

PA-ABR-306

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Touche**



IN ASSOCIATION WITH:

Development Alternatives, Inc

**Albania
Privatization Assessment**

Albania: A Path to Economic Reform

Contract # EUR-0014-I-00-1056-00

Delivery Order #1

Prepared for EUR/RME/ER/ED

FEBRUARY, 1992

**ALBANIA:
A PATH TO ECONOMIC REFORM**

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INTRODUCTION

Deloitte & Touche, in association with Development Alternatives, Inc. (DAI), is pleased to submit this report in support of Albania's privatization objectives. The findings and recommendations contained in this report are based on field visits to Albania in September 1991, and on subsequent discussions with Government of Albania (GOA) and U.S. Embassy officials. The team, consisting of Jean Gilson from DAI and Professor Steve Hanke from Johns Hopkins University, worked closely with then-Minister of Finance, Mr. Genc Ruli and his staff, the Director of the National Agency of Privatization, Mr. Veli Mullaraj and his staff, other GOA ministries, and the U.S. Embassy. A list of all in-country visits is included as Annex I. The team also visited with staff members from AID, Department of Treasury, IMF, and the World Bank.

In the report that follows, Section One, the Executive Summary, highlights potential immediate and medium-term programmatic responses to Albania's plight. Section Two examines Albania's recent economic developments, the country's legal and regulatory environment, and other donor activities. Section Three details the proposed country program with respect to immediate and medium-term responses. The section expands on a strategy for indirect privatization, enterprise development needs, and food sector privatization.

SECTION ONE

EXECUTIVE SUMMARY

Like other formerly communist East European countries, Albania is experiencing the difficult transition from dictatorship and a command economy to democracy and a market economy. The country has encountered many obstacles along this path since the overthrow of former leader Enver Hoxha, not the least of which was the resignation of the successor government in December 1991. Albania's predicament is, in many ways, worse than that of countries such as Romania and Bulgaria and may more closely resemble some of the republics of the former Soviet Union. Not only is Albania more backward economically, but the 45 years of communist isolationism have had a devastating impact. Despite abundant labor, land, and natural resources such as chromium and bitumen, Albania's stock of useable capital is small and outdated. As a result, the country's stock of useable capital per worker is small and has led to low labor productivity and real wages.

Albania's advantages include: its size, which makes it easier to help financially; its tourist attractions and closeness to Western Europe; its labor force, which is paid the lowest wage of all of Europe; its untapped natural resources; and its enthusiasm for making the concept of economic transformation a reality. The country's economic growth will depend on raising Albania's low capital-labor ratio that can occur only by relatively large doses of foreign investment. The challenge will be for Albania not to increase the ratio beyond the point where wage rates cease to be a comparative advantage. To develop and survive, Albania must recognize private property rights in order to encourage and protect external investment. It can then focus on privatizing agriculture, housing, industry, and natural resources.

Italian Foreign Minister De Michelis maintains that the critical element in Albania's future is for Albanians to "regain their self-confidence by helping their government take concrete steps toward economic reforms, since it is they who must rebuild their life and this will be the least costly way." Clearly, a combination of private foreign investment, international donor assistance, changes in public opinion, and training and development for Albanians is necessary to rebuild the country's economy.

Programmatic Responses

A Strategy for Privatization in Albania

Albania's unique history necessitates an equally unique approach. Because of numerous impediments to traditional divestiture policy, including outmoded plant and equipment, negative value-added enterprises, policy and legislative deficiencies, and adverse political and social impacts, Albania is well suited-- and AID well positioned-- to consider

alternative methodologies such as "indirect privatization." Such instruments as management contracts, leasing, fragmentation, and contracting out provide mechanisms both to accelerate the overall privatization process and to mitigate negative social, economic, and political consequences that often accompany traditional divestiture programs. A central part of AID's approach would be the development of a rapid reconnaissance methodology, which would assess the general policy and institutional climate for privatization and seek out targets of opportunity. Follow-up missions might be highly sectoral in focus, since many of these indirect tools tend to be sector- or industry-specific. An investigation of the herb sub-sector is one example.

Enterprise Development: A Complement to Privatization

Hand in glove with GOA and donor actions on the privatization front, there is a need to create an appropriate environment for entrepreneurship. Increased private sector activity from start-up enterprises and state-owned enterprise (SOE) fragmentation will help to absorb unemployment, currently soaring in Albania, and generate income. Indirect privatization, such as fragmentation, creates opportunities for nascent entrepreneurs and managers to enter an otherwise hostile market and hone their skills in the new competitive environment. Start-up enterprises and their owners will require special attention. AID should begin by addressing the overwhelming barriers to entrepreneurship currently in place in Albania. The focus of this assistance would be two-fold: to assist the GOA to develop and enact public policies supportive of business formations and market operations and to assist entrepreneurs in planning, starting, and operating successful private businesses.

Sectoral Focus

Both the Minister of Finance and the Minister of Food identified the agriculture or food sector as the key target for privatization, dominating as it does the Albanian economy. Currently, organizations such as Volunteers for Overseas Cooperative Assistance focus primarily on improvements in the production at the farm level, as well as appropriate training. Little attention is paid to distribution systems, market development/ creation or intermediation. Commercialization of the food sector creates the necessary linkages from the producer to the consumer. Only via privatization and commercialization of this important sector can Albania move its economy forward and ensure the security of its food supply for its people. The report outlines a pilot program that addresses Albania's needs.

Immediate Action Plan

Should AID elect to pursue the medium-term approaches to Albania's privatization process outlined above and detailed in the report, the appropriate immediate responses include:

- Fielding a design team responsible for confirming, targeting, and programming follow-on, medium-term assistance. In addition to AID and GOA, this "lead

team" would represent a focal point for feedback from follow-up teams. The team leader would continue to be involved in overall program activities in the medium-term, in an effort to provide continuity of approach.

- Sending up to five sector-specific rapid reconnaissance missions to identify appropriate targets of opportunity and begin exploring possible interested U.S. investors. These teams would report to AID and GOA and provide feedback to the team leader from the lead team. The rapid reconnaissance teams would likely consist of an economist, a financial analyst, and an industry specialist. In addition to the food sector, illustrative sectors for investigation include housing, natural resources, and building products.
- Fielding an enterprise development specialist tasked with planning AID's assistance to the emerging business sector, verifying the appropriate ministerial location for such advisory services, and developing a workplan appropriate to the needs identified and responsive to the constraints and opportunities facing new business owners.
- Including an agribusiness specialist on one or more of the rapid reconnaissance teams to begin addressing the high-priority food sector and options for privatization/ commercialization. Were AID to adopt the pilot program as outlined in Section Three and Annex III, it would supply an advisor to assist with integration, intermediation, and policy issues. Another advisor would manage the process during the short-term evaluations and technical assistance to avoid the potential drain on ministry resources. Additional advisors would be necessary as the rapid reconnaissance teams identify other target sectors.
- Supplying a medium-term advisor to the Ministry of Finance who would assist the Ministry in managing and guiding all short- and medium-term initiatives related to AID's privatization strategy. Members of the rapid reconnaissance teams would coordinate with this in-country advisor.

This package of assistance responds to the special needs of the Albanian economy. On the lower end of the scale in terms of "readiness" for privatization, Albania requires the kinds of medium-term and immediate actions recommended here.

SECTION TWO

RECENT ECONOMIC DEVELOPMENTS

During the past year, Albania's economy has entered a massive depression, with gross domestic product falling by about 50 percent. Coupled with new political freedom of movement, the depression has caused emigration of about 200,000 people--roughly 8 percent of the population, but more importantly, about 25 percent of the labor force. Of the remaining active labor force, about 250,000 are unemployed. Although similar trends can be found in all of the formerly communist nations, they are most severe in Albania. AID has an opportunity to help Albania remedy some of the negative social consequences of economic reform. An extension of the "Social Safety Net" concept that AID might consider is a program to foster small enterprise development--both start-up and fragmented resulting from privatization, along with active triage management, and training services programs.

At first glance, Albania appears to have made some progress on the privatization front. For example, about 78 percent of the land has been privatized, and is now, for the first time since communism, being planted. However, the collectivized farmers "spontaneously privatized" their plots amidst complex issues of title and restitution which will take some time to resolve. The private farmers, whose family plots average less than two hectares, are now questioning where they will get inputs. Where and how will they sell? The answers lie in the full privatization of the food sector. To compound Albania's plight, the country is facing the termination of food aid from Italy and the European Community by June 1992. Albania must receive the needed seed and fertilizer for the Spring planting season or it will continue to face a food crisis. The country should advance agricultural privatization beyond the farm/production stage to storage, processing, distribution, and marketing. Only in this way can the country continue to combat its food problems.

About 26,000 small shops have been privatized. About 20 percent of the transport sector (taxis, buses, and trucks) has been privatized. Although a law to privatize all housing has been drafted, it has not been passed by the legislature. The industrial sector has not been privatized either. Some natural resources, primarily oil leases, have been privatized, and show promise of development into the producing stage.

Still, in no Eastern European country has the overall pace of privatization been slower than in Albania. The regulatory environment is not yet appropriate for full-scale privatization. The state-owned assets are in disrepair. Albania's predicament poses both a challenge and an opportunity. AID might consider a new strategy of privatization in Albania; one of mixed approaches instead of focussing solely on divestiture. Indirect privatization is more appropriate for Albania's needs. Such a strategy is well-suited to AID interventions because indirect privatization is less sensitive politically and less intrusive.

LEGAL AND REGULATORY ENVIRONMENT

As of September 1991, the following laws and decisions were available (in translation) and are included as Annex II.

