP staff to identify short-term technical assistance needs and recommend strategies and resources to respond to them;

- support the effort of NAP to develop an implementation and administrative strategy for national rollout of privatization including attendance at NAP staff meetings and relevant GOA meetings to assist with donor coordination and strategy rationalization;

- work with NAP staff to develop sectoral privatization, a roadmap for implementation;

- provide policy and administrative services in the management and coordination of aid from various donor locations including assisting NAP in determining which aid should be accepted, constraints to be placed on the aid, and what aid should be sought for companies or industries being privatized; and

- identify such other opportunities for the provision of STTA as may be appropriate.

Long Term Investment and Trade Advisor to MIT

The long term investment and privatization advisor will:

- coordinate, oversee, and implement STTA work in conjunction with MIT to include services in SME development and support, trade and investment promotion, public relations, management and administrative training, and subsector comparative advantage analyses of key industrial sectors;

- interact on a daily basis with the MIT directorate and staff, assisting in the identification, review, and analysis of policies, institutional capabilities, and organizational initiatives impeding the growth of trade, investment, and free market activity; and assist the MIT in the planning and implementation of new initiatives addressing these conditions in order to promote maximum progress and momentum

towards the fulfillment of the ministerial trade agenda;

- assist the MIT and their directorates with identification, review, and analysis of MIT institutional capabilities and organizational conditions impeding growth of trade and free market activities;

- assist the MIT in the analysis and implementation of policy initiatives addressing the impediments to the MIT in the priority areas of investment privatization, and SME support;

- work with the USAID representative for Albania and MIT staff to identify short-term technical assistance needs and recommend strategies and resources to respond to them;

- identify other donor activities related to the areas of project emphasis and leverage the activities of the project through coordination with these donor activities wherever possible;

- assist the MIT to identify and develop linkages with the emerging entrepreneurs and institutions supporting private business. This will include (1.) identifying key entrepreneurs and organizations and developing clear communications with them through the MIT, (2.) evaluating the impact of GOA and MIT regulation and policies on entrepreneurship, and (3.) gain an understanding of the business needs the MIT will serve in order to suggest and support policies needed to remove impediments, thereby making the MIT responsive to the needs of the private sector; and

- identify such other opportunities for the provision of STTA as may be appropriate.

E. Work Plan and Tasks

Following is a summary work plan with suggested short term tasks assigned to each subcomponent. The work plan is provided in more detail in the attached tables providing a matrix of work.

Privatization Subcomponent

1. Long term Advisor to NAP.

2. Implementation of Foreign Trade Enterprise Privatization.

3. Strategy and Implementation for Additional Privatization.

4. Capital Mobilization and Ownership Mechanisms.

5. Training in Privatization Skills.

6. Public Awareness Campaign.

Investment and Trade Subcomponent

1. Long term Advisor to MIT.

2. Comparative Advantage Subsector Analyses.

3. Trade and Investment Promotion.

4. Management and Administrative Training.

5. Small and Medium Size Enterprise Development.

6. Information Development and Data Support to Foreign Investment Promotion Agency.

Although continued technical assistance for the MIT is not currently planned by USAID, we believe that the MIT will play an important role in privatization. Therefore, technical assistance to the NAP should include a focus on developing linkages and cooperative structures with the MIT.

VI. Major Achievements, Problems and Outstanding issues in Privatization

The focus of this project was not primarily privatization, since the MIT is not the Government's primary implementing institutions for privatization. However, the long-term advisor provided a variety of advice concerning privatization options for the MIT and the short-term team attempted to move privatization of the Foreign Trading Enterprises to the top of the MIT's agenda. Unfortunately, this aspect of the overall project ultimately met with limited success.

During the team visits to the FTEs a number of constraints to privatization were identified, these include:

- Foreign debt of the enterprises.

  These debts are in hard currency and are in amounts ranging from $1 million to $30 million. The debts are carryover from purchases and procurements carried out under the centrally planned system of government of the former regime. Therefore the enterprises do not believe that they should be responsible for the settlement of the

debts as private companies. The government is currently discussing the potential for taking over these debts but it is uncertain at this time whether this will actually be approved by parliament.

- Lack of government initiative.

The government has not elucidated a clear directive for the privatization of state owned enterprises let alone the privatization of the foreign trading enterprises. While Minister Hoxha has expressed an interest in privatization of the enterprises under the direction of the Ministry of Trade, the privatization specialists at the Ministry of Industry and the Ministry of Food and Agriculture were quite clear that they viewed the FTEs as the "rear guard", enterprises that would were low priorities for time or resources in privatization until the production enterprises had been privatized. Several of the enterprises we visited have already made requests for privatization but have not received responses from the government, either from NAP or from the Ministry. This is discouraging when you consider the importance of government support to any successful privatization effort.

- Social Issues/Overstaffing.

Although many of the foreign trading enterprises have made significant staff cuts during the last year overstaffing remains a problem. Some of the enterprises are more conservative than others in post privatization projections for their staff. Equity issues for workers who have worked for the past 30 years and have little or nothing to show for the effort are paramount. Other workers in agriculture, retail trade, and industry have obtained tangible assets as compensation, or partial compensation, for their efforts in support of the growth of the state owned enterprises or collectives. Similar treatment is difficult in the foreign trading enterprises where the most valuable capital is human. Both these issues, equity and overstaffing will have to be dealt with by the FTEs before successful privatization can occur.

- Domestic Production Shutdown.

The domestic production enterprises have in almost all cases but tobacco and medicinal herbs been shut down. The exports that were being developed by the foreign trading enterprises in these areas are no longer available to provide revenue to the trading companies. This has dramatically curtailed their export revenues. In addition the breakdown of the companies eastern trading partners, especially the COMECON trading block where products were sold on a "clearing" basis have resulted in additional loss of export markets and revenue base. For several companies the import of machinery or plant is their primary source of revenue. An example of this is Mekalbi who import spare parts and machinery. The near total shut down of the production sectors in Albania have also curtailed the import activities of these companies.

- Private Sector Competition.

  Consumer goods imports and the supply of products for the private sector and those few remaining state owned companies in operation is becoming much more competitive as private traders try to develop their own knowledge and contact base to supply to industry. While this is not as great a concern for export trading as it is for import trading it should be noted that both have been affected and have an impact on the privatization of the foreign trading enterprises that are the subject of this project.

The Government of Albania, one of the few in Central and Eastern Europe that is not now dominated by former communist parties, is moving to accelerate economic reform in order to solidify its political transition. It is increasing its emphasis on restructuring and privatization of state-owned enterprises, developing external linkages, and supporting development in the small and medium-sized enterprise sector. However, privatization of state-owned enterprises is a complicated undertaking and remains in the very early stage in Albania. The Parliament is still in the process of finalizing regulations which will form the privatization framework and the basic institutions necessary to conduct a country-wide program are continuing to organize themselves and hire staff.

The central organization in the privatization process is the National Agency for Privatization (NAP), currently under the direction of Mr. Niko Glozheni. The NAP is responsible for developing Albania's overall privatization program, selecting and applying appropriate privatization methodologies, evaluating and selecting enterprises for privatization, and overseeing their actual privatization. Also important in the privatization process is the Enterprise Restructuring Agency (ERA) which will act as a state holding company for strategic enterprises and other larger enterprises which need significant restructuring prior to privatization.

The NAP and the ERA require the cooperation and collaboration of the MIT in order to be succesful. However, these three institutions have not yet developed interrelationships and formal and informal channels of communication that are sufficient to support smooth privatization. The experience of our team in the Foreign Trading Enterprise Privatization task has provided ample evidence of this. The solution may lie in identifying a high-level leader for privatization who has the political power to unite the three organizations to pursue a common goal.

VII. Level of Effort and Individuals Involved

NAME	LEVEL OF EFFORT

APPENDIX 1

LONG-TERM ADVISOR TO THE MINISTRY OF INDUSTRY AND TRADE

DELIVERABLES

Appendix 1

Long-Term Advisor to the Ministry of Industry and Trade Deliverables

Reports for the Period June 1993 - June 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. Quarterly Report: April - June 1994
10. Monthly Report: May 1994
11. Monthly Report: June 1994
12. Memo to Mr. Selim Belortaja, March 24, 1994,
    re: Technical Assistance
13. Broad Outline of an Approach to Privatization of Large State-Owned Enterprises in the Republic of Albania
14. Memo to Mr. Selim Belortaja, March 24, 1994,
    re: Albania-EU Joint Commission - First Meeting

Appendices

15. The American Albanian Small Enterprise Fund: A Draft Proposal
16. Investment and Privatization Program: Civil Service Reform
17. Investment and Privatization Program and SME Development Program: Recommendations for a Privatization Strategy
18. A Strategy for a Trade and Business Information Center in Albania

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

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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.

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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 Shabani, 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

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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

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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 Minster 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."

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- 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

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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.[1]

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[1] 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

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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 Lilse 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.

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 Paparisto, Deputy Chairman, Center for Foreign Investment Promotion

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.

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 firees, 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 Kopliku, 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 Kopliku, 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.

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INTRODUCTION

This report covers the completion of the trade and business information database task at the Ministry of Industry and Trade (MIT), facilitating other tasks of the Investment and Privatization Program (IPP) — management training for the Ministry staff, export promotion, and privatization of MIT's foreign trade enterprises (FTEs). Activities included a workshop on developing management skills, a seminar on the trade and business information database task, preparation for an interview with the Albanian television network on the Investment and Privatization Program (in the context of a four-part series on projects for Albania funded by the U.S. Agency for International Development, or USAID), and meetings to brief donor representatives on the small and medium-sized enterprise (SME) sector. The report also includes recommendations that USAID look closely at the credit structure of the European Union's PHARE Program before providing technical assistance to PHARE.

COMPLETION OF THE IPP TASKS

Privatization of the Foreign Trade Enterprises

The end of June saw the completion of the tasks under the Investment and Privatization Program. As the final step in the task for privatization of the Ministry's FTEs, Doyle Peterson of Development Alternatives, Inc. (DAI) and Tom Larson of Deloitte Touche Tohmatsu (DTT) worked with the senior staff of two pilot FTEs to prepare a buy-out privatization proposal. The proposal was submitted at a meeting with Niko Glozheni, Director of the National Agency for Privatization (NAP), by a delegation from the two enterprises. The meeting was inconclusive because of procedural and financing issues.

Mentar Bojari, Director of the Ministry's Department of Privatization and Investment, had been invited to the meeting; however, he did not attend. Bojari's failure to attend may reflect the Ministry's internal differences and its differences with NAP on approaches to the privatization of the FTEs, despite the Minister's declared commitment to speedy privatization.

NAP has not been very helpful in guiding privatization methods. This and other shortcomings that relate to a long-overdue comprehensive and multifaceted strategy for privatization are the result of the glaring lack at NAP of planning know-how; a focused leadership; coherent policy objectives; and advisory technical assistance capable of providing appropriate guidance, strategy-oriented management skills, and skills in coordination, troubleshooting, and public relations. These shortcomings have permitted a policy vacuum to develop, which various ministries have exploited as they pursue piecemeal their own privatization agendas. The vacuum also has permitted the Council of Ministers to propose legislative initiatives on privatization — probably motivated more by expedience and political concerns than by considered counsel — such as the recent Law on Privatizing State-Foreign Joint Ventures and the 1993 Council Decision No. 248 on privatizing small and medium-sized enterprises.

NAP continues to be a rudderless, drifting agency, performing an ombudsman function rather than formulating strategy. Its Board of Directors seems to exist only in name. Bashkim Kopliku — Chairman of the Board, Deputy Prime Minister, and Minister of Economic Reform — solicits, through the media, opinions and critiques of a 10-point position paper on the use of vouchers in mass privatization. An article on the position paper was published in the Democratic party's newspaper, *Rilindja Demokratike*, in April. I responded to it in an interview with the same paper.

Glozheni repeatedly emphasizes NAP's urgent need for a long-term advisor/strategy-formulating coordinator. As mentioned in the January-March 1994 Quarterly Report, I had already submitted to NAP a proposal and terms of reference for such an advisor/coordinator under an IPP Phase II project plan, which was being considered by USAID. A request based on that proposal was formally sent to USAID in March.

Management Training for MIT Staff

The second part of the management skills development task was completed in an intensive workshop in June, held outside the Ministry premises, for 10 senior Ministry staff, including 3 department directors and 2 advisors to the Minister.

After welcoming the participants, I explained the purpose of the workshop and introduced one of the trainers — Kent Ford from DAI (Todd Rossel from DTT could not attend on the first day) — and the interpreters. I emphasized the public sector's need for civil servants trained in cooperative and responsive management styles, in contrast with the top-down style under the former regime. I explained that such skills are necessary to manage the public sector resources of an economy whose transformation would greatly benefit from an interactive relationship between the public sector and the nascent private sector, whose development is of the highest priority to the country. As in the first workshop, a good rapport developed between the participants and the trainers. The feedback from the participants was positive.

I arranged for the television program on the IPP program to include a segment on the workshop. It was presented well. DAI has a copy of the television presentation.

Export Promotion

Anne Nisenson and Graham Barton of DTT came to Tirana to complete arrangements for printing an export promotion brochure, developed with MIT's Department of Industrial and Trade Policy. Nisenson brought with her a database of several thousand American firms to which the brochure will be mailed.

Two light industry subsectors — clothing and wood processing — were selected for export promotion. This selection benefited from the light industry sector analysis task, completed earlier this year by Ann McDermott of DAI.

Development of a Strategy for a Trade and Business Information Database

This task had the objective "to develop within MIT the capacity to build and maintain a data base containing relevant trade and business statistics and essential information." However, in the strategy I formulated, I opted to go beyond the framework of a database by recommending a multifunctional Trade and Business Information Center. I based the decision on the following rationale:

- Information is a vital resource that must be efficiently and purposefully managed rather than merely provided. The approach to information collection, processing, and dissemination should be based on an efficient, cooperative, and coordinated management of the information resources available.

However, it has already made plans to subscribe to two online data bases: CERVED in Italy and EUNET in the Netherlands. The Chamber seems to have concrete objectives and a plan to achieve these objectives in terms of services and an information program it expects to provide to its members, including guides on doing business in Albania and other countries. It has already prepared six guides.

The Institute of Studies and Designs of Light Industry

At the Institute of Studies and Designs of Light Industry, which is responsible to MIT, I had a meeting with the Director, Arben Fagu, attended by a UNDP-funded American advisor to the Institute, William Walters.

The Director explained to me the work of the Institute, which not only designs turn-key projects for light industry manufacturing plants but also conducts industry sectoral analyses. I saw this capability as having potential relevance to a future Trade and Business Information Center, which should prepare and make available rapid and brief studies on investment opportunities in Albania (see a list of Institute projects in progress or under planning in Appendix B of the Strategy Report).

The Tirana District Tax Office

I met with Luan Pustina, Director of this Office, twice in 1993 when I was working on the SME sector report for USAID. In two meetings this June, he responded to my inquiries on the types of information his office collects from state-owned and private sector enterprises and on the ultimate destination of this information.

The GTZ Privatization Advisor

Rolf Fehlings, Privatization Advisor to NAP, provided information on a survey GTZ had just completed on 1,500 state-owned enterprises. The survey solicited information on the type of enterprise activity, output (if operational), sales, size of work force, gender composition of work force, book value of assets, and so forth.

Meetings with Members of the Business Community

Given my proposed role of the Center in supporting the Albanian business community, I arranged to meet with some business persons for their input into identifying the needs of that community for information. These included the Executive Director of a business association (the Confederation of Commercial and Industrial Enterprises) with over 100 members; a trader/investor; and the Director of a state-owned enterprise. Their views varied from the general to the specific such as the need for guidelines on the tendering process; how to locate potential foreign traders and joint venture investors; and information on sourcing specific inputs.

The Strategy Report

The IPP task on developing a strategy for a trade and business information database had the objective "to develop within MIT the capacity to build and maintain a data base containing relevant trade and business statistics and essential information."

However, in the strategy I have formulated, I opted to go beyond the requirements of a database by recommending a multifunctional Trade and Business Information Center as an independent MIT department, which should absorb the Ministry's Statistics and Information Department (SID) and the embryonic Business Information/Business Research and Publications Unit. Also, I have strongly emphasized that the Center should coordinate and cooperate very closely with other information organs.

The Strategy Report was completed in English and translated into Albanian in the third week of June. A roundtable meeting to discuss the Strategy Report was held on June 23 and was attended by representatives from the Institute of Statistics, the Chamber of Commerce and Industry, the Institute of Studies and Designs of Light Industry, Stephen Haynes from USAID, Minella Papakostandini, Mikel Dushniku, Dushniku's PHARE advisor, and Anila Bashllari.

Comments included a suggestion that the Center be set up as an entity completely independent of MIT and that it have branches at various ministries. There was also a question about whether the Center's library of publications and reference material should be open to the public.

MISCELLANEOUS ACTIVITIES

These activities included an interview with the Albanian television network on the components of IPP and on my role as policy advisor to MIT, in the context of a four-part program on all USAID-funded projects in Albania; and meetings with parties interested in a review and assessment of the SME sector in Albania.

The Investment and Privatization Program on Albanian TV

As part of a series on USAID-funded projects in Albania, I had the privilege of outlining to viewers the components of IPP. I explained my role as Policy Advisor to MIT and briefly reviewed the IPP tasks.

In planning for the interview and the filming, I had asked four MIT Directors whose departments were the subject of IPP technical assistance to take part in the interview. After some prodding, only Mentar Bojari, the Director of Privatization and Investment, accepted to participate.

The week following the interview, I arranged for the TV crew to film part of the Management Training workshop and to include it in the program, to show some concrete assistance provided by IPP.

I recognized that more than 30 minutes of interview time would be condensed to a 10-minute feature, and asked the TV interviewer to make sure that my comments on policy technical assistance versus concrete assistance were not edited out and that the dubbing in Albanian was satisfactory. He did.

The SME Sector

Four parties asked for an assessment of the SME sector, especially of the PHARE Program's credit structure: Ilka Schoellmann, a Croatia-based Regional Consultant for the Center for International Private Enterprise of Washington, D.C.; Kathy Funk of the World Bank (Washington, D.C.); Russell Webster and colleagues from Management Systems International of Washington, D.C., accompanied by Melissa Brinkerhoff, USAID/Washington, D.C.; and Claire McLaughlin, a U.S. Peace Corps business volunteer (at the recommendation of Kevin Leahy, Associate Director for Albania).

In concluding an overview of the SME sector and the PHARE credit structure, I pointed out impediments at the macro level and areas of weakness in the PHARE credit scheme.

- An active and dynamic role for information is essential for the development and maintenance of a reasonably functioning private market economy. This role can be better filled by a multifunctional, interactive, flexible, and continuously evolving information-processing mechanism.

- All players in the information field should be viewed as complementary components in an integrated and evolving system of information and communication.

- I recommended setting up a Trade and Business Information Center as an independent MIT department that would absorb the Statistics and Information Department and the embryonic Business Information/Business Research and Publications Unit (the unit had been suggested in a World Bank study completed in July 1993). I strongly emphasized that the Center should coordinate and cooperate very closely with other information organs.

The Trade and Business Information Center

My research into the information environment in the country included meetings at the National Institute of Statistics (NIS), the Chamber of Commerce and Industry (CCI), and the Institute of Studies and Designs of Light Industry. I also met with the editor of the *Albanian Economic Tribune*, the director of the Tirana district tax office, and the German Agency for Technical Cooperation's (GTZ's) Privatization Advisor to NAP.

For input from the business community, I met with three businesspersons. In addition, given the business advisory assistance some volunteers from the U.S. Peace Corps were providing to potential SME borrowers from the PHARE Credit Program, I talked with Claire McLaughlin, a volunteer based in the Korca Regional Business Agency (RBA), one of seven RBAs forming the satellite network of the PHARE credit structure.

I also communicated with and solicited information from the Organization for Economic Cooperation and Development (OECD) office in Paris, EUROSTAT in Luxembourg, and the International Trade Center in Geneva.

The National Institute of Statistics. At NIS, I interviewed Milva Ekonomi, Director; Hajrie Dhrima, Chief of Business Statistics; Godiva Remeci, Chief of Business Register; Ardian Daka; Dhimitri Tola; Daniel Depardieu, expert on EUROSTAT, Business Register, INSEE, France; and Anne-Marie Dussol, Statistiques d'Entreprises, INSEE. Depardieu and Dussol are nonresident advisors to NIS on training projects funded by the PHARE program.

In meetings, I described the IPP project, explained the objective of the task on the Trade and Business Information Center, and asked questions about the current and planned information activities of the other parties, the types and sources of the information, the types of output, the potential users, the completeness of the data, and any cooperation with other players in the field.

At NIS, I asked for and received a description of donor technical assistance. With funding from PHARE, NIS has received ongoing technical assistance from INSEE in France and EUROSTAT in Luxembourg. This assistance covers three areas: an Albanian business register, business statistics, and foreign trade statistics.

The Chamber of Commerce and Industry. At the Chamber of Commerce and Industry, I had two meetings with Gentiana Mara, head of the Information Department. I obtained a summary of CCI activities and services, which, I was informed, are to be expanded as soon as the new administration takes office and the Chamber is licensed by MIT under the new Law on the Chambers. As a result, the Chamber is in a transitional state of limited activity. However, it has already made plans to subscribe to two online databases — CERVED in Italy and EUNET in the Netherlands.

The Chamber seems to have concrete objectives and a plan to achieve these objectives in terms of services and an information program it expects to provide to its members, including guides on doing business in Albania and other countries. It has already prepared six guides.

The Institute of Studies and Designs of Light Industry. At the Institute, which is responsible to MIT, I met with the Director, Arben Fagu, and with a U.N. Development Programme (UNDP) advisor to the Institute, William Walters.

The Director explained the work of the Institute and that the Institute not only can design turn-key projects for light industry manufacturing plants but also can conduct industry sectoral analyses. I saw this capability as having a potential relevance to the future Trade and Business Information Center, which should prepare and make available rapid and brief studies on investment opportunities in Albania (see a list of Institute projects in progress or under planning in Annex B of the Strategy Report).

When questioned about the interest of the management and staff of the Institute in taking the Institute private, the Director was positive and very hopeful.

The Tirana District Tax Office. I had met twice last year with Luan Pustina, Director of this office, when I was working on the SME sector report for USAID. He was very cooperative and helpful in my pursuit of information on that sector. In two meetings this June, he responded to my inquiries on the types of information his office collects from state-owned and private sector enterprises and on the ultimate destination of this information.

With the meetings at MIT's Statistics and Information Department, the Institute of Statistics, and the Chamber of Commerce in mind, I realized the amount of duplicate information enterprises had to submit to various governmental and semigovernmental organs. In the strategy report, I recommended coordination of information collected for government entities, to minimize the number of forms faced by the enterprises without compromising the quantity or quality of the information.

The GTZ Privatization Advisor. Rolf Fehlings, the GTZ Privatization Advisor to NAP, provided information on a survey of 1,500 state-owned enterprises. GTZ had just completed the survey and was preparing a computerized profile for each SOE. The survey solicited information on the type of enterprise activity, output (if operational), sales, size of work force, gender composition of work force, book value of assets, and so forth.

Meetings with Members of the Business Community. Given the proposed role of the Center in supporting the Albanian business community, I arranged to meet with some businesspersons for their input into identifying the information needs of the community. These included the executive director of the Confederation of Commercial and Industrial Enterprises, a business association with more than 100 members; a trader-investor; and the director of a state-owned enterprise. Their comments included the need for guidelines on the tendering process, ways to identify potential foreign traders or joint venture investors, and information on sourcing of specified inputs.

The Strategy Report

A Strategy Report for a Trade and Business Information Center was completed in English and translated into Albanian in the third week of June. In meetings with persons who received the report, I solicited reactions to holding a roundtable discussion of the Strategy Report. They all welcomed it, and a meeting to discuss the report was held on June 23 at MIT.

The meeting was attended by representatives from the Institute of Statistics; the Chamber of Commerce and Industry; the Institute of Studies and Designs of Light Industry; Stephen Haynes from USAID; Minella Papakostandini; Mikel Dushniku, Director of MIT's Department of Business Development; Dushniku's PHARE advisor; and Anila Bashllari.

Some of the questions raised were not germane to the subject. Other questions went beyond the terms of reference for the present task, in that they involved recommendations to USAID on the design of future USAID-funded projects. Comments of more relevance included a suggestion that the Center be set up as an entity completely independent of MIT and that it have branches at various ministries. One question asked whether the Center's library of publications and reference material would be open to the public. Other questions related to points addressed in the report, such as types and sources of information useful for the Center and whether the strategy can be leveraged by a contemplated PHARE trade information center (300,000 ECUs have been allocated for 1994-1995 under the PHARE Credit Program for the support of the SME sector in Albania). Another question asked that a body be established to coordinate the cooperation of information organs.

MISCELLANEOUS ACTIVITIES

These activities included an interview on mass privatization with the *Rilindja Demokratike* newspaper, an interview with the Albanian television network on the components of the IPP project and my role as policy advisor to MIT, and meetings with parties interested in a review and assessment of the SME sector in Albania.

Newspaper Interview on Privatization

In response to an invitation from Deputy Prime Minister Kopliku to a public dialogue on mass privatization, I was interviewed by the *Rilindja Demokratike* newspaper, the organ of the Democratic Party. In April, the paper had published an article by Kopliku putting forth his ideas on several points related to a mass privatization voucher scheme. I was provided with a translation of the article by Kutlay Ebiri, the World Bank resident representative.

On June 4, the paper published a short article based on my interview. Unfortunately, with respect to a couple of points, the text of the article did not accurately reflect my views. I attribute the discrepancy to the quality of the interpretation, as my interviewer did not speak any English. (A translation of the interview is attached as the annex to this report.)

The Investment and Privatization Program on Albanian Television

As part of a series of the Albanian television network on USAID-funded projects in Albania, I had the privilege of explaining to viewers the components of IPP. I explained my role as Policy Advisor to MIT and briefly reviewed the IPP tasks.

In planning for the interview and the filming, I had asked four MIT Directors, whose departments were the subject of IPP technical assistance, to take part in the interview. After some prodding, only Mentar Bojari, the Director of Privatization and Investment, agreed to participate. The others declined. I attribute this partly to their unwillingness to make statements that may carry liability and responsibility. This may need to be viewed in the wider context of the implications of publicly and formally communicating information, a circumstance often avoided by midlevel public officials.

Other donor advisors and I had become increasingly aware of an emerging atmosphere in government circles of open criticism of donor projects that did not include substantial monetary and equipment components. Technical assistance resulting in policy and strategy advisory reports are viewed as only theoretical; policy analysis and recommendations are equated with theory by many in the public sector. The week following the interview on the IPP program, I arranged for the TV crew to film part of the Management Training Workshop and to include it in the TV program, to show some concrete assistance provided by IPP. I was aware that more than 30 minutes of interview time would be condensed to a 10-minute feature, and I asked the TV interviewer to make sure that my comments on policy technical assistance versus concrete assistance were not edited out and that the dubbing in Albanian was satisfactory. The interviewer handled this as requested.

The SME Sector

In my November 1993 report on the SME sector, I recommended the formation of a Council on Small Business, to be headed by a Minister, with representatives from the private sector, ministries, government agencies, and other organizations. The Council's mandate would be to review policies and regulations and to propose policy, legislative, regulatory, and institutional changes and initiatives to promote the development of the SME sector. Four parties asked for an assessment of the SME sector, especially of the PHARE Program's credit structure.

At the macro level, I pointed out the lack of policy objectives and coordinated policy initiatives (legislative and regulatory) from the Council of Ministers. At the ministerial level, especially at MIT, where SME policy falls under the Department of Business Development, the lack of policy formulation and initiatives is compounded by the absence of information programs aimed at facilitating business development and responsive to the needs of the business community. The absence of information programs should be considerably mitigated if the recommendations of the Strategy Report on the Trade and Business Information Center are implemented.

PHARE's proposed credit structure targets entrepreneurial initiatives in light manufacturing and processing, which may be advanced loans of $15,000 to $30,000. The areas of weakness in the PHARE credit scheme are at the regional level — both at RBAs and at branches of the Savings Bank. Under the current credit structure, RBAs and the Savings Bank branches lack the ability to prepare or evaluate feasibility studies. They also need technical assistance in economic, financial, and market analysis; technical, engineering, and production design; procurement; and credit analysis. However, this assistance need not be resident at the regional level.

The Albanian Small and Medium Enterprise Foundation, funded by PHARE, was initially the hub of the credit structure but was recently reconfigured as the central business advisory and support unit. Its role is now somewhat confused. Short-term advisors are reported to be unclear about their specific roles and to lament the lack of coordination between their activities. This function is supposed to be carried out by the PHARE Long-Term Policy Advisor — who is also the advisory team's leader — attached to MIT's Department of Business Development.

The position of the PHARE Long-Term Policy Advisor at the Foundation remained unfilled at the end of June. The original long-term advisor had withdrawn acceptance before reporting to Tirana, and a former short-term advisor at the Foundation had accepted, then declined, the position. A short-term advisor who was offered the long-term position is reported to have commented that the business plan for the credit program looks good on paper but is unworkable in application. The advisor's acceptance of the long-term position is running into trouble because of disagreements over contract terms with the German consulting firm that had won the bid to provide all technical assistance to the credit program.

The Foundation's Executive Director is dedicated and hard-working but lacks the experience and qualifications necessary for the position. He also lacks the leadership qualities and managerial ability essential for marshaling disparate resources and integrating the participants and activities of such a loose structure. The participants include seven RBAs, cooperating with seven Savings Bank branches; the Savings Bank's staff unit and the credit panel/supervisory committee of the head office in Tirana; and several short-term advisors. The activities include recruitment and training of technical personnel for the RBAs; formation of a procurement advisory service; and performance as a liaison with MIT.

RECOMMENDATIONS FOR A COMPREHENSIVE ASSESSMENT OF THE PHARE CREDIT PROGRAM

USAID should consider an intensive and comprehensive analysis of the structure of the PHARE Credit Program before providing further technical assistance to PHARE. The review should place project financing in the context of SME sector development and attempt to identify and categorize the needs of potential entrepreneurs.

The financial structure under the Foundation had used an expatriate consulting firm to coordinate loan processing and procurement with the National Commercial Bank. PHARE and the Government of Albania (GOA) determined that the structure provided insufficient financial control and was inefficient, and that greater emphasis was needed on loan documentation and feasibility analysis. These changes were implemented in a restructuring of the Foundation program, supported by PHARE and the GOA, that included stronger local control.

A project realized is not necessarily money in the bank; follow-up monitoring and support services are critical to the viability of the operation and its successful expansion. The roles of the Foundation, its satellite RBAs, and the advisors attached to this network will need to be reassessed and redefined to allow greater emphasis on working with potential entrepreneurs to appraise project feasibility, identify market opportunities, and provide follow-up monitoring and advisory services. Until a Council for Small Business has been set up and given its mission, the Foundation may be able to play an interim role in this regard. Its statutes may be amended and resources reorganized to enable it to act as a lobbying body for small business and serve as a pilot project for a future council.

Obviously, these recommendations can be implemented only with the endorsement and cooperation of the PHARE program and MIT. At this time, it is difficult to predict their reaction to a reassessment. MIT may initially reflect weariness with the idea, seeing in it only the delay in the start-up of the current system. However, this weariness may be tempered by the realization that a reassessment may further the efforts of MIT's Department of Business Development to formulate policy for small business development.

MIT and its Department of Business Development are under pressure from the business community to show results. If a quick fix can be arranged to get some loan applications processed and loans advanced while the whole system is being restructured, and if MIT and the Department can be convinced of the ultimate substantial improvements to the system, they may be won over.

Approaching the PHARE Commission in Brussels with the idea may be trickier. If, however, the idea is seen as strengthening PHARE's credit structure in Albania and reflecting favorably on its program, according it the opportunity to demonstrate to USAID the efficacy of the program, the approach may have a reasonable chance of being accepted.

ANNEX

TRANSLATION OF AN INTERVIEW WITH ALAN OSMAN IN *RILINDJA DEMOKRATIKE*

Two light industry processing subsectors, clothing and wood processing, were selected for export promotion. This selection benefited from the light industry sector analysis task completed earlier this year by Ann McDermott of DAI.

Trade and Business Information Center

Continuing my research into the information environment in the country, I had meetings at the National Institute of Statistics (NIS), the Chamber of Commerce and Industry (CCI), and the Institute of Studies and Designs of the Light Industry (ISPIL).

I had meetings as well with the Editor of the *Albanian Economic Tribune*, the Director of the Tirana District Tax Office, and the German Agency for Technical Cooperation's (GTZ's) Privatization Advisor to NAP. For a detailed account of the results of this task, the reader is referred to the Strategy Report for a Trade and Business Information Center.

For input from the business community, I held meetings with three businesspersons. Also, given the business advisory assistance some U.S. Peace Corps volunteers were providing to potential entrepreneurs and current business people, I talked with Claire McLaughlin, a volunteer based in the Korca Regional Business Agency (one of seven RBAs forming the satellite network of the PHARE Credit Program structure).

I also communicated with and solicited information from the OECD office in Paris, EUROSTAT in Luxembourg, and the International Trade Center in Geneva.

The National Institute of Statistics

At NIS, the meeting included the Director, Milva Ekonomi; Hajrie Dhrima, Chief of Business Statistics; Godiva Remeci, Chief of Business Register; Daniel Depardieu, Expert on EUROSTAT, Business Register, INSEE, France; and Anne-Marie Dussol, Statistiques d'Entreprises, INSEE. Depardieu and Dussol are non-resident advisors to NIS on training projects funded by the PHARE Program.

As in all other meetings, I briefly described the IPP project, explained the objective of the trade and business information database task, and asked questions about the current and planned information activities of the Institute, the sources of the information, the types of output, and the potential users.

Also, I asked for and received a description of various donor technical assistance. With funding from the European Union's PHARE Program, NIS has been receiving ongoing technical assistance from INSEE in France and EUROSTAT in Luxembourg. This assistance covers three areas: Albanian Business Register, Business Statistics, and Foreign Trade Statistics.

The Chamber of Commerce and Industry

At the Chamber of Commerce and Industry, I had two meetings with Gentiana Mara, Head of the Information Department. I obtained a summary of CCI activities and services. The latter are to be expanded as soon as the new administration takes office and the Chamber is licensed by MIT under the new Law on the Chambers. As a result, the Chamber is in a transitional state of limited activity.

INTRODUCTION

This report covers the completion of and a seminar on the trade and business information database task at the Ministry of Industry and Trade (MIT) and the facilitation of other Investment and Privatization Program (IPP) tasks: management training for the Ministry staff, export promotion, and privatization of MIT's foreign trade enterprises (FTEs).

Miscellaneous activities included preparation for an interview with the Albanian television network on the Investment and Privatization Program (in the context of a four-part series on USAID-funded projects for Albania) and meetings to brief donor representatives on the small and medium-sized enterprise (SME) sector.