Laws

- #7512 8/10/91 "On Sanctioning and Protection of Private Property, Free Initiative of Independent Private Activities and Privatization."
#7491 4/29/91 "On the Land"

Decisions

- #433 12/10/90 "Establishment of Functioning of Commission for Granting Export-Import License of Goods."
#320 7/30/91 "Foreign Currency Exchange Rates."
#255 8/2/91 "Criteria of Distributing the Agricultural Land."
#269 8/8/91 "Import of Food Articles and Other Broad Consumption Goods Without Procurement of the Respective License."
#330 8/28/91 "The Defining of Retail Prices of Fuels, Lubricant Oils and Other Byproducts of Petroleum."
#328 8/29/91 "Establishment of the Foreign Investment Agency."
#307 8/29/91 "Duties and Rights of the National Agency of Privatization and the Preparatory Commission of the Privatization Process."

As of January 1992, the following laws are also available in translation but are not included in Annex II: Law on Foreign Investment; Decree on the Economic Activity of Enterprises with Participation of Foreign Capital (#7407); Decree on the Albanian Commercial Bank (#7493); Decision About Permission on Exercise of Commercial Activity in Lek by Foreign Natural and Juridical Persons (#271); Decision About Export-Import Regime from and into the Republic of Albania (#327); and Decision About Permission for

Sale in Convertible Currency of Imported Broad Consumer Goods (#270).

Most of the laws that have been adopted lack specificity, effective implementation procedures, and strong ministerial/ government support -- a government in transition rarely makes for healthy regulatory policy. The interim government has not focussed on creating a strong implementing body, leaving this to the successor government which is expected to be elected in early March. If progress is not made in the legal and regulatory area, economic reform will continue to proceed at a slow pace. Successful economic transition, privatization, private sector development, and social improvements hinge on the implementation of sound laws. Although the World Bank is addressing legal framework issues in its overall program, AID may want to include in the scope of the next team to visit Albania an investigation of progress in this area. Specifically, AID should require a thorough examination of the headway made in these areas:

- Enabling Environment-- Private property rights, efficient government administration, legal and accounting system, infrastructure;
- Trade Liberalization-- Low and uniform nontariff or tariff barriers, no local content regulations;
- Foreign Exchange Rate-- Market determined exchange rate, minimal exchange controls;
- Financial Market Liberalization-- Market-driven real interest rates, minimal preferential interest rates, equal access to capital.

Other policy initiatives necessary to advancing Albania's economy and implementing AID's strategy are: privatization policy, prices and wages, fiscal and monetary policy, foreign investment, and market information policy.

OTHER DONOR ACTIVITIES

In order for AID to implement the most effective strategy, it should coordinate closely with other donor programs. Coordination permits maximum impact and eliminates duplication. In addition to AID, the two most important donor programs are those of the European Bank for Reconstruction and Development (EBRD) and the World Bank.

EBRD's current strategy focuses on technical assistance and preparation of projects in the areas of telecommunications, tourism, transport, energy, and environment. EBRD hopes to cooperate with other international institutions, particularly in the area of agriculture and food systems. Specifically, EBRD has expressed interest in co-financing a project with AID in this area.

Another sector in which EBRD plans to become actively involved is the commercial banking system. Albania's banking system is unable to provide the necessary services and resources for the needs of a market economy. EBRD will focus its initial assistance on:

- establishing accounting standards and procedures of commercial banks;
- creating an efficient national payment clearing center between the three newly created commercial banks;
- supporting the Albanian Commercial Bank in the development of management logistics, business plans and information systems, and the training of bank experts.

The World Bank has sent numerous missions to Tirana since May 1991. The Bank's program, much of which is under implementation, covers the spectrum of economic reform. Briefly, the program focuses on the need to:

- suspend all government Plan targets;
- develop an effective legal framework including civil code, commercial code, labor code, banking code, and tax code;
- remove all imposed barriers to internal trade;
- allow prices to be market determined;
- remove barriers to external trade and competition; and
- set up a system of currency convertibility.

SECTION THREE

INDIRECT APPROACHES TO PRIVATIZATION

Many different programs for privatization are on the agenda in the former state-run economies of Central and Eastern Europe, but three forms have been dominant in the strategies pursued to date:

- the divestiture of large state enterprises, whether by conventional channels (sale of whole companies) or mass privatization -- distribution of stock to managers, workers, the public;
- the worker-management buy-out, usually called "liquidations," affecting medium-sized enterprises (100-200 workers);
- the transfer into private hands of smaller service enterprises --shops, restaurants, gas stations, etc. through auction or direct transfers of assets, or by leasing.

Privatization of state property by conventional divestiture methods has gone slowly. Only in former East Germany has the pace been lively. Fewer than 35 percent of Poland's SOEs have been privatized, and the rate of change is equally slow almost everywhere else. Nowhere has the pace been slower than in Albania.

The reasons for the modest progress in divestiture are well-known -- ambiguities of ownership rights, slow "readying" of enterprises for sale, weakness of surrounding legal and regulatory institutions, lack of local buyers, hesitancy about selling to foreigners, difficulties of asset valuation, resistance by workers, bureaucrats and politicians, the antiquated technology, and inefficient work practices in many industrial enterprises. These factors invoke doubts about their ability to survive in a reasonably competitive environment. Impediments to successful divestiture are overwhelming in Albania. For example, Minister Ruli candidly estimated the percentage of viable government assets at 10 to 30 percent. Moreover, 800,000 people work in Albania's SOEs. While GOA knows it must close the "negative value-added" firms that do more harm than good, it is approaching such closings gradually due to the anticipated negative political and social impact. The government's cautious approach fits nicely with the methodology of indirect privatization.

Privatization strategy presents one of the most difficult of the many dilemmas that Albania will face in its transition to a market system. The obstacles and pitfalls that surround divestiture efforts tend to dilute political enthusiasm for this instrument. The result:

- a loss of vigor in the privatization program;

- back-peddalling on subsidization of SOEs;
- a rise in populist economic sentiment; and
- a deflection of policy to mass privatization schemes (vouchers, coupons, mutual funds) which are highly questionable devices for modernizing Albania's antiquated state enterprises.

All of this creates an urgent need for fresh approaches to the privatization problem. International donors such as AID can help meet this challenge. To do so effectively, AID needs to define for itself a strategy of assistance in this area that promises to accelerate Albania's process of privatization and increase its impact on efficiency and growth. Donor programs should expedite the process of economic transformation. In Albania's case, however, they should employ different methodologies such as indirect privatization and enterprise development in the hopes of minimizing negative social and political impact.

Such a strategy should stand on two legs. The first is doing better on "traditional" privatization, that is divestiture-- the sale of state property to private agents. This means the framing of advice and programs so as to take into account more fully than in the past the obstacles listed above and the lessons of experience in privatization around the world.

But even done better, traditional divestiture is still likely to move slowly in Albania, as indeed it has in most of the developing world. Indeed it may hamstring the economy as it has in Poland, Hungary, CSFR, and Russia. Hence the need for a second leg in AID's strategy of assistance for privatization in Albania. This second strategic element should be a greater emphasis on non-divestiture types of privatization and indirect methods of divestiture. These have great promise for speeding up the privatization process and for generating other benefits, but have not been given the attention they merit.

A great deal has been learned about how to improve all types of divestiture programs. We know now how important it is to get key elements in the legal environment sorted out as early as possible, the urgency of "readying" enterprises for sale, the need for care in targeting and sequencing, and for avoidance of granting deal sweeteners that erode competition. Much is known also about choice of modalities, about appropriate administrative structures for implementation, about the need to emphasize the economic benefits and to persuade public opinion about them, and about how important it is to associate local management and workers fully in the process.

Instruments of Indirect Privatization

The instruments in question are highly diverse: management contracts and leases with or without capital participation; joint ventures via private capital infusions; concessions or

"fermage" which is the contracting out of public utility management, sometimes including new investment; Build-Own-Operate schemes for infrastructure investment and management; internal divestiture or "fragmentation," which involves spin-offs of subsidiary functions or departments to private agents; contracting out; franchising; and demonopolization and deregulation which privatize by competitive erosion of inefficient state sectors.

The reach of these instruments is tremendous. They can increase the supply and quality of everything from rural water facilities to road construction and maintenance. They can bring forth new and better services in key social sectors--education and health. Fragmentation and contracting out can stimulate smaller-scale privatization, which, in turn, can absorb some of the unemployment being created by traditional divestiture and plant closings.

Many countries have adopted some of these approaches.

- **Management contracts** are widely used in the developing world, in the hotel industry, in agriculture, in mining, sugar refining and some manufacturing. It is being emphasized in new Polish initiatives.
- **Leasing** has always been resorted to in centrally-planned economies during the first phases of their transition to a market system. It has obvious advantages, and its worldwide utilization reveals its rich potential--from the leasing of a steel mill in Togo to the leasing of government clinics by young dentists in Singapore, and the numerous equipment-hire schemes in agriculture and transport. In Poland, an astonishing number of shops and other small enterprises have been leased--60,000 by some counts.
- **"Fragmentation"** is internal divestiture, or spinning off of peripheral operations of an enterprise or ministry. In Argentina this selling off of functions, activities, departments, or subsidiaries which are not central to the objectives of the enterprise/ministry is called "peripheral privatization." This method approaches the classic divestiture model when it involves spin-off of substantial subsidiaries, as in the case of British Rail. Or it can be smaller-scale and less obvious, as when West African agricultural marketing parastatals sell off rice mills or land clearance operations, or urban bus companies auction off their maintenance workshops.
- **Contracting-out** is another powerful tool. Its classic form is the decision by Public Works or Transport agencies to do road construction and maintenance by hiring private contractors via competitive bidding rather than by its own-employees. There is vast potential for contracting out, especially in food services, hospital services, and virtually all urban services. Yet it is still relatively little used in much of the world, and would seem to have particular relevance for ex-centrally-planned economies such as Albania, where firms tended to accumulate ancillary activities internally, rather than out-sourcing.

A major advantage of employing these approaches in Albania is that they sidestep many of the thorny problems involved in sale of state assets (valuation, ambiguities in ownership rules, ideological objections to disposing of the state's property). Another is that they can be scaled to the available entrepreneurial and managerial pool, and that they help strengthen business competence. State sector efficiency rises: by selling suitable operations to private agents, or contracting out these operations, the state enterprise or government agency concentrates its energies on priority tasks and hence does them better. At the same time, opportunities are created for nascent entrepreneurs and managers, who can none their skills in the new competitive environments. The direct link to enterprise development that indirect privatization provides is critical to Albania's economic transition. This link is less obvious in traditional privatization transactions.

Privatization strategies in the formerly communist economies (as in the developing countries) have tended to focus too much on sale of state property, not enough on these other approaches. Reasons for this include:

- the early identification of privatization with divestiture;
- the creation of implementing units whose mandate is defined as divestiture;
- the consideration of investment bankers as the experts on privatization;
- lack of knowledge of the potential of non-divestiture and indirect divestiture approaches.

Albania represents an opportunity for new departures and new emphases.

Approach

Part of the AID approach should involve changing the perspective of those responsible for the framing and implementation of privatization policies, in order to increase GOA sensitivity to the potential of indirect privatization. Instead of only concentrating on finding targets for traditional divestiture, the government should also look for targets where indirect privatization would hasten the process of economic transformation.

Altering of perspectives should go even deeper. Every state enterprise, every public agency, has to be seen not as a seamless organization but rather as a collection of discrete but linked activities, any one of which might be privatized in whole or in part. Thus effective future privatizers should look at an Albanian port, to take one example, and see not a single entity, but a collection of separable units, each a potential fragment to be sold off or to be contracted out.

The shift in emphasis to indirect privatization would have important institutional

implications for AID. It would create a specialized niche not presently filled by other donors. This strategy would require the use of new skills--those of development bankers and consultants rather than those of investment bankers. These specialists are more abundant in number and available at a lower cost to AID. This approach would give new meaning to privatization strategizing, and new importance to those who are equipped to do it.

A central part of an indirect privatization approach is to develop a rapid reconnaissance methodology in order to assess Albania's general policy and institutional climate for privatization and seek out targets of opportunity, particularly of the less obvious, nondivestiture type. Follow-up missions might be highly sectoral in focus, since management contracts, peripheral privatizations, or contracting-out possibilities, among others, tend to be sector- or industry-specific. AID might consider sending numerous multidisciplinary teams covering a variety of sectors. Depending on the level of commitment, AID will be able to show positive results in a short timeframe because the indirect privatization approach produces more results, more quickly.

For instance, AID might field rapid reconnaissance missions that would identify 15 segments of 15 large conglomerates for contracting out. The process produces results and stimulates private sector development for new entrants to the market. Ideally, the team members would be responsible, when appropriate, for contacting potential U.S. partners or suppliers of technical assistance on their return from the field. In this way, the team continues to play a role in facilitating the deal. The smaller pieces of large conglomerates will be more attractive to U.S. partners, given the fact that firms have proven to be risk adverse to very large deals. It is unlikely that most U.S. firms would be interested in investments over \$3 million. In addition to the food industry, AID could target other industries for rapid reconnaissance such as the mining industry (important because of Albania's chromium and bitumen deposits), light industry, wood, building products, paper, and others.

ENTERPRISE DEVELOPMENT

Context

The creation and nurturing of a private sector which will support change, both from a political and economic standpoint, is crucial to Albania's transition to a market-based economy. Too often policy makers focus only on divestiture or privatization as a means to economic restructuring or reform. What of start-up enterprises or the small firms that emerge as a result of fragmentation? As Albania's small shops continue to be auctioned and larger businesses break up into smaller companies, the number of small firms requiring assistance will balloon.

GOA projections at the time of the field visits indicated that in the period from September to December of 1991, the number of small firms (0-100 employees) in the food processing industry (a dominant industry in all categories of size) would grow from 11 to 90. This projection does not capture additional growth from start-up enterprises and auctions.

DIVISION OF ENTERPRISES BY # OF EMPLOYEES								
	At 8/31/91				Forecast: 12/31/91			
	0-100	101-500	over 500	Total	0-100	101-500	over 500	Total
OIL	1	8	22	31	1	9	22	32
MINING	1	12	29	41	1	28	29	58
METALLURGY	-	2	8	10	1	2	9	12
ENERGY	2	9	3	14	2	9	3	14
CHEMICALS	-	2	4	6	1	3	5	9
MECHANICS	2	43	22	67	6	74	15	100
BUILDING	-	25	36	61	1	58	16	75
PAPER	1	4	1	6	2	4	2	8
WOOD	-	26	16	42	-	37	17	54
FOOD**	11**	67	39	117	90**	41	35	166
LIGHT IND.	1	12	50	63	2	49	57	108
TOTAL	18	210	230	458	107	319	210	636

Officials concurred that Albania's present system is not designed to answer the needs

of the small business owner. Barriers to entry result from both the economic system (current chaos, depleted capital resources, and high cost of entry), and policy deficiencies (banking and legislative). Officials believe that technical assistance to address policy barriers is critical to the emergence of a thriving small business sector; a sector they realize will engender and stimulate the private economy.

AID's strategy to assist Albania in its economic restructuring should include a program to address the barriers to entrepreneurship. Such a strategy is compatible with the indirect privatization approach which encourages entrepreneurship and supports employment and income generation more readily than traditional divestiture programs. Some of the impediments to small business development include:

- Outdated labor laws and excessive Social Security rates which restrict business expansion and job creation.
- Excessive business license requirements and other "red tape" which increase the cost of doing business.
- Limited start-up capital (credit or equity) available due to weak, inefficient financial systems. Banks cater to big business and are not interested in the small entrepreneur.
- Forty-five years of disinformation regarding private enterprise, coupled with a deteriorating economy, fosters negative public attitudes about entrepreneurship.
- Limited business knowledge and a dearth of trained managers and bankers.
- Absence of a legal system which defines property rights clearly, documents titles, and protects private owners.

These are but a few of the problems small business owners encounter as they seek to play an active role in Albania's nascent private economy.

Approach

AID's approach to responding to the needs of the emerging small business sector should include an enterprise development specialist that would advise the Minister of Finance in this area. At the time of the field visits, then-Minister of Finance Ruli indicated that there was no Ministry for Small Business. To get the level of attention he believed this initiative deserved, he recommended such an advisor be linked to his office and work closely with Mr. Mullaraj at the Agency of Privatization. In this way, the advisor could be involved in enterprise development that results from both fragmentation and start-up initiatives. The advisor would assist GOA in:

- Developing a favorable legal, policy, and regulatory environment that encourages, and provides positive incentives for small business organization.
- Encouraging an effective financial system that is capable of providing the financial services that small businesses require to operate efficiently. This includes development of the financial system at both the macroeconomic level (national policies, deposit insurance, regulation, clearing house facilities, and capital markets) and the institutional level (improving services, reducing costs and developing a capability among bank officials to profitably make, service and collect small enterprise loans).
- Assisting GOA in policy development that creates support services to facilitate private enterprise activities, including management training, technical training, transportation system improvement, insurance, and delivery mechanisms.
- Developing an entrepreneurial and managerial capability among the owners and managers of private businesses.
- Expanding effective market contacts and opportunities, which may require redesigning or developing new products.
- Nurturing favorable attitudes toward entrepreneurship, business success, and profits.

Albania's emerging private sector will prove vital to economic transformation currently underway. As the sector grows, it will have greater and greater capability to absorb the excess employment of the SOEs, and, thereby, create a balancing effect for the economy.

PRIVATIZATION OF THE FOOD SECTOR

Context

The food sector in Albania faces the same challenges of restructuring and reorganizing its production, intermediation, and distribution systems as the other emerging Central and East European countries. Competition for markets can be expected to increase dramatically. The success stories will be countries who restructure their industries to be efficient producers and distributors, while exhibiting flexibility to respond to economic changes that the centrally planned system is unable to do.

Conversations with then-Minister of Finance Ruli and then-Minister of Food Ahmeti revealed that they believe the food processing industry to be one of the most viable, urgent, and likely candidates for privatization. Factory visits were organized and based on this belief. Of six factory visits, three were in the food processing sector: Bread Factory #2 of Tirana; Beverages and Wine Factory of Durres; and Tobacco-Cigarette Factory of Durres. Although the physical facilities of all three were in a state of disrepair and lacked sanitary standards, the equipment of the bread factory and wine factory was surprisingly modern.

Minister Ahmeti outlined the four food processing groups in order of priority:

- Processing of wheat into flour for bread, pasta, and biscuits (40 enterprises)
- Production of alcoholic and non-alcoholic beverages, tomato paste, canned food (50 enterprises)
- Meat and dairy processing (50 enterprises)
- Tobacco and cigarette manufacturing and herbs (12 enterprises)

Minister Ahmeti believes the fourth category has the highest export potential and the beverage category the second highest. Currently, Albania exports sage to the United States. The herb industry, in addition to being high value-added, is very labor intensive and therefore highly successful in Albania. A food-based rapid reconnaissance mission to identify targets of opportunity in the herb sub-sector would contact U.S. firms such as McCormick in order to assess the company's interest in investing in Albania's herb industry. Ahmeti also stressed the importance of the fresh water fishing industry, which was the first to begin privatization. Small bakeries and confectioners are also privatizing.

Challenges currently facing Albania's food sector as it begins reorganization include food shortages, lack of imported inputs, loss of export markets, disorientation of the links between processing and distribution, and general lack of direction in an industry that has

been tightly controlled through central planning. A food systems approach to AID's overall privatization strategy for Albania would provide an integrated sector specific privatization/commercialization opportunity.

The goal of AID's food sector privatization strategy would be to increase the contribution of the food sector to the national economy on a sustainable basis. AID could achieve this goal through a targeted technical assistance program including technology transfer, pilot privatization, market development, enterprise restructuring and development, and foreign business cooperation and investment. Any activities in food sector privatization and commercialization should operate under the guidance of the Agency of Privatization with technical support from both the Ministry of Finance and the Ministry of Food.