COMPLETING THE IPP TASKS

Privatization of MIT's Foreign Trade Enterprises

The end of June saw the completion of the tasks under the Investment and Privatization Program (IPP). The task for privatization of the Ministry's FTEs, undertaken by Doyle Peterson of Development Alternatives, Inc. (DAI) and Tom Larson of Deloitte Touche Tohmatsu (DTT), finalized its mission by working with the senior staff of two pilot FTEs to prepare a proposal for privatization.

The proposal was submitted at a meeting with Niko Glozheni, the Director of the National Agency for Privatization (NAP), by a delegation from the two enterprises. Mentar Bojari, Director of the Ministry's Department of Privatization and Investment, was invited to and repeatedly promised to attend the meeting. However, he failed to attend. The meeting was inconclusive because of procedural and financing issues.

Management Training for MIT Staff

The second part of the task on developing management skills was completed in an intensive workshop for 10 senior Ministry staff, including 3 Department Directors and 2 Advisors to the Minister. It was held outside the Ministry premises. As in the first workshop, a good rapport developed between the participants and the trainers. The feedback from the participants was positive.

I arranged for the Albanian television program about IPP to include a segment on the workshop. It was well presented. DAI has a copy of the television presentation.

Export Promotion Task

Anne Nisenson and Graham Barton of DTT came to Tirana for a couple of days in the third week of June to finalize arrangements for the printing of a brochure. Ms. Nisenson brought with her a database of several thousand American firms to which the brochures will be mailed.

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begun a primary research step in terms of designing a pilot business survey of 36 private sector enterprises with the help of a PHARE advisor.

Dushniku believes that the Statistics and Information Department should be merged with his Business Research/Information and Publications Unit to avoid duplication of effort. He argues that the private market will consist mostly of small to medium-sized enterprises, the development of which is the mission of his department.

The above rationale is partially correct but is insufficient in arguing for a Trade and Business Information Center at MIT under Dushniku's department, especially as the proposed Center's functions will be substantially greater than those presently performed by SID and whose nature will require organizing a separate Department. Actually, the proposed Center will pre-empt the need for a Business Research/Information and Publications Unit in the Business Development Department and also will obviate the function of the Statistics and Information Department.

The National Institute of Statistics

In the process of surveying the field of collectors and disseminators of information related to this task, I had meetings at the National Institute of Statistics (NIS) and with the Director of ATA.

Separate meetings were held with two senior staff of NIS: Dimitri Tola and Ardian Daka, in an effort to gain an understanding of the ongoing activities of the Institute and to inquire about any plans to expand its functions and the areas of any such expansion. During these meetings, I was given access to some documentation on NIS activities and to project descriptions of PHARE-funded technical assistance involving training relevant to various NIS functions, both current and planned.

Coordinating the implementation of this task with NIS is important, as my research appears to reveal the existence of some duplication of efforts between NIS and various Ministries' statistics departments, including that of MIT.

The Albanian Telegraphic Agency

The meeting with the Director of ATA brought out the importance of the potential role of this agency in terms of domestic and international dissemination of information. ATA already has cooperative agreements with several foreign news agencies. However, ATA shares with other Albanian information users a universal Albanian impediment: the lack of regular access to information of acceptable quality.

OECD, EUROSTAT, and ITC

I made contacts with the OECD office in Paris, with EUROSTAT in Luxembourg, and with the International Trade Center (ITC) in Geneva; they provided information and background documentation.

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TRANSLATION OF AN INTERVIEW WITH ALAN OSMAN IN *RILINDJA DEMOKRATIKE*

Yes to Addressed Privatization — No to Massive Privatization

RD: First let's make known to the reader the purpose of your stay in Albania.

A. Osman: I am here as a consultant to the Ministry of Industry and Trade, since last year. There are three regions I cover — privatization, foreign investments, and business development, particularly small business. I am managing a project which consists of technical assistance to this Ministry.

Last year I participated on the Committee of Privatization discussing what are privatization problems in general, and, in particular, for small and medium enterprises.

RD: What is your concept on privatization's purpose?

A. Osman: In your paper, an article was published, written by Mr. Kopliku, which is a good indicator for public debates about privatization to start. In this article, he speaks about massive privatization. When somebody suggests massive privatization, he answers a question which has not yet been asked. The basic question is: What is the final definition on privatization? Because there are many people who think privatization is a process which allows them to take state property and make it a private one. Some of us may say it is a necessary component, but not on sufficient terms.

The word privatization refers to the private market. It is the private economy which allows people to maximize the profit or the value of something this individual possesses. If one person or a group of persons is the owner of an enterprise he will do his best [to see] his enterprise becomes profitable. Thus, privatization does not only mean to transfer the state-owned property to private property, but also to convince the person to believe in his efforts to better run his business and control his interests.

RD: Are we implementing practically the principal of profitable security, or we are simply making an arithmetical distribution of the property?

A. Osman: Privatization of large and medium enterprises is not started yet, but is thought of as a massive privatization, the property is distributed to all the people.

RD: What would be your suggestion about the privatization of large and medium enterprises?

A. Osman: Before we come to the accomplishment of large and medium enterprises I would like to ask two questions. The first one is the one I put above: What is the final definition of privatization? Secondly, what is its objective? Because privatization is not the final stage. It is simply a tool to come to another final point. The aim of privatization is social justice and not as it is defined, maximum rentability. If I am asked which is the best option of privatization, I'd say it is the one which secures economic efficiency. Economic efficiency increases to its maximum the value of the privatized enterprise, which is to the benefit of

everybody. If somebody says, for example, I'm in favor of massive privatization, then it means that he has already answered the two questions.

RD: Mr.Kopliku, in his article, expresses his vision about privatization. On what issues is your view different from his?

A. Osman: I would like to discuss several things; let's begin with vouchers. Mr. Kopliku says that they can be bought in the free market with lek or foreign currency, but later on he says that the government should control the purchase of shares. Mr.Kopliku also gives the idea that the total value of the vouchers should be lower than the total value of the enterprises going to be privatized. But he should say, What is the value of this company? Somebody should make the decision of what is the percent of the company's value that should be reflected in these vouchers.

RD: How do you characterize the present rate of privatization?

A. Osman: Up to now the rate of privatization of large and medium enterprises is proceeding slowly. There is no privatization because it is not yet started. It is the rate of its strategy that has been as such. This has happened due to several reasons: changes of the Privatization Board, different strategies given by different foreign donors. In the past, there were no efforts made to study these strategies so as to come out with one common rational strategy. Important is the fact that everything will become privatized, especially telecommunication, banks — as they are of vital importance for economic transformation and help to increase living level. When we speak of privatization, we should point out the cases of banks, telecommunication, hydro-powers — where we can privatize the management without privatizing its assets. Employees are sensible towards their assets; thus we can privatize only their management and let them run like a private company.

Discussion with a Member of Parliament

I also had a discussion with a member of Parliament with whom I had previously met several times. We talked about the economic and political situations in the country. I listened to his views regarding the privatization process and the re-emergence of the former communists under the guise of socialists in Eastern European countries. He was of the opinion that the trend seemed to be emerging in Albania as well. He predicted that if elections were held in Albania at this time, the Democratic Party would lose its majority in the Parliament.

Privatization Interview

In response to an article by Bashkim Kopliku, Deputy Prime Minister and Chairman of the Board of the National Privatization Agency, in the Democratic party newspaper, *Rilindja Demokratike*, in which he invited all those interested in privatization to a public dialogue, I gave an interview to the Deputy Editor of *Rilindja Demokratike*. Briefly, I discussed mass privatization, an idea that seems to have been adopted by the President, and evaluated Kopliku's suggestions on a voucher scheme. The interview is expected to appear in the next few weeks.

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)

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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 scare 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.

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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

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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;

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- 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.

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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.[1] 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.

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[1]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.[2]

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

[2]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.[3] 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

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[3]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 [illegible] 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 transformation of the economy, the rationalization of resource utilization, and the creation of employment opportunities.

Except for short-term revenue considerations, concerns regarding getting the full value of privatized state assets may be allayed by the thought of three compensating factors.

- First, and except where foreign buyers are involved, the amount of any asset undervaluation foregone to the government's budget (which may necessitate additional taxing or borrowing), will be retained by the private sector to spend on additional consumption or, perhaps, even additional investment, ultimately generating additional tax revenue. Thus, what is foregone income to the government is not so to the economy and the matter becomes a simple case of transfer payment.

- Second, the sooner large, and presumably undervalued, state-owned enterprises are privatized, the sooner they will acquire the ability to generate employment income and tax revenues, all magnified by the multiplier effect and industrial/service linkages.

- Third, the sooner subsidized enterprises are privatized, the sooner these subsidies will cease and revenue deficit commensurately decrease. However, it would weaken the purpose of economic reform if revenue from asset sales is seen as a quick fix to budgetary shortfall, thus delaying the painful process of fiscal reform, notwithstanding the fact that they may also delay a commensurate increase in taxes.

APPENDIX 2

MANAGEMENT TRAINING FOR MINISTRY STAFF

DELIVERABLES

Management Skills Training and Development

Albanian Ministry of Industry and Trade

21-25 February 1994

Delivered by
Kent R. Ford, Development Alternatives, Inc.
R. Todd Rossell, Deloitte & Touche

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INTRODUCTION

This is a report on the first Management Skills Development and Training session for the Albanian Ministry of Industry and Trade delivered 21-25 February 1994 by Kent Ford of Development Alternatives and Todd Rossell of Deloitte & Touche. This was the first of two planned training sessions. The next seminar is tentatively scheduled for April/May 1994.

This report will detail what was covered in this seminar, how to make the next seminar better and even more effective, and suggestions on what we perceive to be additional management and organizational training needs in the Ministry.

THIS SEMINAR

The objective of this component was to provide training to the MOIT in management skills necessary to manage the resources of a growing and newly-restructured ministry. We were to provide training assistance in basic and intermediate management concepts and techniques via a workshop targeted to the Minister, Vice Minister, Directors, Deputy Directors, and Senior Specialists of each of the Departments within the Ministry. (Unfortunately, due to conflicting schedules and the length of the program, most participants were not at the management level. Although this provided a challenge in adjusting the course outline, we felt that the group in attendance benefitted greatly from the material presented.) We utilized the findings and recommendations of the IBRD reports on organizational and management skills training. The development of the seminar was targeted toward the training needs assessment that was addressed by the IBRD in the those reports.

It was initially recommended that topics of the seminar include such areas as:

a. organizing effective management structures
b. matching staff needs with resources
c. managing and rationalizing donor programs and resources
d. building staff capacity through on-the-job training

Although most of these areas were addressed in some fashion in the seminar, the scope and focus of this first session was on the very basic management and operational techniques designed to introduce the most fundamental of concepts to the participants. A copy of the Course Outline that was handed out on Day 1 is attached as Annex 1 of this report. Although the attached outline was used as a guideline for the week's activities, many changes were made to accommodate both the level of those participating as well as to what the participants wanted to be exposed to during the week.

The participants were given several handouts and booklets throughout the week which contained notes, exercises, and key points that were discussed during the seminar. Of course, these were left for them to keep for use as a resource, if desired.

What may have been the most enjoyable (as well as the most useful) activity for all participants was the delivery of the "Management Style Survey." A Myers/Briggs-type survey, this was the first time that anyone of the participants had ever been exposed to such an evaluation.

At the end of the session, each participant was asked to complete a Program Evaluation. Copies of the completed evaluations are included as Annex 2, but some of the major points are noted below:

General thoughts

- This being the first time any of these people have been though such a program, many noted that they would greatly appreciate more training of this nature.

Knowledge gains

- Learning about management and the role of the manager were heretofore foreign concepts for most, if not all, participants. Many also stated that learning about training and development, human resource management, and time management were all important areas in which they gained valuable insight and information.

Skills gained

- Decision making and the planning of one's time were the most often quoted skills that were gained by the group. They also noted that learning how to better prioritize one's work was a worthwhile exercise.

Changed behavior/goals

- Many noted that they wanted to further study the field of management and to better develop their capabilities as a manager. Others stated that they were going to better manage their time and to implement some of the techniques introduced that are designed to help them prioritize and plan their days.

Suggested changes to the workshop

- The two suggested changes include: the introduction of more practical cases that are better related to what the ministry does (please see discussion of this above); and more instruction and discussion of management and human resources. Someone also stated that they would like to have us link theory with practice, while one noted that they would like to see another course like this one.

The instruction methods utilized were a combination of lecture and group exercises/case studies. After the first day, which was primarily lecture and discussion, at least 50% of the time was spent in working through exercises and case studies in a group setting. Although this method was not well-received initially (many wanted to do the exercises alone), by the end of the week, groups had been formed that worked very well together in team-like fashion.

At the end of the first day, the group was asked to write down just what their expectations for the week were, and what, in particular, they wanted to learn. From this we were able to ascertain just what this group was interested in learning and how they wanted to learn it. The major points that came out of this were two-fold. First, they wanted exercises and case studies that in some way reflected activities on which those in the Ministry would be likely to work. For instance, a case study that might deal with operational problems in a textile factory were difficult for them to relate to; yet cases that considered the problems associated with automating an office were not only easy to relate to but also, in this case, a real life situation with which they are currently wrestling. The second area in which they wanted solid exposure was in management skills and concepts. Even though half of the participants were not "managers" they still wanted to learn skills necessary for becoming a manager (or being a better manager). At the end of each session, that day's proceedings were evaluated and the agenda for the following day was altered accordingly.

The major changes made to the agenda included increasing the amount of time spent discussing problem solving and decision making. Particular emphasis was also placed on organizational structure, communications, and training and development. The major component of the decision making discussion involved a case study in which the class was broken up into two groups, each being given a problem that required solving. The problems were real problems which the class had agreed were being faced by the ministry...today. After presentation and discussion of some common models used for problem solving, the groups then "solved" the following two problems: 1) how to obtain more training in order to improve one's capabilities on the job, and 2) how to enhance lateral and vertical communication within the ministry. These group discussions proved to be the most engaging and enlightening of the entire week.

The training and development section also involved a group exercise, one in which the class was asked to develop a training program from a fictitious "Training Catalogue." The discussion during this exercise was most animated and enlightening. After each student made their selections, each person then discussed his/her selections with the class and explained why they chose the program that they did. We then addressed how each person might be able to obtain some of this training on their own. (Throughout the week empowerment in the training process was repeatedly addressed -- how self-training and self-reliance are keys to personal and professional growth, especially considering the limited resources currently faced by all sectors of society.)

SUMMARY

The seminar was quite successful. Every participant seemed to enjoy and appreciate the information and knowledge that was shared throughout the week. Most of them expressed a strong desire to have more training of this sort, and those who expressed such said that they would attend these sessions regularly, if they were offered. The next seminar, though, should focus on the management of the Ministry with directors and managers making up the bulk of the participants. A serious effort of advanced planning will be needed to ensure full participation of personnel, as well as making sure that all logistical requirements are properly taken care of before the seminar commences.

Overall, everyone seemed to be pleased with the content, method of instruction, and scope of the seminar. Access to more training of this nature was the major theme that ran throughout the evaluations. Access to more training was also a major topic of several discussions throughout the week -- discussions initiated by the class, primarily to elicit the ideas and thoughts of the instructors as to how they might be able to achieve such. Needless to say, the appetite for more training seems insatiable.

THE NEXT SEMINAR -- RECOMMENDATIONS

It is recommended that the next seminar focus more on the director and manager level of the ministry. Although the original intent of the seminar was to train the directors and managers, as noted earlier, most of those attending this session regularly were not in a management position. It would seem prudent that since many of the non-management people have now been exposed to this sort of training, efforts should now be focused on training their supervisors and directors.

The problem, however, was that this seminar was scheduled for one entire week. Frankly, this is just too much time for most people to devote to any external program, regardless of position or title. We would therefore recommend the following:

- The next seminar include as many directors and managers as possible (limited to no more than 20-25 people).

- The seminar should be held off-site of the Ministry, preferably out of Tirana -- perhaps in Durres. The reasons for this are several, including 1) there would be fewer distractions for the participants, including the desire to go back to their offices during breaks; 2) the participants would feel less constrained by surroundings and would likely feel freer to express their needs and concerns; 3) the seminar could be shortened from five partial days to two or two and a half full days, while still covering all the material; and 4) it would give everyone a needed break from the toil and grind of their work at the Ministry.

- Based both on our discussions with those who participated in this seminar and the previous training needs assessments that have been completed, we would recommend that the content of the next seminar be somewhat similar to that which was covered this time. The major changes should include:

  - the use of more practical case studies and exercises.

  - focusing more on the role of the manager, including an extended discussion of the different theories of management and how each has been used in the past and are being used today.

  - concentrating even more on the human resources functions and how, as a manager, each person can effectively use this information to better mange his/her people and department.

ANNEX C

INTERNATIONAL TRADE AND BUSINESS INFORMATION RESOURCES

INTERNATIONAL TRADE AND BUSINESS

INFORMATION RESOURCES

I. PROVIDERS AND USERS OF MAINLY TRADE STATISTICS

1. UNCTAD's Trade Analysis and Information System - TRAINS
A PC based information system whose aim is to increase transparency in international trading conditions. Very useful for policy makers and exporters. A powerful tool for trade negotiations as well as for general research on international trade. Contains information on Trade Control Measures, trade data on imports, names and addresses of importers, etc. Uses the Harmonized Commodity Description and Coding System (HS) which comprises 5,018 basic items. TRAINS components are:

   a) UNCTAD Database on Trade Control Measures
   Covers tariff, para-tariff, and non-tariff measures (TM, PTM, & NTM). Contains information on the Generalized System of Preferences (GSP) which enables users to have easy access to full details of GSP schemes, including quantitative restrictions and rules of origin associated with the GSP rates.

   b) Trade Data on Imports
   Supplied by countries at the most detailed level of the Harmonized System (6-digit level).

   c) System of International Customs Tariffs Bureau (ICTB)
   Provides product descriptions of the national tariff items beyond 6-digit level of the HS.

   d) Alphabetic Index of Standard International Trade Classification (SITC), Revision 3, prepared by UNSTAT.
   For finding the corresponding SITC Rev. 3 code of an alphabetically arranged list of commodities.

   e) Importers Data Base - International Trade Center
   Contains, for selected product categories and markets, names and addresses of importers, together with other products imported by the respective companies. Data on potential importers can be accessed at 2,4, and 6 digit levels of HS.

   f) General Documentation
   On various data elements including the import regimes, the GSP and other preferential schemes, and bibliographic references to published market research studies and reports.

2. East European Statistics Service - monthly survey
East-West Publications, Brussels, Fax: 10322 218 1985

3. Tradstat - on-line official international trade statistics. Available through Data-Star gateway, UK
Fax: 71 930 7646

II. PROVIDERS AND USERS OF MAINLY BUSINESS INFORMATION

Periodicals

1. East European Trade Council
UK Fax: 71 222 7622

2. Business Eastern Europe (weekly newsletter)
Business International
UK Fax: 322 223803

3. Central and East European Business Law (quarterly newsletter)
Butterworths
UK Fax: 732 885966

4. European Business Information Briefing (EBIC)
Willings Press Guide, Reed Information Services
UK Fax: 342 326972

5. Doing Business with Eastern Europe (quarterly updated reports with business and investment guidance)
Business International

6. East European Business Law (monthly newsletter)
Financial Times
UK Fax: 71 240 7946

7. East European Industrial Monitoring Service (monthly focus on industrial sector with section on food processing)
Business International

8. East European Markets (monthly newsletter)
Financial Times

9. Insight. East European Business Report (monthly report)
Insight International Publishing
UK Fax: 81 203 4740

10. Soviet and Eastern European Report (monthly newsletter on developments in business, law, finance)
Interforum Services
UK Fax: 71 381 8914

11. East Europe Opportunities (weekly newsletter)
    Infomat
    UK Fax: 71 434 2954

12. East Europe Opportunities (weekly newsletter)
    Infomat
    Fax: 635 34867

13. Financial Times Newsletters
    Potential user of information on Albanian investment and other laws
    UK Fax: 71 240 7946

14. Business International Newsletters
    Potential user of information on Albanian investment and other laws
    UK Fax: 322 223803

Directories:

1. Comprehensive Data on All Foreign Trade Companies in Ex-Socialist Countries.
   Foreign trade contact data. Continuously updated.
   MZM Publishing
   Poland Fax: 48 58 219632

2. East European Business Information
   Headland Press
   UK Fax: 429 861403

3. East European Trade Directory
   Global Trade Books
   1730 K Street, N.W.
   Washington, D.C. 20006

4. Eastern Europe: A Directory and Sourcebook
   Euromonitor
   UK Fax: 71 608 3149

5. News Sources and Directories on Eastern Europe
   Eastern Europe Business Information Center
   USA Fax: 202 377 4473

Investment Guides:

1. Doing Business in...
   Kogan Page
   UK Fax: 71 837 6348

2. Privatization in Central and Eastern Europe
   Review of situation with excerpts from current legislation

Europe Information Service
Belgium Fax: 32 2 242 9410

3. Taxation and Investment in Central European Countries
Comparative analysis of taxes
Continuously updated
IBFD
Holland Fax: 31 20 620 9397

4. East-West Investment
United Nations Economic Commission for Europe
Switzerland Fax: 41 22 917 0027

On-Line Databases:

1. Internet

2. Business International (Dialog 627)
Contains the specialized newsletters of the
Business International Group

3. GBI (German business information host),
carries East European files: BOW, East-West
Cooperation lists requests for cooperation
Fax: 10 49 89 954229

4. Predicasts Databases: PROMT and PTS Newsletters
Carry specialized newsletters on and from the
region
UK Fax: 71 434 2954

5. CERVED
Updated quarterly
Italy Fax: 39 6 225 91255

On-Line Advertising:

1. ADVE
Advertise
Business opportunities for small to medium size
companies. For companies which need customers,
suppliers, or business partners for products or services
Weekly updates
BUSINESS Datenbanken GmbH
Germany Fax: 49 711 7871 1635

2. BUSI
International Business Opportunities Service
Brings together offers and demands for goods, services,
and corporate business interests
BUSINESS Datenbanken GmbH

III. EUROPEAN COMMUNITY INFORMATION

1. Euro-Info-Centers (EIC)
   Provide SMEs with information on EC
   Belgium Fax: 32-2-295 73 35, 230 05 20

MEETINGS WERE HELD WITH THE FOLLOWING PERSONS:

1. Minella Papakostandini, Dir., Statistics and Information Department (SID), Ministry of Industry and Trade (MIT)
2. Antoneta Cela, Specialist, Domestic Trade and Industry, SID
3. Mikel Dushniku, Dir., Department of Business Development, MIT
4. Fatmir Lacey, Head of Special Projects Section, Department of Industrial and Trade Policy, MIT
5. Milva Ekonomi, Dir., National Institute of Statistics (NIS)
6. Hajrie Dhrima, Chief of Business Statistics, NIS
7. Godiva Remeci, Chief of Business Register, NIS
8. Dimitri Tola, NIS
9. Ardian Daka, NIS
10. Daniel Depardieu, Expert on EUROSTAT Business Register, INSEE, France (on a mission to Tirana)
11. Anne-Marie Dussol, Statistiques d'entreprises, INSEE (on a mission to Tirana)
12. Gentiana Mara, Head of Information Department, Tirana District Chamber of Commerce and Industry
13. Arben Fagu, Dir., Institute of Designs and Studies of Light Industry (ISPIL), Tirana
14. William Walters, Advisor, ISPIL
15. Ilir Zhilla, Dir., Albanian Telegraphic Agency
16. Z. Meci, Editor, Albanian Economic Tribune
17. Luan Pustina, Dir., Tirana District Tax Office
18. Cynthia Caples, Dir., USIS, Tirana

19. Rolf Fehlings, Privatization Advisor, GTZ, Tirana

20. Bashkim Sala, Dir., Confederation of Commercial and Industrial Enterprises, Tirana

21. Agron Deliu, Dir., Chemical Association Company, Tirana

22. Besnik Shtylla, private businessman and investor, Tirana

23. Michelle Morgan, former staff member, Trade Statistics, OECD, Paris

LONG DISTANCE PHONE CONVERSATIONS WERE MADE WITH STAFF IN THE FOLLOWING INSTITUTIONS:

1. OECD, Paris

2. Eurostat, Luxembourg

3. International Trade Center, Geneva

PRINTED MATERIAL WAS KINDLY MADE AVAILABLE BY THE FOLLOWING:

1. OECD, Paris

2. EUROSTAT, Luxembourg

3. DeLoitte Touche Tohmatsu International, London and Brussels

4. The Chamber of Commerce and Industry, Tirana

5. The National Institute of Statistics, Tirana

6. The Tirana District Tax Office

7. The Statistics and Information Department, MIT

8. The Business Development Department, MIT

9. The Institute of Design and Study of Light Industry, Tirana

10. Mr. Rolf Fehlings, GTZ, Tirana

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INTRODUCTION

The transition from a command to a market-driven Albanian economy has created the need for comprehensive, relevant, and well-communicated trade and business information conducive to private market development. The transition has created not only a demand for new types of information, but also a need for an efficient mechanism of information collection, processing, and dissemination. Currently, one serious impediment to economic development in Albania is the inadequacy and unsatisfactory quality not only of the information itself but also of the means of accessing and communicating it in practically every sphere of activity within and between the public and private sectors and with the outside world. The lack of adequate information and the inefficient exchange of information constitute a major obstacle to policy formulation in the public sector and to the facilitation of business development and economic growth in the private sector.

As designed in late 1992, the Investment and Privatization Program (IPP) task on developing a strategy for a trade and business information database has sought to address the information impediment through the Ministry of Industry and Trade (MIT). This task had the objective "to develop within MIT the capacity to build and maintain a data base containing relevant trade and business statistics and essential information."

However, what is proposed in this report goes further than that objective, in that it recommends a strategy for a multifunctional Trade and Business Information Center. The recommendation is based on the concept that information is a vital resource that must be efficiently and purposefully managed rather than merely provided. An active and dynamic role for information is essential for the development and maintenance of a reasonably functioning private market economy. This role can best be filled by a multifunctional, interactive, flexible, and continuously evolving information-processing mechanism, such as the Trade and Business Information Center proposed here.

TRADE AND BUSINESS INFORMATION IN ALBANIA

Three institutional bodies are involved in collecting, processing, and publicly communicating economic and other information: the National Institute of Statistics (NIS), the ministries' Statistics and Information Departments (SIDs), and the Chamber of Commerce and Industry (CCI). Two other institutions collect information for use by various government organs but, in principle, do not make it directly public. These are the Customs Bureau and the district tax offices. The description below will be limited to the first three institutions, which process and partially disseminate the information obtained from the latter two and from the enterprises directly.

The Albanian Telegraphic Agency (ATA), domestic publications such as the *Albanian Economic Tribune*, and other media make efforts to obtain information from the above-mentioned sources for external and domestic dissemination. Information is a vital contributor to a market-driven economy, and the lack of regular access to information is counterproductive and defeats the purpose of efforts to transform the economy into a market-driven system.

The Ministry of Industry and Trade

The Statistics and Information Department

In July 1993, a World Bank project report recommended an extensive plan to restructure the Ministry of Trade and Foreign Economic Cooperation (MOT). At the request of the Minister, this writer participated in the discussions and provided input into the deliberations on the reorganization of MOT into the Ministry of Industry and Trade.

This participation was all the more useful given that the Investment and Privatization Program for MOT, coordinated by this writer, involved the provision of technical assistance directly related to the missions of several Ministry departments, including the Trade Information Center (TIC) proposed by the World Bank project, the Business Development Department, the Privatization Department, and the Trade Policy Department.

The World Bank Report included a recommended set of functions and responsibilities for TIC (refer to Appendix A). A few of these functions were pre-empted by the governmental restructuring that occurred in 1993 and the resulting merger of part of the Ministry of Industry, Mining, and Energy with MOT. Other functions were not directly relevant to the proposed mission of the Center.

However, the current function of the Statistics and Information Department, which, before the Ministry reorganization in November 1993, was the Import/Export Department, consists of collecting production information from its relevant state-owned enterprises (SOEs), receiving external trade information from the National Institute of Statistics, and publishing periodic bulletins on the basis of these two sets of information.

Domestic production data are collated from two forms designed by NIS that each SOE hand-delivers to MIT 12 times a year. Production data, however, are incomplete, in that fewer than the 217 industrial and food processing SOEs that are responsible to MIT actually file their forms with the Ministry. Only 147 SOEs turned in their forms for the first quarter of 1994.

Both external trade and production information are processed and printed in house, in two bulletins — one annual bulletin (*Buletin Informative Per Vitin*) and one quarterly bulletin (*Buletin Informative mbi aktivitetin tregtar e industrial gjate 3 mujorit . . .*). The first issue of a semi-annual bulletin will cover the first half of 1994. Most information in the bulletins consists of import and export data. A few tables show domestic production by product and industry, small "object" privatizations by economic sector, and food aid by contributing country and by product.

Except for one copy of the annual bulletin, sent to the Council of Ministers, all bulletins are distributed only within MIT — to the Minister and to some department directors. Aside from this, occasional requests for information are made by some newspapers. In this regard, two information disseminators, ATA and the *Albanian Economic Tribune*, would welcome a regularly cooperative response to their information needs.

The Statistics and Information Department employs six staff members, including the Director. It is organized into two sections. One section is for data collection, employing three persons — a section chief, a domestic trade and industry specialist, and an import/export specialist. A second section, staffed by two persons, is involved in computer data entry and processing and in bulletin and charts preparation.

The limited activities of the Department make the second section simply an information processing and printing office for the Ministry. This, evidently, is the result of a failure to implement the recommendations of the World Bank Report between its submission to the Ministry in July 1993 and the restructuring of the Ministry in November 1993. However, since the Ministry's restructuring, this information processing and printing function has mostly been because of the absence of a policy initiative for the Department issued from the Ministry, or a mission statement from the Department, with clear definitions of functions. A policy initiative would be based on a serious consideration of the potential contribution of this Department to the Ministry's mission and to economic activity.

The Department of Business Development

The World Bank Report also included recommendations for a Business Research/Information and Publications Section, lobbied for by MIT's Department of Business Development.

Appendix L.2 of the World Bank Report proposed the following mission statement for the Business Research/Information and Publications Section: "to collate and publish information required by private sector businesses." The following imprecise responsibilities were proposed for the Section:

- Review the information needs of private sector businesses and their advisors;
- Prepare a work program for the production of priority information within the budget available;
- Source and collate the information required and prepare the scripts and so forth for dissemination; and
- Monitor the use that businesses and their advisors make of the information provided.

However, the Business Development Department has been unable to launch this Section because of understaffing and the pressing task of the reorganization of the PHARE Program's credit line channeling structure, which has put an undue demand on the resources of the Department.

In the strategy described below, SID is to be developed into a Trade and Business Information Center, which will encompass the functions of the Business Research/Information and Publications Section and will pre-empt the establishment of the Section as a stand-alone unit in the Business Development Department.

The PHARE Program for the development of the small and medium-sized enterprise (SME) sector has a 1994-1995 fund allocation of 300,000 ECUs for a Trade Information Center, one of whose objectives is to promote the SME sector. According to the Business Development Department, no terms of reference have been drawn up for the proposed Center.

The Albanian National Institute of Statistics

The Institute is a major component in the information environment. It is the recipient of information from all other collectors, including the Customs Office, the district tax offices, its own district

branch offices, and various Ministries. It is conducting a pilot household survey and preparing for a pilot business survey.

With funding from the European Union's (EU's) PHARE Program, the Institute has received ongoing technical assistance from INSEE in France and EUROSTAT in Luxembourg. The assistance covers three areas: an Albanian business register, business statistics, and foreign trade statistics.

Business Register

The objective of this technical assistance project is to establish a statistical enterprise register, excluding agricultural enterprises, for Albania and to implement the adoption of the European Union's classification of activities. The project also aims to set up a computerized system of data entry throughout the Institute's network of district branches. Complementary aims of the project include working with the Directorate of Taxes in the Ministry of Finance on a common enterprise identification system and working with the Post Office on establishing an address coding system.

Business Statistics

This involves the adoption of modern statistical methods based on EU standards and U.N. international definitions to collect business information from the construction, industry, services, trade, and transport sectors. Goals in this field include the construction of production and cost indices and industry indicators based on survey techniques and the business register.

Foreign Trade Statistics

The objective of technical assistance is to help the Institute to implement a system of foreign trade statistics according to EU standards, using international classifications. The process includes the adoption by the Customs Office of a declaration of value method according to balance of payments and external trade definitions, adoption of the Harmonized System, and the setting up of a computerized system for transfer of data from customs offices to the Institute.

The Chambers of Commerce and Industry

The recently passed Law 7491, of April 29, 1994, permits the establishment of Chambers of Commerce and Industry in the 36 districts of Albania, each being an independent nonprofit juridical entity. The Law also states that all Chambers will form a Union of Chambers of Commerce and Industry. The Union also enjoys the status of a juridical person. The Chambers and the Union are subject to the oversight of the Ministry of Industry and Trade.

Unfortunately, the Law does not define the functional and operational relationships between the Union and the individual Chambers, especially the Tirana District Chamber, which, because of its location and the range of potential activities and services it may be allowed to offer, will be the major player in the Chamber system. However, one fails to see in the Law the benefit of such a cumbersome and potentially duplicative administrative system for "the promotion of Trade and Industry."

The Council of Ministers is studying a draft amendment to the Law on Chambers of Commerce that will assign to MIT the task of deciding on the disposition of the physical assets currently in the possession of the various Chambers and of the financial assets blocked by the state. The Government of Albania considers both of these assets state property.

Membership in the Chamber system is mandatory for the following persons and entities: businesspersons registered in the Trade Register; commercial companies founded and registered in accordance with the Law on Commercial Companies and the Law on the Trade Register; and state enterprises that carry activities in accordance with the Law on State Enterprises. However, individual farmers and cooperative undertakings are exempt from this mandate. As of June 1994, 540 District of Tirana enterprises had paid the Tirana Chamber the membership fee of US$60. Of these, approximately 90 percent are private and 80 percent are in the trade sector.

All the Chambers are in transition, pending an authorization to operate from the Ministry of Industry and Trade and pending the elections of Chamber assemblies and a Union assembly. Only then will executive bodies throughout the system be able to assume their responsibilities. In this regard, this writer and an MIT official in charge of special projects, including organizing the Chamber elections, had a long discussion on procedural matters related to the election process of Chamber assemblies. Without the Ministry authorization, the elections, and the appointment of executive bodies, the Tirana Chamber can not proceed with certain of its previously planned activities. These activities include establishing links with on-line data services such as CERVED in Italy and EUNET in the Netherlands.

Other activities in the planning stage or in progress but unable to be finalized include a business register; a brochure on how to do business in Albania; basic information brochures on five European countries and China, with both types of brochures aimed at the Albanian business community; a library of trade and business publications and reference works; an arbitration court (which the new Law authorizes, but now only at the Union level); and an investigative service on behalf of foreign and domestic businesses with claims of patent and trademark infringements.