Food sector privatization will restructure industry operations to shift the management focus from maximization of production to profit seeking, which will in turn improve industry competitiveness to compete for export markets; increase reliability of supply to Albanian consumers; and eliminate the need for state price and market intervention in the agribusiness support sectors. Technology transfer to improve efficiency of resource use can be accomplished by developing linkages between Albanian agribusiness and its Western counterpart. Market development and improved intermediation is essential to improving the hard currency flows from export markets as well as rationalizing the internal retail markets to improve distribution to consumers. Targeted business cooperation will encourage creative solutions to privatization, technology transfer, and investment promotion. Investment promotion provides the opportunity for retooling of the industry with assistance from appropriate private, government, and multilateral players to meet the new challenges emerging from the restructured industry.

Central to an AID strategy is commercialization, assuring that privatization results in economically viable enterprises. AID's approach should emphasize use of the market to increase economic efficiency of the food sector through privatization while not adversely affecting the nation's food security.

Approach and Objectives

The Government of Albania has placed a high priority on restructuring the food system because of its vital place in assuring the nation's food supplies, its potential for generating hard currency (or hard currency offsets), its role in employment, and the potential for providing income growth to small private farmers. The overall purpose of the program is to: build the skills required to operate successful production, processing, and intermediation enterprises in a market economy; improve the resource base of personnel and knowledge available to the industry; and originate opportunities for technical cooperation, private investment, and joint ventures with U.S. and European food sector firms.

The pilot program for the food sector would consist of a three-phased plan. Annex III outlines the full scope of work for each phase. The broad objectives of this program are

to provide comparative analysis of enterprises and markets for privatization, advisory services to the government in handling assets and enterprises, and target privatization. These objectives include:

- Assess the food sector resulting in an inventory of assets and a strategy including targets for privatization.
- Provide a strategy based on comparative advantage, export market potential, internal food needs, and the potential for growth from restructuring.
- Develop new strategies for processing, packaging, distribution, and intermediation that overcome the existing bottlenecks and provide a model for delivery to the consumer.
- Implement a triage process for enterprises seeking technical assistance in operations, management, or privatization transition.
- Pilot privatize existing collective or state farms into private operating units for individual private farmers and for cooperative groups.
- Actively encourage foreign direct participation in development of Albania's food industry, including investment, technical assistance, and internships.
- Support and maintain food security during the transition to private ownership of food system assets.
- Provide supporting business services to enterprises in pilot privatization, cooperative farm organizations, enterprises to be privatized, and other agribusiness processors.
- Provide the advisory services and technical support to allow privatization of a large part of the industry over a planned three-year period.

The program provides direct technical assistance to the Agency of Privatization as well as Ministries of Finance and Food as they begin planning for privatization. The program should supply a medium-term advisor to assist with integration, intermediation, and policy issues. Another short-term advisor would manage the process during the short-term evaluations and technical assistance to avoid the drain on ministry resources when redundant information and meetings are required by multiple teams.

ANNEXES

ANNEX I
LIST OF IN-COUNTRY VISITS

Government

G. Pashko	Deputy Prime Minister--Minister of Economics
G. Ruli	Minister of Finance
G. Konda	Ministry of Economics
N. Dumani	Minister of Agriculture
L. Cuci	Ministry of Economics
V. Mullaraj	Director, Agency of Privatization
B. Cadri	Agency of Privatization
P. Dishnica	Statistics Department
A. Kanani	Ministry of Finance
A. Shehu	Chairman, The Preparatory Commission for the Process of Privatization
A. Bakllajama	Department of Finance
L. Dodi	Department of Statistics
A. Vasili	Department of Statistics
G. Mano	National Accounts
E. Vakiuri	Social Security
P. Deda	Social Security
T. Lama	Social Security
N. Balluku	Social Security
D. Ibrahim	Ministry of Finance
D. Dollneni	Ministry of Finance
I. Hoti	Central Bank
E. Moci	Ministry of Finance
V. Ahmeti	Minister of Food
N. Hobdari	Ministry of Finance
F. Zeneli	Ministry of Food
M. Mata	Agency of Privatization
E. Zaloshnja	Economic Commission of the Democratic Party

Industry

B. Laknori	Director, Beverages and Wine Factory of Durres
G. Limanaj	Manager, Tobacco-Cigarette Factory of Durres
D. Dundo	Director, Textile Factory of Berati
Manager	Bread Factory #2 of Tirana
K. Jovani	Vice Director, Textile Factory of Tirana
X. Dobrolishtj	Director, Glass Factory of Tirana

U.S. Embassy

C. Hill
R. Muller
T. Miller

Chargé d'Affaires
Economic and Commercial Officer
AID/Washington

Other

M. von Bismarck-Osten
J. Charap
C. Cox

Senior Country Manager, EBRD
Economist, EBRD
Volunteers in Overseas Cooperative Assistance

**ANNEX II
LAWS AND DECISIONS
AVAILABLE AS OF SEPTEMBER 1991**

REPUBLIC OF ALBANIA
THE PRESIDENT

DECREE

According to Article 28, Item 4 of the Law Nr.7491,
April 29, 1991 "On Fundamental Constitutional
Dispositions"

I D E C R E E :

The proclamation of the Law Nr.7512, August 10, 1991
" On Sanctioning and Protection of Private Property; Free Initiative
of Independent Private Activities and Privatization"

Tirana, August 15, 1991

Nr.of decree: 22

PRESIDENT OF THE REPUBLIC
RAMIZ ALIA

24

REPUBLIC OF ALBANIA
PEOPLE'S ASSEMBLY

THE LAW
ON SANCTIONING AND PROTECTION OF PRIVATE PROPERTY, FREE INITIATIVE
OF INDEPENDENT PRIVATE ACTIVITIES AND PRIVATIZATION

The People's Assembly of the Republic of Albania
in order to establish a new economic order and affectuate the tran-
sition from a state of controlled, central planned economy to an
economic system based on free market principles, in accordance with
Articles 10,11,12,13 and 16 of the Law Nr. 7491, April 29,1991 "On
Fundamental Constitutional Dispostitions", at the proposal of the
Council of Ministers,

D E C I D E D:

Article 1

In the Republic of Albania private property, free initiative,
independent private activities, the doing of business, foreign invest-
ments, the right to obtain and grant credits, the right to employ and
be employed, the privatization of state owned property and the entire
process of converting the economy of the Republic of Albania from a st:
te controlled centralized planned economy to a free market economy
are sanctioned and protected.

Article 2

Albanian or foreign subjects exercise the following private
activities (but not limited to) :

Article 4

Local and foreign physical and juridical individuals exercise their private economic activity with their own financial means, through loans or issuing of shares or other forms.

Article 5

The subjects mentioned in Article 2 of this Law, are entitled to carry out their private activity following their registration in the court of the district where they exercise their activity.

In order to be registered, they must present an application to the court, which includes the object of the activity, and when it is about partnership, joint ventures, etc., also the contract or agreement and the statute of their activity.

The court sends a copy of the respective decision to the financial organ in its jurisdiction within ten days from the date the decision has been enacted and registers the immovable property of the subject.

When by reasoned out decision of the court the application is not accepted, the subjects are entitled to complain within ten days from the announcement of the decision by the court of the second degree whose decision is of a set form.

When the court does not act within ten days from the presentation of the application, the licence is considered automatically approved.

Article 6

Albanian or foreign private physical and juridical persons who exercise their activity according to law, set their own prices and tariffs on production and services, on the basis of offer and demand.

For commodities and services on which competition is limited because of the monopol situation or difficulties and scarcity in market supplies, as well as on some commodities and services of prime necessity

- a) as individuals
- b) as partners
- c) as collectives or cooperatives
- d) with the establishment of enterprises, corporations or with limited liability, anonymous and other possible forms;
- e) in the form of banks, charity foundations and institutions and other possible forms.

All the above activities are regulated by law.

Article 3

All sectors of the economy are opened to private activity including state owned institutions and other units, being converted to private property in all fields of activity of industry, handicraft, agriculture, building, transport, banking services, internal and external trade, communal and other vital services, science, research, cultural and artistic activities, law, charity, foundations and other possible forms.

Other state owned enterprises and units in the branches of special importance of national economy : energy and mining, oil and gas, mail, telecommunication, forestry, water resources, motor-roads, railways, seaports, airports, air and railway transportation, may be subject to privatization on specific occasions as provided by law.

The state owned enterprises and units aforementioned in the second paragraph of this Article are free to set up joint venture enterprises with foreign capital in conformity with the laws in force.

for the people, the Council of Ministers, by special decree, sets maximum limits of prices and tariffs. The decision is in force up to one year the date of its proclamation.

Article 7

Albanian and foreign private physical and juridical persons ensure the material-technical base necessary for exercising their activity, through contracts with the state sectors, directly in the free market or through foreign physical and juridical persons, in conformity with the legislation in power for the export-import activity.

Article 8

The Ministry of Finance determines the rules and regulations for economic-financial documentation, the way to calculate fiscal contributions and the time limit of its depositing, the control of obligatory social security of the private sector. It also defines the criteria of calculating profits for the local and foreign private physical and juridical persons who exercise private activity in Albania.

Local or foreign private physical and juridical persons in exercising their activity hold regular accounts and have respective registers in conformity with the specific law.

Article 9

Albanian and foreign physical and juridical persons are entitled to the right of having their respective accounts at the local and foreign banks in Albania and pay off their obligations through them.

Local or foreign private physical and juridical persons lodge their annual balance sheet and profit and loss account at the finance

section at the local authority.

Article 10

Private partnership is created through joining of capitals by two or more Albanian or foreign persons. The economic and financial relations between them are adjusted through the contract concluded between them. The contract specifies the object of their activity, the capital deposited by each member, the profit share of each partner proportionate to his holdings, the duration of partnership, the way of liquidation and other elements.

The partners share the same rights and obligations deriving from the partnership contracts, in cases of companies between individuals.

Article 11

The private activity by trade, manufacturing, service and other collectives or cooperatives is conducted in conformity with the statute and rules adopted by them. These documents should specify the object of the activity, the capital share, the way of organization and management, the forms of distribution of revenues among members, the rules of employment and payment of non-member workers as well as other rules concerning the economic-financial obligations.

Article 12

The various share-holding enterprises or companies created with monetary and material capital with one or several Albanian or foreign individuals, as well as with shares, conduct their activity on the

basis of the founding contract, the statute or the rules adopted by them which specify the object of the activity, the initial capital, administrative management, the economic-financial relations as well as contractual employment and other relations.

Article 13

Joint ventures created between state - owned enterprises or units and foreign private subjects, local private subjects, or both local and foreign private subjects, conduct their activity in conformity with the contract and statute adopted by them and respective law dispositions.

Article 14

The local or foreign private physical and juridical persons can transfer possession or lease to the other local or foreign physical or juridical persons, enterprises units or various objects according to special contract between them.

The transfer of possession or lease of ground, on which these objects are built, is set by Article 21 of this Law.

Article 15

Private activity is exercised in conformity with the dispositions in force on standards and quality, the control of weights and measures, hygiene, working conditions, technical security, environment protection, etc., and is controlled by state organs assigned to do this job.

Article 16

The Ministry of Foreign Economic Relations in cooperation with the Ministry of Economy, after the promulgation of this Law and at the beginning of each year, must define the contingent of export-import goods.

Article 17

Foreign individuals who exercise economic activity, have right to repatriate capital and profits in foreign currency.

Private physical and juridical persons who exercise economic activity according to this Law, have the right to self-financing in leks and foreign currency.

The exchange of Albanian currency with foreign currency and vice-versa is done in compliance with the rate set by the Albanian State Bank or in the free private foreign currency market.

Local and foreign private physical and juridical persons have the right to get credits in leks and foreign currency from the Albanian State Bank or other local or foreign, private or state banks.

Article 18

The employment relations in the private activity are stipulated by the contract freely concluded between sides. For questions not foreseen in the working contract, dispositions of work legislation are applied.

Article 19

Employment is done by the private employer, who registers the employees in the enterprise book and informs the local power administration in the areas where the activity is conducted.

In private activities the employers are obliged to secure their employees. The latter have all the rights to the Law "On Social State Securities of the Republic of Albania".

Article 20

The employees that might result redundant in the process of privatisation of the state sector, are treated according to special provisions on social assistance.

Article 21

Local private physical and juridical persons are granted in possession building grounds against payment, enjoying also the right to buying and selling.

Foreign physical and juridical persons are granted building ground by local physical and juridical persons on lease for a period up to 49 years, according to a special contract.

The selling price and leasing of the state-owned building ground, are set by the financial local power organ which has the ground under its jurisdiction, according to criteria defined by the Council of Ministers and according to supply and demand.

The selling and leasing of the building ground is carried out by the above mentioned financial organ. The sums paid for the ground are destined to be used for the development of infrastructure under the jurisdiction of the local power.

Local physical and juridical persons who are the owners of the existing buildings of any kind are also the owners of the ground these buildings occupy. When the latter are bought by the foreigners they have the right of ownership only on the building, while the

land, on which the building rises, is leased according to the second paragraph of this Article.

Article 22

The National Privatisation Agency is set up at the Council of Ministers for the transferring of the state ownership to private ownership. It is competent for the management, organization and coordination of work for the process of privatisation. It grants the authorisation, announces the form, sets the time and the order of the transition of objects of the state ownership to private ownership.

The National Privatisation Agency cooperates with the Preparatory Commission for the Process of Privatisation at the Ministry of Economy. This Commission coordinates the work with the sub-commissions of privatisations set up at the ministries, institutions and other local power organs for the evaluation of the object and the preparation of the respective documentation, which is presented to the National Privatisation Agency. This Agency has the right to lease state-owned objects.

Article 23

The transfer from state ownership to private ownership may be made by auction, private sale of shares, free distribution of state shares to local physical persons, or any other appropriate method.

The value of the state property to be privatized is defined by considering the physical condition, location, the character of production or service of the object.

The state property which is privatized should not change its destination for two years. The change of destination within this time limit can be done with the permission of the National Privatisation Agency.

Article 24

Auction is organized and announced by the National Privatisation Agency. It is open, free and equal to all. The participants at an auction should present documents of various forms recognized by law, which prove their paying capacity.

Initially, physical and juridical persons of Albanian citizenship are allowed to take part at an auction. If the object is not sold in the second session of the auction, ^{then} with the approval of the National Privatisation Agency, foreign physical and juridical persons take part at the auction.

The evaluation and sale of turnover means is done at actual wholesale state prices at the moment of the sale.

The owner proclaimed by the auction, gains the right to ownership either through the complete payment of the value of the object, or through the partial payment of this value. When the payment is partial, the remaining part of the value of the object is distributed freely or is sold to the existing employees in the form of shares. The part of the value of the object which is distributed freely or is sold to the employees, is defined by the National Privatisation Agency. The part of the value of the object which is distributed freely must not surpass 30 per cent of this value.

Article 25

The privatisation of the state property through the sale of shares, is organized and announced by the National Privatisation Agency which sets the nominal value of shares.

The rules for the emission, distribution, protection and sale of shares are set by the Ministry of Finance in cooperation of the Albanian State Bank.

Article 26

Disputes in the relations between debtors and creditors either state or private, resulting at the moment of the transferring of state enterprises or units to private property, are settled through agreement between sides, and when this is impossible, through the court.

Article 27

The revenues resulting from the transfer of the state property to private property are deposited to the state budget.

Article 28

Foreign investment and private property of local or foreign physical and juridical persons, in the territory of the Republic of Albania, cannot be expropriated or nationalized and they are not subject to other measures equal to nationalisation or expropriation but for special cases in the interest of public use as against payment and full reimbursement.

Reimbursement, in cases mentioned in the first paragraph

of this Article, will be equal either to the investment or the value of the expropriated or nationalized property at the date the expropriation has been announced to the side to be expropriated and this reimbursement will be paid without delay, together with the banking interests accumulated to the date of payment. The reimbursement is fully realizable and freely revokable.

In case reimbursement is delayed, it is payed at a sum which puts the local or foreign physical or juridical person at a position not less favourable than the one he had before, if this sum would have been deposited at the date of expropriation or nationalisation. Conditions for the deposit of this reimbursement must be defined before the date of expropriation or nationalisation.

Article 29

The laws on expropriation or nationalisation or any other related measure as well as the sum of reimbursement may be made an object of investigation by the court.

Article 30

The Decree Nr.7476, March 12, 1991 "On Permission and Protection of Private Property and Activity" as well as all other dispositions which run counter to this Law, are abrogated.

Article 31

The Law enters into force immediately.

Tirana, August 10, 1991

Nr. of the Law: 7512

CHAIRMAN OF THE PRESIDUM
KASTRIOT ISMAILI

REPUBLIC OF ALBANIA

THE PRESIDENT

L A W

ON THE LAND

On the basis of Article 16 of law no. 7491, dated April 29, 1991, "On the main dispositions of the Constitution", on proposal of the Council of Ministers,

THE PEOPLE'S ASSEMBLY
OF THE REPUBLIC OF ALBANIA

D E C I D E D :

Article 1

Land in the Republic of Albania is divided into :

- a) Agricultural land occupied by field crops, fruit plantations, vineyards and olives, wherever they may be and irrespective of size, in the countryside, in the cities or other residential centers;
- b) land occupied by forests, pastures and meadows;
- c) non-agricultural land occupied by economic and socio-cultural buildings, military units and the area around them; land occupied by dwelling houses and their courtyards, land for general use (streets, highways, airports, railways, squares, parks, gardens, sports grounds, cemeteries); rocky areas, coastal sandy areas, beaches; water areas (lakes, reservoirs, ponds), various canals, rivers, streams, river-beds, swamps; areas with historical or archaeological buildings and monuments, etc.

Article 2

The state gives land to physical or juridical persons. They enjoy the right of ownership and all other rights envisaged in this law.

The sale and purchase of land is prohibited.

Article 3

Agricultural land is given as ownership or for use to local juridical or physical persons without remuneration.

Article 4

Foreign juridical or physical persons are rented land to build on. The purpose and term of use are defined by special contract.

The rent of the land is set upon assessment of: the purpose of use, location and other economic conditions, in conformity with the criteria set by the Council of Ministers.

Article 5

Upon division of the land, the families which have been members of the agricultural cooperative have the right to succeed and operate on their own, becoming owners of the agricultural land pertaining to them from the whole of the subject they were members of. The size and location of this land is defined by the land commission.

In the hilly and mountainous zones where peasant families cannot get the necessary minimum of agricultural land, the state takes measures and guarantees them other sources of livelihood.

by the Council of Ministers.

Article 26

Families which reside in the countryside but are not members of the agricultural cooperative as well as those which work and live in agricultural enterprises, are given agricultural land for use, the size of which is defined by the Council of Ministers

Article 27

A government land commission at the Ministry of Agriculture and land commissions at the executive committees and people's councils of districts and the people's councils of villages are set up for the distribution of land as ownership or for use to juridical or physical persons, and for the elimination of the recently created confusion in this field.

The rights and duties of these commissions are defined by the Council of Ministers.

Article 28

Prior collectivization ownership, size or boundaries of the land given for use or as ownership to juridical or physical persons are not recognized.

Article 29

The state organ specialized in information on the land is the land survey office at the executive committee of the people's council of the district.

Article 30

The land which is given as ownership or for use to any juridical or physical person is registered in the cadastral office.

as ownership or for use are obliged to use it only for agriculture, to preserve and increase its productive capacity, to systemize and protect it with various projects.

Article 12

The owners and users of agricultural land are obliged to protect the irrigation and electro-energetic projects, their installations and equipment. No owner or user has the right to prohibit other owners and users from using this equipment and installations.

The organs of power at the base and in the district^s have the right to settle disagreements.

Article 13

Dwelling houses, economic, socio-cultural and any other type of buildings are built within the bordering line (the yellow line).

Land for construction is given with or without remuneration according to the criteria set by the Council of Ministers.