Because the Institute and the Tirana Chamber each had planned to produce a business register, the two have concluded to cooperate on this endeavor and have agreed to distribute a questionnaire prepared by the Tirana Chamber for use by the enterprises.

Other publications or services are already available from the Tirana Chamber: an information brochure consisting of an overview of the industrial sector in Albania; assistance with visa requirements; a free advertising service to those members who are interested in buying or selling products (the Tirana Chamber places the advertisements in the *Albanian Business* newspaper); Certificates of Origin; and training workshops.

Presently, the only way members can learn of the availability of published material such as the above mentioned brochures is if they happen to come to the Tirana Chamber and see posted signs relevant to the particular subject, obviously not the best means of communication. However, announcements are sometimes placed in the newspapers. In the future, the Tirana Chamber is expected to rely more on mail communication with its members.

The Tirana Chamber receives no technical assistance from any source. Yet, it certainly can make use of such assistance in the future in a number of areas ranging from functional organization to information know-how and service and market development.

The Tirana Chamber suffers from a lingering and less than a complimentary image in certain circles, both public and private, as a result apparently of a period during which it was exploited for personal gain by a former administration. However, the oversight mechanism dictated by the new Law, including the presumed accountability of its administration to an assembly that is representative of the Chamber's members, should preclude similar tendencies in the future and encourage instead an attitude of serious professionalism.

A STRATEGY FOR A TRADE AND BUSINESS INFORMATION CENTER

Introduction

The approach taken here regarding an Information Center avoids viewing it in terms of its relation to the Ministry only and in isolation from the rest of the information field. Rather, it treats such a Center as an important component in an integrated information structure based on component complementarity.

However, some basic questions need to be asked in order to pre-empt an assumption about the need for a Trade and Business Information Center at MIT as opposed to just an expanded role for the existing SID:

- Is there a need for such a Center at MIT?
- If so, what should be its mission?
- What should be its functions? and
- What should be its activities?

One would be tempted to readily assume that a Ministry of Industry and Trade should have, and be a logical venue for, such a center and that the question itself is superfluous. However, this need not be the case. Given the presence of an increasingly active and progressively expanding Institute of Statistics and a reorganizing Chamber of Commerce and Industry system with a range of services soon to resume and expand, the question assumes relevance.

The answer to the need for a Trade and Business Information Center depends as well on the nature of the functions to be assumed by the Center. Will the Center be a manager of information resources with a particular mission and capable of conducting strategic planning? Or just a disseminator of information obtained from elsewhere? And will it be able to coordinate its activities with other providers of information as it seeks complementarity and tries to avoid duplication?

Given that the present Statistics and Information Department at MIT gets the input for most of its statistical output (the bulletins) from the Institute, that the latter organ will be assuming the collection of an increasingly extensive amount of information, and that the Tirana Chamber may be expected to provide the business community with a wide range of gradually upgraded services, it would seem that, unless SID's functions are redefined and convincingly so, the Center's potential contribution to the developing market economy would be extremely limited.

Given, also, that the Institute will be collecting a wide range of information from a growing sector of private enterprises, that SID presently collects information from its SOEs only, that this latter function will gradually decrease in significance as these enterprises are privatized or shut down, that the Institute can very easily assume that function, and that, presently, SID provides no information to the Albanian business community, it would be logical to conclude against the necessity of maintaining SID.

Consequently, and notwithstanding the Law on Statistics which mandates that a Ministry's SOEs file certain forms with it, SID's present function does not justify its continuation.

The external trade data, which are provided to SID by the Institute, can be readily processed, tabulated, and graphed by the latter, then provided to the Ministry and to other potential users.

The data forms that the SOEs hand deliver 12 times a year to the Ministry can, instead and more efficiently, be delivered to the Institute's district branches for dispatch to Tirana (and in the future, electronically mailed) for processing by the Institute with the results, again, shared with the Ministry.

Also, and unless carefully positioned in the information environment, the business information that the new Center will aim to provide to the business community may duplicate, or even lag in usefulness behind, the information services to be launched by a reorganized Chamber.

For example, one on-line service to which the Tirana Chamber expects to subscribe, CERVED, will make available information on the following:

- Italian commercial register;
- Italian trade laws;
- Trading opportunities — offers to sell and buy;
- Exhibitions and trade fairs;
- American company register; and
- Eurosportel — information on EU trade, laws, and trade opportunities.

If planning is any indication, the Tirana Chamber's planned formulation of its role in the information field may be reflected in the roster of activities being prepared or designed by the Chamber in its drive to provide useful services to businesses whose membership in it is mandated by law.

These businesses will, very likely, insist on informational and service satisfaction as a justification of that mandate and its costs to them (membership dues and other fees) or, if the Chamber failed to deliver, on answers from MIT, the overseer and discipliner of the Chamber system. The Chamber will, as well, be driven by the obligation to be financially self-sufficient.

Therefore, in light of the above, there does not seem to be a functional reason for the Ministry's Statistics and Information Department to continue in its present responsibilities, or if transformed into a Trade and Business Information Center, without a justifiable mission and redefined functions and activities.

Nor will there be room, alongside the Center, for a Business Research/Publications unit focused on the SME sector under the Department of Business Development. For, although the Center's proposed mission, functions, and activities do not specifically refer to this sector, they, nonetheless and necessarily, imply such a reference, given the likely structure of the Albanian economy that will emerge as the result of the transformation.

A redeeming mission for the Center will be one that will satisfy the business community's needs for a differentiated and complementary type of information that is not expected to be filled by other information providers. The implementation of such a mission, functions, and activities to consider those of the Institute's and the Chamber's and in coordination with both of these institutions.

However, since the Chamber's own future mission and functions are still to be finally agreed, presumably with the active input of the Ministry, the latter is in a position to coordinate with the Institute the strategies of the Center and the Chamber.

Only then will the Center be able to serve the business community's information needs in such a way as to optimize the use of resources available to each, given the vantage point that each enjoys in the information collection and dissemination field.

Obviously, this strategy's designing exercise will also consider the needs of MIT's own Departments of Business Development, Industrial and Trade Policy, and International Economic Relations for business and trade and other information relevant to policy formulation and to negotiations of international agreements.

However, without corollary funding and technical assistance to implement the recommendations of this report, such implementation will undoubtedly be preempted by the PHARE's proposed independent Trade Information Center referred to above and on which, at this time, information is lacking. Given this eventuality, the PHARE project designers and the Ministry will have the advantage of leveraging the present Report for the benefit of the Center project.

The Mission of the Center

Annex Q of the World Bank Report recommended the following objectives as a mission statement for TIC:

- To operate a central library and an information and statistics center for all trade-related matters; and
- To ensure that comprehensive, relevant, and up-to-date information is available to all the departments of the Ministry.

It is suggested here that the above statements constitute neither a mission statement nor objectives for the Center, but instead represent two narrow functions.

As proposed here, the right cue for an appropriate mission statement for the Center is provided in the introduction to this Report, namely, that the current state of information and the mechanism of communicating it are a major impediment to policy formulation and business development.

Consequently, an appropriate mission statement for the Center would be one that addressed this impediment:

"To provide, to the Ministry, information relevant to policy formulation and to legislative and regulatory initiatives and, to the business community, information responsive to its needs and critical to business creation and development."

The Functions of the Center

With the above mission statement in mind, and given the expanding and quality-upgraded role of the Institute and the future role of the Chamber, the functions of a Trade and Business Information Center at MIT may now be elaborated.

As proposed here, the Center's functions will, first and as soon as legally and operationally possible, exclude those being presently performed as described above, except for incorporating import/export data from the Institute into its information dissemination process. And, second, they will go beyond collecting, processing, and disseminating trade and business information.

Depending on the qualifications and number of staff, on funding, technical assistance, and appropriate training, the functions will include the preparation and dissemination of brief and rapid market studies highlighting domestic trade and investment opportunities and foreign trade opportunities for Albanian enterprises. This, of course, in addition to publishing newsletters, pamphlets, information sheets, and trade statistics.

The information on the domestic market required for such studies and publications can be obtained from the Institute, and also, through surveys from the Institute of Studies and Designs of the Light Industry (ISPIL-refer to Appendix B for a list of projects in progress or under planning), and, potentially, from the Chamber system.

And on the external market, from external sources through both on-line information services and various publications and reports to which the Center will subscribe. A list of these external resources as providers of information and, potentially, as users of information on Albania, is provided in Appendix C.

The proposed functions of the Center are to:

- Obtain information and statistics useful for Ministry policy formulation;
- Monitor the business community's changing needs for information in various sectors;
- Publish regular and periodic trade and business information relevant to the needs of various sectors of the business community;
- Establish links with domestic and external providers and users of information;
- Prepare rapid and brief studies on domestic and external trade and industrial opportunities and readily communicate results to the business community;
- Research and prepare export promotional material;

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- Maintain a library of reference works, trade and business publications, and related periodicals; and

- Coordinate the management of the information process with other concerned parties in the information field for the purpose of optimizing resource utilization while seeking complementarity of efforts.

The Activities Of The Center

The Center's proposed activities aimed at the realization of its mission and the implementation of its functions are divided into two categories — long term and short term.

Long-Term Activities

- Subscribe to various information sources, printed, PC-based, and on-line;

- Collate and provide trade and industrial information to policy setting MIT departments and, upon request, to various government organs;

- Using domestic and external sources, cooperate with the Tirana Chamber to expand a current service to provide to various sectors information and referrals on output marketing and input sourcing (short term for the Center but long term for the Chamber);

- Research, prepare (in cooperation with ISPIL, for example, in the case of studies), and make available studies, reports, newsletters, brochures, pamphlets, information sheets, etc. on trade and investment opportunities;

- Publish, distribute, and electronically communicate, to a data base of potential foreign importers, export promotion information (one sub-project under the present Investment and Privatization Program has prepared for MIT's Department of Industrial and Trade Policy a model export promotion pamphlet and will print and help mail a couple of thousand copies-a data base of American companies is being prepared in Washington and will be provided to MIT before June 30);

- Provide regular information to, and respond to requests from, the Albanian Telegraphic Agency and the news media;

- Prepare and issue MIT press releases (a recent IPP sub-project mission prepared for the Department of Industrial and Trade Policy a model press release explaining the structure and economy of a release);

- Coordinate with NIS to disseminate, through various means, detailed import/export information;

- Seek to establish, in cooperation with NIS, CCI, and other concerned parties, an advisory body to coordinate and advise on the management of information resources and, where feasible, to coordinate requests for assistance from various donors;

- Establish on-line links with NIS, the Chamber, and the Center for Foreign Investment Promotion; and

- Maintain and update a data base of external and domestic users of Center-provided information.

Short-Term Activities (with updates where applicable)

- Cooperate with appropriate institutions (NIS, CCI, ISPIL, SME Foundation-once fully operational-, Tirana University, etc.) to survey the changing needs of the business community;

- Assist, and coordinate with, CCI and the Center for Foreign Investment Promotion to prepare, publish, and make available to potential interested foreign parties and to the Albanian business community, business guides relevant to doing business in various sectors in Albania;

- Arrange with international consulting companies to obtain, translate, and make available to the business community through the Chamber system and other organs guides on doing business in various foreign countries;

- Obtain from GTZ (Tirana) a data base of profiles of MIT's enterprises and advertise availability for privatization domestically and abroad (through specialized information sources, including the investment guides listed in Appendix C);

- In conjunction with No. 4., obtain from GTZ a data base on the balance of 1500 industrial SOEs for use in drawing up a general industrial profile useful to MIT for policy formulation;

- Prepare and make available to the Albanian business community information guides on various donor activities concerning the availability of credit, eligibility, conditions, training, business services, and so forth;

- Prepare and make available a guide on the legal and regulatory framework affecting all aspects of business operations with specific references for further and detailed information;

- Prepare and make available a guide on joint-venture process and procedures, including preparation, negotiations, contracts, and suggestions on maintaining a successful relationship;

- In cooperation with other ministries, government organs, donor agencies, and other concerned parties, prepare a guide on the general tendering process and procedures;

- Prepare, in cooperation with other information organs, a guide on domestic information sources, specific information publications, and issuing parties; and

- Cooperate with NIS, the Chamber, and the Finance Ministry to minimize the number of forms enterprises must fill out and file with various government organs, without compromising the quantity and quality of the information needed by these organs.

Types of Information

In addition to the types of information inherent in the activities listed above, the Center should endeavor to obtain and make available to the business community specific types of information, including the following (external sources of information are listed in Appendix C):

- Imports of potential country trading partners, per product, per country of origin, and import quantity and price;
- Regulations of potential country trading partners regarding quality and other standards relevant to potential Albanian exports to them;
- Sources of information on trade organizations and business associations in potential country trading partners;
- Information on foreign investment activity in Albania by sector, by legal type, by activity, by district, and the like;
- Information on specific European countries engaged in off-shore semi-processing (Facon): products, producing countries, contracting firms, and means of reaching them;
- Information on retail prices in neighboring countries of various products sold in Albania;
- Information on European companies looking for trading contacts and other cooperative opportunities; and
- Information from GTZ (Tirana) on capacity utilization, operational conditions, state of physical assets, work force, and output for 1500 industrial SOEs for drawing up a profile of the industrial sector in terms of needs and potential by industry, sub-industry, product, and so forth.

Sources of Information

In Appendix C, the sources of information are divided into two main categories: users and providers of mainly trade statistics, and users and providers of mainly business information, though neither one is strictly limited to the respective specialty.

The first category generally covers information sources available through the UN system organizations such as UNCTAD and ITC. One service under UNCTAD's "TRAINS", the Importers Data Base, is of interest for export promotion efforts to potential Albanian exporters.

The second category on business information contains references to periodicals, business directories, investment guides, on-line data bases, and on-line advertising.

A final reference in the Appendix is to Euro Info Centers which focus on serving the needs of SMEs in matters related to the European Community. According to an information sheet on the Euro Info Center Network, it is expected that Albania will eventually have such a center, though no date has been indicated.

Required Resources for the Center

Presently, SID's resources are awfully lacking for the purpose of carrying out the Strategy proposed here for a Trade and Business Information Center.

Understandably, and much dedicated they may be, the staff lacks the experience and training relevant to the activities of the Center. Their knowledge of English is inadequate. And for the tasks currently undertaken, SID appears to be slightly overstaffed. However, the staff will need to be expanded and trained, in-house and abroad, to satisfy the needs of the future Center.

The physical facilities are extremely limited for a Trade and Business Information Center. Also, though currently adequate, computer services will need to be vastly expanded. Copying facilities, communications means, such as an international telephone line and a fax machine, and a reference library are non-existent. So are the means to perform desk top publishing tasks.

In sum, the basic resources required for a reasonably efficient operation of the future Center are presently unavailable. These would include the following:

- Adequate and sufficient premises;
- Commensurate expansion of staff with persons proficient in English;
- Proper training of all staff;
- Proper facility for a well-stocked reference library;
- Technical assistance for various areas of Center activities;
- Sufficient computing (with capacity to do desktop publishing), copying, and telecommunications equipment;
- At minimum, one international telephone line; and
- Sufficient budgetary allocation.

ANNEX A

WORLD BANK PROJECT ON MINISTRY REORGANIZATION

WORLD BANK PROJECT ON MINISTRY REORGANIZATION

(ANNEX Q OF THE WORLD BANK REPORT)

PHASE TWO REPORT, VOLUME TWO
FUNCTIONS AND RESPONSIBILITIES

- To collect, process, and disseminate international market information relevant to trade and industry in Albania;
- To collect, process, and disseminate information on the trade capacity and performance of Albania's industrial sector;
- To prepare and publish information guides for foreigners wishing to trade with Albania;
- To develop and maintain a comprehensive library of trade journals and publications of relevance to Albania's commercial activities;
- To establish a database of trade information by subscribing to such information services as are considered relevant to Albania's trade needs;
- To maintain registers of trading and manufacturing companies within Albania, and foreign companies active in, or having expressed interest in, trading with Albania;
- To supply actively to other departments, other Government ministries or to any private sector bodies involved in trading activities, information which it believes to be of interest to them;
- To prepare and publish regular bulletins of statistics and trade information for general circulation to the press and the public.
- To collect and make available comprehensive information on laws and regulations relevant to potential investors in Albania.
- To act as a first point of contact for outsiders wishing to deal with the Ministry, and to direct all enquiries to the appropriate department.
- To react to requests for information from other departments or directorates by locating the requested information either from its existing resources or from outside sources.

ANNEX B

PROJECTS IN PROGRESS OR UNDER PLANNING

THE INSTITUTE OF STUDIES AND DESIGNS OF LIGHT INDUSTRY TIRANA

PROJECTS IN PROGRESS OR UNDER PLANNING

THE INSTITUTE OF STUDIES AND DESIGNS OF LIGHT INDUSTRY TIRANA

1. Computerize existing anthropometric data for Albania's population. Output: computer data base of population measurements by sex and age.

2. Assessment of the country's carpet industry from an economic and technical basis to determine existing status and potential for future viability. Output: comprehensive study.

3. Ongoing project development. Constant assessments of domestic and foreign textile markets with the aim of developing new products.

4. Development of survey to establish baseline of preferences in color and materials for a broad cross section of textiles for clothing and home furnishings. Output: statistical survey in computerized data base form categorized by income levels, geographical location, and sex.

5. Creation of CAD (computer-aided design) center promotional materials including stationary, business cards, envelopes, and brochures.

6. Design work related to exhibition in Vienna for approximately 25 Albanian carpets to be derived from five contemporary artists working in traditional and modern themes.

7. Public relations interface. Contacts and promotional activity with foreign commercial attaches, textile enterprise directors, government agencies, TV, and radio.

8. Creation of a Society of Albanian Stylists (fashion designers) for development of future clothing and fashion promotion of higher end styles suitable for the country's emerging entrepreneurial class.

DAY TWO

III. Recruitment and Staffing

A. Recruiting and university relations
- Conducting a department "recruiting audit"
- Taking a client service approach
- The value of an effective recruiting plan

B. Matching needs to talent pool and qualifications
C. Targeting the best universities and students and finding influence leaders
D. Experienced hires: understanding the labor pool
E. Setting annual goals
F. Accountability and responsibility for recruiting programs

Group Exercise/Case study

IV. Training and Development

A. The value of training and development to business planning
B. Maximizing different types of training
- technical
- professional skills development
- management/leadership development
- on-the-job training
- international assignments

C. Responsibility for training programs

DAY THREE

Training and Development continued...

D. Development of training plans
E. Designing individual and department training plans
F. Enhancing professional development and linkage to daily responsibilities

Group Exercise: Development of a training plan for the class

V. Administrative Management

A. Scope of Administrative Management
- Principles of organization, including the principles of simplicity, flexibility, objectives, etc.

B. Departmental organization and lines of authority
   - The dos and don'ts of setting lines of authority
   - Line vs. staff

C. Management reporting
   - Reasons for...
   - Systems for...
   - Evaluating the effectiveness of...

D. Running effective staff meetings and properly handling follow-up to the meetings.

E. The budgeting process -- a brief overview

F. Resistance to change -- ideas on how to handle one of management's biggest hurdles

Case exercise/case study

DAY FOUR

VI. Performance Evaluations

A. Characteristics of performance management
   - career planning
   - goal setting
   - performance feedback (day-to-day)
   - development planning

B. Skills necessary for performance management discussions

Expressive	Receptive
Describing	Observing
Concluding	Listening
Questioning	Empathizing

C. Focus on three performance dimensions
   - Skills and knowledge (abilities and understanding)
   - Style (personal qualities)
   - Output (accomplishments, what is produced)

D. The five W's of performance discussion
   - Who
   - When
   - What
   - Where
   - Why

E. Performance discussion roles in detail
   - Employer
   - Manager
   - Top Manager
   - HR Function

F. Performance management philosophy of a successful business

G. Features of a sound/unsound performance review process

H. Special issues for Eastern Europe
- Lack of developed concepts re: Performance Evaluation
- Integrated structures: linkage to strategy and mission

I. The need for special training
- Proper levels for counseling assignments
- "Damage Control"
- The value of training: "Good counselors are not born..."

J. Challenges to the performance evaluation process

K. Strategies for ongoing success

Group exercise/case studies

DAY FIVE

VII. Time Management

Time Management Survey

A. Managing yourself and your time
- The Pareto Principle -- The Vital Few and the Trivial Many
- Tools for managing your time -- The Time Budget and The Time Analysis Log
- Prioritizing your work

B. Parkinson's laws
- How understanding these laws can be the most important key to effective management of people and time

C. Planning
- The key to effective time management is proper planning
- "The tyranny of the urgent"...why it wrecks the best laid plans every time

D. The uncontrollable time wasters
- How to gracefully and professionally handle interruptions
- How to plan for these interruptions and thus gain control of your own time.

Group exercises

VIII. Management Style Survey

Annex 2

HUMAN RESOURCE AND GENERAL MANAGEMENT PRINCIPLES PROGRAM EVALUATION

Name: Anila Paparisto Date: 25.2.94 Location: MOIT

Reaction. General thoughts and reactions to program:

It was perfect. I like the problems that give us the ability to understand and resolve the different situations.

Knowledge Gains. The key ideas I want to remember are:

The problems of encouragement, work, time, administration, human resources, training and development, performance evaluation, recruitment. It has been a good experience.

Skills gains. The practical skills and abilities I feel I can implement are:

I think I can make decisions about my work now. To give the right problems, the right amount of time. To stress the most efficient and effective way to solve them.

Goals summary. The three most important specific actions or behaviors I in tend to change are:

To continue my studies; to develop my capabilities as a manager; to try to do for myself; to grow my capabilities.

The most valuable workshop session was:

Session	Reason
Performance evaluation	Because I got new ideas for my work
Administrative management is to	Because I better understand how important it structure for working toward an objective

Changes in the workshop design I'd like to suggest (if any):

I'd like to suggest another course like this

Comments about instructor effectiveness:

They were good and communicative. They seemed to understand our situation in our country and gave us fitting examples and high-level lectures.

Comments about your own effectiveness as a workshop participant:

I would like to think I contributed well.

Program rating. Overall this experience was (circle one)

0 1 2 3 4 5 6 7 8 (9)

Not Valuable — Very Valuable

Other comments:

To understand personnel management, one start from considering what it is for before considering what it is.

HUMAN RESOURCE AND GENERAL MANAGEMENT PRINCIPLES
PROGRAM EVALUATION

Name:_____ Date: 25.2.94 Location: MOIT

Reaction. General thoughts and reactions to program:

This program was very interesting because it is the first time that (we have been) treated to the concept of management and human resources. It's better to do another training for this problems.

Knowledge Gains. The key ideas I want to remember are:

1. What Management and manager mean.
2. Human resources management.

Skills gains. The practical skills and abilities I feel I can implement are:

1. How to plan my work day.
2. How to eliminate the wasting of time.

Goals summary. The three most important specific actions or behaviors I in tend to change are:

1. Planning
2. Organizing

The most valuable workshop session was:

Session	Reason
Management	To be able to manage better

Changes in the workshop design I'd like to suggest (if any):

To link more theory with practice.

Comments about instructor effectiveness:

Instructor effectiveness was high quality. They have lots of experience in these fields.

Comments about your own effectiveness as a workshop participant:

My effectiveness I hope to implement in my job.

Program rating. Overall this experience was (circle one)

0	1	2	3	4	5	6	7	(8)	9
Not Valuable									Very Valuable

Other comments:

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HUMAN RESOURCE AND GENERAL MANAGEMENT PRINCIPLES
PROGRAM EVALUATION

Name: Majlinda Bako Date: 25.2.94 Location: MOIT

Reaction. General thoughts and reactions to program:
The program was excellent. It was very nice for me to participate in this.

Knowledge Gains. The key ideas I want to remember are:
Manage work, performance evaluation, administrative management, management style survey, the value of training

Skills gains. The practical skills and abilities I feel I can implement are:
In this seminar I gained the skills and ability to manage my time better, how to recruit the right people.

Goals summary. The three most important specific actions or behaviors I in tend to change are:
-- To develop my capabilities as a manager
-- To try to do something in growing my position

The most valuable workshop session was:

Session	Reason
All sessions	The issues that have been presented have been very important for everybody. Even if you are a Director, a manager or other, everybody has to manage himself...

Changes in the workshop design I'd like to suggest (if any):
NO

Comments about instructor effectiveness:
The instructors were excellent in explaining issues; in communications with us, in their ideas of how we can do our jobs better...

Comments about your own effectiveness as a workshop participant:
I tried to do the best as a work shop participant as I could.

Program rating. Overall this experience was (circle one)

0 1 2 3 4 5 6 7 8 (9)

Not Valuable — Very Valuable

Other comments:
There are welcomed the seminars like this for the future. (sic)

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HUMAN RESOURCE AND GENERAL MANAGEMENT PRINCIPLES
PROGRAM EVALUATION

Name:_____ Date: 25.2.94 Location: MOIT

Reaction. General thoughts and reactions to program:
The program was very valuable for us

Knowledge Gains. The key ideas I want to remember are:
To respect the rules; to work through the rules; to win through the rules, after which you can change the rules

Skills gains. The practical skills and abilities I feel I can implement are:
-- prioritizing; better time management; decision-making and flexibility in work; work more toward achieving results.

Goals summary. The three most important specific actions or behaviors I in tend to change are:

1. Management of time
2. improve my style of work and behavior
3. put into practice the knowledge gained here so my results will increase

The most valuable workshop session was:

Session	Reason
Time Management and Management Style Survey	Because nothing is more valuable for us in this stage of new system

Changes in the workshop design I'd like to suggest (if any):
Suggest more practical exercise in management and in our professional areas, like trade, investment...

Comments about instructor effectiveness:
I think the instructor was very prepared and the mode of teaching was very communicative. very warm and very productive

Comments about your own effectiveness as a workshop participant:
We hope to implement this knowledge in our job so this will improve our effectiveness

Program rating. Overall this experience was (circle one)

0 1 2 3 4 5 6 7 (8) 9

Not Valuable Very Valuable

Other comments:
We want to have other training seminars with you and to see and meet often with you. Thank you very much!

HUMAN RESOURCE AND GENERAL MANAGEMENT PRINCIPLES
PROGRAM EVALUATION

Name:_____ Date: 25.2.94 Location: MOIT

Reaction. General thoughts and reactions to program:
This was a good program by which we learned some practical things.

Knowledge Gains. The key ideas I want to remember are:
1. Managing performance through evaluation
2. The area of training and development
3. Managing myself and my time
4. Planning

Skills gains. The practical skills and abilities I feel I can implement are:
1. Managing of my time
2. How to solve problems
3. How to recruit staff

Goals summary. The three most important specific actions or behaviors I in tend to change are:
1. The organization of my job
2. training and development

The most valuable workshop session was:

Session	Reason
Time management	because I can work better and carry out my tasks

Changes in the workshop design I'd like to suggest (if any):
I want to know more about management.

Comments about instructor effectiveness:

Comments about your own effectiveness as a workshop participant:

Program rating. Overall this experience was (circle one)

0	1	2	3	4	5	6	7	(8)	9
Not Valuable									Very Valuable

Other comments:

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HUMAN RESOURCE AND GENERAL MANAGEMENT PRINCIPLES
PROGRAM EVALUATION

Name:_____ Date: 25.2.94 Location: MOIT

Reaction. General thoughts and reactions to program:
I liked this program because I learned more practical things that will help me in the future

Knowledge Gains. The key ideas I want to remember are:
The ways I can manage and plan my job. The solving of problems.

Skills gains. The practical skills and abilities I feel I can implement are:
The planning of work; the solving of problems

Goals summary. The three most important specific actions or behaviors I in tend to change are:
Planning how to solve the problem; learning to solve the most important problems; prioritizing

The most valuable workshop session was:

Session	Reason
Management	It helps us to manage our work better.

Changes in the workshop design I'd like to suggest (if any):
I want to know more about human resources

Comments about instructor effectiveness:

Comments about your own effectiveness as a workshop participant:

Program rating. Overall this experience was (circle one)

0	1	2	3	4	5	6	7	8	(9)
Not Valuable									Very Valuable

Other comments:

HUMAN RESOURCE AND GENERAL MANAGEMENT PRINCIPLES PROGRAM EVALUATION

Name:_____ Date: 25.2.94 Location: MOIT

Reaction. General thoughts and reactions to program:

It was a good program in which we learned some important things. This program will help us in the future to organize our jobs.

Knowledge Gains. The key ideas I want to remember are:

Managing performance; managing myself and my time, the value of training and development.

Skills gains. The practical skills and abilities I feel I can implement are:

Managing of my time; how to solve problems; how to recruit staff

Goals summary. The three most important specific actions or behaviors I in tend to change are:

1. The organization of my job
2. training and development

The most valuable workshop session was:

Session	Reason
Time management	to work better
the value of training and development	

Changes in the workshop design I'd like to suggest (if any):

More about management and human resources

Comments about instructor effectiveness:

Comments about your own effectiveness as a workshop participant:

Program rating. Overall this experience was (circle one)

0	1	2	3	4	5	6	7	(8)	9
Not Valuable									Very Valuable

Other comments:

HUMAN RESOURCE AND GENERAL MANAGEMENT PRINCIPLES PROGRAM EVALUATION

Name:_____ Date: 25.2.94 Location: MOIT

Reaction. General thoughts and reactions to program:
As a first time, it was a good program with many good things.

Knowledge Gains. The key ideas I want to remember are:
Role of the manager in the work place; responsibility, authority, accountability

Skills gains. The practical skills and abilities I feel I can implement are:
Role of the manager in the work. The value of training and development to business planning

Goals summary. The three most important specific actions or behaviors I in tend to change are:
The way for the organization to work; time planning

The most valuable workshop session was:

Session	Reason
I liked what is management and what is a manager. Training and development, also.	

Changes in the workshop design I'd like to suggest (if any):

Comments about instructor effectiveness:
Instructor effectiveness is very good

Comments about your own effectiveness as a workshop participant:

Program rating. Overall this experience was (circle one)

0	1	2	3	4	5	6	7	8	9
Not Valuable									Very Valuable

Other comments:
Your seminar it was very very interesting. It was a good program with many things and the new impression for the future. Thank you very much for your time.

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HUMAN RESOURCE AND GENERAL MANAGEMENT PRINCIPLES
PROGRAM EVALUATION

Name:_____ Date: 25.2.94 Location: MOIT

Reaction. General thoughts and reactions to program:
As a first time participant in such a program, I must say it dealt with interesting subjects.

Knowledge Gains. The key ideas I want to remember are:
Role of the manager in the work place

Skills gains. The practical skills and abilities I feel I can implement are:
Problem finding/problem solving/decision making

Goals summary. The three most important specific actions or behaviors I in tend to change are:
It is not so easy to immediately change habits crystallized for years, but the present seminar gives some new ways to evaluate the situation

The most valuable workshop session was:

Session	Reason
Overview of human resources	

Changes in the workshop design I'd like to suggest (if any):
More practical cases

Comments about instructor effectiveness
High level

Comments about your own effectiveness as a workshop participant:
Found out through different cases and classify myself as a good manager

Program rating. Overall this experience was (circle one)

0	1	2	3	4	5	6	7	(8)	9
Not Valuable									Very Valuable

Other comments:
Such programs and others like this are very helpful for improvement of the job quality! Let's say good training.

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HUMAN RESOURCE AND GENERAL MANAGEMENT PRINCIPLES
PROGRAM EVALUATION

Name: Leke Bezhani Date: 25.2.94 Location: MOIT

Reaction. General thoughts and reactions to program:
It was great

Knowledge Gains. The key ideas I want to remember are:
Planning/H.R./problem solving/style survey

Skills gains. The practical skills and abilities I feel I can implement are:

Goals summary. The three most important specific actions or behaviors I in tend to change are:

The most valuable workshop session was:

Session	Reason
quite all	

Changes in the workshop design I'd like to suggest (if any):

Comments about instructor effectiveness:
They are great. I appreciate them very much.

Comments about your own effectiveness as a workshop participant:

Program rating. Overall this experience was (circle one)

0	1	2	3	4	5	6	7	8	9
Not Valuable									Very Valuable

Other comments:

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HUMAN RESOURCE AND GENERAL MANAGEMENT PRINCIPLES
PROGRAM EVALUATION

Name:_____ Date: 25.2.94 Location: MOIT

Reaction. General thoughts and reactions to program:
a well-organized program

Knowledge Gains. The key ideas I want to remember are:
management

Skills gains. The practical skills and abilities I feel I can implement are:
planning

Goals summary. The three most important specific actions or behaviors I in tend to change are:
time management and employee evaluations

The most valuable workshop session was:

Session	Reason
The management style survey yourself	You have to be able to honestly rate so as to do a good job

Changes in the workshop design I'd like to suggest (if any):

Comments about instructor effectiveness:
very effective

Comments about your own effectiveness as a workshop participant:

Program rating. Overall this experience was (circle one)

0 1 2 3 4 5 6 7 8 9

Not Valuable Very Valuable

Other comments:

Annex 1

Course Outline for the Management Training Seminar
Ministry of Industry and Trade -- Republic of Albania
21 -- 25 February 1994

DAY ONE

I. Overview of Management

A. Role of the Manager in the work place
- What is management?
- What is a manager?
- Responsibility/Authority/Accountability
- The five basic functions of management...
  - -- Planning
  - -- Organizing
  - -- Staffing
  - -- Directing
  - -- Controlling

B. Structure of Management
- The pyramid structure
- How this works in the real world

C. Different theories, approaches, and styles of management
- Theories X,Y,Z (or participatory)
- Systematic, Human relations, quantitative and contingency approaches to management

D. Problem solving
- Problem finding + decision making = problem solving
- The Decision tree

Case/group exercise/case study

II. Overview of Human Resources

A. Definition: Identify, Select, Retain, Develop, Challenge
B. Why HR function is important in today's business environment
C. Operations vs. strategic management
D. Role of the HR director
E. Primary areas of HR management
F. Linking HR and Business Strategies
- relating to the missions statement and other values/standards

Group exercises/case studies

TO: KENT FORD

HUMAN RESOURCE AND GENERAL MANAGEMENT PRINCIPLES
PROGRAM EVALUATION

I. Name: Ahmet Stojna Date: 06.10.1994 Location: Tirana

1. Reaction. General thoughts and reactions to program in general this program was a good one. It widens our knowledge related to that problem.

2. Knowledge Gained. The key ideas I want to remember are: recruitment and staffing; relations established with my employees; management of my working time and proper planning.

3. Skills Gained. The practical skills or abilities I feel I can implement are: organization of my department activities.

4. Goals Summary. The three most important specific actions or behaviors I intend to change are: an effective usage of the working time; to be a better decision making person; try to better control the operating methods of my staff department.

5. The most valuable session was: administrative management. No reason explanation.

6. Changes in the workshop design I'd like to suggest (if any): no suggestions to be made.

7. Comments about instructor effectiveness. Both of them were very well prepared and of high effectiveness.

8. Comment on you own effectiveness as a workshop participant. Through my participation in problems solutions.

9. Program rating. No. 8 circled.

10. No other comments.

II. Name: Semiha Tafaj

1. Reaction: the program of this seminar was a very good program.

2. Knowledge gained: running effective staff relations in order to establish clear cut relations with my employees as well as with my boss.