It is prohibited to build any type of project outside the bordering line without special decision of the respective competent organ.

The value of the land is included in the total value of construction and assembly.

Article 14

The construction of buildings and other projects for agricultural and livestock purposes is allowed on agricultural land according to the rules set by the Council of Ministers.

Article 15

Any juridical

Article 16

When the juridical or physical persons who get land as ownership or for use, for construction or for other economic activities do not respect the term of the completion of the project according to the prior agreement, they are obliged to pay an amount equal to the average annual rent of the land.

Article 17

Industrial and mineral refuse. waters with a chemical content harmful for agriculture, must be channeled and gathered in special places in order to protect the land and the plants, prevent the pollution of water and not endanger the life of people, animals and birds. The location of such places and the area where a project is to be built need approval. If this is not given no construction or functioning of the project can begin.

It is prohibited to deposit or bury any type of dangerous locally produced or imported refuse.

Article 18

With the approval of the draft ideas and area of construction by the respective organ, the land is given as ownership or for use to those who carry out the construction, but not before 3 months after work has begun. The change in the cadastral entry is made when concrete work begins.

Article 19

Juridical or physical persons are deprived of their right of ownership or use of the land, in cases when this is needed by the state for various projects, on the basis of the approval of the respective organ. When the state occupies land which is the

land. Disagreements on the amount of money to be reimbursed are settled by the court.

Article 20

The damage caused by fruit plantations, olives, vineyards, agricultural crops, in economic, socio-cultural, social and other buildings is compensated for by the subject which has caused the damage. The amount of compensation is set by the executive committee of the district people's council on the basis of the real value.

Disagreements on the amount of compensation are settled by the court.

Article 21

The organs of the local power of the respective jurisdiction prohibit occupation or ill usage of land within their jurisdiction in contravention of this law and the other respective sub-legal acts.

If a case of occupation or damage of the land is observed, the members of the people's councils of the respective jurisdiction, the owners or users of the land, the land survey office, the local urban planning staff and the people's police are obliged to keep reports on the basis of which the offender is asked to return the land to its former state within 3 days. Otherwise, the report is handed over to :

The people's councils of the village, the city quarter, the city or the region, which within 2 days decide on the destruction of the object and the return of the land to its former state. The decision is implemented by the organ which has taken it within 5 days from its proclamation. The offender is -

- To the investigation organ when the violation is a penal act and the decision of the respective people's council has not been implemented.

Article 22

When the land is taken, occupied or damaged by a third party, the owner or the user has the right of appeal to the court.

Article 23

The persons who act in contravention of the dispositions of this law and the special dispositions of the acts of the Council of Ministers on this question, who do not exploit the land they have been given as ownership or for use themselves but transfer it to a third party, who do not take protective measures, build objects without authorization, who do not bring the land back to use within the term set in the contract, and do not inform the land survey office on time on the changes in the state of the land they own or use without justified reasons, and when these violations do not constitute penal acts, are charged by the head of the land survey office in the district with a fine from 2000 to 5000 leks for administrative offence.

An appeal can be lodged against the sentence within 10 days from its proclamation or notification to the head of the executive committee of the district people's council, the decision of which is final.

The persons who, in contravention of legal dispositions, occupy, damage or misuse land in any form, are prosecuted according to the dispositions of the Penal Code.

Article 24

The criteria on the division

Article 25

Agricultural land given as ownership on the basis of the law, is inherited according to the legal dispositions on inheritance which will be approved.

Article 26

Law no. 5686, dated Feb. 21, 1987 "On protection of the land", as well as all other sub-legal dispositions opposed to this law are annulled.

Article 27

This law comes immediately into force.

Tirana, July 19, 1991

No. of law: 7501

PRESIDENT OF THE REPUBLIC

Ramiz Alia

PEOPLE'S SOCIALIST REPUBLIC OF ALBANIA
COUNCIL OF MINISTERS

DECISION
No 433 dated 10.12.1990

ABOUT
ESTABLISHMENT OF FUNCTIONING OF COMMISSION OF GRANTING
EXPORT-IMPORT LICENCE OF GOODS

Upon the proposal of the Ministry of foreign trade, the Council of Ministers

DECIDED :

1. All enterprises, institutions and agricultural and handicraft cooperatives exercising export-import activity, are obliged to procure from the Ministry of foreign trade the respective licence on export-import goods and commodities.

The Ministry of foreign trade, within november of each year, determines the list of export-import goods and commodities subject to licence for the forthcoming year.

To this end, it is to be established in the Ministry of foreign trade the commission of granting export-import licences of goods, as per the list attached to this decision.

2 The requests to receive licence are made in compliance with the form enclosed, where the production cost, the purchase-sale benefit are given.

3. The Ministry of foreign trade, according to the judgement of the licence commission, grants the enquirer with the respective export-import licence within 10 days from the date of the receipt of the request.

4. A copy of the licence is sent to the General Customs Directorate, which will exert the respective control of the export-import goods in the customs points.

5. In the implementation of this decision, the Ministry of foreign trade will issue the respective regulations to grant the licence of export-import goods and commodities.

This decision enters immediately into force.

CHAIRMAN OF THE COUNCIL OF MINISTERS

REPUBLIC OF ALBANIA
COUNCIL OF MINISTERS

D E C I S I O N
Nr.320, July 30,1991

ON

FOREIGN CURRENCY EXCHANGE RATES

At the proposal of the Ministry of Finances, the Ministry of Economy and the Albanian State Bank, the Council of Ministers

D E C I D E D :

1. As from September 10.1991 the foreign currency exchange rates in relation to the lek, for all activities in foreign currencies will be defined by the Ministry of Finances, the Ministry of Economy and the Albanian State Bank.

2. ECU, the EEC monetary unit, will be the basis for working out the exchange rate of the lek with foreign currencies. For other freely convertible foreign currencies, the State Bank will apply the conjunctural relationship of these foreign currencies in the foreign currency market as against ECU.

The beginning of the exchange rate for all activities in foreign currencies will be the ratio 1 ECU equal to 30 leks, which, at present correspond to 1 USD equal to 25 leks.

3. The difference between buying and selling foreign currency rates as against the lek will be defined by the Albanian State Bank.

4. Out of the foreign currency they obtain, the state enterprises are entitled to have at their disposal the amount to be approved of by the Ministry of Economy and the Ministry of Finances in

cooperation with the other respective central ministries and institutions. The other part of the foreign currency will be sold only in the Albanian State Bank at the exchange rate in force.

5. The juridical and physical persons satisfy their demands for foreign currencies by buying them with their financial means or on bank credits. The Bank is entitled to give its foreign currency on credit.

The turn of foreign currency distribution is decided by a commission made of the representatives of the banks, the Ministry of Finances, the Ministry of Economy and the Ministry of Foreign Economic Relations, after the requests are examined also by the other respective central ministries and institutions.

6. When great profitability in leks results to export enterprises and to those which ensure income in foreign currency from various services and the change of foreign currency exchange rates, the Ministry of Finances in cooperation with the other central ministries and institutions the above enterprises depend on, define their obligations to the state.

7. The Ministry of Finance will work out the effects of the change in foreign currency exchange rate, for the exchange value in leks of non business expenses in foreign currency of various ministries and institutions, in the fourth quarter of this year.

8. To carry this decision into effect, the State Bank, in cooperation with the Ministry of Finances and the Ministry of Economy will issue respective instructions.

9. Item number 4 of the decision of the Council of Ministers Nr.312 of November 11, 1982 "On foreign currencies and precious metals" as well as the decision of the Council of Minister Nr. 180 of

3.

May 25.1990 "On the evaluation of export-import for the five year period from 1991 to 1995", cease to apply.

This decision enters into force immediately.

CHAIRMAN OF THE COUNCIL OF MINISTERS
YLLI BUFI

Prot. Nr.2084
September 9.1991

To Ministries and other central institutions, the Provisional Pluralistic Executive Committees in districts and regions

General Secretary
Dr.Teodor Kareco

THE REPUBLIC OF ALBANIA
The Council of Ministers

D E C I S I O N

Nr. 255 dated 2.8.1991

ON

THE CRITERIA OF DISTRIBUTING THE AGRICULTURAL LAND

In implementation of article 24 of the law no.7051,dated July 19,1991 "On the land" and upon the proposal of the Ministry of Agriculture,the Council of Ministers

D E C I D E D:

1.The land is distributed according to the present state of the acreage possessed by the agricultural cooperative and per capita.

For the agricultural cooperatives which as subjects are made up of more than one village ,the land commission in the district defines the agricultural lands of every village,building up just proportions of the acreage of land per capita of each village with that on a cooperative scale.

2.In all the cases the land is distributed proportionally to each family per capita on August 1,1991.

The number of persons of the agricultural cooperative member family will include all its members : children,pupils, students,military men,pensioners,members of the cooperativist families working on provisional contract and the refugees,despite their sex,excluding those family members who at the moment of land distribution are in permanent working relations with the state or private sector.

The cooperativist family members who are in permanent working relations with the state or the private owners,will be given as property half the land per capita that belongs to each member of the agricultural cooperative ,but no more

than 1 dymn (one tenth of the hectare) will be given as property.

3. The other families residing in the countryside, but which are not members of the agricultural cooperative will be given for use half the land per capita that belongs to the cooperative member, but no more than 4 dymn per family.

4. The agricultural land within the yellow line which is not yet occupied by buildings and yards, is not to be distributed or given as a property. These lands are given for temporary use by the executive committee of the people's council of the village.

5. The distribution of the land above and under water will be made:

a) By converting the land under and above water to the ratio of 1 to 1.5 up to 2.

b) By proportionally distributing the above and under water land in separate plots according to the number of persons.

6. The distribution of the land according to its slope will be made by converting the flat land with the sloping one in the following ratios:

a) 0-10 % slope	the coefficient	1
b) 11-25%	"	0.8
c) 26-40%	"	0.7
d) over 40%	"	0.6

7. In those districts in which the improvement of the land is carried out, which takes into consideration its fertility and slope, the land's distribution is made on the basis of the classes of the land's improvement (in this case the point 6 criterion is not used)

The conversion coefficients according to the classes are:

- a) Class I and II the coefficient 1,25
- b) Class III and IV 1,0

c) Class V	"	0,8
d) Class VI and VII	"	0,7
e) Class VIII, IX, X	"	0,6

8. The distribution of the land planted to fruit trees (orchards, vineyards, olive trees) is made:

a) according to the criteria of the arable land, accounting also the fruit trees.

b) by distributing the acreage of fruit trees plantations to every family according to the number of persons.

9. The green houses covered lands are distributed alike the other lands and are considered as part of the acreage belonging per capita. The green houses are estimated by commission and are paid by those whom they are given to.

10. The lands which for the time being are utilized by the research-scientific institutions, despite their place, are not distributed and remain at their disposal.

This decision enters into force immediately.

THE CHAIRMAN OF THE COUNCIL OF MINISTERS

YLLI BUFI

Prot. no. 1675/1

Date August 5, 1991

REPUBLIC OF ALBANIA
COUNCIL OF MINISTERS

D E C I S I O N :

No 269 DATED 8.8.1991

ABOUT

IMPORT OF FOOD ARTICLES AND OTHER BROAD CONSUMPTION
GOODS AND COMMODITIES WITHOUT PRECUREMENT OF THE
RESPECTIVE LICENCE

Upon the proposal of the Ministry of Finance and the
Ministry of Foreign Economic Relations, the Council of Ministers

D E C I D E D :

The natural and juridical native and foreign persons
exercising private activity according to the dispositions in
force, are allowed to import food articles and other broad con-
sumption goods and commodities without the respective licence
from the Ministry of Foreign Economic Relations.

This decision enters immediately into force.

CHAIRMAN OF THE COUNCIL OF MINISTERS

REPUBLIC OF ALBANIA
THE COUNCIL OF MINISTERS

D E C I S I O N

No 330 date August 28.1991

On

The defining of retail prices of fuels, lubricant oils and other byproducts of petroleum

Upon the proposal of the Ministry of Mineral and Energecal Resources , the Council of Ministers.

D E C I D E D

1. The retail prices of fuels produced in the Country or imported, for the albanian physical or juridical persons are defined in accordance with the list here conjoined;The maximum price limits on the petroleum byproducts are defined in accordance with the list no 2 here conjoined.

2.The Ministry of Finance and the Ministry of Mineral and Energetical Resources defines the prices of petroleum by produ below the settled limits in the list no 2 here conjoined.

3. The foreign juridical and physical persons who buy fuels,lubrificant oils and other petroleum by products within the territory of: Albania, the sale is made in free convertible hard currency accepted by the State Bank of Albania,the enterprices of the system of mineral and energetical resources;in accordance with the instructions issued by the Ministry of Mineral and Energetical Resources and the Ministry of Finance.

4.The Ministry of Finance and the Ministry of the Minera

currency of the retail prices of fuels and lubricant oils of foreign physical and juridical persons, take into consideration prices of the neighbouring countries. These prices are revised month and notified the last day of the preceding month.

5. The sale of fuels , lubricant oils and other petroleum byproducts in lek for the foreign vehicles and other means of transport (with a foreign license plate), used by the physical and juridical persons, native or foreign, is not permitted.

6. The Ministry of Finance and the Ministry of Mineral and Energitical Resources are charged with the issuing of the appropriate instruction on the sale of fuels.

The decision of the Council of Ministers no.178. date.5.31 "On the transfer of the right of supplying with fuels, lubricant oils of the planes, ships and other foreign vehicles to the Minergoimpex is abrogated.

This decision takes effect on Octobre.1.1991.

THE PRIME MINISTER

YLLI BUFI



The list of the maximum limits of the petroleum by products

The name	The measuring unit	The retail in le
1. Varvoline	kg	3.
2. Oil SAE 30,40 import	"	21.
3. Oil SAE 30,40 home product	"	14
4. Car oil 10,20,30, 40	"	19
5. OIL SA 25,35,45,55	"	18
6. Oil DP 11 and DP 14	"	16
7. Aftol Oil 10, 18	"	16.
8. Compressor oil 13 19	"	20.
9. Turbine oil 22, 32, 46, 57	"	19.
10. Cilinder oil 24, 38	"	27.
11. Sinking oil	"	21.
12. Amisol oil	"	27.
13. Oil 85 W/90	"	22.
14. Orms oil	"	27.
15. Import grease	"	29.
16. Home grease	"	16.
17. Solidol grease	"	26.
18. Solar	"	5.5
19. Mazut	"	2.5
20. Bitumen in barrel	"	4.0
21. Liquid Bitumen	"	3.0
22. Petroleum Coke	"	1,5
23. Toluöl	"	6,5
24. Liquid gas	"	6.50
25. Brakes alcohol	"	35.00
26. Alcohol	"	6.50
27. Sulphur	"	

2.

	<u>The measuring unit</u>	<u>The retail price in lek</u>
18. Rock oil TS-1	litra	7.00
19. Tock oil for private use	"	6.00

Wholesale prices of fuels

<u>The name</u>	<u>Measuring unit</u>	<u>Retail price in lek</u>
1. Benzinë 45-50 octan	liter	3.50
2. Benzine 60-70 octan	"	6.00
3. Benzine 96 octan	"	9.50
4. Gazoil	"	6.00
5. Rock oil for the people	"	1.20

REPUBLIC OF ALBANIA
COUNCIL OF MINISTERS

D E C I S I O N

Nr.328, August 29, 1991

ON

ESTABLISHMENT OF THE FOREIGN INVESTMENT AGENCY

At the proposal of the Ministry of Foreign Economic Relations, the Council of Ministers

D E C I D E D :

1. To establish the Foreign Investment Agency in Tirana as its centre under the dependence of the Ministry of Foreign Economic Relations, which will start its activity on October 1, 1991.
2. The Foreign Investment Agency has the following tasks:
 - a) it coordinates and organizes ties between foreign investors and financiers and Albanian partners on the basis of the program for economic development.
 - b) It propagates and announces abroad the main fields and directions of investments that can be made in Albania.
 - c) It announces and propagates the Albanian legislation on foreign investments, their promotion and protection.
 - d) It studies the demands on investments and, enclosing to them its own opinion, presents them to the Ministry of Foreign Economic Relations.
 - e) It takes part in the discussion and working out of contracts on investments to be made in the framework of state credits.
 - f) It establishes contacts and relations with similar organisms of other countries and when asked, it performs representative functions.

g) It promotes investments, especially when they are made with the full or partial participation of foreign investors.

h) It circulates forms and other material that have to do with the mode of registration and activity through the Agency.

i) It keeps dates, demands and documentation about foreign investors and albanian subjects with the participation of foreign capital.

j) It administers the register of foreign investments.

3. The "Teknoimport" Foreign Trade Enterprise, dependent on the Ministry of Foreign Economic Relations, ceases to exist. Its activity is passed respectively on to enterprises that carry out foreign trade activities and are dependent on the other central ministries and institutions, according to the object or field of activity they cover. The transition of the activities of Teknoimport enterprise will be done according to the agreements between the Ministry of Foreign Economic Relations and other respective central ministries and institutions.

The obligations that result to Teknoimport until October 1, 1991 from its activity, at home and abroad, will pass on to respective enterprises which deal with those objects and cover those activities of this enterprise.

4. The number of registered workers, the wage fund, the plan of foreign currency financial expenses of non business activities and the inventory of movables and immovables of Teknoimport passes on to the Foreign Investment Agency.

5. The Ministry of Foreign Economic Relations and the Executive Committee of Durrës District People's Council will take measures to give the warehouses of Teknoimport branch in Durrës to other enterprises and systematize its workers.

6. The Foreign Investment Agency will be financed by the state budget until the end of 1991. As of January 1, 1992, the Agency

3.

concerned will exercise its activity by self-financing, meeting all expenses with the income it will have.

7. The activity of the Foreign Investment Agency is carried out according to rules and regulations approved by the Ministry of Foreign Economic Relations.

This decision enters into force immediately.

CHAIRMAN OF THE COUNCIL OF MINISTERS
YLLI BUFI

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REPUBLIC OF ALBANIA
Council of Ministers

D E C I S I O N
Nr.307 date 29.08.1991

ON

DUTIES AND RIGHTS OF THE NATIONAL AGENCY OF PRIVATIZATION AND
THE PREPARATORY COMMISSION OF THE PRIVATIZATION PROCESS

Carrying out the law n° 7512, date 10.08.1991 "On sanctioning and protecting the private property, free initiative and the independent private activities", the Council of Ministers

D E C I D E D:

I.-The National Agency of Privatization near the Council of Ministers is an executive organ specialized on directing, organizing and incorporating the work for the process of privatization. The National Agency of Privatization has its branches in districts.

II. The National Agency of Privatization has these main rights and duties:

1.-Declares the form and realizes the transition of the state property into private property.

2.-Cooperates with the Preparatory Commission of the Privatization Process near the Ministry of Economy on the problems of transition of the state property into private property.

Gives the authorization, determines the time and the turn of the transition of the state property into private property, excluding those which are under the competence of the branches of the Agency in districts according to the point 4, chapter III of this decision.

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4.-Informs the public on the necessary technical, economic and financial data, as well as on the activity of the state institutions and enterprises that may be privatized.

5.-Organizes and declares the privatization of the state property through the selling of the shares, as well as determines the nominal value of the share.

6.-Approves the commissions of the selling and giving free of charge of the shares for the objects that pass on to the physical and juridical persons, native and foreign, and controls their activity.

7.-Gives permission for the changing of destination of the state property which is being privatized even within a period of two years that the law envisages.

8.-Rents enterprises, certain state objects and units to the physical and juridical persons, native and foreign, based on the proposal made by the Preparatory Commission of the Privatization Process. Objects for which there are property pretensions can be rented till the solving of the conflict, with a contract without a given period.