3. The skill I feel I can implement is the practical sense of managing our business and daily problems. Very useful are the examples we followed during the seminar.

4. The three most specific actions I intend to change are: I have to be more systematic; proper management development; and prioritizing my daily work.

5. The most valuable workshop session was: Linking HR and Business Strategies. No reason written.

6. There is no change in the workshop design I'd like to suggest.

7. Both instructor were very communicative and handled the seminars in a very good way, making it interesting to everybody.

8. I liked very much especially these parts of the seminar when we actively participated and discussed together.

9. Program rating. No. 9. Extremely valuable.

10. No other comments made.

III. Name: Llukan Jani

1. Reaction: It was a concrete program, very useful to me.

2. The key idea I want to remember is recruitment of staffing.

3. The skill I want to implement is responsibility for recruiting staff and work programs.

4. Three important actions I intend to change: to be more critical towards my employees; to be analytic and systematic.

5. The most valuable workshop was: what is management and its functions. No reason explanation.

6. There is no workshop design I'd like to change.

7. Both instructors were practical persons.

8. I was very attentive during the seminar and freely participated when I thought so.

9. Program rating. No. 8 circled.

10. No other comments made.

IV. Name: Shpktim Meck

1. This program is a very good program and everybody profited.

2. Knowledge gained: administrative management the most important information of the seminar.

3. The skill I think I'll implement in my everyday work is how to plan an effective time management.

4. The most important specific action I intend to change is the ability to take decisions on time.

5. The most valuable workshop session was recruitment and staffing.

6. No changes to suggest.

7. Both instructor were very well prepared and every theme was clearly explained.

8. I think every body participated during the seminar giving their own examples or putting question for things they did no understand. The seminar was based on open discussions.

9. Program rating. No. 7 circled.

10. No other comments.

V. Name: Anila Papartsto

1. Reactions. To me it is somewhat different because I attended four months ago another seminar. This one is organized with member of the Ministry and it fits to their needs.

2. The key idea I want to remember is problem management in the human resource department.

3. The practical skill I intend to implement is that I can give lectures to other about these problems.

4. The three most specific actions and behaviors I want to change are: budget problems; management risks; knowledge development.

5. The most valuable workshop session to me was performance evaluation and time management.

6. I would like to suggest another workshop design (for me especially).

7. My comment about the inspectors is - excellent.

8.

9. Program rating. No. 9 circled.

10. Before the seminar was organized I'd like everybody make known their problems so that the program of this seminar would better fit the needs of our Ministry.

VI. Name: Kosta

1. Reaction: this seminar was a very good and useful to every participant.

2. The key ideas I want to remember are: the attitude towards other employees, management of people and time.

3. The practical skill I feel I can implement is keeping detailed notes about the problems of my department and giving priorities to the most important ones to solve on time.

4. The three most important specific actions i intend to change are: to be systematic; to evaluate the situation under which things, problems are happening.

5. The session I liked best is the last day lectures on types of people and their different characters. No reason.

6. I agree with the themes that were discussed in this seminar, but I think we need another on the most crucial problem of privatization. Sooner it is organized better it is.

7. Both instructors were very well prepared for the seminar. We found them communicative and passionate people.

8. There was a very free and open atmosphere for everyone to participate in discussions during the seminar. It think I was one of the most active participants.

9. Program rating. No. 9 circled.

10. No other comments.

VII. Nameless sheet of paper.

1. No reaction.

2. The key ideas I want to remember are: basic concepts of management, its structures and theories; performance management philosophy for a successful business.

3. The practical skills I think I can implement are: recruitment and staffing; effective management of time; evaluation of staff's work.

4. The three most specific action or behaviors I want to change are: relations with the boss; improvement of work style; better management of time.

5. The most valuable workshop session was Administrative Management. Reason: it helps us to create new concepts on administrative management.

6. I think there should be organized a seminar specifically treating the theme of Human Resources in relation to Albanian conditions.

7. Both Mr. Rossel and Kent were very effective, precise and clear in their explanations.

8. No response.

9. Program rating. No. 8 circled.

10. No other comments.

VIII. Name: Minella Pakostandini

1. Reaction: the program was a good one.

2. The idea I want to remember is performance management philosophy of a successful business.

3. The skill I think I've gained is the effective time management through proper planning.

4. The three actions I intend to change are: to be more systematic; establish good and correct relations with my staff and how to gain control of my own time.

5. The most valuable workshop sessions were those explained during the second and third day of the seminar. Chapter II, V, VI.

6. No suggestions to be made for the workshop design.

7. Both instructors were effective and rational.

8. I've followed the carefully and participated occasionally.

9. Program rating. No. 9 circled.

10. No other comments.

IX. Name: Propri Piro

1. Reaction: this program was very useful.

2. The idea I want to remember in my activity is the proper planning and effective management of people and time.

3. Skills gains: determination in finding the most proper business solutions.

4. The three most important specific actions I intend to change are: relations with my employees; to be more systematic; more efficient in my working day.

5. The most valuable session was No. II, V, VI.

6. No changes to suggest in my workshop.

7. Both instructors were very effective.

8. I think everyone was attentively following this seminar.

9. Program rating. No. 9 circled.

10. No other comments made.

Management Skills Training and Development

Albanian Ministry of Industry and Trade

8-10 June 1994

Delivered by
Kent R. Ford, Development Alternatives, Inc.
R. Todd Rossell, Deloitte & Touche

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INTRODUCTION

This is a report on the second Management Skills Development and Training session for the Albanian Ministry of Industry and Trade delivered 8-10 June 1994 by Kent Ford of Development Alternatives and Todd Rossell of Deloitte Touche Tohmatsu. This was the second of two Management Skills training sessions presented to the MOIT. This report will detail what was covered in this seminar and offer some observations on the program.

THIS SEMINAR

The objective of this component was to provide training in management skills necessary for those MOIT personnel responsible to help manage the resources of a growing and newly-restructured ministry. We were to provide training assistance in basic and intermediate management concepts and techniques via a workshop targeted to directors, managers, and other employees of the Ministry. We utilized the findings and recommendations of the IBRD reports on organizational and management skills training. This seminar was similar in content to the first one, with one major difference -- the first seminar was attended primarily by non-management personnel, whereas the second seminar was almost entirely populated by management-level people, including Directors and advisors to the Minister.

Unlike the first seminar, which focused almost entirely on very basic management techniques, this session's focus was on basic as well *intermediate* management and operational concepts. A copy of the Course Outline that was handed out on Day 1 is attached as Annex 1 of this report. Although we used the attached outline as a guideline for the program's activities, some changes were made both to accommodate the level of those participating as well as to adjust the content according to what the participants wanted to be exposed to during the seminar.

As in the first seminar in February, the instruction methods used were a combination of lecture and group exercises/case studies. At least 60% of the time was spent working through exercises and case studies in a group setting, with the remaining time spent in lectures which were used to set up each exercise. This particular group accepted this method of teaching much more readily than did the group in February, which had at first balked at such exercises. This is likely more a reflection of the differences in level and experience of each group than anything else.

Taking into account comments from the first session in February, the exercises for this session were changed so that participants would be able to better relate to the situations in each exercise. For instance, a case we used in February that involved a production problem in a textile factory was replaced this session by one that concerned the problems of rapid change in a government ministry.

The major changes implemented for this session were timing, duration, and location of the seminar. The first seminar was five, half-day sessions which ran from 9:00 am to about 1:30 pm for one full week. Whereas, this seminar began on Wednesday and ended on Friday. The

Wednesday and Thursday sessions were both full days, while the Friday session was a half day. Also, the first seminar was held in a training room within the Ministry; this one was held off-sight at the "Pyramid" building. This design proved much more workable for several reasons. First, by having the program over a three day period, the participants were better able to justify setting aside the time to attend. The five days that were required to attend the first seminar proved to be a burden on many. Second, by lengthening the days, we were better able to keep continuity of instruction, which again improved the presentation of the content. Third, being out of the confines of the Ministry, participants appeared to be less constrained by surroundings and seemed to express themselves and their needs and concerns more freely. And finally, having the program off-site of the Ministry prevented participants from being distracted by going back to their offices to "check on messages," which during the February session usually resulted in their not returning to the seminar for several hours.

At the end of the session, we again asked each participant to complete a Program Evaluation. Copies of the completed evaluations are included as Annex 2 of this report.

SUMMARY

As with the first, we feel that this seminar was quite successful. Every participant expressed their appreciation for the information and knowledge that was shared throughout the week. Most of those in the "class" stated a firm desire to have more training of this sort and those who expressed such said that they would attend these sessions regularly, if they were offered. Additional training of this sort is badly needed and wanted in the Ministry, and should be pursued if at all possible.

Annex 1

COURSE OUTLINE FOR THE MANAGEMENT TRAINING SEMINAR
MINISTRY OF INDUSTRY AND TRADE – REPUBLIC OF ALBANIA
8 – 10 JUNE 1994

DAY ONE -- WEDNESDAY 8 JUNE

I. Overview of Management

Management Self-Appraisal

A. Role of the Manager in the work place
- What is management?
- What is a manager?
- Responsibility/Authority/Accountability
- The five basic functions of management...
  - Planning
  - Organizing
  - Staffing
  - Directing
  - Controlling

B. Structure of Management
- The pyramid structure
- How this works in the real world

C. Different theories, approaches, and styles of management
- Theories X,Y,Z (or participatory)

D. Problem solving
- Problem finding + decision making = problem solving
- The Decision tree

Case/group exercise/case study

II. Administrative Management

A. Scope of Administrative Management
- Principles of organization, including the principles of simplicity, flexibility, objectives, etc.

B. Departmental organization and lines of authority
- The dos and don'ts of setting lines of authority
- Line vs. staff

D. Running effective staff meetings and properly handling follow-up to the meetings.

D. The budgeting process -- a brief overview

E. Resistance to change -- ideas on how to handle one of management's biggest hurdles

Case exercises/case studies

DAY TWO – THURSDAY 9 JUNE

III. Overview of Human Resources

A. Definition: Identify, Select, Retain, Develop, Challenge
B. Why HR function is important in today's business environment
C. Operations vs. strategic management
D. Role of the HR director
E. Primary areas of HR management
F. Linking HR and Business Strategies
- relating to the missions statement and other values/standards

Group exercises/case studies

IV. Recruitment and Staffing

A. Recruiting and university relations
- Conducting a department "recruiting audit"
- Taking a client service approach
- The value of an effective recruiting plan

B. Matching needs to talent pool and qualifications
C. Targeting the best universities and students and finding influence leaders
D. Experienced hires: understanding the labor pool
E. Setting annual goals
F. Accountability and responsibility for recruiting programs

Group Exercise/Case study

V. Training and Development

A. The value of training and development to business planning
B. Maximizing different types of training
- technical
- professional skills development
- management/leadership development
- on-the-job training
- international assignments

C. Responsibility for training programs
D. Development of training plans
E. Designing individual and department training plans
F. Enhancing professional development and linkage to daily responsibilities

Group Exercise: Development of a training plan for the class

VI. Performance Evaluations

A. Characteristics of performance management
- career planning
- goal setting
- performance feedback (day-to-day)
- development planning

B. Skills necessary for performance management discussions

Expressive	Receptive
Describing	Observing
Concluding	Listening
Questioning	Empathizing

C. Focus on three performance dimensions
- Skills and knowledge (abilities and understanding)
- Style (personal qualities)
- Output (accomplishments, what is produced)

D. The five W's of performance discussion
- Who
- When
- What
- Where
- Why

E. Performance discussion roles in detail
- Employer
- Manager
- Top Manager
- HR Function

F. Performance management philosophy of a successful business

G. Features of a sound/unsound performance review process

H. Special issues for Eastern Europe
- Lack of developed concepts re: Performance Evaluation
- Integrated structures: linkage to strategy and mission

I. The need for special training
- Proper levels for counseling assignments
- "Damage Control"
- The value of training: "Good counselors are not born..."

J. Challenges to the performance evaluation process

K. Strategies for ongoing success

Group exercise/case studies

VII. Compensation and Promotion

Group case study

PRIVATIZING THE FOREIGN TRADING ENTERPRISES OF ALBANIA

Jean Gilson, Development Alternatives, Inc.

Doyle Peterson, Development Alternatives, Inc.

Overview

Albania has 12 state owned foreign trading enterprises (FTEs). These trading companies were originally organized for import and export of specific commodities or to support certain industries and are thus under the direction of different ministries based on the historic focus of the company. Each of the trading companies is organized in a relatively similar manner with trading specialists, administration, storage warehouses in Durres, and headquarters in Tirana.

From October 19 to October 31 the DAI team (Jean Gilson and Doyle Peterson) visited nine FTEs with similar organizational structures under the direction of the Ministry of Trade, the Ministry of Industry, and the Ministry of Food and Agriculture. These visits were designed to allow the team to assess the capabilities of the enterprises and their specialists, to evaluate the importance of their human capital, review their assets and liabilities, and make some preliminary judgements on their likelihood for successful privatization. In addition to visiting the headquarters operations of each of the enterprises and interviewing key personnel at each site the team also visited storage warehouses, reviewed the field operations, and inspected inventories at nearly all of the enterprises.

Enterprise Profiles

The company visits, site visits, and interviews were conducted over a two week period. In order to standardize the information collected and provide an overview of the enterprises for further decision making the information has been summarized into enterprise profiles. The enterprise profiles include information on the debt, assets, employee base, main products, organizational structure, and strengths and weaknesses of each of the companies. In addition to providing a standardized base of relevant information for each company they also provide an introduction to the companies for the reader of this field report.

The company profiles are compiled and attached as Annex 1 to the report.

Enterprise Ranking Matrix

The workplan for the short term work in privatization was designed with the intent of identifying a model foreign trading enterprise where consensus could be developed to proceed with privatization. The short term tasks would then provide support to the process of privatization by developing a strategy, assisting with valuation, evaluating restructuring options, and development of business plans for the privatized enterprise. The intent of this model would be to serve as a pilot for

the other FTEs to follow in privatizing.

The team evaluated the enterprises based on six different criteria:

- **Company Commitment to Privatization.** The process of privatization, including extensive planning and documentation, requires substantial amounts of time and effort. Development of a viable enterprise also entails restructuring, which may affect many positions or change the responsibility of positions. The legal requirements for privatization can be substantial, requiring a strong commitment to working within and through the specific government agencies and ministries. Commitment from all of the participant in this process is essential.

- **Knowledge Base (relationships and contacts) of the Company and It's Employees.** One of the most important assets of the foreign trading enterprises is the knowledge base of the company. This knowledge includes the relationships of the company in the international trading community with individuals and companies, the history of the company as a trading enterprise, the knowledge of trading techniques of the traders and employees, and the contacts with client companies in Albania. The conservation of these assets into a company that can contribute to the growth of the Albanian economy is the objective of privatization.

- **The Competitiveness of the Traded Products of the Company.** Each of the enterprises trades in a selected range of products in either the import, export, or both markets. In some cases the companies have historic lines of production or contacts with key suppliers in Albania or abroad. In other cases the companies they have been working with or the organizations they traded through (for instance COMECON) have ceased to function. Finally, they may be expanding into new markets where they do not have a current working knowledge or advantage. The relative competitiveness of the products being traded affects the overall viability of the company as it goes into privatization and therefore of the process itself.

- **The Market Position of the Company.** In considering the enterprise viability, one considers the competing uses of the existing plant and resources, the returns possible from the products being traded, and the value and condition of assets and enterprises. When included with the strength of the enterprise reputation and name the overall market position of the company to be successful as a trading enterprise can be assessed.

- **Quality and Turnover of Inventory.** All of the FTEs have significant inventories of slow moving or outdated goods. Many of these inventories date back to the period when the economy was still under central planning and are for enterprises or uses that are no longer in operation. The team felt it was very important to view and evaluate as much of these inventories as possible to assess the company's realism in listing them as assets and to determine the amount of capital value that could be assessed to the enterprises.

- **Replicability of the Privatization Model.** Replicability of the model for the other foreign trading enterprises in Albania is a desirable outcome of the project as

Annex 2

HUMAN RESOURCE AND GENERAL MANAGEMENT PRINCIPLES PROGRAM EVALUATION

Name:_____ Date:_____ Location:_____

Reaction. General thoughts and reactions to program:

Knowledge Gains. The key ideas I want to remember are:

Skills gains. The practical skills and abilities I feel I can implement are:

Goals summary. The three most important specific actions or behaviors I in tend to change are:

The most valuable workshop session was:

Changes in the workshop design I'd like to suggest (if any):

Comments about instructor effectiveness:

Comments about your own effectiveness as a workshop participant:

Program rating. Overall this experience was (circle one)

0	1	2	3	4	5	6	7	8	9
^	^	^	^	^	^	^	^	^	^

Not Valuable Very Valuable

Other comments:

DAY THREE -- FRIDAY 10 JUNE

VIII. Time Management

Time Management Survey

A. Managing yourself and your time
- The Pareto Principle – The Vital Few and the Trivial Many
- Tools for managing your time – The Time Budget and The Time Analysis Log
- Prioritizing your work

B. Parkinson's laws
- How understanding these laws can be the most important key to effective management of people and time

C. Planning
- The key to effective time management is proper planning
- "The tyranny of the urgent"...why it wrecks the best laid plans every time

D. The uncontrollable time wasters
- How to gracefully and professionally handle interruptions
- How to plan for these interruptions and thus gain control of your own time.

Group exercises

IX. Management Style Survey

ENTERPRISE RANKING MATRIX

	EXIMAGRO	ALBKOOP	AGRO-EXPORT	INDUSTRIAL-IMPEX	ARTIMPEX	ALIMPEX	MINERGO-IMPEX	MEKALBI	MAKINA-IMPEX
Company Commitment	2.5	2.5	4	4.5	4.5	4	3	4.5	4
Knowledge Base (contacts)	3	4	5	5	4	3.5	4	4	3.5
Traded Product Competitiveness									
Export	2	NA	4.5	NA	4	4.5	5	2	NA
Import	NA	4	NA	4	4	NA	NA	3.5	4
Market Position	2.5	3.5	4.5	4.5	4.5	3.5	3	3.5	4
Quality and Turnover of Inventory	2	2	4	3.5	4.5	4	3	3	1.5
Replicability	1	2	4.5	4.5	4.5	4.5	3	4	4.5
AVERAGE SCORE	2.2	3	4.4	4.3	4.3	4	3.5	3.5	3.6

SCALE: 1 = lowest 5 = highest

originally envisioned in the workplan for a pilot privatization support. Therefore the target enterprise should be selected so that it has value to the other enterprises and to the government as a model or can be used for training in privatization.

APPENDIX 3

PRIVATIZATION OF FOREIGN TRADING ENTERPRISES

DELIVERABLES

Based on the analysis and data gathered an enterprise ranking matrix was prepared including each of the enterprises using the criteria above. This summary ranking matrix follows and is included as a guide to the further analysis of the companies and their potential growth whether under a model or mass privatization scheme.

Constraints to Privatization

During the team visits to the FTEs a number of constraints to privatization were identified, these include:

- **Foreign debt of the enterprises.**

  These debts are in hard currency and are in amounts ranging from $1 million to $30 million. The debts are carryover from purchases and procurements carried out under the centrally planned system of government of the former regime. Therefore the enterprises do not believe that they should be responsible for the settlement of the debts as private companies. The government is currently discussing the potential for taking over these debts but it is uncertain at this time whether this will actually be approved by parliament.

- **Lack of government initiative.**

  The government has not elucidated a clear directive for the privatization of state owned enterprises let alone the privatization of the foreign trading enterprises. While Minister Hoxha has expressed an interest in privatization of the enterprises under the direction of the Ministry of Trade, the privatization specialists at the Ministry of Industry and the Ministry of Food and Agriculture were quite clear that they viewed the FTEs as the "rear guard", enterprises that would were low priorities for time or resources in privatization until the production enterprises had been privatized. Several of the enterprises we visited have already made requests for privatization but have not received responses from the government, either from NAP or from the Ministry. This is discouraging when you consider the importance of government support to any successful privatization effort.

- **Social Issues/Overstaffing.**

  Although many of the foreign trading enterprises have made significant staff cuts during the last year overstaffing remains a problem. Some of the enterprises are more conservative than others in post privatization projections for their staff. Equity issues for workers who have worked for the past 30 years and have little or nothing to show for the effort are paramount. Other workers in agriculture, retail trade, and industry have obtained tangible assets as compensation, or partial compensation, for their efforts in support of the growth of the state owned enterprises or collectives. Similar treatment is difficult in the foreign trading enterprises where the most valuable capital is human. Both these issues, equity and overstaffing will have to be dealt with by the FTEs before successful privatization can occur.

- **Domestic Production Shutdown.**

The domestic production enterprises have in almost all cases but tobacco and medicinal herbs been shut down. The exports that were being developed by the foreign trading enterprises in these areas are no longer available to provide revenue to the trading companies. This has dramatically curtailed their export revenues. In addition the breakdown of the companies eastern trading partners, especially the COMECON trading block where products were sold on a "clearing" basis have resulted in additional loss of export markets and revenue base. For several companies the import of machinery or plant is their primary source of revenue. An example of this is Mekalbi who import spare parts and machinery. The near total shut down of the production sectors in Albania have also curtailed the import activities of these companies.

- **Private Sector Competition.**

  Consumer goods imports and the supply of products for the private sector and those few remaining state owned companies in operation is becoming much more competitive as private traders try to develop their own knowledge and contact base to supply to industry. While this is not as great a concern for export trading as it is for import trading it should be noted that both have been affected and have an impact on the privatization of the foreign trading enterprises that are the subject of this project.

Strategy for Privatization

Given the nature of the enterprises, the risk that the human capital will be lured away by other companies, the constraints they battle, and the opportunities they face, a strategy for privatization that uses a "modified model" or mass approach may be most appropriate for the privatization of the FTEs.

For most if not all of the foreign trading enterprises the privatization transaction might look like this:

FTE TRADE, Inc.[1]

Illustrative Current Structure

50 Employees
3 warehouses
$1 million in inventory
Processing facility/ JV
Traders and Management in Tirana
$1 million in foreign debt

Proposed Structure

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[1]We use "FTE TRADE, Inc." as an amalgamation of the foreign trading enterprises visited. It is meant illustrate the range of structures, staffing, and financial condition found in the FTEs.

FTE TRADE, Inc.		o Import/ Export Department o Finance Department o Legal/ Admin. Department o Ownership: 100% Private o 10 employees o Capital: portion of cash on hand
Processing Plant XYZ	o	spin off o 50% foreign ownership o 50% local private ownership (employees and core investors[2]) o 10 employees
Warehouses and Offices		o ownership remains state (and leased from state by FTE TRADE, Inc.) or a separate, private entity o 10 FTE TRADE, Inc. employees
Inventory		If no equity issues: o reverts to state and FTE TRADE, Inc. earns commission on sale If equity issues exist: o portion remains on company account
Foreign Debt		o assumed by state for renegotiation o FTE TRADE, Inc. can collect commission if involved in successful renegotiation or repayment
Staff Reductions		o 20 staff cuts in a phased program that includes job retraining, severance, or some other form of compensation

Next Steps

Because the privatization strategy should be developed in conjunction with USAID and the counterpart ministries, the next steps include meetings with both in order to reach consensus on the appropriateness of a mass privatization approach for the FTEs. Mass privatization could include privatization by default, spin offs of joint ventures, leases, liquidations, management contracts, and employee ownership agreements.

As noted, a key link in the next stage will be to obtain active as opposed to passive government support and sponsorship. The next field visits will include follow up meetings with the enterprises, National Agency for Privatization, and the relevant ministries to clarify issues such as

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[2]These could include management, outside investors, or minority state participation.

foreign debt and crystallize a privatization strategy.

ANNEX I

ENTERPRISE PROFILES

ENTERPRISE PROFILES

PRELIMINARY ENTERPRISE PROFILE[1]
EXIMAGRO

Director:	Petrit Topi
Founded:	1989
Responsible Ministry:	Ministry of Food and Agriculture
Structure	
No. of Employees:	43
Departments:	Food, Pesticides, Chemicals, Feed Stuffs, Fertilizer, Sorting and Packing, Finance, Administration
Locations:	Tirana, Durres, 10 district capitals
No. of Warehouses:	13
Storage Capacity:	NA
Inventory Value:	Zero
Bank Debt:	$23 million
Major Trading Relationships	
Past:	Austria, Germany, Greece, Switzerland, Italy, Slovenia
Present:	Minimal operations
Products Traded	
Current:	Local market distribution activity
Historical:	Fresh fruit and vegetables, agricultural inputs
Unique Characteristics:	None
Major Strengths:	Strong historical relationships (domestic and international), collection and distribution capability, technical specialists, cash deposits
Major Constraints:	Foreign debt, overstaffing, lack of domestic production for export, inadequate management strategy, loss of import market due to peasant agriculture

[1]Note: Profile compiled on the basis of verbal interviews and on-site warehouse visits. Written documentation has not been available or used.

PRELIMINARY ENTERPRISE PROFILE
ALBKOOP

Director:	Tom Hila
Founded:	1991
Responsible Ministry:	Ministry of Trade[2]
Structure	
No. of Employees:	60
Departments:	Retail Shops, Outdated Goods Export, Management
Locations:	Tirana, Durres, Shkoder, Korce
No. of Warehouses:	NA (retail shops throughout country)
Storage Capacity:	NA
Inventory Value:	$1.5 million[3]
Bank Debt:	$1 million
Major Trading Relationships:	Italy
Products Traded	
Current:	Consumer goods, food products
Historical:	Toll processing,[4] outdated goods
Unique Characteristics:	Italian joint venture set up for importation, wholesale, and retail of consumer goods and food products; construction of four shopping markets in Albania and others in Macedonia.
Major Strengths:	Entrepreneurial management, Italian joint venture
Major Constraints:	Overstaffing, high inventories of slow-moving goods, lack of enthusiasm for privatization

[2]During the team's stay, the Government of Albania announced a government reorganization. For purposes of consistency, we will use the pre-existing ministry names throughout this report.

[3]This appears to be a high estimate for the value of inventory. It is not clear whether Mr. Hila's estimate was based on historic or current market prices.

[4]Toll processing, also known as value-added service export, capitalizes on Albania's low cost of labor and skilled work force. The processing of intermediate goods or raw materials for export should be emphasized as a means of generating foreign exchange earnings.

PRELIMINARY ENTERPRISE PROFILE
AGROEXPORT

Director:	Perparim Rama
Founded:	1965
Responsible Ministry:	Ministry of Trade
Structure	
No. of Employees:	100
Departments:	Food, Tobacco, Medicinal Herbs, Accounting, Administration, Communications
Locations:	Tirana, Fushkruya, Korce, Shkoder, Durres
No. of Warehouses:	7
Storage Capacity:	10,000 square meters
Inventory Value:	NA
Bank Debt:	$50 million
Major Trading Relationships	
Past:	Greece, COMECON
Present:	Greece, Holland, Italy, Slovenia, Macedonia
Products Traded	
Current:	Tobacco, medicinal herbs, sage, food aid
Historical:	Tobacco, medicinal herbs, sage, processed foods
Unique Characteristics:	Tobacco processing plant in Fushkruya, legally separate tobacco trading company (Transexim), JV discussions under way with Dutch firm
Major Strengths:	Enthusiasm for privatization, strong historical relationships (domestic and international), recognized company name, understanding of market forces and private competition, technical specialists, collection warehouses
Major Constraints:	Foreign debt, overstaffing, lack of domestic production for export, antiquated tobacco processing plant

PRELIMINARY ENTERPRISE PROFILE
INDUSTRIALIMPEX

Director:	Selaudin Shabani
Vice Director:	Edmund Karaxho
Founded:	1965
Responsible Ministry:	Ministry of Trade
Structure	
No. of employees:	48
Departments:	Import, Export, Legal, Administration, Finance
Locations:	Tirana, Durres
No. of Warehouses:	8
Storage Capacity:	7,000 square meters
Inventory Value:	$500,000
Bank Debt:	$5 million
Major Trading Relationships	
Past:	COMECON
Present:	Germany, Greece, Italy, Austria, Bulgaria, Romania
Products Traded	
Current:	Metals, paper, textiles, consumer goods, chemicals
Historical:	Metals, chemicals
Unique Characteristics:	None
Major Strengths:	Diversification strategy, enthusiasm for privatization, understanding of market and competition, strong historical relationships (domestic and international)
Major Constraints:	Foreign debt, overstaffing, outstanding Chinese credit of $5 million for 2,000 tractors, lack of domestic production for export

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PRELIMINARY ENTERPRISE PROFILE
ARTEXPORTIMPORT

Director:	Tefik Kokona
Founded:	1989
Responsible Ministry:	Ministry of Industry
Structure	
No. of Employees:	52
Departments:	Import, Export, Finance, Legal, Administration, Transport
Locations:	Tirana, Durres
No. of Warehouses:	26
Storage Capacity:	13,000 square meters
Inventory Value:	24 million cost value (historical lek)[5]
Bank Debt:	NA
Major Trading Relationships	
Past:	COMECON
Present:	Germany, Austria, Italy
Products Traded	
Current:	Handicrafts, copper, carpets, silver, leather, toll processed clothing for export
Historical:	Handicrafts, rubber, glass, textiles, garments
Unique Characteristics:	Serving as agent for private Albanian firms engaged in toll processing for foreign producers. Artexportimport works only with private firms in order "to ensure delivery time and quality"
Major Strengths:	Entrepreneurial management; understanding of market forces and private competition; creating new market opportunities; enthusiasm for speedy privatization; coherent strategic plan including staff reductions, bank financing, and warehouse leases
Major Constraints:	Import duties on handicraft items, foreign competition primarily from the Middle East

[5]It is not clear whether the historical lek value of $2.4 million (10 lek:US$1) is reasonable. An audit should be performed to determine accuracy.

PRELIMINARY ENTERPRISE PROFILE
ALIMPEX

Director:	Masar Kellici
Founded:	1991
Responsible Ministry:	Ministry of Food and Agriculture
Structure	
No. of Employees:	70
Departments:	Accounting, Administration, Import, Export
Locations:	Tirana, Durres
No. of Warehouses:	15
Storage Capacity:	NA
Inventory Value:	$1 million medicinal herbs, 300 million lek outmoded goods
Bank Debt:	$6 million
Major Trading Relationships	
Past:	COMECON
Present:	Greece, Italy, Poland, Turkey, Germany, Switzerland
Products Traded	
Current:	Basil, rosemary, oregano, medicinal herbs, tobacco, food aid
Historical:	Tomato paste, tobacco, cigarettes, canned fruits and vegetables, wine and cognac, medicinal herbs and oils, spare parts, whole processing lines, raw materials for food processing
Unique Characteristics:	State-of-the-art herb-processing French joint venture Albducross (French contribution, FF1.7 million)
Major Strengths:	Understanding of market forces and private competition, additional joint venture interest, enthusiasm for warehouses, strong outreach to new markets
Major Constraints:	Outmoded inventory, foreign debt, overstaffing, lack of domestic production for export

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PRELIMINARY ENTERPRISE PROFILE
MINERGOIMPEX

Director:	Qazim Qazimi
Founded:	1989
Responsible Ministry:	Ministry of Industry
Structure	
No. of Employees:	70
Departments:	Import, Export, Finance, Administration, Transport and Charter
Locations:	Tirana, Dur. s, Vlore, Elbasan
No. of Warehouses:	2
Storage Capacity:	2,000 tons
Inventory Value:	$1 million
Bank Debt:	$13 million
Major Trading Relationships	
Past:	Germany, COMECON
Present:	Germany, Italy, USA, France, Belgium
Products Traded	
Current:	Copper, bitumen, chromium, fluor
Historical:	Salts, industrial sludge, slag
Unique Characteristics:	Financial position allows enterprise to prepay or finance state production companies
Major Strengths:	Entrepreneurial management, understanding of market forces and private competition, strong historical domestic and international relationships, enthusiasm for privatization
Major Constraints:	Import market has dried up due to private competition, strategic nature of minerals and fuels sector prohibits timely reform, much activity and contacts have been passed to state companies such as AlbChrome and AlbPetrol

PRELIMINARY ENTERPRISE PROFILE
MEKALBI

Director:	Bashkim Jupi
Founded:	1989
Responsible Ministry:	Ministry of Industry
Structure	
No. of Employees:	55
Departments:	Import/Export, Finance
Locations:	Tirana, Durres
No. of Warehouses:	2 warehouses and exterior storage with crane
Storage Capacity:	2,100 square meters
Inventory Value:	$2.5 million (includes 8 million lek of slow moving inventory)
Bank Debt:	NA
Major Trading Relationships	
Past:	COMECON, China, Germany, Italy, Sweden, France
Present:	Germany, Austria, Italy, Sweden, France, Greece, Bulgaria, Macedonia, Czech Republic, China
Products Traded	
Current:	Garments, consumer goods, bearings and spare parts
Historical:	Spare parts for mechanical, electronic, transport, and agricultural machinery such as ferrous and nonferrous metals, stainless steel
Unique Characteristics:	None
Major Strengths:	Entrepreneurial management and traders, understanding of market forces and private competition, enthusiasm for speedy privatization; submitted privatization proposal to National Agency for Privatization in January 1993, strong financial position (cash on deposit = $600,000)
Major Constraints:	Import market has dried up due to shutdown of domestic production, overstaffing

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PRELIMINARY ENTERPRISE PROFILE
MAKINAIMPEX

Director:	Afrim Ballka
Founded:	1989
Responsible Ministry:	Ministry of Trade
Structure	
No. of Employees:	50
Departments:	Trading, Finance
Locations:	Tirana, Durres
No. of Warehouses:	3
Storage Capacity:	1,500 square meters
Inventory Value:	60 million lek
Bank Debt:	$1.5 million
Major Trading Relationships	
Past:	China, COMECON, Italy
Present:	Germany, Italy, Greece, China, other European countries
Products Traded	
Current:	Spare parts, consumer goods, food aid
Historical:	Turn-key projects, machinery, electronics, spare parts, agricultural equipment
Unique Characteristics:	None
Major Strengths:	Strong financial position, converted business to commission basis, profitable for the past 3 years, enthusiasm for privatization, extensive contacts and knowledge of machine tool industry, strong entrepreneurial spirit
Major Constraints:	No export experience, overstaffed, foreign debt, slow-moving inventory, local production shutdown has affected import market

ANNEX II

CONTACT LIST
October 21-30, 1993

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CONTACT LIST
October 21-30, 1993

Name	Organization	Telephone
Petrit Topi, Director	Eximagra	28694, 26833
Perparim Rama, Director Llambi Thoma	Agroexport	23871, 22533
Stoyna, Director	Ministry of Trade	
Grigor Dhaskali,	Enterprise Restructuring Agency	25730
Tom Hila,	Albkoop	34215
Edmund Karaxho	Industrialimpex	24156
Selfo Zeneli, Privatization Specialist Nestor Barbameto, Foreign Relations	Ministry of Industry	23177
Masar Kellici	Alimpex	22287
Qazim Qazimi	Minergoimpex	34073
Tefik Kokona	Artexportimport	23800
Mr. Piroli Mr. Abazi	Agrotobak, Fuskruja	
Skender Ferri	Transexim, Durres	
Bashkim Jupi Petro Vaso Edvin Galanxhi	Mekalbi	25444
Fatmir Dersha	Cold Storage #2	29326
Isuf Duka	Cold Storage #3	33654
Afrim Ballka Agim Muca Oltion Kurti	Makinaimpex	23526 23523 25221
Adrian Lagji 23422	Artexportimport, Durres	052-
Mr. Sullaj	Albducross, Durres	

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TASK SUMMARY: Privatization of the Foreign Trade Enterprises:

Privatization of the Foreign Trade Enterprises (FTE) took on a significant role in the implementation of the project for a number reasons. First, privatization of the FTE's would infuse needed trading expertise into the private sector from the skilled employees of these enterprises. Second, the FTE's are an important source of trading contacts for the industrial sector, both large and the new smaller private enterprises, as the industrial sector rebuilds its capability. Third, Albania's admission to GATT will require that a focussed and ongoing (or successful) privatization of the FTE's has occurred to eliminate any vestiges of the former trading monopolies that existed. Fourth, privatization of the FTE's would create a number of new small and medium sized trading companies with the capacity to provide support and business to an even larger number of distribution and manufacturing concerns.

During the initial meeting with the implementation team, then-Minister of Industry and Trade Hoxha expressed a very strong interest in seeing the FTE's privatized. The Minister suggested that he was open to the team's suggestions on whether there was significant value to the economy to be obtained through privatization or if the FTE's should simply be closed down. He asked that the team's initial evaluation and recommendations indicate any benefits to privatization versus liquidation of the companies and how implementation of the recommendations could be accomplished. The Minister indicated that the team would have the full support of the Ministry in the implementation of whichever alternative approach the team felt justified for each of the FTE's controlled by the MIT and that he would work to include the team's recommendations in the agenda of other ministries as well. There was a clear indication that Minister Hoxha believed he had the support of NAP in implementing privatization if it was justified for these enterprises.

The team first visited the FTE's to determine their suitability for privatization. A ranking system to allow evaluation of the privatization potential was developed and used during interviews with the senior staff of each of the enterprises. The team also visited the warehouse and processing sites of those FTE's with facilities outside of Tirana. Profiles of each of the FTE's were prepared in order to provide an overview of the key elements of each company's operations and capabilities for the MIT and USAID. The team determined that there was significant value to the economy of Albania in maintaining the international contacts and the trading resources of the companies. It was also clear that the key individuals working in these companies had a significant interest in continuing to work together and that they shared a common interest in being part of the privatized enterprises. It was recommended by the team that the FTE's be restructured to include only the key trading elements, that employment be reduced by approximately 50%, that their assets, including warehouses and offices, be converted to private ownership with the right of the FTE to lease needed space, and that the FTE's be privatized as soon as possible. These recommendations were provided to USAID and presented to Minister Hoxha.

The team's next visit was delayed for several months by the reorganization of the Ministry and appointment of a new Minister and a new Director for the Privatization Department of the MIT. We were assured by the new Minister and by Mr. Mentar Bujari, the Director of the Privatization Department, that the Ministry wished to move forward with privatization. The Minister met with the Directors of all the FTE's during this visit by the team and mandated the directors to begin the process of asset valuation in preparation for privatization. The team worked closely with the two firms, Mekalbi and Artimportexport, selected from the initial ranking as the best candidates for pilot

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work and development of a strategy for privatization. Financial information for the two firms was collected and analyzed and projections of expected operations of the privatized company were prepared.

The team presented the projected financials, the privatization strategy, and reviewed operating plans with the senior staff and financial directors of the pilot enterprises. The enterprises were introduced to the concept of western style business planning since there was no time available to fully elaborate business plans as part of the project work plan. The team also reviewed the operating plans of the companies. The two pilot firms had convinced three other FTE's to combine with them to petition the NAP and the MIT for privatization. A briefing concerning this petition was prepared by the team for Mr. Bujari and Mr. Niko Glozheni, the Director of the National Agency for Privatization. The team also prepared a proposal for privatization outlining the objectives and intent of the five FTE's in requesting privatization. The final presentation of the strategy, request for privatization, and proposal for restructuring of the FTE's included Steve Haynes and Deborah Crane of USAID, the Directors of each of the FTE's, the Director of NAP, Martin Mata of NAP, and Mr. Larsen and Mr. Peterson. Unfortunately, Mr. Bujari of the MIT, although scheduled to attend, had instead chosen to attend a seminar on Albania's accession to the GATT.

NAP expressed strong support for the concept of privatization of the FTE's. They were also supportive of the companies leasing of necessary assets. The concept of a joint venture between the employees of the FTE's and the Government was introduced and accepted by NAP and the Directors of the FTE's as long as the Government role was limited to less than a 50% interest. This can be accomplished through leasing of real assets and allowing the FTE's to sell the government owned inventories on a commission basis. The MIT was, however, not supportive of the proposals and was unwilling to discuss the options and alternatives for implementation. NAP agreed that they would continue to support the efforts of the employees of the FTE's to seek privatization approval and support from the MIT. In addition the USAID Trade Policy Advisor, Larry McDonald, who is advising the MIT on their GATT application also agreed to seek support from MIT for privatization of the enterprises because of the positive effect it would have on his work with GATT.

Given the lack of movement within the MIT for privatization of the FTEs, the team prepared a summary of potential follow-on tasks that would attempt to move the privatization forward. They rely, however, on support for the concept within the MIT.

The following tasks could be carried out in follow up to the work completed by the implementation team. These tasks would continue the work begun by the team and move the FTE's toward final privatization.

1. Obtain the support of the MIT, both the Minister and the Director of Privatization, for FTE privatization.

2. Develop final restructuring plans for each of the five FTE's including inventories, investment, and operations plans.

3. Support NAP in the review of the remaining FTE's (seven) and determine how these companies should be restructured including a detailed plan for liquidation of assets.

4. Assist the enterprises to be privatized, including the two pilot enterprises, in the develop of a

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full business plan.

5. Contribute to the valuation of assets contributed to the enterprises, including the value of leases for government owned property in preparation for the transfer to private ownership.

6. Finalize the plan for eventual employee buyout of the Government interest in the FTE's over the next 3-5 years.

The benefit of the strategy developed by the implementation for privatization of the FTE's is that it maintained the linkage to foreign import and export organizations important to Albania. The strategy allowed the firms to be downsized so they were competitive but unable to expert monopoly power or influence government policy. It allowed the employees who had developed highly specialized skills to continue to use these skills in an environment were incentives of private ownership existed. Finally, it provided an impetus to the emerging manufacturing sectors in Albania with linkages such as contract processing of clothing and other value added products.

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Touche

Memo

Date: 8 June, 1994

To: Gary Maher, Diane Blaine

From: Tom Larsen, Doyle Peterson

Subject: Deloitte & Touche/DAI Foreign Trade Enterprise privatization visit

The following activities were accomplished during our 31 May - 7 June visit to Tirana.

1. Background, March Visit: During our March trip the Ministry of Industry and Trade (MOT) was requiring the FTEs to provide a "valuation" of their assets in preparation of privatization. The MOT was also trying to prepare a platform for privatization. We met with six FTEs in order to identify two to help prepare their privatization plans. We agreed to return to Albania after the valuations were submitted in order to help with preparation of the plan. We also provided a policy paper to the MOT on options for privatization in order to assist the MOT in developing its privatization platform.

2. MOT: The valuations have been turned into the MOT. However, according to the Director for Privatization, the valuations are not complete. They are lacking signatures from the regions where the FTEs have warehouses. It appears that there is a political tug-of-war between Tirana and the regions on who will control the privatization process and who will benefit from the privatization proceeds. The "administrative" lack of signatures appears to be a barrier to further action on the privatization of the FTEs.

   The MOT has also not prepared a formal platform for privatization. At least one of the FTEs is waiting for this platform before they proceed. According to the Director of Privatization, the MOT would be open to receiving privatization plans from the FTEs and ruling on them. He claims that a platform is not necessary and one may not be ready at any time in the near future. However, if this is the case, the MOT has not communicated to the FTEs that they are receptive to receiving privatization plans.

   Mekalb: Over the past one and a half years, Mekalb has twice submitted a privatization plan and most recently submitted its valuation papers (less some signatures). The enterprise has never received a response from the MOT on any of these submissions. Based on this lack of action, Mekalb has resisted our efforts to help them prepare a more complete privatization plan. They claim, based on their past experience, that there is no purpose preparing another privatization plan since the MOT has not acted on their previous plans. They prefer to wait until the MOT prepares its privatization platform

and will than do whatever the platform requires.

In an effort to provide some assistance to Mekalb we suggested that we set up a meeting with the Minster and the FTEs to begin a discussion on what the next steps should be. Based on our discussions with the MOT and with the FTEs everyone wants privatization, but no one seems to be talking to each other. This meeting will be an effort to begin that discussion.

Mekalb also requested that we provide them with ideas of privatization options. We prepared such a paper and gave copies to both Mekalb and Art ExportImport. A copy of that paper is attached.

3. Art ExportImport: Art ExportImport has been much more proactive in preparing a privatization plan. Mr. Kokona, the General Director, has encouraged three other FTEs to work with him to develop a general privatization plan that they can all submit to the MOT. Kokona believes that if a number of FTEs submit a plan this may put some pressure on the MOT to act. We are assisting these four FTEs in preparing this plan. We have also helped Kokona prepare the financial forecasts for his own business plan. A copy of these forecasts are attached.

   Meeting with the FTEs to prepare a privatization plan: We met with Agro Export, Art Impeks, Industrial Impeks, Makina Impeks and Mekalb to help them develop a general privatization plan. It was agreed by the enterprises that a joint venture with the State was the preferable way to proceed with their privatisation's. We prepared a letter to the MOT and the NAP describing this process. The letter was signed by the General Directors of Art ExportImport, Mekalb, Makina Impeks and Industrial Impeks and presented to the NAP. It is hoped that this letter will show commitment to privatization by the FTEs and help further the process. A copy of the letter is attached

   Meeting with the Minister: The Minister was unable to meet with us and the FTEs but suggested that we meet instead with Mentar Bujari of MOT and Niko Glozheni of NAP. The purpose of the meeting was to present the signed letter from the FTEs and get commitment from the MOT and NAP to proceed with the privatization program for these enterprises. The meeting included four FTEs (Art ImportExport, Mekalb, Industrial Impeks and Makana Impeks), Deloitte & Touche, DAI and USAID representatives. Mr. Glozheni attended the meeting, unfortunately Mr. Bujari was unable to attend.

   We discussed the concepts of the JV and explained to Mr. Glozheni that, although the JV would be between the MOT and the FTE, the NAP must be involved since it would involve change of ownership. Mr. Glozheni was very concerned about the restitution law and how it could hinder the JV. He preferred the idea of the employees leasing the assets. We tried to explain that restitution issues could be included in the JV agreement.

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We also suggested that a JV could include only the financial assets and the physical assets could be rented. (This may be the best solution, it will limit the government's share and allow the employees to buy-out that share quicker.)

It was clear from out discussions with the FTEs and the NAP that there is little understanding of the intangible value of the employees knowledge and how this would be assessed to get the value of the employee's contribution to the JV. It will take some effort to help them understand the intricacies of such an agreement.

At the end of the meeting Mr. Glozheni suggested that we still need to meet with Mr. Bujari since it is the MOT that must approve and be a party to the JV. We went to the MOT to try and find Mr. Bujari and meet with him while we had all the FTE directors together. Unfortunately, Mr. Bujari was in a GATT seminar for the day. The FTEs are very frustrated trying to deal with the MOT and asked us to try and set up a meeting between the MOT, the FTEs and ourselves to explain this concept. Ann Nissenson will try to set up that meeting when she is there next week.

Conclusion: This is our last trip under the Albanian Investment Privatization Project (unless we can schedule a meeting with Bujari). Until the MOT is prepared to make decisions with respect to the privatization of the FTEs, the FTEs cannot proceed further. At minimum this paper, our efforts with Kokona and the letter should help the FTEs identify their options. If the MOT is prepared to proceed, it will be very helpful to the FTEs (particularly Art ExportImport which is the most progressive in pursuing privatization) that they have advisors to help them further develop and negotiate their JV agreements. A JV arrangement between the employees and government, in which the employees buyout the government's stake over time, is a new concept in Albania. Although common in other CEE countries, it will take some effort and education to help the FTEs and government understand the process and issues. (For example, valuing the employees contribution, setting a value on the contribution, determining which assets to contribute, dealing with restitution problems within a JV context, developing realistic goals within a privatization/buyout plan, etc.)

In an effort to help move the process. We have also had discussions with Larry McDonald who is the Resident U.S. Treasury Advisor assisting the MOT with the government's application to the GATT. According to Larry, the privatization of the FTEs is a prerequisite for admission to the GATT. Attached is a memo we have provided Larry on the status of privatization of the FTEs. If the MOT understands the importance of this process to Albania's admission to GATT it should help further the process.

Privatization Options for Foreign Trade Enterprises

4 June, 1994

The purpose of this paper is to briefly describe some of the privatization options available to Foreign Trade Enterprises (FTEs). By providing some of the more common options in one place, the FTEs will have the opportunity to consider which options makes the most sense for that enterprise. The FTE will want to take into account when considering any option

- the requirements of the law;
- the availability of interested investors,
- the interest of employees in participating in the privatization;
- costs associated with privatization;
- business operations during and after privatization;
- requirements of the government (local and national) to fulfill privatization; and
- the time frame for privatization.

Privatization Options

1. ***Joint Venture:*** In many cases throughout Eastern Europe, privatization of enterprises has been accomplished through a joint venture (JV). This JV may be either with an outside investor or with the employees. In either case the State contributes specified assets to the JV and the investor or employees contribute assets such as financial (cash), physical (machinery) or intangible (management knowledge or skilled labor) to the JV. The contribution of assets would be in proportion of State to Investor ownership. *Should the State decide to sell the FTE through auction, the value of the JV could be used as the bidding price by the employees.*

   - Management or Employee Buyout. In this instance, the management or employees are interested in owning and operating the company. They may be interested in conjunction with an outside investor or on their own. Furthermore, as with an outside investor they may be interested in only selected assets. *(The Law on Privatization should be consulted for government decisions to give preference to employee buyouts.)*

     Given the lack of capital in Albania, the buyout can be organized to allow purchases with minimum capital paid to the government. This will allow the employees to retain capital for operating the business. Buyouts could be through lease/purchase agreements *(described below)* or equity buyouts over time. As described above, a JV would probably be established with the State contributing selected assets and the employees contributing their labor and knowledge.

     Below are the steps that would be required to create a joint venture employee/State company:

a) *Establish separate limited liability company: (i.e., "FTE Company"):* *FTE Company* would hold the selected assets of the original FTE. The ratio of employee State ownership would have to be negotiated. The value of the employee contribution (cash, labor and knowledge) and the importance the government puts on employee ownership will both contribute to the ratio of State/employee ownership in the JV. For example, if the government wants to encourage employee ownership it may agree to become a minority shareholder (49%) so that the employees have greater freedom in running the enterprise.

b) The 51% shareholders would be *FTE Company* employees. A Board of Directors that would be created and composed of employees, representatives of the government and possibly independent business people (selected by the State or employees of *FTE Company*)

c) *Initial capitalization of FTE Company:* In addition to the transfer of physical assets from the original FTE, the opening balance sheet would reflect cash and other liquid assets from the FTE that are necessary for initial working capital purposes.

d) *On-going change of shareholders:* From negotiations on the formation of the JV, yearly profit and sales targets will be established. The meeting of these targets will result in a prenegotiated reduction of the States ownership in the JV and a resulting increase in employee ownership. This reduction will be achieved over a specified period, with shares transferred to the employee ownership group. In time, the States ownership will be reduced to zero.

e) *Joint-venture partner search*: It may be desirable, during the early phase of this arrangement, for the employee ownership group to seek joint venture partners. Shares in the JV could be offered to partners willing to make further capital investments and/or provide management services.

f) *Payment of Dividends: FTE company* will pay dividends to its stockholders (the State and employees) only after certain minimal (and prenegotiated) hurdles have been met. For example, hurdles may include meeting certain profitability or sales levels or revenues.

- Investment by a third party, either Albanian or Western. In this instance an investor has expressed interest in acquiring and operating the enterprise either as an owner or with employee participation. The investor may have approached the enterprise, the government or been selected through an auction. The acquisition could be a direct sale or JV, it may also be in conjunction with a management or employee buyout.

2. ***Leasing the assets:*** Similar to a joint venture arrangement, the employees or an outside investor could lease the assets. Under this scenario, the employees would create a limited liability company and that company would lease the assets from the FTE. The lease payment would be negotiated with the State. The lease agreement may also include a purchase option at the end of the lease. This will give the employees the opportunity to accumulate the capital during the lease period which

they can use to purchase the assets. Some portion of the lease payment may also be applied to the purchase price depending on the negotiation. Operation of *FTE Company* would be solely the responsibility of the employees. The States only involvement would be collecting the lease payments.

3. ***Merger with other Albanian companies***. In this instance, there may be value added by combining FTEs that trade complementary products. The merger would result in a stronger company that could be more attractive for an employee buyout or for a foreign partner.

4. ***Splitting the FTE into separate smaller companies:***. In this instance, employees may be interested in taking over operations of certain parts of the FTE based on their expertise with the different product lines of the enterprise. Once again, these separate companies could be operated as a JV or through leasing of the assets.

* Liquidation of assets to employees or other Albanian entrepreneurs. In this instance, the FTE would cease to exist and its assets would be sold or leased to employees or other entrepreneurs to use in new business ventures.

Planning to Operate a Privatized Company

4 June, 1994

When preparing a privatization plan, a business plan must also be prepared. The plan is a tool to help the enterprise identify and evaluate what its future organization will look like and what lines of business it wants to pursue as a private company. Below is a brief list of some of the important issues that should be considered when determining the future private operating prospects for the company.

Financial Information

- Statutory financial information: income statement, balance sheet and trial balance for the year 1993;
- Sales per employee *(to show profitability in relation to employment)*;
- Breakdown of import and export sales for 1993 *(to show where main revenue comes from)*;
- Breakdown of sales by product *(to show market demand by product line)*;
- List of, and percent of, total sales to top five customers *(to show reliance on certain customers, the more customers the less reliance on any one)*;
- List of, and percent of, total purchases from top five supplies *(to show reliance on certain suppliers)*;
- Accounts receivable aging *(may not be relevant, but if the enterprise provides credit to customers, this shows if they are paying their bills)*;
- Accounts payable aging *(how quickly the enterprise pays its bills)*; and,
- Schedule of outstanding debt *(shows level of debt of the enterprise and will help in determining what debt the State will assume* ***This is an essential issue to resolve in determining the financial viability of the enterprise as a private company.)***.

Market information:

- Estimated domestic market share by product or service line *(to show market competition)*;
- Key competitors by product line and estimated market share *(to identify main competitors and assess strengths and weaknesses against those competitors)*;

- Number of locations *(to assess need for each location)*;

- Details of any exclusive distribution arrangements import or export;

- Breakdown of product distribution by rail, truck, ship, and other;

- Number of product lines *(to assess any value between product lines i.e. a customer who buys one product is likely to demand another product to go with it)*;

Other information:

- Summary of joint ventures or joint investments concluded with foreign companies;

- Ownership and legal structure;

- Management's commitment and management's assessment of employee attitude toward privatization; and,

- Brief summary of management's strategy and investment plans.

- Head count statistics - management and non-management *(to show whether organization is "top heavy" or not)*;

- Average age of inventory and buildings *(to assess quality of plant)*;

- Description of technical assistance received from organizations and, companies;

- Contact information: address, telephone number, fax number, General Director, Financial Director, and Technical Director;

Once privatization options have been determined, there will be a number of tasks the company will have to undertake in order to accomplish privatization and begin to operate as a private company. This tasks will include:

- **Implementation Action Planning:** As the company moves toward privatization, it will be necessary to develop specific action plans that include not only specific work task requirements and responsibilities, but also the expected benefits and indicators of implementation success.

- **Perform Detailed Due Diligence:** The purpose of this task is to fully evaluate the condition of the assets to be contributed to the JV and exactly what assets will be contributed.

- **Cash Flow and Ongoing Financial Monitoring:** The company's immediate and long-term financial position must be assessed as the company prepares for privatization. The objective of this effort is to identify opportunities to strengthen the financial position of the company through financial restructuring or other means and establish the conditions

necessary to support the overall privatization program. Some tasks to be performed will include:

- Review of current and, if possible, historical financial results.

- Specific financial analysis of all parts of the company. For example, analysis would focus on:

    * accounts receivable collection.
    * Labor costs.
    * quality of financial information to management.
    * financial position in relation to market position.

- Develop cash flow forecasts to support ongoing operations and future changes and continually update these forecasts as the privatization plans develop.

- Identify and evaluate corporate structure requirements, such as debt to equity structure, working capital needs, etc.

- Assess the company's operating costs and whether these are competitive or not.

- Assess financial requirements for strategic alternatives to all efforts.

Art Impeks

Privatization Plan Projection

(000,000 Leke)

Revenues	31.12.93 Inventory	Domestic Sales Cost	Domestic Sales Net Rev	Export Sales Cost	Export Sales Net Rev	Commission Net Rev	Total Cost	Total Net Rev	% of Net Rev
Exports									
Rugs	4.172			4.172	5.000	210	4.172	5.210	13.4%
Carpets	616			616	1.820	60	616	1.880	4.8%
Furs	1.465	29	500				929	500	1.3%
Baskets							-	-	
Pipes	696			696	300	750	696	1.050	2.7%
Silver	5.149			4.000	10.000		4.000	10.000	25.7%
Copper	3.793			1.793	1.000		1.793	1.000	2.6%
Stone	6.957	957	1.000	3.000	4.000		3.957	5.000	12.9%
Bone	1.852	1.052	600				1.052	600	1.5%
Ceramics	1.215	815	600				815	600	1.5%
Wood Handicrafts	508	308	200				308	200	0.5%
Coffee Mills	2.276	1.000	700	276	300		1.276	1.000	2.6%
Slippers	4.273	3.273	4.750				3.273	4.750	12.2%
	590	300	100	100	200		200	300	0.8%
Tanin	170			170	320	630	170	950	2.4%
Cotton	159	159	200				159	200	0.5%
Knitwear						110	-	110	0.3%
Slippers						10	-	10	0.0%
							-	-	
Clothing (A) Durres						60	-	60	0.2%
Clothing (B)						120	-	120	0.3%
Total Exports	33.691	8.593	9.650	14.823	22.940	1.950	23.416	33.540	86.4%
Imports									
Suppliers									
Personal						3.300	-	3.300	8.5%
Total Imports						1.200	-	1.200	3.1%
			-			4.500		4.500	11.6%
Import/Export Revenue			8.650			6.450	23.416	38.040	97.9%
Warehouse									
Other						500	-	500	1.3%
Total						300	-	300	0.8%
						800		800	2.1%
Total Revenues			8.650			7.250	23.416	38.840	100.0%
Cost of Goods Sold									
Gross Profit							23.416		
								38.840	

	Export	Import	Economic	Admin	Director	Durres	Total	% of Total Rev.
Operating Expenses								
Wages	600	280	450	450	120	1.800	3.700	9.5%
Social Security	250	150	220	220	60	600	1.500	3.9%
Communications	1.100	800	300	200	500	100	3.000	7.7%
Domestic Travel	100	60	40	30	40	30	300	0.8%
Foreign Travel	900	500	150	50	300	100	2.000	5.1%
Foreign Entertainment	80	50	20		40	10	200	0.5%
Rent								
Other	1.000	500	300	200	100	400	2.500	6.4%
Total Operating Expense							13.200	34.0%
Depreciation			100			200	300	0.8%
Total Operating Expense & Depreciation							13.500	
Earnings Before Interest & Taxes							25.340	
Interest Expense								
Earnings Before Tax							25.340	
Turnover Tax		1.000						
Dividends							1.000	2.6%
Net Income (Loss)							24.340	

ART Impekl
Privatization Plan Projections

Margin and Growth Analysis				(000,000 Leke)				
	1994			Projected Growth				
	Plan	Margin	1995	1996	1997	1998	1999	Residual
Revenues								
Exports								
Rugs	5,210	13.4%	5.0%	10.0%	[illegible]	10.0%	10.0%	10.0%
Carpets	1,880	4.8%	5.0%	10.0%	7.5%	5.0%	2.0%	2.0%
Furs	500	1.3%	5.0%	10.0%	10.0%	10.0%	2.0%	1.0%
Baskets	1,050	2.7%	10.0%	10.0%	5.0%	4.0%	3.0%	2.0%
Pipes	10,000	25.7%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Silver	1,000	2.6%	-75.0%	4.0%	5.0%	2.0%	2.0%	2.0%
Copper	5,000	12.9%	-75.0%	4.0%	5.0%	2.0%	2.0%	2.0%
Stone (in Leke)	600	1.5%	1,252	-	-	-	-	-
Bone (in Leke)	600	1.5%	615	-	-	-	-	-
Ceramics (in Leke)	200	0.5%	308	-	-	-	-	-
Wood Handicrafts	1,000	2.6%	6.0%	3.0%	2.0%	2.0%	1.0%	1.0%
Coffee Mills	4,750	12.2%	6.0%	3.0%	2.0%	2.0%	1.0%	1.0%
Slippers (in Leke)	300	0.8%	190	-	-	-	-	-
Tanin (in Leke)	950	2.4%	-	-	-	-	-	-
Cotton (in Leke)	200	0.5%	-	-	-	-	-	-
Knitwear	110	0.3%	50.0%	25.0%	20.0%	15.0%	10.0%	10.0%
Slippers (in Leke)	10	0.0%	-	-	-	-	-	-
Clothing from Durres (in Leke)	60	0.2%	-	-	-	-	-	-
Clothing (B)	120	0.3%	225.0%	25.0%	10.0%	10.0%	5.0%	2.0%
Imports								
Suppliers	3,300	8.5%	15.0%	15.0%	10.0%	10.0%	5.0%	3.0%
Personal	1,200	3.1%	20.0%	20.0%	15.0%	10.0%	5.0%	3.0%
Warehouse	500	1.3%	2.0%	2.0%	2.0%	2.0%	2.0%	1.0%
Other	300	0.8%	2.0%	2.0%	2.0%	2.0%	2.0%	1.0%
			As a Percent of Net Revenue					
			1995	1996	1997	1998	1999	Residual
Operating Expenses								
Wage	3,700	9.5%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Social Security	1,500	3.9%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Communication	3,000	7.7%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Domestic Travel	300	0.8%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Foreign Travel	2,000	5.1%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Foreign Entertainment	200	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Rent (1995 in Leke. 1996-99 as growth)	-	0.0%	1,000	3.0%	3.0%	3.0%	3.0%	1.0%
Other	2,500	6.4%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Depreciation	300	0.8%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Interest Expense	-	0.0%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Turnover Tax	1,000	2.6%						
Dividends	-	0.0%						

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Art Impeks
Privatization Plan Projections (000,000 Leke)

Net Revenues	1994 Plan	1995	1996	1997	1998	1999
		Projected Growth				
Net Exports						
Rugs	5,210	5,366	5,366	5,420	5,474	5,529
Carpets	1,880	1,936	2,130	2,290	2,404	2,452
Furs	500	515	515	520	525	536
Baskets	1,050	1,155	1,271	1,334	1,387	1,429
Pipes	10,000	10,000	10,100	10,201	10,303	10,406
Silver	1,000	250	260	273	278	284
Copper	5,000	1,250	1,300	1,365	1,392	1,420
Stone	600	1,252	-	-	-	-
Bone	600	615	-	-	-	-
Ceramics	200	308	-	-	-	-
Wood Handicrafts	1,000	1,060	1,092	1,114	1,136	1,147
Coffee Mills	4,750	5,035	5,186	5,290	5,396	5,450
Slippers	300	190	-	-	-	-
Tanin	950	-	-	-	-	-
Cotton	200	-	-	-	-	-
Knitwear	110	165	206	248	285	313
Slippers	10	-	-	-	-	-
Clothing from Durress	60	-	-	-	-	-
Clothing B	120	390	488	536	590	619
Total Net Exports	**33,540**	**29,488**	**27,913**	**28,590**	**29,171**	**29,586**
Net Imports						
Suppliers	3,300	3,795	4,364	4,801	5,281	5,545
Personal	1,200	1,440	1,728	1,987	2,186	2,295
Total Net Imports	**4,500**	**5,235**	**6,092**	**6,788**	**7,467**	**7,840**
Net Import/Export Revenue	**38,040**	**34,723**	**34,006**	**35,378**	**36,638**	**37,426**
Warehouse	500	510	520	531	541	552
Other	300	306	312	318	325	331
Total	**800**	**816**	**832**	**849**	**866**	**883**
Total Net Revenues (Gross Profit)	**38,840**	**35,539**	**34,838**	**36,227**	**37,504**	**38,309**
Operating Expenses						
Wages	3,700	7,108	6,968	7,245	7,501	7,662
Social Security	1,500	2,843	2,787	2,898	3,000	3,065
Communications	3,000	3,554	3,484	3,623	3,750	3,831
Domestic Travel	300	2,843	1,742	1,811	1,875	1,915
Foreign Travel	2,000	1,777	1,742	1,811	1,875	1,915
Foreign Entertainment	200	178	174	181	188	192
Rent	-	1,000	1,045	1,087	1,125	1,149
Other	2,500	2,132	2,090	2,174	2,250	2,299
Total Operating Expense	**13,200**	**21,435**	**20,032**	**20,830**	**21,565**	**22,028**
Depreciation	300	355	348	362	375	383
Total Operating Expense & Depreciation	**13,500**	**21,790**	**20,380**	**21,193**	**21,940**	**22,411**
Earnings Before Interest & Taxes	**25,340**	**13,749**	**14,458**	**15,034**	**15,564**	**15,898**
Interest Expense		-	-	-	-	-
Earnings Before Tax	**25,340**	**13,749**	**14,458**	**15,034**	**15,564**	**15,898**

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6 June, 1994

Niko Glozheni
National Agency for Privatization
Tirana, Albania

Mentar Bujari
Ministry of Industry and Trade
Tirana, Albania

Dear Messers. Glozheni and Bujari:

The Government of Albania has been working to privatize the Foreign Trade Enterprises (FTEs). While both the Government and the enterprises both want to privatize the process has, to date, proceeded slowly. The purpose of this letter is to outline a proceedure to move the FTEs toward the mutual goal of privatization. The FTEs submitting this letter, Agro Export, Art Impeks, Industrial Impeks, Makina Impeks and Mekalb all agree on the process outlined below. The Genral Directors of these enterprises have worked closely with the USAID sponsored consultants from Deloitte & Touche and DAI in preparing this plan.

The five FTEs believe that the most appropriate method to pursue for their privatization would be through a joint venture (JV) agreement between the Government of Albania and the employees of the enterprise. The Government would contribute assets to the JV and the employees would contribute their skills, knowledge and labor. The General Directors belive this program will most successfully move the Government owned assets of the FTEs to more productive uses while maintaining employment and profitable operations at the FTEs.

The following steps are intended to generally highlight the procedures that must be accomplished for establishing and operating this JV. Each FTE will have to negotiate its specific proposal individually, however, the general steps will be the same.

1. *Establish a limited liability company (i.e. "FTE Company")*: *FTE Company* would be established to hold the selected assets of the original FTE.

2. *Select assets to be contributed to FTE Company*: The original FTE would prepare a list of assets it believes are necessary to continue operations as a private company. These assets will include: physical (warehouses, office space, cars, inventory, etc.) and financial (cash and accounts receivable).

3. *Establish value of Government and employee contributions to FTE Company:* The value of the assets will be based upon the valuation submitted to the Ministry of Industry and Trade (MOT). The employees will contribute the value of their skills and knowledge to utilized those assets to make a return on investment. The value of the employees contribution would be the amount which exceeds a predetermined "rental" value for those assets. For example if an asset is worth $100 and could be rented for $10 per year, any amount earned above $10 would be return on investment to employees and the Government. This rental value will be based on market rents and negotiation.

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4. *Negotiate ownership ratio between the Government and the Employees:* The ratio of ownership in the JV between the employees and the Government would be an amount negotiated above the rental value of using the assets. For example if rent is $10 and earnings are $50 some negotiated proportion of $40 is the value of employee input. If it was agreed that the value was $25. The value of the JV would than be $125, the value of the Government contribution would be $100 and the value of the employee contribution would be $25. Return on investment would be $15 to be split 80% to the State ($100/$125) and 20% to the employees.

5. *Negotiate "goals" to employee purchase of Government stake in FTE Company:* Once the value of the contribution is agreed upon, certain goals must be established that will allow the employees to buyout the Governments shares in *FTE Company* over time. For example, if it is believed that *FTE Company* will earn $40 in its first year of operation, the Government will get in dividends some agreed proportion of that $40 (although less than its 80% shareholding since some funds will be needed for reinvestment in the company). The employees will also be entitled to dividends. The employees dividends, in whole or in part, will be used to purchase the Government's shares. Any earnings over $40 might be agreed to go to the purchase of the Governments shares by the employees .

6. *Transfer assets to FTE Company and establish an initial balance sheet:* An opening balance sheet would be prepared that would reflect the value of the contributed assets.

7. *On-going change of shareholders:* Based on the negotiations in step 5, yearly profit and sales targets will have been established for the period of time that it is estimated it will take for the employees to reduce the Government's ownership of shares to zero.

8. *Payment of dividends: FTE Company* will agree to pay dividends to its stockholders only after certain minimal (and prenegotiated) goals have been met. Furthermore, once employee ownership exceeds Government ownership, there will be agreements that the employees must provide some percentage of earnings to the Government in the form of dividends until the Governments stake is reduced to zero. This will prevent the employees from ignoring the Government's minority stake and encourage them to continue with the purchase of 100% of the company.

We believe that this program offers the best opportunity for privatization of the FTEs with minimal disruption of activities. Furthermore we believe this program can be easily incorporated into the Government's current privatization program. If, for example, it is determined that the FTEs should be privatized through tender, the value of the employees tender would be the value of the contributed assets to the JV.

The General Directors have all signed this letter to show their commitment to privatization and to this proposal. We request that the MOT and the NAP act on this proposal as soon as possible so that the process may begin. Furthermore, we request that the MOT and NAP assign a specialist, with sufficient authority, to each of the FTEs to begin negotiations on the JV arrangement.

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With Respect,

Mehmet Shijaku for Agro Export

Tefik Kokona for Art Impeks

Selauolin Shabani for Industrial Impeks

Aftrim Ballka for Makina Impeks

Bashkim Jupi for Mekalb

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Touche

Memo

Date: 5 June, 1994

To: Larry McDonald

From: Tom Larsen, Doyle Peterson

Subject: Privatization of Foreign Trading Enterprises

The purpose of this memo is to present in one location 1) the options to privatize Foreign Trading Enterprises (FTEs) provided by Deloitte & Touche and DAI to the Ministry of Industry and Trade (MOT) under the USAID sponsored Albanian Investment Privatization Project: and 2) some thoughts on privatizing FTEs with respect to GATT.

Privatization Options

- Management or Employee Buyout. We have recommended to the FTEs and the MOT that this may be the most realistic option. The FTEs interested in privatizing have also expressed this option as their preference. Furthermore, we have recommended that the technical steps of the buyout be through a joint venture between the employees and the State. The steps for such a joint venture would include:

  - A limited liability company would be created.
  - The State would contribute selected assets from the FTE (the assets determined through negotiations between the MOT and employees).
  - The employees would contribute their skill and labor.
  - Over time as the employees meet preagreed upon goals shares from the State would be transferred to the employees until the employees eventually own gain full ownership.

  An employee buyout could also take place in conjunction with an outside investor. The buyout could also be selected through an auction process in which the value of the joint venture would be the bid submitted by the employees.

- Acquisition by a strategic investor, either Albanian or Western. Acquisition can include: 100% trade sale; trade sale of some portion of the assets; auction (all or a portion of the assets); joint venture, lease/purchase agreement.

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- Merger with other Albanian companies. In this instance, there may be value added combining a production company with the FTE which trades that company's products. combining two FTEs that trade complementary products. The merger would result in a n more attractive and healthy company that could than be sold through auction or other means.

- Splitting the FTE into separate smaller companies based on product lines. In this instan breaking up the company will make it more attractive and healthy to a strategic investor employees. Once again, the company could be sold through auction, its assets leased, a jo venture formed or other means.

- Liquidation of assets to employees or other Albanian entrepreneurs. In this instance, assets the enterprise will be sold or leased to employees or other entrepreneurs to use in new busin ventures. Attractive lease or sale agreements should be provided to encourage entrepreneu risk taking.

- Closure of the enterprise. In some instances, closure of the enterprise may be the only via option.

Status of FTE Privatization

As we understand it, one condition for Albania's admission to the GATT is that its FTEs be privatized or in the process of privatization. The purpose of this section is to provide an overview of the status of FTE privatization efforts.

Based on our discussions with the FTEs it appears that the State no longer subsidizes the enterprises, nor does it exercise a high level of influence over their activities. In fact, the two FTEs that we are assisting in developing their privatization plans, are, in essence, already acting as private companies -- albeit with restrictions imposed by the State (for instance, wage constraints and appointment of senior management). Both FTEs are encumbered with old debt incurred while they were under direct state control. These two enterprises are trading new product lines and dropping old unprofitable lines. Both seem to have a relatively clear strategy for the future. Both are also feeling competition from private traders who import or export similar products.

However, the activities of these two enterprises may be unusual. On a previous visit in March 1994, we met with six FTEs in order to identify one or two that would be receptive to our assistance. (It was from these meetings that we selected the two FTEs described above.) Based on those meetings, we felt that four of the six FTEs, to varying degrees, still thought of themselves as monopolist providers. In all cases they were facing increasing competition from private traders and were experiencing a decline in market share. The four enterprises did not seem to understand what was happening to them, had little concept of their new market position and few ideas on how to compete

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or provide products their customers demanded. They indicated that their experience and contacts were valuable to the state and that the state should provide protection for their activities.

During our visit in March we provided the MOT with a policy paper on privatization options to assist them with developing a privatization program. We also met with Ministry privatization directorate personnel to allow an interchange of information and ideas. At our last meeting we were told that the Ministry had received the input that it desired from our technical assistance for the development of a program. During our current visit, we found that no formal action had yet been taken on developing this program. However, the Director of Privatization told us he would be receptive to the FTEs developing their own plans.

Currently the privatization of the FTEs is proceeding very slowly. In response to economic conditions the FTEs have contracted their employment and altered their operations. All were required to submit a "privatization valuation" to the MOT as a precursor to privatization. These valuations have been submitted but most are incomplete in that they lack signatures from regions where their warehouses are located. It appears that the lack of these signatures is due to political turf battles between Tirana and the regions on who will control the privatization and receive the proceeds. The lack of these signatures appears to be holding up the evaluation process.

Prior to submission of the valuation, one of the two FTEs we are working with had twice (over the past one and half years) submitted a privatization plan to The National Agency for Privatization and to MOT. It has never received a response on either submission. Based on this history, the enterprise is hesitant to move forward without some guidance in the form of a program from the MOT. It feels any further steps without approval from the MOT will be a "waste of time."

The second FTE we are working with is taking a more proactive stance. It is developing a privatization proposal (which we are helping with). It intends to submit this plan to the MOT. It has also encouraged three other FTEs to work with it in developing a general privatization plan that all can submit to the MOT. The idea is that this will create pressure to move forward.

<u>The Role of the State</u>: Given that some of the FTEs are actively working toward privatization, while others are not, one could ask how proactive the State should be in privatizing these enterprises. If the State were to stay out of the affairs of the FTEs (i.e. not subsidize them, support their activities, or discourage the activities of private traders in preference to the FTEs), the speed and process of privatization may not be as important.

For example, if the State were to act as a shareholder of the FTEs, an outcome similar to privatization could occur. Under this example, the State could turn the FTEs into joint

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stock companies wholly owned by the Treasury or MOT. An independent board would be appointed to oversee the activities of the enterprise. The State would not exercise its power to restrict the activities of competitors or subsidize the activities of the FTE.

Although theoretically possible, this is probably an unrealistic option. As discussed above, if an FTE still views itself as a monopolist, it may put pressure on the State to protect it against competition. Furthermore, the State could (based on price, availability or other reason) face political or economic pressure to support that commodity and the FTE that trades it at the expense of the market and private traders.

As a short term solution, until economic and political development proceeds, such a structure could buy some time. However, it must be clearly recognized that this would be a *temporary* solution since the danger of future State involvement could be very high.

Conclusion: As stated, the FTEs are currently operating in a competitive environment. Some are successfully competing, others are not. If the government wants to proceed with privatization it must

1. resolve its political/administrative difficulties with the regions so that privatizations are not held up by lack of a signature; and

2. communicate clearly to the FTEs what the privatization program is or that it is the responsibility of the FTE to develop its own program and that these programs will be fully considered.

Our observations are that both the Minister of Trade and the National Agency for Privatization wants privatization of the FTEs and the FTEs want to privatize (at least the two we are working with). However, this does not seem to be getting communicated between the two parties.

It would be a shame for FTE privatization to be a barrier to admission to GATT when everyone agrees that it should proceed.

Touche Ross

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Agron Dhima
Ministry of Industry & Trade
Division of Development Projects & Policies
Bul Jean d' Arc
Tirana
Albania

Our Ref: MC/CONSULT/alb0a1tg

10 June 1994

Dear Mr Dhima

USAID ALBANIA INVESTMENT AND PRIVATISATION PROJECT: EXPORT DEVELOPMENT COMPONENT

This letter aims to summarise the steps taken under the export development strategy component of our work with you, and to suggest next steps for your team.

First, however, I wish to recognise the co-operation and assistance which your Directorate has given during our work with you. We could not have achieved our work without your inputs, and I feel that the documents we have developed are our *joint* effort. I believe that, together, we have made some useful first steps towards an export development strategy. Although the USAID project will end soon, I am confident that your team has the commitment and ability to progress the strategy.

Work Undertaken

There have been two elements to the work undertaken by Anne Nisenson, Graham Branton and myself:

- development of an export development strategy (the subject of this letter);
- assistance in communications, external linkages and public relations. This work is in progress; Graham and Anne will be contacting you shortly regarding these topics.

As you know we had also hoped to assist you with communicating the strategy, in two ways:

- first by a presentation (i.e. a 'round table' or seminar) on the export development strategy for staff from the Ministry;

Aberdeen, Bath, Belfast, Birmingham, Bournemouth, Bracknell, Bristol, Cambridge, Cardiff, Coleraine, Crawley, Dartford, Edinburgh, Glasgow, Leeds, Leicester, Liverpool, London, Manchester, Milton Keynes, Newcastle upon Tyne, Nottingham and Southampton

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- second, by assisting initial, informal meetings with external agencies in Albania (such as USAID, UNDP or the UK embassy). The aim of these meetings would have been to attract financial and technical assistance to implementation of the strategy.

In the event we were unable to arrange either of these activities. Nonetheless, I am certain that these - and other - communication exercises are essential.

Export Development Strategy - Progress

Together we have prepared a document which sets out a pilot export development strategy: I would like to summarise what I think are key elements of this strategy:

- first, it presents - for the first time - a statement of direction on export-oriented industrial policy. Without such a "road map", it is very difficult for staff in different divisions of the Ministry to understand their new roles and responsibilities;

- second, it is practical. Although there is a 10-year framework, there are actions which can start now. The strategy provides an opportunity for your Division to show how (theoretical) policy can be applied in practical way;

- third, it recognises the new roles of government, and provides opportunities for organisations such as ACFIP, ISPIL, the University or the Chamber of Commerce to be involved;

- fourth, the focus on two sectors allows adequate resources to be applied to these sectors, and provide an opportunity to develop methods and approaches to export development..

I believe that the document we have jointly prepared is a useful starting point. The risk now is that a sense of frustration may develop amongst your team and amongst MITs specialists (if they feel that the strategy cannot be implemented, due to lack of funds, equipment, resources or whatever). I suggest that it would be wrong if a sense of frustration lead to inaction in the short term. None of the next steps outlined below rely on external financial or technical assistance.

Export Development - Next Steps

We believe that your Division will need to lead in making the strategy a success. You personally may need to promote new ways of working, for example in co-operation with external donors or with institutions such as ACFIP. However, now that the initial phases of economic reform in Albania have been completed, there is a need to "push" the changes and new ways of working that will provide new business and employment opportunities.

Touche Ross

The next steps to be taken, which you will need to lead are:

- to gain whatever endorsement and support you need in order for you to be able to proceed with, implementing the actions and goals set out in the strategy document;

- give a presentation of the export strategy to staff in relevant directorates of the Ministry. Ideally this presentation should again include representatives of organisations such as ISPIL, the Chamber of Commerce and ACFIP;

- review and develop job descriptions for staff in the Ministry. These will help, for example, MIT industry sector specialists in understanding what, exactly, they can do to support the emerging private sector and to support export development;

- visit the various foreign support agencies in Albania. There is no substitute for talking with these agencies and learning how they can and cannot help. Even if they are unable to support your strategy this year, export development is a long-term process and they may be able to support your strategy next year;

- encourage Albanian participation in international training. During your visits to foreign support agencies, I suggest that you ask them to identify training opportunities and funding schemes relevant to the export development strategy (both for MIT staff and for staff of other organisations);

- work with the Chamber of Commerce and others to send press releases internationally with success stories and important news about Albania. (These can use some of the addresses and contacts being provided by the communications component of our project).

All the above steps can only be undertaken by MIT. These are not minor or unimportant tasks; indeed unless MIT undertakes these tasks then the strategy will not happen. However, they are achievable.

Concluding Remarks

Anne, Graham and I have been glad to work with you on export development and feel confident that an export-oriented strategy can be effectively lead by you and your team. Unfortunately, the USAID project is coming to an end, and we are all sorry that we will not be able to assist you significantly after June 30th. However, please do not hesitate to contact me in London, at any time, if you think I may be able to help with introductions, contacts or suggestions in Europe.

Yours sincerely

Terry Green

Terry Green

cc Anne Nisenson, Graham Branton

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APPENDIX 4A

EXPORT DEVELOPMENT AND EXTERNAL LINKAGES

DELIVERABLES

EXPORT DEVELOPMENT FOR THE MINISTRY OF INDUSTRY AND TRADE

A PROPOSED STRATEGY

JUNE 1994
MINISTRY OF INDUSTRY AND TRADE
ALBANIA

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INTRODUCTION

This report sets out an approach for developing Albanian industrial exports. The strategy rests on an implicit assumption that export-oriented approaches are essential for the restructuring of Albanian industry and the development of new employment opportunities. The report has been prepared by the Industrial Policy Directorate of the Ministry of Trade and Industry, with the help of external consultants.

The main audience for this document is intended to be staff within the Ministry of Trade and Industry. Edited versions of this document may also prove useful in future to describe the strategy to organisations outside of the Ministry of Trade and Industry.

The strategy recognises that:

- Albanian firms lack both adequate products and marketing linkages to succeed in export markets. Action is needed on both marketing and product development;

- A long-term perspective is essential. This document has a time horizon of 10 years, and aims to provide a road map which will assist policy makers;

- Implementation of the strategy will require funding and technical assistance, from both external donor agency and Government of Albania resources over an extended period. We hope that this document demonstrates the vision which the Ministry of Industry and Trade has for the future, and that it will help to attract relevant funding and technical assistance within the overall framework of the strategy;

- New roles and tasks will be required of staff in the Ministry of Trade and Industry as the private sector contribution to the economy grows;

- Resources are limited, and yet co-ordinated action is required across many facets of industrial production, product design, export marketing and sales. Two sectors have been proposed as pilot sectors for co-ordinated action - garment manufacture and wood-processing/furniture making. The purpose of selecting pilot sectors is to allow focus of initial resources, on two contrasting sectors, and from which experience may be gained and lessons learnt for the future.

ACKNOWLEDGEMENTS

This document was prepared by the Division of Industrial and Commercial Development Policies and Projects, of the Ministry of Industry and Trade, with the assistance of consultants from Deloitte Touche Tohmatsu International. The Director of the Division, Agron Dhima, directed the work of the team. The members of the team which prepared the report were:

Albert Hajnaj (Ministry of Industry and Trade)
Ilya Kodra (Ministry of Industry and Trade)
Bashkim Sykja (Ministry of Industry and Trade)
Terry Green (Deloitte Touche Tohmatsu International, London)
Anne Nisenson (Deloitte Touche Tohmatsu International, Washington)

The assistance provided by Deloitte Touche Tohmatsu consultants was supported by USAID, as part of USAID's wider Albanian Trade, Investment and Privatisation Project. The team also drew on other technical assistance inputs funded by USAID within this project, in particular:

- A previous study of the light industry sector, undertaken by Anne McDermott of Development Alternatives Inc. (DAI) in 1994, and
- The advice of the long-term adviser on the project in Tirana, Alan Osman of DAI.

The team is grateful for the assistance it received from many individuals, including the managers of state-owned enterprises, private sector managers, industry and statistics specialists in the Ministry of Industry and Trade, the Albanian Centre for Foreign Investment Promotion, the Centre for the Study of Light Industry, the Chamber of Commerce and Industry, UNDP, staff of the Embassies of Germany, Italy, France and the United Kingdom, and USAID personnel in Tirana.

APPROACH

- Have assumed support for an export driven strategy, because:
  - Small domestic market in Albania is insufficient to drive development
  - An export strategy **challenges Albanian enterprises to compete**

- Any export development strategy must:
  - Fit with national economic goals
  - Be realistic
  - Be long-term in scope
  - Recognise that there are no "easy" markets left in the world

- The approach must be **enterprise-driven and industry-specific**, because:
  - Nations do not compete, enterprises do
  - The arena in which competition takes place is the industry and its market sector

- There is a need to both:
  - **Promote** Albanian exports, and
  - Build the **capability** of Albanian industry

- There is a lot to do, therefore:
  - Ministry of Industry and Trade (MIT) must focus its efforts
  - Use two pilot sectors, from which MIT staff can gain experience. The approaches developed for these sectors should, however, also be applicable (with necessary adaption) to other sectors
  - MIT will need to work with other agencies to execute or implement specific tasks

- MIT's advisers should provide clear advice on all aspects of export development:
  - A long-term vision for the industry
  - Short-term, medium-term and long-term targets
  - Concrete plans for 1994

GOALS OF AN EXPORT DEVELOPMENT STRATEGY

- Generate **economic growth**
- Support Albanian ownership of productive economic activities
- Widen market for Albanian producers and allow them greater potential profit than is available in the smaller internal market
- **Generate investment in technology** and processes
- **Improve competitiveness** by lowering costs, spurring investment, fostering industry rivalry, increasing innovation, raising productivity levels, and improving quality.
- Generate foreign exchange earnings
- Improve Albania's international standing and relationships with other countries

ROLE OF THE MINISTRY OF INDUSTRY AND TRADE IN EXPORT PROMOTION

- Promote a legal and regulatory environment that allows export-oriented production to flourish
- Provide **policy leadership**, guidance on strategy, and sustained commitment to mobilizing necessary resources to achieve strategic goals.
- **Promote competitiveness** in Albanian industry: quality, cost, productivity, responsiveness, design, delivery

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WHAT THE MINISTRY NEEDS TO DO -- POLICY ACTIONS TO PROMOTE EXPORT DEVELOPMENT

[Detailed comments are provided in the Appendices to this document]

- **Select key export sectors** which have immediate potential and an adequate level of technology
- Improve the quality, quantity and dissemination of **information** concerning trade that is available within the Ministry and outside
- Recast the role of technical specialists to **focus on both private and state-owned** export production.
- Focus Department Heads in the Directorate of Policy and Projects on monitoring the overall progress of export promotion in these key sectors as well as in other export sectors
- **Strengthen links** with other governmental and non-governmental organizations involved in export trade (e.g., Albanian Centre for Foreign Trade Promotion (ACIFTD), Chamber of Commerce, Business Persons' Associations, Trade Associations).
- Act as an advocate of export producers before the Albanian Government and with foreign governments and trade policy making institutions such as the EC.
- **Continue pro-privatisation stance and encourage privatization** of state-owned portion of Albanian/Foreign joint ventures and Foreign Trading Enterprises.
- Provide preferential access to state-owned assets for Albanian entrepreneurs wishing to set up or expand export production facilities.
- Ensure that *Facon* manufacturing creates the maximum benefits for the Albanian economy and society by stressing Albanian part-ownership in addition to labour

WHAT THE MINISTRY NEEDS TO DO - DETAILED IMPLEMENTATION ACTIONS

[These actions are likely to be initiated by the MIT, but may be implemented by other organizations, such as the Albanian Centre for Foreign Investment Promotion, the Chamber of Commerce, other Ministries, international aid agencies or projects, and the like.]

Encourage actions to:

- **Market** Albanian Products and Companies in the International Market
  - Brochures
  - Press releases
  - Regular informational bulletins for foreign embassies, international lending/technical assistance agencies and trade organisations in Albania (and for Albanian embassies overseas)
  - Video/computer disk media information
  - Inward missions of buyers and investors from overseas
  - Promotional seminars in Albania and overseas
  - Telephone and fax information service
  - Promote participation in international trade fairs (provide information on the fairs, assist in finding funding to attend)
  - Encourage production of point-of-sale promotional material where relevant.
  - Support sectoral exhibitions in Albania.

- **Build Albanian Capability** to Produce Export Products
  - Outward **study missions** to understand competitors' production techniques (e.g., Slovenian wood processing industry, Italian and Portuguese garment industry)
  - Foster growth of **national trade associations** and help them link with other national trade associations
  - Advise Albanian companies on concluding the most favourable joint-venture deals
  - Prepare model contracts or contract clauses for joint-venture or *Facon* contracts and sales contracts for exports to protect Albanians.
  - Conduct campaigns and training programs to **promote quality, productivity, and cost control**
  - Disseminate information on international competitiveness
  - Encourage co-ordination between firms, the Chamber of Commerce, education institutions, trade associations and international technical assistance agencies in sector-specific activities to improve productivity.

WHY FOCUS ON THE GARMENT AND WOOD SECTORS AS PILOT SECTORS?

- Contrasting resource bases which favour these sectors in the short term:
  - Labour rates (garment manufacture)
  - Natural resources (we understand there are significant wood resources in the north-eastern region)

- Contrasting needs in future for development of the sectors:
  - Capital investment (wood processing)
  - Design, innovation, style (fashion, furniture)

- Some limited success already in Albania in the garment sector, the wood-working industry is less developed

- Some evidence of clustering of skills in towns or regions:
  - Wood industries in north-eastern forest areas
  - Garment (and *Facon*) manufacturing in former state plants

- Both sectors can exploit existing business links with Italy, but there are opportunities throughout the EU in future

- Both sectors are competitive markets which will force rapid uptake of better management, quality control and productivity in Albanian industry

- The lessons learned from these pilot sectors can be spread to other sectors:
  - *Facon* capabilities
    - Shoe uppers (8,200 shoe manufacturers in Italy)
    - Metal stampings
    - Electronics?
  - Exploiting natural resources
    - Leather and wool industries
    - Fish industry

EXPORT DEVELOPMENT IN THE GARMENT INDUSTRY

GARMENT PRODUCTION IN WESTERN EUROPE - BACKGROUND

- **Manufacturing** of both Textiles and Footwear are **in decline** for two major reasons:
  - General recession in the region
  - **Inexpensive imports from low labour cost countries in the Far East**
- Textile industry in the European Community lost 434,000 jobs in 1988-1992.
- To compete with Asian imports and to counter recession, many manufacturers in both industries are shifting part, if not all, of their processing operations to low labour cost countries.
- The preferred locations for export processing (*Facon* production) are South Korea, Taiwan, and Thailand which are seen as more organized and reliable than the lowest cost countries.
- For both Textiles and Shoes, **Germany** is the leader and innovator in export processing. It has pioneered export processing in Eastern Europe.
- For textiles, Germany processes 10.7% of its total production overseas, France 5.2% and Italy 3.7%. In total, the EC processes 133,826 tons of textiles overseas (10% of the total market).

A STRATEGY FOR THE GARMENT INDUSTRY

- **Short Term targets:**
  - Expand and replicate the *Facon* method
  - Exploit and maximise Albania's (temporary?) advantage in low wages

- **Medium Term Targets:**
  - expand Albanian control/ownership/know-how
  - Expand domestic markets:
    - service small part of Albanian domestic demand
    - Wider regional markets in the Balkans

- **Long-term targets:**
  - To become the leading contractor in Europe
  - Aim to move beyond low wages/*Facon* in 5 -10 years, through:
    - focused foreign investment policy
    - Skills enhancement
    - Sub-sector specialisation
      - Low-volume, high value, fast-moving fashion ?
      - mens suits ?
      - sports clothing ?
      - leather clothing ?

GARMENTS: SHORT-TERM TARGETS (1 YEAR PLANNING HORIZON)

- **Expand** and replicate the ***Facon*** **Method**.

- Exploit the "success story" of the first few *Facon* plants in Albania to promote further *Facon* plants, more investment and more export trade

- **Promote Albanian benefits** to EU investors and importers:
  - Reliability in *Facon* manufacture (delivery times etc)
  - Quality of Albanian product
  - Stable economic climate
  - Straightforward business deals (no mafia, corruption)

- Aim to diversify away from reliance on Italy:
  - Start contacts in diversified firms in the clothing, shoes, fashion, sports clothing sectors (Clarks of UK, German textile and clothing manufacturers)

- Help State-owned enterprise (SOE) managers to write more favourable joint venture (JV) deals, by:
  - Helping SOE and the National Agency for Privatisation (NAP) to privatise firms
  - Bringing in more investors and importers

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GARMENTS: DETAILED ACTIONS TO MEET SHORT TERM TARGETS

- **Agree who will implement** on a day to day basis, providing a one-stop contact name, telephone and fax number for both export promotion and investment

- **Print brochure** emphasizing *Facon* manufacture:
  - 5,000 copies, 4 colour, A4, with reply form, in English, with Italian, Spanish, French translation inserts
  - Primary target: EC clothing manufacturers, distributors and retailers
  - Secondary audience: EC trade associations, trade fair organisers, clothing industry consultants,
  - Purchase European mailing lists (on labels)

- Keep mailing records:
  - Computer based mailing list (minimum data)
  - Paper-based files on "prospects"

- Issue 6-12 **press releases** on Albanian industry during the year to EU, US, Japanese trade associations and industry magazines
  - In English, but Italian translations for Italians, on specially printed Press Release letterhead
  - Distribution - around 200 letters
  - Topics will be new investment, privatizations, new products, high value fashion items

- Work with the Italian embassy in Tirana and Italian External Trade organisation (ICE) to organise an inward mission of Italian garment manufacturers to Albania (target date: by October 1994)

- Work with the German embassy in Tirana to attract more German interest in *Facon* manufacturing. Germans were originally not satisfied with quality levels in Albania

- Prepare and distribute a guidance note for private sector/SOE managers on getting better deals from joint ventures:
  - Base it on material already prepared under the USAID-funded Commercial Law Development Programm (CLDP)
  - Focus on garment (and wood) sectors, but make it available more widely

- Organise a collaborative **seminar** on managing joint ventures and negotiating deals:
  - Target audience is Albanian (not foreign) managers of private and state enterprises
  - Aim to share experience (good and bad) between Albanian managers on foreign JVs
  - Use the seminar as an opportunity to strengthen the Albanian Chamber of Commerce
  - Joint sponsorship of seminar by MIT/Albanian Chamber of Commerce/Centre for Foreign investment

GARMENTS: MEDIUM TERM TARGETS (1-3 YEAR PLANNING HORIZON)

- **Shift some production** from *Facon* to Albanian ownership of finished goods:
  - Deals where Albanian JV partner has access to machinery for 3rd shift
  - Deals where Albanian JV partner has sales and marketing rights in Albania and Balkans

- Build good **understanding of export markets** for garments in garment industry, especially:
  - Portuguese markets (aim to take contracts away from Portuguese low-wage manufacturers)
  - Fashion markets
  - Markets where Albanian textile industry has some capability (cottons ?)

- Aim to build **high volumes** in **higher value** products:
  - Start contacts with larger groups in Italy

- Start participation in one (perhaps two) major **international trade fairs** (and - once started -continue to exhibit every year, if Albania's commitment is to be proven)

- Sponsor and help start a **national trade association**

- Encourage manufacturers and traders to export to regional markets in Balkans

- Encourage Albanian trading companies to participate in JVs. e.g:
  - Foreign JV partners (brings know-how, proven distribution channels to EU markets)
  - Albanian factory (brings low wages, high quality, high productivity)
  - Albanian trading company (brings know-how in Balkan markets)

- Promote "Total Quality Management", process costing and other generic management skills in the industry

GARMENTS: LONG TERM AIMS (1-10 YEAR PLANNING HORIZON)

- Aim to be the leading contractor serving the high-price clothing markets in Europe
- Aim to **raise productivity** in industry, so as to retain manufacturing contracts in the face of stiff low-wage competition from China, Vietnam, Ukraine, etc
- **Expand Albanian capacity** in design, fashion, advanced sewing skills, etc
- Assist and encourage relevant institutions, such as the University and ISPIL (the former light industry research centre), to develop a training capability in fashion clothing design, marketing and manufacture
- Expand markets for Albanian products to new markets:
  - Fast-growing markets (Palestine?, Egypt?, Russia?)
  - large, high quality markets (Germany, USA, Japan)

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EXPORT DEVELOPMENT IN THE WOOD PRODUCTS INDUSTRY

THE WOOD-WORKING INDUSTRIES IN WESTERN EUROPE - BACKGROUND

- **Major employer**; furniture is 9th largest industry in EC by employment
- Fragmented and diverse industry, few major players. Over 100,000 enterprises
- **Opportunity for new entrants**
- Capital investment needs:
  - Large for wood processing and for high volume cabinet furniture (cabinets, kitchens)
  - Modest for chairs
- Much interest in environmental aspects of production (solvents, sustainable forests)
- **Germany and Italy** are the largest producers and technical leader
- Denmark, Spain, the UK, Belgium and Netherlands have pockets of excellence, e.g.:
  - Bent beech wood furniture (Denmark)
  - Oak cabinets (Belgium) and tables (Netherlands)
  - Reproduction antique furniture (UK)
- Only Italy has a large export market, and aggressive exporters
- Portuguese, Greek, Irish industries are very weak
- Increasing use of international sub-contracting in order to drive down costs:
  - Slovenia produces components for Italy
  - Taiwan cuts leather for UK firms
  - German hinges, drawer mechanisms, and metal parts are used widely
- Major fairs relevant to Albanian producers are:
  - International Mobel Messe, Koln (January each year) - the worlds leading fair
  - Milan Furniture Fair (April each year)
  - Interzum - woodworking machinery fair - Italy
  - Promosedia (in the Udine chair-making area)

A STRATEGY FOR THE WOOD INDUSTRY

- **Short-term targets:**
  - Attract new investment, particularly of high volume processors
  - Agree extraction policies with Ministry of Forests
  - Export components based on beech wood
  - Focus on Italy for investment and export
  - Press for local furniture content in Albanian tourism projects (new hotels, tourism cabins, etc)

- **Medium-term targets:**
  - Start to brand Albanian wood products as "from sustainably harvested forests"
  - Enhance production from timber (minimise waste)
  - Expand markets beyond Italy
  - Expand skills in wood processing

- **Long-term targets:**
  - Significant capital investment in wood processing
  - Sustainable forest resource
  - A relatively small wood processing/furniture sector, but profitable enterprises
  - Albanian capacity in furniture design

- Aim to in 5 - 10 years, to:
  - Compete with Slovenia and Romania for Italian and German sub-contracting work
  - Develop distinctive competence in beech wood furniture
  - Have some capability in low cost, high-volume operations (? paper-foil based cabinets?)

WOOD PRODUCTS: SHORT-TERM TARGETS (1 YEAR PLANNING HORIZON)

- **Expand employment** in sector
- Focus on supplying wooden **components** to Italy
- Place pressure on the use of local Albanian furniture in hotel projects
- Encourage **privatisation** of remaining state enterprises
- **Encourage JVs** with leading nations (e.g. Italy and Germany, less so Greece)

WOOD PRODUCTS: DETAILED ACTIONS TO MEET SHORT-TERM TARGETS

- **Agree who will implement** on a day to day basis, providing a one-stop contact name, telephone and fax number for both export promotion and investment

- **Print brochure**:
  - 5,000 copies, 4 colour, A4, with reply form
  - Primary target: EC manufacturers, wholesalers and vertical retailers (e.g. Ikea)
  - Secondary audience: EC trade associations, trade fair organisers, furniture industry consultants,
  - Purchase European mailing lists (on labels)
  - Good English, with Italian, Spanish translation inserts

- Keep mailing records:
  - Computer based mailing list (minimum data), but with paper-based files on "prospects"

- Issue 6-12 **press releases** on Albanian industry during the year to EU, Eastern European and US trade associations and industry magazines
  - In English, but Italian translations for Italians
  - On specially printed Press Release letterhead
  - Distribution - around 200 letters each
  - Topics will be new investment, privatizations, new products, high value fashion items

- Work with the Italian embassy in Tirana and Italian External Trade organisation (ICE) to organise: (1) an inward investment mission of Italian furniture manufacturers to Albania, and (2) an outward study mission to Italy for Albanian manufacturers and specialists

- Prepare and distribute a guidance note for private sector/SOE managers on getting better deals from joint ventures:
  - Base it on material already prepared under the CLDP programm
  - Focus on wood (and garment) sectors, but make it available more widely

- Organise a collaborative **seminar** on managing joint ventures and negotiating deals:
  - Target audience is Albanian (not foreign) managers of private and state enterprises
  - Aim to share experience (good and bad) between Albanian managers on foreign JVs
  - Use the seminar as an opportunity to strengthen the Albanian Chamber of Commerce
  - Joint sponsorship of seminar by MIT/Albanian Chamber of Commerce/Centre for Foreign Investment

- Organise a seminar to promote opportunities in Albania for *Facon* style, or component, manufacturing

WOOD PRODUCTS: MEDIUM-TERM TARGETS (1-3 YEAR PLANNING HORIZON)

- Encourage development of an **Albanian business group:**
  - Organise visit to Federlegno Italy, to learn how Federlegno has helped to promote the Italian wood and furniture industries
  - Support the formation of a national trade association
  - Aim to join the European Furniture Manufacturers Association (UEA - Union Europeenne de l'Ameublement)

- Negotiate for **tariff-free imports of furniture components** (e.g. specialist mechanisms)

- Spot opportunities to negotiate benefits for Albanian industry from any deals

- **Support the infant industry** in winning contract furniture sales (in hotels etc), through

- **Organise visits** for leading Albanian entrepreneurs to furniture quality and design promotions organisations in selected EC countries, suggest:
  - CTTIM (Portuguese quality group)
  - SIDI (Spanish design promotion organisation)
  - The Furniture Institute of Greece
  - An appropriate Danish institute (to be identified) with beech wood processing skills
  - Leading trade fairs in Europe (e.g. Cologne, Milan)

- Support sectoral exhibition of goods in Albania.

WOOD PRODUCTS: LONG-TERM AIMS (1-10 YEAR PLANNING HORIZON)

- Build Albanian **design capacity**
  - Scholarships for Albanians to leading furniture design schools
  - Promote design (in general in the University)
  - Visit and copy tactics of Spain's highly successful design organisation (SIDI)

- Look to assemble **unique mix**, which no other nation can offer: e.g.:
  - Low-cost/low specification furniture (e.g. paper foil cabinets)
  - Low labour costs (relative to others in Europe)
  - High design content

MAKING IT HAPPEN

MAKING IT HAPPEN (I)

- **Start now! - speed is important:**
  - Major competitors in Eastern Europe and Asia
  - Albania is currently seen as a relative success (e.g. informed perceptions of Russia versus Albania)
  - Exploit Albania's temporary GDP success (Europe's fastest growing economy in 1993)

- **Explain, communicate and sell** these ideas within MIT, within Government and to donors

- Select least bureaucratic staff:
  - Look for new attitudes
  - Look for those who will work with the private sector

- Build a **small, committed team**. A few people with adequate resources can do much to raise the image of Albanian industry in the eyes of potential customers, potential investors and external lending/technical assistance agencies.

MAKING IT HAPPEN (II)

- **Assign Responsibilities**
  - To the team leader in MIT
  - To Directorates & Divisions
  - To individuals

- Prepare detailed, budgeted **plans of actions** for 1994/1995. These will include:
  - A marketing and communication plan for the pilot sectors
  - Individual actions plans for key staff in MIT

- Do deals to secure the funds that MIT needs

- Work hard, and fast, but recognise that it takes 20 discussions to get a deal

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EXPORT PROMOTION MATERIALS - BROCHURE

DELIVERABLES

APPENDICES

POLICY ACTIONS TO PROMOTE EXPORT DEVELOPMENT -- DETAILED EXPLANATIONS AND ACTION STEPS

POLICY ACTION: SELECT KEY EXPORT SECTORS WHICH HAVE IMMEDIATE POTENTIAL AND AN ADEQUATE LEVEL OF TECHNOLOGY

- Based on our investigation of internal production capacity and external markets, our preliminary recommendations for these sectors are the following:

  - *Facon* manufacturing of garments
  - Processed wood products
  - Medicinal Herbs

- In addition to access to markets, Albanian industrial infrastructure needs a large amount of investment in new technology and renovation of physical plant. However, foreign investment in plant and equipment is sensitive to the future economic prospects of a country and a particular industry. Promoting growth in sectors where growth is possible without immediate large investment will create confidence and build skills amongst the Albanian population so that larger technological investments are possible.

- Albania cannot afford to wait for investment to improve its export prospects. The export sector is the only one that is providing employment in many towns. (Kruje for example)

POLICY ACTION: IMPROVE THE QUALITY, QUANTITY AND DISSEMINATION OF INFORMATION CONCERNING TRADE THAT IS AVAILABLE WITHIN THE MINISTRY AND OUTSIDE

- Strengthen direct links between MIT's statistics department and the customs office to gather more accurate data specifically about trade.

- Regularly gather and distribute the following information (some of which the statistics department already keeps):

  - Comparative wage rates in Albania and in Western and Eastern Europe and Asia
  - Comparative tariff levels in Albania and in Western and Eastern Europe
  - Percentage of production by private sector and by state-owned sector in Albania
  - Percentage of employment in private sector and state-owned sector
  - Unemployment
  - Number of foreign joint ventures by sector and by % Albanian ownership
  - Number of enterprises privatized
  - Import/Export volumes and values by type of product and by state or private producers
  - Size of industrial units by sector
  - Major market indicators such as inflation, currency exchange rates

- Be a source of information for Albanians and foreign parties on the specific characteristics of Albanian export sectors and products. This will require up-to-date information on both public and private sector activity in all the export sectors, not just those that are state-owned or fall under the responsibility of the Ministry of Industry.

POLICY ACTION: RECAST THE ROLE OF TECHNICAL SPECIALISTS TO FOCUS ON BOTH PRIVATE AND STATE-OWNED EXPORT PRODUCTION

- Recognise that MIT technical specialists may fill an "industry" role which is best undertaken (in the long-term) by a trade association.
- Improve quality of information available to the specialists
- Use them as the point of contact between private sector producers and the Ministry
- Make them responsible for:
  - Knowing about the successes and difficulties of both private and state-owned export producers
  - Fostering the emergence of trade associations in their sector
- Solicit their opinion and knowledge when forming policy concerning their sectors
- Make them responsible for reporting to the Director regularly on the following information:
  - Shift in production from state to private enterprises in their sectors
  - Levels of sector production and employment
  - Major markets for export products in their sectors
  - Problems being encountered by exporters in their sectors
  - Growth of trade associations and membership in associations by producers in their sectors
- Prepare new job descriptions for technical specialists

POLICY ACTION: FOCUS DEPARTMENT HEADS IN THE DIRECTORATE OF POLICY AND PROJECTS ON MONITORING THE OVERALL PROGRESS OF EXPORT PROMOTION IN THE KEY SECTORS AS WELL AS OTHER EXPORT SECTORS.

- Make the Special Projects Department Heads responsible for reporting to the Director on the following trends, data about which will be compiled by the Statistics Department:

  - Compliance with GATT and other international trading regimes
  - Trends in customs processing time
  - Movement of productive assets from the state to the private sector
  - Trends in industrial production and changes in structure of industry
  - Trends in employment (by industrial sector, gender, foreign-owned companies, joint-ventures, etc.)
  - Overseas travel by Albanian business people
  - Emergence of private sector business associations that include exporters
  - Comparative productivity between state and private and between Albania and Eastern and Western Europe

POLICY ACTION: STRENGTHEN LINKS WITH OTHER GOVERNMENTAL AND NON-GOVERNMENTAL ORGANISATIONS INVOLVED IN EXPORT TRADE

- Western European and American export producers benefit from a close contacts between private trade associations, governmental trade promotion agencies, and ministries.
- Close cooperation leads to sharing information, problems and successes and makes government policy making more responsive to private sector needs
- The range of resources and skills needed to undertake and export promotion strategy cannot be found within one government ministry or agency
- The Centre for Foreign Investment Promotion is often a first point of contact for foreign traders (as well as investors who come to Albania); the Chamber of Commerce is expanding its programme of information exchange with foreign businesses
- Trading organizations and the Chamber of Commerce are valuable for finding appropriate new export markets

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POLICY ACTION: ENSURE THAT *Facon* MANUFACTURING CREATES THE MAXIMUM BENEFITS FOR THE ALBANIAN ECONOMY AND SOCIETY BY PRESSING FOR PART ALBANIAN OWNERSHIP INSTEAD OF SIMPLY PROVIDING LOW-WAGE LABOUR.

- *Facon* manufacturing in Albania is appealing to foreign enterprises now because of low Albanian labour costs.
- *Facon* manufacturing can create benefits to Albania which will continue even if increasing Albanian wage rates cause foreign enterprises to seek even lower labour cost countries.
- These benefits: a transfer of management skills, technology, foreign market knowledge, financial skills, and operational skills are dependent on the structure of the *Facon* contracts and the attitudes of the foreign enterprises
- Albanian/foreign joint ventures, Albanian ownership of machines, or Albanians trained as managers by the foreign enterprises are all ways of ensuring benefits to Albania which will continue even if the *Facon* contracts end

POLICY ACTION: PROVIDE PREFERENTIAL ACCESS TO STATE-OWNED ASSETS FOR ALBANIAN ENTREPRENEURS WISHING TO SET UP OR EXPAND EXPORT PRODUCTION FACILITIES.

- Albanian exporters need two main things, access to markets and capital for expansion
- The MIT can provide opportunities for expansion at low cost to Albanian entrepreneurs by allowing them to lease or rent state-owned equipment and space that is not in use
- The MIT could lease this equipment and space at low rates, or allow purchase of equipment or space via an instalment program.
- Explore the potential for establishing a small business "incubator" on industrial sites which prove difficult to sell or privatise. Incubators:
  - are managed work spaces which small businesses rent;
  - may provide both office and workspace;
  - may provide shared access to office equipment (fax, photocopier, postal facilities) and factory equipment (lathes, basic tools). The small business tenants usually pay a charge for each fax or hour of tool use
  - Usually provide supporting business advice to tenants

  There is now considerable experience in Europe in establishing incubators

POLICY ACTION: PRIVATISE STATE-OWNED PORTION OF ALBANIAN/FOREIGN JOINT VENTURES AND FOREIGN TRADING ENTERPRISES

- Allow Albanian managers and directors to buy-out state and make the entire joint-venture private

- Foreign trade enterprises are, *potentially*, valuable Albanian sources of information on foreign markets. Although many of the state-owned foreign trade enterprises (FTEs) are presently weak, a few may be able to develop into commercially viable businesses with a good network of contacts overseas. Once privatised, these enterprises should be free to compete with private traders to sell their services to private sector export manufacturers.

POLICY ACTION: ACT AS AN ADVOCATE OF EXPORT PRODUCERS BEFORE THE ALBANIAN GOVERNMENT AND WITH FOREIGN GOVERNMENTS.

- Monitor and document trade disputes;
- Investigate evidence of dumping;
- Monitor through annual surveys and other information gathering, problems faced by Albanian exporters and foreign traders;
- Investigate and seek to resolve problems caused by non-tariff barriers such as standards, customs processing time, and lack of visas.
- Understand and interact with the European Community and other trade policy setting institutions

ALBANIA

Sources of Information

Information on Albanian Industry

Investment and Joint Ventures in Albania

Trade Opportunities

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ALBANIA

Land of Opportunity for wood processing and furniture manufacturers and traders

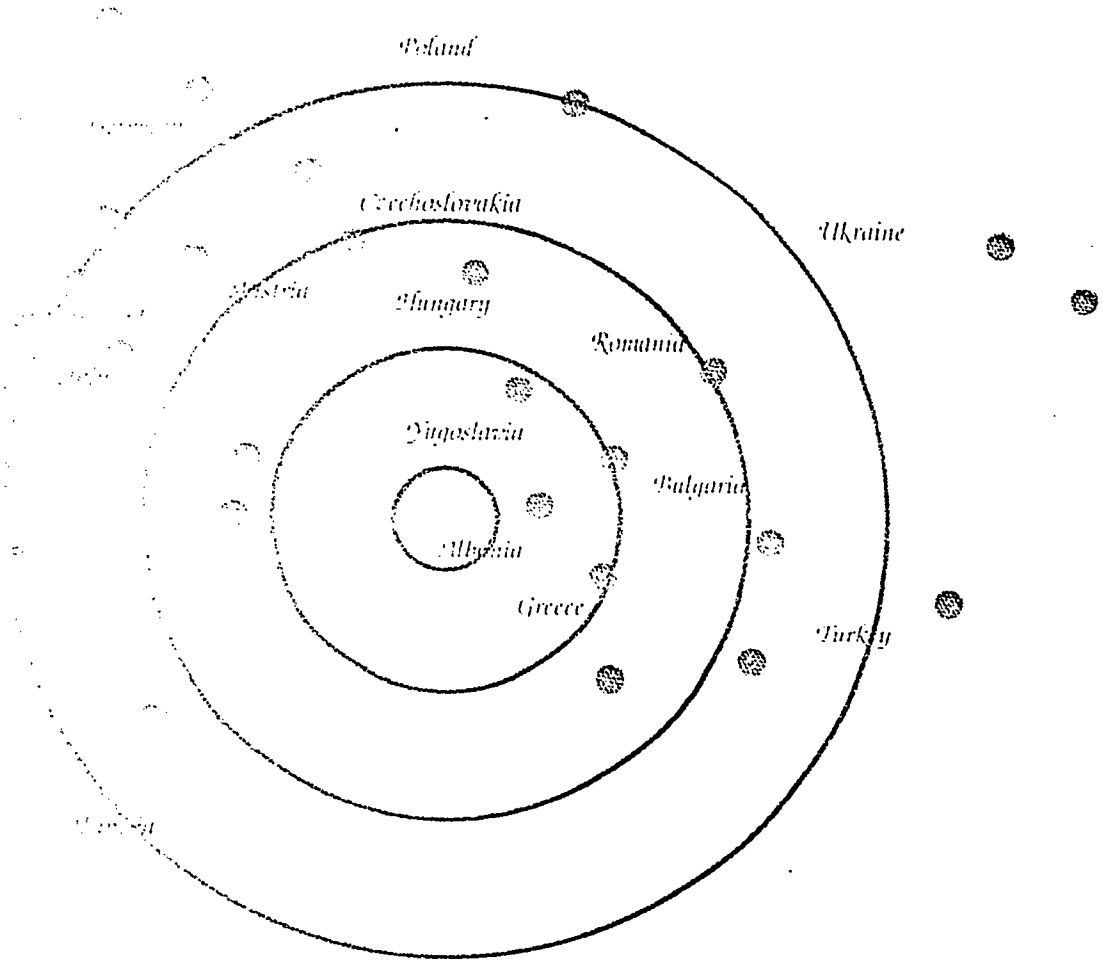
"Albanian Forests"

36% of Albania's territory is covered in forests
Over 900,000 hectares are available for exploitation
Wood processing accounts for over 12% of industrial production
Most of the wood available for processing is pine and beech

Facilities exist for the production of planks, beams, plane plates, wood fibre and paper.

Furniture and parquetry manufacturing is also carried out in several locations.

Most of the wood-processing industry is to be privatised in the near future.


Poland
Czechoslovakia
Ukraine
Austria
Hungary
Romania
Yugoslavia
Bulgaria
Albania
Greece
Turkey

ALBANIA

Some Foreign Companies in Albania

Panagopoulos of Greece (Textiles and Clothing)

Castellania of Italy (Ceramics and Porcelain)

Theorodelos of Greece (Wood Processing)

Rogner of Austria (Hotels and Leisure)

Coca-Cola (bottling plant)

Siemens (Airport)

Banco di Roma (Financial Services)

Navidal of Italy (Metal processing)

McCray International of UK (Construction Services)

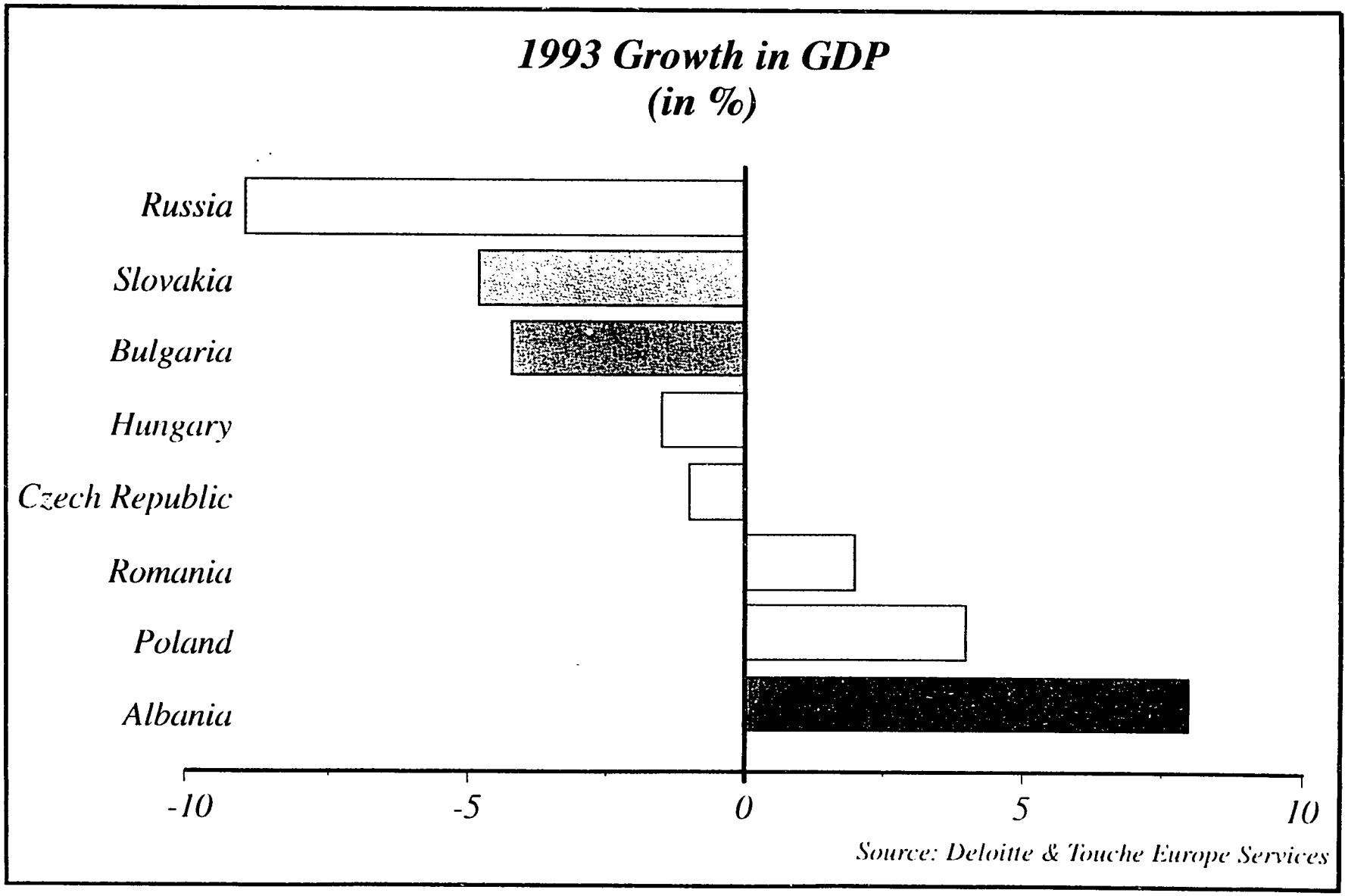
Infrastructure

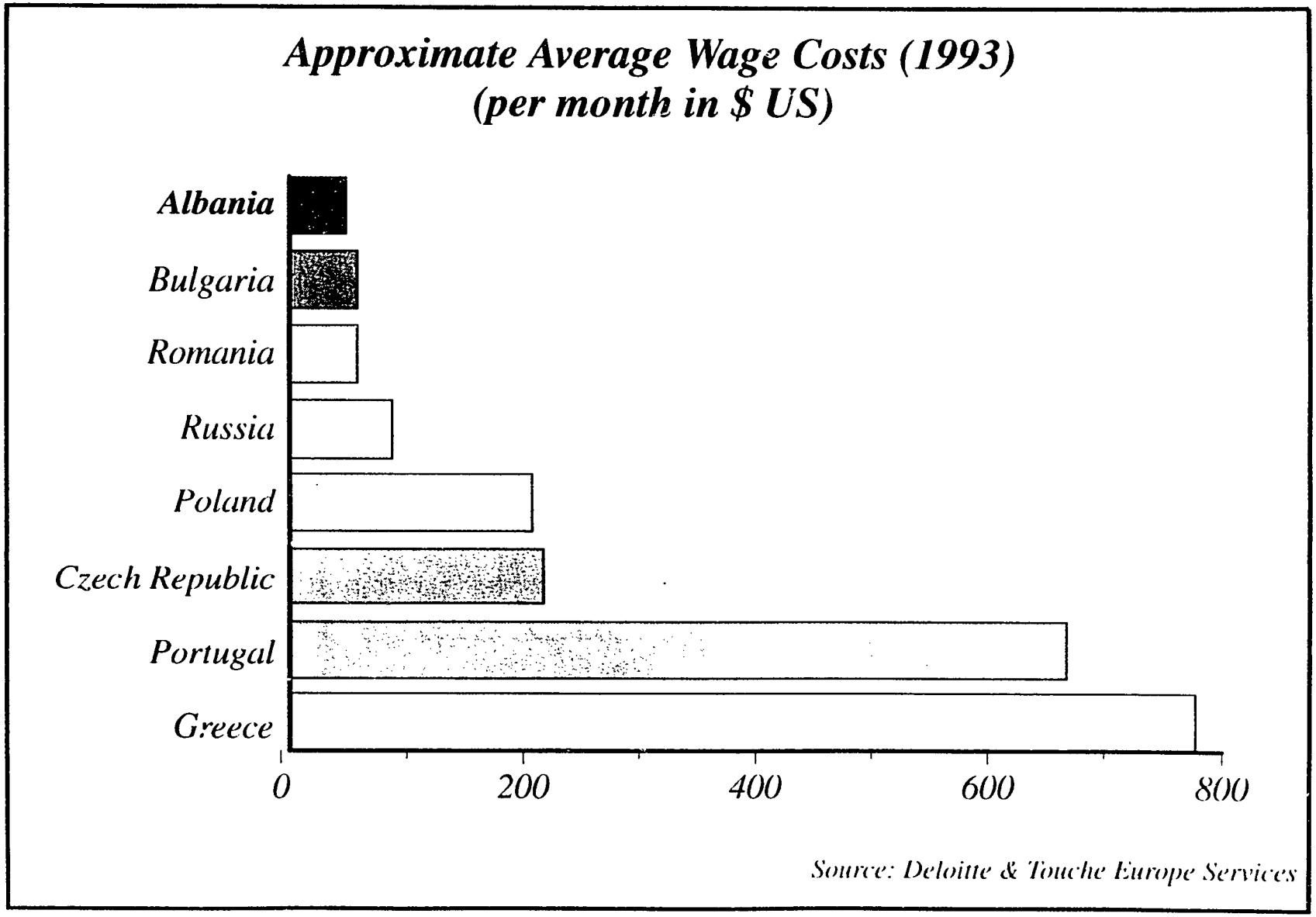
Regular scheduled flights from Tirana to Vienna, Rome Munich, Athens, Zurich and many other locations

Eight major Italian ports including Trieste, Bari and Ancona are withing 24 hours sailing from Durres

Road links to commercial centres in Northern Greece, Macedonia and Bulgaria

New trans-Balkan transit corridors are being planned with assistance from the European Union


1993 Growth in GDP
(in %)
Russia
Slovakia
Bulgaria
Hungary
Czech Republic
Romania
Poland
Albania
-10
-5
0
5
10
Source: Deloitte & Touche Europe Services


Approximate Average Wage Costs (1993)
(per month in $ US)
Albania
Bulgaria
Romania
Russia
Poland
Czech Republic
Portugal
Greece
0
200
400
600
800
Source: Deloitte & Touche Europe Services

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ALBANIA

Huge Potential Gains

Most Albanian industry has historically been starved of investment and uses old technology and antiquated techniques. The wood processing sector is no exception. On the other hand, raw material and labour costs are much lower than elsewhere in Europe and the relative absence of technology has left a tradition of strong artisanal skills and capabilities in the workforce. The production of hand crafted, labour intensive items could be especially profitable in Albania. The result is huge potential gains for those willing to invest.

Invest now

Domestically produced wood and paper based products are typically 30-40% cheaper than competing imported products. Those investing in Albania can therefore expect to sell to a domestic market, which is expected to grow in GDP terms at around 8% a year for the next few years, as well as for export. There would be little competition at present for efficient companies using modern production techniques. The centre-right government is committed to maintaining the value of the Albanian currency and allows repatriation of profits in hard currency and duty-free importation of investment goods. Furthermore most Albanian businesses will be privatised by 1996/1997. Now is the time to establish a presence and exploit the opportunities.

Beat the Competition

Italian and Greek firms such as Thermoindustrial, Netis Impianti, Flep, Adeco, Theodorelos and Alekotheodorakis have already decided to invest in the Albanian wood-processing sector. So far other major international companies have not discovered Albania. Make sure that you beat the rush. For further information contact any of the individuals on the back page of the brochure and /or:

Mr.

Albanian Institute for Wood-Processing

Tirana, Albania

Tel:

Fax:

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ALBANIA

Land of Opportunity for textiles and clothing manufacturers and traders

"Facon" manufacturing of fashion clothing in Tirana under an inward processing arrangement

Albanian labour is the cheapest in Europe

No quotas at present on textile and clothing exports to the European Union

Local availability of some raw materials

Flexible trade laws to encourage inward processing

The textiles and clothing sector traditionally accounts for over 16% of Albanian industrial production

Albania has facilities for the manufacture of cotton, wool, polyester and other synthetic fibres and threads, flannelettes, towels and all sorts of clothing as well as natural and synthetic leather shoes. Most of the textiles and clothing industry is to be privatised in the near future.

CONTENTS Page

1. GUIDELINES FOR DEVELOPING AND USING PRESS RELEASES 3

2. ORGANISATIONAL QUESTIONS 4

3. WRITING A PRESS RELEASE 5

4. STRUCTURE OF A PRESS RELEASE 6

5. DESPATCHING A PRESS RELEASE 7

6. APPENDIX - EXAMPLES OF PRESS RELEASES 8

MINISTRY OF INDUSTRY & TRADE, ALBANIA

PRESS RELEASE GUIDELINES

May 1994

Deloitte Touche Tohmatsu
International

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ALBANIA

Keep An Eye on Albania

Let us Keep You Informed

If you wish to be kept up-to-date with opportunities in Albania, please either: mail this form to:

Mrs. Gentiana Mara

Rruga e Kavajes nr 6

Tirana Albania

or fax this form to the attention of Mrs. Mara

Fax number: (355)(42) 27997

You will be sent a regular newsletter on developments in Albania

Your Contact Details

Name:	
Position:	
Company:	
Address:	
Telephone:	*Fax:*

Preferred languages of correspondence: _____

(it may not be possible to satisfy all preferences)

Areas of Business Interest

Please tick as appropriate

Importing from Albania	☐
Exporting to Albania	☐
Export processing to Albania	☐
Joint manufacturing ventures	☐
Joint sales ventures	☐
Investment opportunities in Albania	☐

*Other*_____

Thank you for your interest. Please also tell us if there is other information you would like

ALBANIA

Huge Potential Gains

Most Albanian industry has historically been starved of investment and uses old technology and antiquated techniques. The textiles and clothing sector is no exception. On the other hand, raw material and labour costs are much lower than elsewhere in Europe and the relative absence of technology has left a tradition of strong artisanal skills and capabilities in the workforce. The production of hand crafted, labour intensive items could be especially profitable in Albania. The result is huge potential gains for those willing to invest.

Invest Now

Following the 1991-1992 slump in industrial output Albania's economy is now growing at almost 10% per year. Domestic demand for textiles and clothing products is considerable, but it is currently mostly met by imports, despite the relative expense of imports compared to domestically produced items. There are therefore opportunities to profitably supply the domestic Albanian market as well as to use cheap and skilled Albanian labour to manufacture for export. The stable, centre-right government is committed to maintaining the value of the Albanian currency and allows repatriation of profits in hard currency and duty-free importation of investment goods. Furthermore most Albanian businesses will be privatised by 1996/1997. Now is the time to establish a presence and exploit the opportunities.

Beat the Competition

So far most foreign investments in the textile and clothing sector have been small scale. Many of those investing in the clothing sector have focused on inward-processing operations supplying designs and cloth from abroad, exporting the totality of production and only using Albanian labour for labour intensive tasks in between. Such investments are welcome but Albania is also investing in domestic design capability with the help of specialists from overseas. Some Greek and Italian firms , namely Global Barter Trading, Rekor, Adeline Clothes, Terlane, Vipen, Panagopullos Koala Export, Filanto and Simod have already successfully set up operations in Albania. So far the rest of the industry has not followed, but the window of opportunity will not last long. For further information please contact any of the individuals on the back page of the brochure and/ or:

Mr. Arben Fagu

Institute of Studies and Designs for Light Industry

Rruga M. Gjollesha

Tirana, Albania

Tel: (355)(42) 26509 Fax: (355)(42) 23291

APPENDIX 5

PUBLIC RELATIONS AND EXTERNAL COMMUNICATION

DELIVERABLES

ALBANIAN MINISTRY FOR INDUSTRY AND TRADE

Communications Plan

(A) Background

The Ministry of Industry and Trade is launching an export development programme pursuant to the export development strategy, agreed with the help of Deloitte & Touche Consultants in May 1994. At the same time a more general communications need has been identified in Albania requiring attention to stimulating media interest in the country and providing communication to the outside world about Albania.

It is clear that many of the tools being produced to support the export development plan can also be an effective part of the communications effort. Thus this communications plan should be seen as a support mechanism for the export development strategy as well as a communications outline in its own right. We have therefore at all times included special mailing lists for the sectors covered by the export promotion plan as well as general mailing lists.

Some of the actions outlined below can be launched immediately and require relatively little support. Others will take longer to implement and will require further funding, probably from international donor organisations, before they can become effective.

(B) Immediate First Steps

Action One - Press Releases

It is essential for building awareness overseas of Albanian business opportunities that developments in Albania be reported regularly in the foreign business media.

In order for this to happen Albania must take the initiative and develop a press release system and a target mailing list. It should be possible to send out an item of good news relating to business in Albania at least once every two or three weeks. This news will then be published all over the world, heightening awareness of Albania and increasing receptiveness to other Albanian marketing efforts.

It is essential that <u>one</u> organisation and indeed <u>one</u> person within that organisation be given direct responsibility for issuing press releases. We believe that such a function is best performed <u>outside</u> government ministries and recommend the Albanian Chamber of Commerce for this task. The Chamber of Commerce is well placed to become aware of new business developments; it already issues some press releases and statements and it has the capability to write about business developments in good business terms and in several languages.

In order to facilitate the setting up of a press release system, we are supplying several items which should be of help, especially in the early stages. These are the following:

1. A guide on how to produce Press Releases
2. Some examples of potential Press Releases which could have been issued in the past
3. A mailing list of newspapers, journals and magazines from several countries which would be likely to carry stories concerning Albania, especially those specialising in East European news
4. An internal mailing list of organisations and individuals in Albania who should also be kept informed of new developments
5. Two specialised mailing lists of sectoral trade publications in the wood processing and textiles and clothing sectors respectively. These lists should only be used when specific developments in those sectors need to be publicised.

Action Two - Brochure

As an additional measure to boost initial awareness of Albania as a potential investment destination, we recommend the production and distribution, in large quantities, of a simple brochure promoting the country. The brochure should be distributed through Albanian consulates and embassies and through all other Albanian organisations which have contacts with potential trade or investment partners. It should also be mailed directly to lists of companies which may have an interest in Albania already.

Crucially, each brochure will contain a response form, whereby interested parties can request further information on Albania. Thus its distribution will assist in the building of a mailing list for recipients of the Newsletter (see Action Three, below) The brochure will also direct potential investors to suitable points of assistance within the country in case they wish to visit Albania.

In order to especially promote investment and trade in particular sectors of the Albanian economy, it will be possible to insert special marketing sheets for individual sectors inside the brochure, rather than having to print a separate brochure each time.

It is important that responsibility for distributing the brochure be clearly delegated to one organisation. We recommend the Chamber of Commerce in this case

As a part of our project we are supplying a fixed number of brochures together with a certain number of special marketing sheets for the wood-processing and textiles and clothing sectors respectively We are also supplying a long mailing list of recipients of the brochure divided into three categories:

1. Companies which we believe to be interested in trade and investment in E.Europe but with no particular sectoral division
2. Textiles and Clothing companies, including both manufacturers and traders in the main European countries and the USA
3. Wood-processing companies in the main European countries and the USA

(C) Longer Term Communications Activities

Seminars and Training for Local Companies

The needs of local, Albanian companies are many, given the lack of experience of most business leaders in an international market environment.

A programme of seminars and training initiatives should therefore be undertaken, if possible in many different locations around the country. Subjects should include, for example:

- accounting and financial management
- quality of standards in design and manufacturing
- principles of international commercial law
- how to export

Perhaps the first step will have to be to train the trainers but if so a start should be made soon on such a long-term initiative. Again it would strengthen the role of the Chamber of Commerce if domestic training and seminar activities could be coordinated through its regional network. The Chamber should become the focus for broad, cross-sectoral information services to domestic industry.

Participation in International Trade Fairs

An impressive stand at an international trade fair could be critical in attracting highly specific, focused investment and trade for Albania. Such participation in trade fairs will normally be sectorally based and might best be provided by Institutes such as ISPIL if their present role evolves further towards that of trade associations in the various different sectors.

The performance of the Institutes in this area could be improved if their role were to be formally recognised and funding provided for outward promotional activities on a sectoral basis. The dynamic institutes such as ISPIL could then be helped to set a standard that the others could be persuaded to follow.

Effective participation in trade fairs requires the preparation of sample materials and various types of promotional documentation. It could eventually include the display of a promotional video or of a computerised information product relating to investment in Albania.

As part of our project we have identified the major trade fairs in Europe and the USA in the textiles and clothing and wood-processing / furniture sectors respectively.

Organisation of Inward Trade Missions

This requires persuading specific companies to spend their time and money visiting Albania. It should only be undertaken therefore after long and careful planning has ensured

Our project may also fund the mailing of the brochures to these destinations (depending on the costs of producing the brochures and the budget remaining). We will only only be able to supply the brochure and the marketing sheets in English however. The Ministry will have to take a decision whether to translate the material into other languages in the future Further funds might need to be made available for this purpose.

Action Three - Newsletter

Another useful tool for staying in touch with companies and organisations would be a regular newsletter. This would be designed to ensure that potential investors who are forced to delay their decisions or who have not yet decided what to do, are not allowed to forget about the Albanian option.

We were informed that the Chamber of Commerce intends to produce a monthly newsletter in English in the near future. We think that the Ministry should support this initiative and ensure that it does happen. If the Chamber of Commerce is also responsible for the press release system (see Action One above) this will facilitate the production of the newsletter and the same news-gathering activities can serve to develop both functions. It would not make sense to set up a rival newsletter production system in the Ministry or elsewhere so all activities should centre on ensuring the quality of the newsletter produced by the Chamber. In the future a decision should be taken whether to produce a similar newsletter in Italian, German or other languages.

The newsletter should be sent to all foreign companies and embassies in Albania as well as to Albanian embassies abroad and it should be circulated through the international hotels in Tirana as well. It should also be sent to a mailing list of all companies which indicate an interest in Albanian affairs either when visiting the country or when returning the form contained in the brochure which they will receive (see Action Two). Gradually it should be possible to build up a formidable database of foreign companies interested in Albania. This will be of use in future years.

Action Four - Business Publications

The Albanian Centre for Foreign Investment and Promotion (ACFIP) already has an impressive selection of translations of laws and basic business publications. It has also completed some analyses of the Albanian economy sector by sector and is thus relatively well-placed to supply basic and general information to potential investors on how to do business in Albania. These activities of ACFIP need to be continued and enhanced. In the next few years it can also be expected that some Western consulting firms such as Coopers & Lybrand and Deloitte & Touche will establish a presence in Albania. Such firms will also develop a capability to advise on local business practices and adjustment to local corporate and fiscal regulations.

The production of business publications is thus in our view not a pressing need which the Ministry must address at the present time. Its main role should perhaps be to avoid duplication of effort by ACFIP and the Chamber of Commerce and to delineate their respective responsibilities making sure the two bodies work together and not in competition.

that the chances of the visiting companies of doing worthwhile business in Albania have been maximised.

Thus the sector and the country from which the trade mission is to come must be chosen carefully. Interaction with Albanian business and political leaders (decision-takers) must be guaranteed and briefings (perhaps by ACFIP) on the legal and economic conditions for doing business in Albania should form an early part of the proceedings.

The best way to organise such visits may be once more through the use of Institutes such as ISPIL or other bodies which fulfil the role of trade associations in Albania. The organisation in the foreign country would most probably be through their own sectoral trade association and an Albanian trade association would be best placed to organise such contacts in the long run.

(D) Conclusions

It is possible for the Ministry to ensure in the next few months that a comprehensive press release system is put in place, that the mass-mailing of the brochure occurs and that the production of a monthly newsletter is commenced. We hope to have been able to put everything in place to facilitate these important developments, which should lead to greater awareness of Albania amongst foreign business people.

More needs to be done in terms of more elaborate or perhaps more sector-specific domestic and external communications activities in the longer term. Implementation of these measures would require more time, however, and probably further international funding.

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1210 Brussels
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Fax: + 32 (2) 223 19 95
V.A.T. BE 436 670 244
R.C.B. 515 786

Mrs Gentiana Mara
Albanian Chamber of Commerce
Foreign Relations and Information Department
Kavaja str. 6
Tirana, ALBANIA

Brussels, 28 June 1994
GB/691/ck

Dear Mrs Mara,

re: Press Releases

In addition to sending out press releases to journals, magazines and newspaper overseas (the addresses which I supplied) we strongly recommend that you also compile a mailing list for internal distribution and circulation of news messages. This internal mailing list should contain at least the following:

- business editors of Albanian newspapers
- key members of government and of government agencies such as the Agency for Foreign Investment Promotion
- the commercial consulates or embassies of all countries with a presence in Albania
- any other organisations in Albania likely to be approached by potential foreign investors and traders

You might also be able to arrange with the Foreign Affairs Ministry to circulate the press releases to all Albanian embassies/consulates around the world. I hope that these suggestions are useful.

Yours sincerely

Graham Branton

Trade Fairs in the Wood-Processing / Furniture sector and in the Textiles / Clothing sector.

We enclose the following documents to help you to identify international trade fairs which could be of interest for Albanian industry.

1. Annex III of a Touche Ross memorandum for potential Japanese purchasers of European furniture. It lists the major trade fairs in this sector in 1993. Further information can be obtained from the addresses given.

2. Material prepared in the USA on major trade fairs in the wood processing and clothing (apparel) sectors in 1994.

3. A document from the UK National Wool Textile Export Corpopration listing the main textile exhibitions in 1994. More information can be obtained from this corporation in Bradford, UK.

4. A document from the British Fashion Council outlining trade fairs in the UK in the clothing sector in late 1994 and early 1995.

5. A document from the European Clothing Association listing trade fairs in this s tor in all major countries and giving details of national clothing associations across Europe as well. Further details of individual trade fairs can be obtained on a country by country basis from the national associations.

These documents will be of use when an active programme for Albanian participation in international trade fairs is launched in the future.

Albanian Chamber
of Commerce

15 July 1993

PRESS RELEASE

(for Immediate Release)

IMF Approves Albania's Economic Programme and Advances Major Loan

The International Monetary Fund yesterday approved a three-year structural adjustment loan to Albania of $59 million. The approval of the loan followed a favourable assessment of the Albanian government's plans to create a market economy and stimulate economic growth in the country.

The IMF had in fact already approved a stand-by credit of $28 million in August 1992 to support the 1992/1993 emergency measures. The announcement of a three-year programme yesterday shows, however, a more fundamental, long-term approval of the policy direction of the government elected in April 1992.

According to the IMF, the new government has "acted quickly and decisively" to stem the nation's economic decline, with the result that "the economy's downward spiral has been reversed and the major initial structural reforms have been implemented and absorbed" The government's programme for the next three years involves a reduction in the state budget deficit, the establishment of market economy institutions, state enterprise reform and privatisation and the development of a modern social security system The IMF approves this programme.

The icing on the cake for Albania came when the World Bank followed the IMF announcing a further loan of $20 million to be provided over the next 18 months through its International Development Association to support Albania's agricultural entrepreneurs and rural development in general.

For further information on this issue or on any other business issues relating to Albania please call or fax the Albanian Chamber of Commerce

Tel 355 42 42877
Fax 355 42 27997

We will refer your request to the suitable authority if we cannot answer it ourselves.

Albanian Chamber
of Commerce

23 April 1993

PRESS RELEASE

(for Immediate Release)

Albanian Parliament Passes Major Reform of Land Ownership Laws

In recent weeks the Albanian Parliament has passed two major new pieces of legislation which will transform the nature of land ownership in the country and lay the foundation for further privatisation of agricultural activities.

The laws set out detailed procedures for the return of land confiscated by the Communist authorities to its former owners or for compensation to such owners for their loss of land They add to existing mechanisms in relation to residential property and follow the major agricultural privatisation and redistribution law of 1991

The net effect of all the legislation should be the creation of a thriving private farming sector, and indeed agricultural production is rising sharply now in Albania During the transition period, however, when claims to land can be made and have not yet been resolved, the laws will result in the development of some sites being blocked. New investors will not find it easy to rent or lease land whose ownership is unclear

The transition period is not expected to last for more than two or three years Once it is over the purchase or lease of land should be an entirely private sector transaction in most cases and security of tenure will be absolute

For further information on this issue or on any other business issues relating to Albania please call or fax the Albanian Chamber of Commerce

Tel 355 42 42877
Fax 355 42 27997

We will refer your request to the suitable authority if we cannot answer it ourselves.

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1. GUIDELINES FOR DEVELOPING AND USING PRESS RELEASES

Information which appears in the media about companies or organisations breaks down into two forms:

- paid-for advertising (TV clips, radio announcements, newspaper advertisements, posters, etc.)
- free information (news items on radio and TV, news items in newspapers, editorial comments in newspapers and documentary features on TV or radio).

Many marketing mangers focus their attention on paid-for advertising. However, it is important not to overlook the opportunity to place positive news through unpaid news items, editorials or documentary features.

Every marketing manager or public relations manager should be trying to identify opportunities to gain news coverage about his organisation. There are two good reasons:

- first, news coverage is free;
- second, readers trust or believe more in the accuracy of information about a company or organisation which they see in a news item or editorial than they see in an advertisement.

Press releases for newspaper and magazine journalists are therefore an extremely important tool for marketing managers and publicity managers.

This note aims to give some basic information about using press releases.

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2. ORGANISATIONAL QUESTIONS

Preparing press releases is part of the normal management task of an enterprise. Your organisation must do four things:

- you must nominate someone as responsible for public relations and press releases. This person will be responsible for:

  - drafting press releases;

  - building and maintaining contacts with the press;

  - acting as a reliable source to whom the press can direct questions and queries.

  It should not be someone too senior. The person responsible for public relations will not usually be quoted themselves in the press, but will provide quotes from senior directors and mangers for press releases;

- you should nominate someone in the organisation to approve press releases before they are issued;

- you must establish an up-to-date mailing list of the names, addresses, telephone and fax numbers of people whom you wish to send the press releases. These may include:

  - local and regional journalists;

  - national journalists (these may be sector specialists, such as the industry journalist on a national newspaper);

  - editors of trade journals which focus on sector-specific developments;

  - business and economic magazine editors;

  - local TV station editors;

  - international TV news programme editors (e.g CNN);

  - other individuals in banks, chambers of commerce or positions of influence whom you wish to influence.

- you must respond quickly to the needs of the press. "News" has a very short life and "old news is no news" If you wish to build the trust and confidence of the press and media, help them when they ask you for help in giving them (good) news about your organisation. If they like you, and find it easy to work with you, then they are much more likely to:

  - say good things about your company/country in their newspaper; and

  - be sympathetic and helpful to you if ever you have a difficult story to tell (e.g. why a mistake of some kind occurred).

3. WRITING A PRESS RELEASE

Some general hints and tips:

- try to write each press release as journalists themselves would write it: lively, interesting, factual but without any trace of "hard sell advertising" about your organisation or company;
- have printed a stock of attractive letterhead "Press Release" paper. Use this for all your press releases;
- always date the press release;
- always state when it can be released, for example:
  - "for immediate release" (i.e. the newspaper can print the information as soon as they receive the press release);
  - "not to be released or printed until 12.00 hours, Monday 29 July 199x"
- always have a good accurate title. This tittle should be one which will:
  - attract the attention of the journalist; but also
  - tells the journalist exactly what the press release is about in one or two lines of text.
- try to limit the press release to no more than one side of paper. If more detailed information is needed, add a separate sheet "Extra Notes for Editors" which may give other background information;
- always give the name of a person who can be contacted to obtain further information on the story.

4. STRUCTURE OF A PRESS RELEASE

The following structure may help:

Headline/Title:	This should be the main news story in as few words as possible. Aim to catch the attention of the journalist.
First Paragraph	This must contain the main points of the story which will be of interest to the reader.
Paragraph 2 -3	Highlights or interesting features about the story.
Paragraph 4	Provide a quote from a senior member of your organisation (or from a Minister, business leader or other *relevant* person).
Paragraph 5	Provide basic facts such as times, places, prices, where event is occurring etc.
Last Paragraph	Provide contact details for further information, giving work number and (if possible) home number also.

If you need to give **Extra Notes**, use a separate sheet of paper for additional notes. These notes may include various background topics such as:

- the methodology of a survey reported in the main press release;
- information on the company (size, turnover, when established, key operations, financial statistics, etc.)
- background information on a project, or programme, or relevant legislation or similar events which form a pattern and "tell a story" (e.g. progress in trade liberalisation, or foreign investment).

5. DESPATCHING A PRESS RELEASE

Remember to:

- personally address the Press Release to the individual editor/journalist concerned;
- find out the printing dates for the most important newspapers and magazines which are relevant to you. Make sure that you issue the press release at a time which allows the most important newspapers (i.e. most important to you) time to use the press release in their latest issue;
- check your calendar for any events or activities that will either:
  - make your press release more newsworthy and more likely to get placement in newspapers or journals (e.g. a press release on Albanian export success during the week that a major world leader signs trade agreements with Albania would be very newsworthy);
  - make your press release unlikely to get much space in the Press (e.g. during the week of a major international economic summit or the election of an American president);
- send out all the press releases to all journals at the same time;
- send urgent or "hot" news by fax, if possible;
- be around in the office where editors can contact you for more information after the press release has been issued.

6. APPENDIX - EXAMPLES OF PRESS RELEASES

(see attached)

Albanian Chamber of Commerce

25 October 1993

PRESS RELEASE

(for Immediate Release)

Interest Grows in Offshore Oil Exploration off Albania

It emerged yesterday that the Houston-based drilling contractor Global Marine Inc. had signed a joint-venture with Albpetrol, the Albanian state-owned oil company to perform offshore drilling operations near the Albanian coast

Global Marine Inc. is not the first Western oil company to show an interest in Albania since its economy opened up in 1990-1992. Chevron Corp., Occidental Petroleum and Hamilton Oil Inc. of the USA are all active in Albania as are AGIP of Italy, Demirex of Germany and OMW of Austria.

Much of the offshore interest has been sparked by the discovery by AGIP in July this year of major oil reserves just on the Italian side of the sea frontier between the two nations. This field is expected to contain over 100 million tons of oil or oil equivalent.

Meanwhile the European Bank for Reconstruction and Development announced its intention earlier in the year to investigate the rehabilitation of Albania's onshore oil fields. Funds may be available to support this activity in the future.

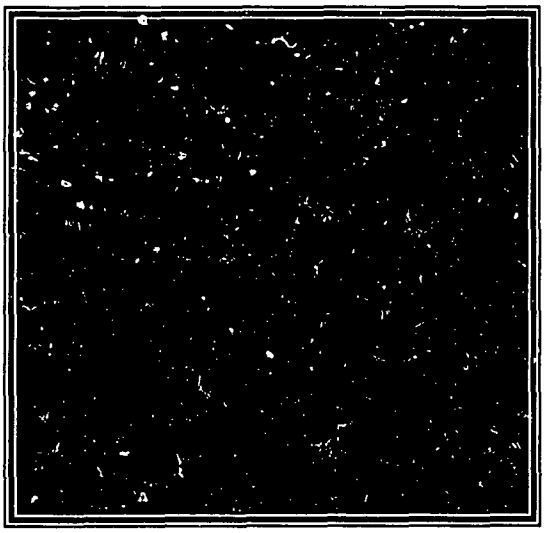
For further information on this issue or on any other business issues relating to Albania please call or fax the Albanian Chamber of Commerce

Tel 355 42 42877
Fax 355 42 27997

We will refer your request to the suitable authority if we cannot answer it ourselves.

ALBANIA

Why Albania ?



Albania at a Glance

ALBANIA

Land of Opportunity

From the Mountains...

...To the Sea

"Albania, whose GDP jumped 8% in 1993, was Europe's fastest growing economy last year"
(The Economist)

"Today, we believe Albania offers as open an approach to international business as any of the emerging economies of Central Europe"
(..., Albanian Minister for Trade and Industry)

"Albania now has a clear comprehensive structure for setting up and operating commercial companies"
(CCH "Doing Business in Eastern Europe")

"The economy's downward spiral has been arrested, the slide into hyperinflation has been reversed, and the major initial structural reforms have been implemented and absorbed"
(International Monetary Fund)

APPENDIX 4B

ANALYSIS OF THE LIGHT INDUSTRY SECTOR

DELIVERABLES

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EXECUTIVE SUMMARY

This report summarizes findings from a USAID-financed rapid survey of 12 firms in Albania's light industry sector. Survey data are reinforced by information gathered through interviews with ministry and donor personnel. The goal of the survey was to identify products that appear to have a comparative advantage within Albania's light industry sector.

In the 1980s, output in Albania's light industry sector grew by about 4 percent per year, but exports declined considerably. When domestic demand collapsed beginning in 1989, the sector was hit hard. Today, after a tough process of employee layoffs and enterprise shutdowns, the sector appears poised for renewed growth. The new light industry sector has a different structure and a far greater emphasis on production for exports than did the old.

Over the past two years, the most promising development by far in the light industry sector has been the rapid blossoming of export-oriented production — in particular, inward processing. Manufacturers of shoes and clothing have switched from production for the local market toward partial processing of inputs for goods that are finished and sold overseas. Processing work has rapidly become a leading source of export revenue. In 1993, foreign exchange earnings of processing work outstripped those for all other manufactured export revenue combined.

This study develops some rough estimates of comparative advantage for a sample of 10 products. It finds that products that are relatively labor-intensive have a comparative advantage in the sector. Of the 10 products examined, processing production and artisanal kilim rug production appear to show the most promise for Albania. But, under some pricing hypotheses, a few other products — wool products, leather shoes, and kiosks — appear competitive.

This study concludes that, because Albania has a comparative advantage in processing production, the Government of Albania should develop a strategy to promote its processing production for countries besides Italy and Greece. Germany and the Benelux countries — Belgium, the Netherlands, and Luxembourg — which have a long experience with processing trade and are highly dependent on it, should be targeted. In addition, some greater promotion of processing production within Albania is needed to reduce the perception that it is a second-rate form of production.

New tax treatment of the inputs for processing production threatens the sustainability of this promising new form of production. Imported inputs for processing and subsequent re-export should not be subject to customs duties. The Customs Office needs to develop a different form of control for the inputs for processing.

INTRODUCTION

This study was produced under USAID's Albania Investment and Privatization Program. Its analysis of the comparative advantage of products in Albania's light industry sector is designed to feed into the identification of strategies to develop the export potential of competitive Albanian products.

The Investment and Privatization Program is USAID's mechanism for assisting Albania's Ministry of Industry and Trade in its conversion to a ministry that effectively supports and promotes the new free market economy in Albania.

This report analyzes the condition, resources, potential, and regulatory environment for light industry in Albania. Its analysis is based on extended interviews with representatives from 12 firms and on more cursory discussions with representatives from key ministries and donors.[1] To identify areas of comparative advantage in the light industry sector, the study estimates the domestic resource cost (DRC) for production of 10 representative goods.[2]

CONDITION OF THE LIGHT INDUSTRY SECTOR

General Characteristics

Since 1989, Albania's light industry sector has undergone a dramatic transformation. Through the 1980s, output in the light industry sector grew by about 4 percent a year, but exports declined considerably. When domestic demand collapsed beginning in 1989, the sector was hit hard.

After a tough process of employee layoffs and enterprise shutdowns, the sector appears poised for renewed growth. The new light industry sector has a different structure and a far greater emphasis on production for foreign markets than did the old. The return to growth has been uneven; some of the light industry subsectors with good long-term growth potential remain mired in a deep recession. But there are other, positive signs of growth and investment that indicate the sector will continue to be an important source of employment and growth in the economy.

Size

Albania invested heavily in the expansion and diversification of its industrial base from 1950 to 1975, a period during which total industrial output grew by more than 10 percent per year.[3] During the

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[1] The annex lists the persons contacted for this study.

[2] The DRC ratio indicates the relationship between the opportunity cost of domestic resources consumed and foreign exchange earned or saved in the production of one unit of a specified product. A DRC less than 1.0 indicates that the economic costs of production are less than the costs of importing and that the country under study has a comparative advantage in that product.

[3] Mario I. Blejer et al., "Albania: From Isolation toward Reform," International Monetary Fund, September 1992.

The severe economic contraction from 1990 to 1992 was most strongly felt in the industrial sector, where output fell by 20 percent in 1990, 37 percent in 1991, and 60 percent in 1992.[5] 1993 production was just 20 percent of that in 1990. The fall in output reflected the collapse in Albanian demand, both public and private. The drop in output accelerated as links in the integrated production chains found in most sectors began to break down. Firms that once relied on locally produced inputs were forced to turn to overseas sources or donors for their inputs (prices for imported inputs are generally higher than those for the local alternatives).

Data are scarce for this period, but Table 1 shows the trend in output volume in the textile, clothing, and shoes industries.[6]

TABLE 1

TOTAL OUTPUT IN TEXTILES, CLOTHING, AND SHOES

	1989	1990	1991	1992
Textiles ('000 ml)	50,002	41,582	11,379	8,338
Garments ('000 ml)	24,029	21,443	8,440	3,971
Shoes ('000 pairs)	5,882	5,749	1,861	1,214

Source: Albanian Center for Foreign Investment Promotion, "Industry of Cloth-Wearing," November 1993

As output fell, firms were compelled to lay off a substantial portion of their work force. For the nine sample firms with employment data, jobs fell by 35 percent — 66 percent if the two firms that have hired new employees over the past three years are taken out of the average.[7]

Stabilization and an Uneven Return to Growth

Since mid-1993, the economy appears to have stabilized, and there is some sense that the worst part of the adjustment may be over. The least competitive firms are no longer operating, and most others have trimmed their labor forces substantially to adjust to lower demand. Export-oriented firms are starting to hire new staff as they master international production standards and as demand from overseas rises.

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[5] Blejer, op. cit.

[6] There are two things to keep in mind, particularly in the textile, clothing, and shoe industries: clothing work and shoe assembly work are not classified as production and so are not included in these statistics, and private production also is excluded from the statistics.

[7] The two firms that have hired new workers are producing blouses and shoe uppers under processing contracts with European firms.

Definition

Inward processing is not production — it is a service performed by a low-wage country. The low-wage country adds value to a good produced in a high-wage country. For example, suppose a European manufacturer wants to produce a blouse. The manufacturer designs and cuts out the cloth for the blouse. The pre-cut cloth is shipped to a nearby low-wage country — typically in Eastern Europe or in Northern Africa — where it is sewn up and finished. The blouse is sent back to the country of origin for sale. The input — the pre-cut cloth — remains the property of the firm of origin. Thus, when the input is shipped for processing, it is not registered as an import by the recipient country, nor is the final product registered as an export. The product retains its initial country of origin. The processing country earns foreign exchange for the service it provides, not for the final product.

Role in the European Union/Eastern European Market

Inward processing was pioneered by West Germany, as a way to maintain its position in the highly competitive international clothing market. West Germany's high productivity did not entirely compensate for its high wages. To remain competitive, it began to farm out the most labor intensive stages of clothing manufacture. Over the past 10 years, this strategy has been adopted by other high-wage European countries, and its application has been broadened to include other labor-intensive manufactures, such as shoes, furniture, and mechanical assembly.

Germany remains the leading practitioner of this production strategy, accounting for more than 60 percent of European Union (EU) processing trade in clothing in 1992. It has generally looked nearby, to countries in Eastern Europe, for its processing partners. In 1992, the leading sites for inward processing were, by order of importance, Poland, the former Yugoslavia, Hungary, and Romania. Romania showed a substantial increase in output between 1991 and 1992.[10]

Inward processing is new in Albania. In 1992, Albania was not among the top 20 processing sites internationally. But the market for processing services is fairly deconcentrated and adapts rapidly to changing market conditions. Key factors in success in this market are low-cost labor, quality control, reliability, and rapid turnaround.[11]

Processing trade has become a significant enough factor in the EU clothing and textile market that EU countries are subject to quotas limiting the amount of their processing production. Southern European countries — in particular, Spain, Portugal, and Greece — have not participated much in this market. But as wages in these countries increase, the countries are growing interested in the strategy. In Albania, there are Greek investors carrying out inward processing.

---

[10] "European Report," No. 1876, July 17, 1993, p. 5.

[11] Foreign partners of Albanian firms had mixed reports on quality control and productivity in Albania. Because so many of the processing contracts were less than one year old, the European firms were still classifying their Albanian ventures as start-up activities. All intended to put more time into developing their workers' skills.

exports of all manufactured goods — including light industry — peaked, they did not exceed $24 million.[13]

Dollar for dollar, foreign exchange earned in processing trade has more impact than that earned in trade in final goods. Why? Because processing exports are pure value added. For exports of finished goods, some part of foreign exchange earnings is netted out by the value of imported inputs. For that reason, direct comparisons of processing earnings and finished good earnings are misleading.

Export-Oriented Sales versus Local Sales — A Widening Gap in Performance

There is a clear split in the performance of the enterprises visited for this study. The only firms producing anything were those producing for export with new foreign-provided equipment. Factories producing for the local market were turning out little or nothing. Their personnel were reduced to a core staff, and their directors sat waiting for the much-rumored but still-elusive foreign investor.

The survival of firms producing only for the local market is threatened by three factors:

- Weak local demand;
- Cheap imports from Asia and from elsewhere in Eastern Europe; and
- Rising production costs as parts of the domestic production chain close down. For example, kilim producers must now buy imported wool yarn at nearly twice the price of the local product.

Responses of Sample Firms to Changing Market Conditions

Market Evolution for Sample Firms

Since 1989, all but two of the firms interviewed have decreased employment and reduced output. Those in the shoe and clothing subsectors, in particular, have subsequently rebounded by bringing in joint venture partners and establishing processing contracts. According to the sectoral staff at the Ministry of Industry and Trade, of 33 SOEs in the shoe and clothing industries, 4 have been privatized, 4 are in joint ventures, and 21 hold processing contracts. Firms that are fully or partially owned by foreign investors export all of their output.

No other industry has reoriented its production so successfully. But within some industries, individual firms have adapted well to market changes. For instance, a factory that until recently made wagons for transporting metal ore has shifted into kiosk and decorative metal production. The director hopes that demand for wagons in the mining sector will recover before demand for kiosks tails off.

More than a few of the enterprise directors interviewed had done little to adapt to the new market and are allowing the physical plants to decay.

---

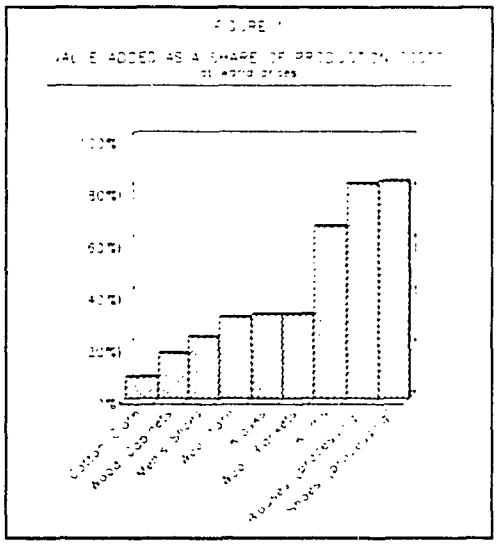
[13] Blejer, op. cit.

TABLE 3

KEY CHARACTERISTICS OF THE SAMPLE FIRMS

Industry	Product	Ownership	Export Share	Market
Textiles	Acrylic blend thread and cloth	100% state	0	Local
	Wool yarn, cloth, and blankets	100% state	0	Local
	Cotton and cotton/polyester thread and cloth	100% state	0	Local
Clothing	Blouses	100% state	100%, processing	Germany, Austria, Italy
	Underwear	5 workshops, 4 100% state, 1 JV	4 workshops, 100% (processing); 1 workshop, no exports	Local, Greece
Shoes	Shoes and uppers	100% state	1 workshop, 100% export (processing); 1 workshop local	Local, Italy
	Leather uppers	50-50 JV with Italian firm	100%, processing	Italy
		100% private	100%, processing	Italy
Artisanal Work	Kilims	100% state	60% export	Local, various EU
Wood Work	Household furniture	100% state	0	Local
Mechanical Assembly	Kiosks, Wrought-iron work	100% state	Kiosks: 0 Wrought iron: 100% (processing)	Local, Italy
Electro-Mechanical	Electrodes	100% state (JV under negotiation)	0	Local

other goods, value added rates are somewhat higher than is typical.[15] High value added reflects high factor costs (that is, high wages or interest costs), high profits, or low productivity. According to the firms interviewed, low productivity is the more likely culprit.



Salaries. Salaries are higher in enterprises producing for exports. Public enterprises producing for local consumption typically pay a salary that ranges from 2,200 lek per month to 3,200 lek per month. A salary increment, to cover recent increases in bread prices, was estimated by firms at 60 lek per day. This would bring earnings for employees up to 3,500 to 4,500 lek per month.

The export-oriented enterprises tend to set wages by the piece. This policy makes it difficult to estimate an average wage. But enterprise managers stated average wages that varied from 4,500 to 7,000 lek per month, including the bread payment.

Input Costs and Sources. Firms more and more face a pinch stemming from rising input costs and stagnant domestic demand. Unable to pass their increased costs through, some firms have stopped production. Price increases have been a result of devaluation, local inflation, and greater dependence upon imports.

Until recently, Albania was the most nearly autarkic of all countries. Since 1990, it has made tremendous progress toward opening its markets to foreign goods. At the same time, some local enterprises have ceased production. The result is that an increasing share of the inputs for those firms still producing comes from overseas. Privileged sources for imported inputs include Bulgaria, Romania, and Russia for metals, hardware, processed wood products, and mechanical parts. Firms are getting a taste for Western European and American inputs through aid programs. The European Union is providing necessary inputs for some firms as part of its large PHARE project. The United States is supplying cotton that is used by the cotton mill for its cloth. All donated materials are sold at roughly their market value. Much to the delight of the local cotton mill, the U.S. cotton is less expensive than alternatives used before. But the EU materials are frequently as expensive as or more expensive than the Albanian materials they replace.

As input costs rise, enterprise margins are squeezed. For instance, a kilim rug producer had depended upon the local wool mill for its yarn. When that mill stopped producing, the kilim producer was obliged to turn to better quality and more costly imported wool yarn.

Effective Protection Rate. The effective protection rate measures the impact of trade barriers on the protection of the value added of a product. The measure is used as a proxy for the economic incentives to produce. A high rate of effective protection for a good implies that the trade regime provides high incentives for production of that product. For a traded output, effective protection is defined by:

[15] A study for USAID/Morocco conducted by the author found that value added averaged 28-30 percent among industrial firms in that country. This average includes goods produced under processing arrangements.

To get a sense of the robustness of the relative ranking of DRCs within the sample, we define a base case and four variations. Under the base case, the shadow price of labor is fixed at 75 percent of nominal value, the shadow price of capital is 15 percent, the cost of renewing the capital stock is estimated at 100 percent of the value of output, profits are estimated at 10 percent of the value of output, and the equilibrium exchange rate is the current rate devalued by 20 percent.[16]

How were these estimates reached? The high level of unemployment and emigration in Albania indicate that the shadow price of labor (the market clearing wage) is something less than the nominal wage. Seventy-five percent was taken as a starting point. Column 2 in Table 5 shows the impact of a reduction in the shadow wage rate to 25 percent of nominal levels. For capital, the 15 percent rate estimates the opportunity cost of capital. Column 3 in Table 5 shows the impact on comparative advantage if the opportunity cost of capital is 30 percent. The average profit rate is based on experience in other countries. Tariff protection results in an overvaluation of the lek that is estimated at 20 percent. Column 4 in Table 5 shows the impact of a total devaluation of 50 percent.

Each of these parameters can be questioned and adjusted. As shown in Table 5, if the shadow price of labor or capital declines or the exchange rate declines, the DRC falls.

When the DRC falls to a level less than 1.0, there is a comparative advantage in the production of that product. Of the scenarios presented, those in which the exchange rate is devalued by 50 percent or the shadow wage rate is reduced to 25 percent of the nominal rate have the most dramatic impact on comparative advantage. In these cases, six of nine goods appear to offer a comparative advantage.

TABLE 5

DOMESTIC RESOURCE COSTS
(four scenarios)

Group/Product		Base Case*	W' = 0.25*W	K' = 0.30	Xr = 1.5
(I)	Shoe upper (p)	0.56	0.35	0.56	0.44
(I)	Kilim	0.74	0.51	0.93	0.59
(I)	Blouse (p)	0.82	0.54	0.82	0.65
(II)	Kiosk	1.02	0.93	1.41	0.82
(II)	Wool yarn	1.24	0.92	1.64	0.99
(II)	Wool blanket	1.40	0.99	1.79	1.12
(II)	Mens shoe	1.22	1.07	1.74	0.98
(III)	Electrodes	1.40	1.34	2.18	1.12
(III)	Wood cabinet	2.06	1.92	3.19	1.65
(III)	Cotton cloth	5.98	4.72	7.47	4.79

* For the base case, W' = 0.75*Wage, K' = 0.15, P' = 0.10, and Xr = 1.2

The sample products are divided into three categories according to the DRC estimates: products with a strong comparative advantage, products with a borderline comparative advantage, and products whose production is relatively inefficient — that is, they show no comparative advantage.

Group 1: Products with a Strong Comparative Advantage. Three products appear to have a strong comparative advantage, irrespective of the shadow pricing hypothesis adopted. They are the two processing outputs — blouse assembly and sports shoe upper assembly — and kilim rug weaving. All three goods are highly labor-intensive. That they should be the most efficient outputs of the sample makes sense in the Albanian context of capital scarcity and labor surplus.

[16] Processing firms do not carry the costs of renewing their capital stock. Amortization is fixed at 0 for these firms.

Inward Processing Production

Inward processing is providing much needed foreign exchange and jobs during this difficult transition period. In addition, it is promising as a bridging activity until Albanian investors build up some capital and the environment for business is stable and attractive enough to bring in foreign investors interested in establishing a more durable relationship.

Benefits

Some of the factors that make inward processing attractive to Albania and Albanians include the following:

- Jobs are relatively high paying — 4,500-7,000 lek per month compared with 3,500-4,500 lek per month in SOEs producing for the local market;[17]
- Inward processing offers a relatively low-risk introduction to international commercial standards and practices;
- Some processing contracts include provisions for the sale of new equipment to the Albanian firm; and
- Jobs in clothing and shoe making are filled almost entirely by women, who are generally believed to have been hardest hit by employment cutbacks.

Potential Drawbacks

Some Albanians in government oppose promotion of inward processing. They argue that foreign firms that establish processing relationships with Albanian firms are exploiting Albania's poverty and its inexperience in international commerce. There is a related fear that partners will stay until wages rise, but, when that occurs and the partners move on to other parts of the world, there will have been no learning in the Albanian firms. Employees will have been so sheltered from the international market that they will be no more able than they are today to operate internationally. There are also concerns about the risks in contracting with little-known foreign partners. More than one firm contacted has had a bad experience with a foreign partner that withheld salaries or was late in providing inputs.

The more subtle concern cited by government officials and private citizens is that processing work is not real production. For example, several interviews revealed that people are uncomfortable that factories are sewing only shoe uppers rather than manufacturing the entire shoe. There is a good deal of pride in Albania's ability to manufacture a broad range of finished goods. That pride has taken a beating as factory after factory has shut its doors. Inward processing is perceived as yet another indicator of the decline of Albanian production strength and, as a result, is resisted.

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[17] Both wage estimates include a 60-lek-per-day transfer from the state to compensate for increases in food prices.

not qualify for drawback. They pass the duty they pay through to exporters, thereby indirectly taxing them.

Treatment of Producers for Local Market

Producers for the local market are subject to tariffs that range from 10 to 35 percent on imported inputs. The relatively moderate and harmonized tariff structure reduces the distortions of this necessary fiscal measure.

Albania's tariff structure is unusual in that both inputs and final goods in a given subsector (classified at 2 digits in the tariff nomenclature) are taxed at the same rate. That means, for example, that cotton yarn and cotton cloth face the same tariff. This practice harmonizes the effective protection on value added with the rate of protection on the final good. On the other hand, the practice means that some firms pay 35 percent tariff on their raw materials — quite high on an international scale.

Tariffs for some goods are amplified by customs' reference prices. Customs agents use these reference prices as a base for calculating the duty owed on a standard import. If a local buyer imports a product with a price below the reference price, he or she is still required to pay the duty that would be charged at the reference price. Reference prices are generally applied to consumer goods. But one local entrepreneur reported that his imports of sheet metal were also subject to a reference price that raised the effective duty he paid on his imports.

Profits Tax

All enterprises employing more than one person are subject to a 30 percent tax on profit. Sole proprietorships pay 3 to 10 percent of revenue in tax. Although the tax on sole proprietorships can work out to be a high percentage of profits, the tax on companies represents a substantial reduction from prior levels.

Turnover Tax

Albania applies a 15 percent turnover tax at each stage of processing. In the future, this tax will be converted to a value added tax. In the meantime, because it is applied at more than one stage of production, its cost cascades through the marketing chain.

As an initial step toward its conversion to a value added tax, the turnover tax is eliminated for sales within an economic subsector. For example, when a local yarn factory sells its output to a local carpet factory, the tax is not applied. It is ultimately applied at a rate of 20 percent on the final sale outside the subsector — for example, when the carpet is sold to a merchant. This practice applies to all goods produced in the light industry sector.

In practice, firms in these integrated sectors do pay some turnover tax on their inputs, because the derogation applies only to sales of locally produced inputs. Firms that purchase inputs overseas or from intermediaries pay the turnover tax. As key elements in the domestic production chain shut down and firms look overseas for replacement sources, the downstream tax burden is rising. The turnover tax is not applied to export sales, but it is paid on inputs used in production of exports.

CONSTRAINTS, OPPORTUNITIES, AND RECOMMENDATIONS FOR THE PROMOTION OF THE ALBANIAN LIGHT INDUSTRY SECTOR

Constraints

- Most reputable foreign investors will be reluctant to invest significant sums into Albanian industry until the environment for business is more stable and the domestic market is stronger.

- New and onerous customs regulations — applying customs duties to inputs used in processing production — are making processing production less attractive to the potential investor.

Opportunities

- Processing production provides a foot in the door leading to the European market.

- Processing provides an opportunity for some training and limited exposure to the international market.

- To the extent that Albanian firms are able to acquire new equipment through their processing arrangements, they will be more able to market their services more broadly and build up independent reputations.

- At the same time, direct export of labor-intensive goods — for example, clothing and artisanal products — offers good potential for growth.

Recommendations

Recommendations are divided between the Government of Albania and donors. The Government of Albania should consider the following actions:

- Promoting Albania's inward processing capacity overseas, and targeting countries, particularly Germany and the Benelux countries, that have a long experience with processing and are dependent on it;

- Promoting processing production within Albania. The dismissive attitude toward processing and the perception of processing as a second-rate form of production will not help reduce Albania's trade deficit;

- Eliminating duties (except for the 1 percent processing fee) on inputs used in processing production, and replacing that strategy with some other form of control for the processing inputs; and

- Encouraging foreign investors to purchase factories outright rather than to enter into a joint venture.

ANNEX

LIST OF CONTACTS

LIST OF CONTACTS

Ministry of Trade and Foreign Cooperation[1]

Artan Hoxha, Minister

Alan Osman, Advisor to the Minister

Larry McDonald, International Trade Policy Advisor

Emira Hakani, Director, Department of Trade

Anika Basi, Department of Multilateral Relations

Ahmet Stojna, Finance Department

Chief Statistician in Office of Papakostandini, Import/Export Department

Ministry of Industry, Mineral Resources and Energy

Mentar Bujari, Director, Department of International Cooperation, Foreign Investment, and Privatization

Lindita Janqi, Textile Industries Division

Shoe Industries Division

Ellushe Husi, Confection Industries Division

Mihallaq Kongo, Electro-Mechanical Industries Division

Jeton Parapani, Director, Mechanical and Electro-Mechanical Department

Mrs. Burbuque, Artisanal Division

Sali Toro, Wood and Paper Industry Division

[1] Later changed to the Ministry of Industry and Trade. All titles are those that applied at the time of the interview.

Director, artisanal kilim factory

Chief engineer, shoe factory

Director, knitwear factory

Director of finance, shoe factory

Director, wooden furniture factory