9.-Studies and submits for revision in the Council of Ministers project laws on the transition of the state property into private property for enterprises or units with special importance for the national economy, which privatization is made by law.

10.-Determines the part of the object value which is distributed free of charge or is sold to its working people.

11.-Asks from the competent organs the suspension of the underlegal acts published by the ministries and the other central institutions and the local organs of the state administration which are contrary to the legal dispositions in force for the problems of privatization till their nullification.

12.-Controls the work for the evaluating of the enterprises and the other state units which pass on from the state property to the private one and asks for the data and technical-economic and financial information on them.

13.-Together with the organs of the local power and its branches in districts takes care of the solving of the problems which come out in the enterprises and the state units that are being privatized till their transition to the property of private physical and juridical persons.

14.-Gives ideas and makes proposals for the projects of the legal and underlegal acts prepared by the ministries and other central institutions on privatization, before these projects are submitted for revision and approval in the Council of Ministers or in the People's Assembly.

15.-Directs and controls its branches in districts.

16.-Creates a special fund for the material stimulation of the Agency employees its branches preparatory commission and undercommissions of the privatization process.

For creating this fund the Agency takes up to 2 per cent of the selling prize or of the annual rent for each object which is being privatized or which is rented. Use of this fund is made in accordance with the criteria decided by the Ministry of Finances.

17.- Follows the problems of organization, of information and the necessary papers for the problems of the transition of the state property into private property through linking it with the organizations and organs of foreign countries.

III. The Branch of the National Agency of Privatization in district or region has these main rights and duties:

1.-Approves the commissions of the auction for the objects which become property of physical and juridical persons, native or foreign.

2.-Approves participating in auction of the physical and juridical persons with Albanian nationality. In cases when objects are not sold in the first session, the Branch submits for approval to the National Agency of Privatization the foreign physical and juridical persons who can take part in auction.

3.-Organizes and declares the auction in accordance with the corresponding order on this problem.

4.-Gives the authorization, determines the time and turn of the transition of the state property into private property for the units of trade, craftsmanship, services, as well as the means of the road and watery transport.

5.-Takes the thought of the directing councils of the trade unions before proposing the form, time and turn of privatization.

IV.-The Preparatory Commission of the Privatization Process near the Ministry of Economy has these main rights and duties:

1.-Cooperates with the undercommissions of privatization in the ministry and other central institutions and of the organs of the local power for the analitical analysis of the turn and the periods of privatization of the branches, sectors, enterprises and other state units of the corresponding dependance.

2.-Incorporates the work with the undercommissions of privatization in the ministry, other central institutions and of the organs of local power for the evaluating, choosing and determining of the enterprises, units and other state objects which will pass on from state property into private property.

3.-Submits to the National Agency of Privatization the documentation and the elaborated and summed materials sent by the undercommissions of privatization for the problems, turn, form and time of transition of the enterprises and other state units from state property into private property. This documentation has to include data for the results of the enterprise, the activity and the evaluation of the state property, technical-economic and financial figures which represent its actual efectivity in the market, its way, form part and time proposed for privatization, number of workers, territory, data on the way state has become its possessor and problems linked with it, etc.

4.-Asks and takes from the ministries and other central institutions, from the organs of local power in districts and regions, from the enterprises, all the data with technical, economic and financial character for analysis and studies needed for the transition of the state property into private property.

5.-Helps, controls and advises the undercommissions of privatization created in the ministries, in other central institutions and organs of the local power for the carrying out of the legal dispositions on problems of privatization.

6.-Studies and analyzes in continuation the changes of property and the problems coming out in the improvement of the existing legislation, as well as makes up methodics and special advice to support and deepen the process of privatization.

7.-Studies and incorporates the work with the ministries and central institutions, with the organs of the local power, with economic associations and organizations, native and foreign, for the publication of information, exchanging of literature and experience for stimulating and developing privatization and the new private activity.

V. Organics and salaries

1.-The Director General of the National Agency of Privatization is nominated and relieved from duty by the Chairmanship of the Council of Ministers. The Director General nominates specialists near the National Agency of Privatization, chairmen of branches and specialists in districts.

2.-Near the National Agency of Privatization its Administrativ Council is created as an advising organ of the director general which is made up of a number of specialists of the agency and its branches nominated by the director general.

3.-The number of employees in the organics of the National Agency of Privatization must be 10 persons, from whom 7 clerks and 3 workers disciplined with organics with a paying fund of 70 thousand leks.

4.-The monthly salaries of the employees of the National Agency of Privatization will be: for the Director General 1 200 leks, for the specialists 1000 to 1100 leks.

5.-The paying fund for the branches of the National Agency of Privatization in districts and regions will be afforded by the approved fund of salaries of the executive committees of the people's councils of districts and regions for the year 1991. The number of employees for each district and region will be determined by the Director of the National Agency of Privatization and the chairman of the executive committee of the People's Council of the district or region.

6.-The salary of the chairman of the branch of the National Agency of Privatization in district and region will be the same with that of the section chiefs, whereas the salaries of the other employees of the branch will be the same with that of the specialists of the executive committee sections of the districts.

7.-The number of the employees in the organics and the paying fund for the Preparatory Commission of the Privatization Process is included in the number of employees of the Ministry of Economy.

8.-The decision of the Council of Ministers n°138, date 3.04.1991, "For developing of private activity".

This decision comes into force at once.

CHAIRMAN OF THE COUNCIL OF MINISTERS

YLLI BUFI

TO THE MINISTRIES AND OTHER CENTRAL INSTITUTIONS TO THE
PLURALISTIC PROVISIONAL EXECUTIVE COMMITTEES OF DISTRICTS
AND REGIONS

N °.Prot.2053

Date.7.09.1991

SECRETARY GENERAL
Dr. TEODOR KARECO

ANNEX III FOOD SECTOR PRIVATIZATION

Context

Privatization allows the economic incentive necessary to improve the operation of the system to work in the free market. However, privatization is such a complex process of adjustment and causes so many externalities that it is more effective and efficient if it is implemented with nurturing. There are also many different models available for the privatization of each sector. Each approach has pros and cons and should be adapted to fit the needs of the enterprises, the region, and specific GOA requirements.

Other issues and policy implications that need to be addressed as privatization continues include:

- Pricing and subsidies of production from state owned versus private firms;
- The role of credit and outside direct investment in small, medium, and large enterprise development;
- Retaining national food security, stability of exports, and controlling foreign exchange needs for inputs; and
- How to provide technical assistance and training in management and operations.

The impact of potential price increases for food products also has to be considered. Politically it may be unacceptable to allow food prices to reach their market levels in the short run. To be effective in this environment privatization must not disrupt the food system or endanger food supplies. The proposed strategy and pilot privatization approach would be based on careful study of each industry subsector and its comparative advantage. The program provides models for use by other enterprises as they privatize and can be adapted as the methods that are most successful are demonstrated.

Albania's distribution bottlenecks result from both antiquated capital resources and a lack of incentives. Private property and private enterprises offer more incentives to the productive work force than the centrally planned system. For this reason it is considered essential that GOA begin privatization as soon as possible. This program proposes to accomplish this in the industrial segment of the food industry.

One of the ways that farmers can address the lack of inputs and markets is to organize into cooperatives. In addition to providing input supply and processing activities the cooperative organization could also assure that the farmer has contracts for his production. The end user contract system will also help provide technical assistance

to farmers similar to the field representatives provided by contract production organizations in the United States. In addition, direct marketing activities such as farmers markets could be developed in the short run.

Markets and intermediation play a critical role in the privatization and improvement of Albanian food systems. It will be necessary to thoroughly evaluate the existing marketing methods and linkages, and to determine the feasibility of establishing alternative systems to improve the efficiency of moving the farmer's goods to the processor, and the final products to the domestic or export consumer. Important linkages that will be considered include interaction with organizational buyers through price setting, contracts, and inventory management; transportation; packaging availability and norms; storage for raw and processed products; how the industry will respond to competition within and outside the country; and planned new product or service development.

Scope of Work

The scope of work for AID's food sector privatization program consists of a three-phase program for providing advisory services to the government and to private enterprises that includes:

Phase I:

A food sector strategy development that begins with assessment and evaluation to provide an inventory of resources available considering comparative advantage, and the integration already present in the economy, and ends with target identification.

- Provide an assessment of enterprises and assets that are available in the food sector assign relative values, identify linkages, assess their potential for growth and contribution to the export market, and prioritize them based on their attractiveness for privatization.
- Inventory enterprises based on their importance to improving the distribution of food in the economy and enhancing the potential for export.
- Target the enterprises that have the highest priority for privatization based on their ability to provide employment and economic growth using a triage process identified in the strategy.
- Develop a strategy that includes targets for privatization in the production, processing, and distribution sectors.
- Develop an ad hoc task force made up of local consulting

specialists, university representatives, staff from the Finance, Food, and Agriculture Ministries, local and regional government privatization personnel, and other key consensus contacts.

Phase II:

An implementation phase that includes components consisting of establishing input cooperatives to replace the existing over-centralized supply links of the current system, privatizing target processors as models, and developing intermediation linkages that will improve internal distribution and access to available markets outside Albania.

- Provide advisors to assist in enterprise privatization, management development, and restructuring.
- Identify and incorporate appropriate technical assistance from U.S. agribusinesses that have unique capabilities to transfer technology or operations capability to the sector.
- Identify and target potential foreign investors in the industry, begin developing their awareness of the market, and introduce them to it through internships and technical assistance cooperation.

Phase III:

Continuation of the implementation phase with long term advisors to the Ministry of Agriculture to privatize remaining targeted firms, to provide advice on ways to smooth the process of transition for enterprise units that cannot be privatized for whatever reason, and assist the ministries in promoting foreign direct investment.

- Provide support to the Ministry of Economy and the Ministry of Agriculture in preparing necessary information on the businesses that have investment potential and supplying this information to them.
- Develop media and information programs to make potential investors aware of the opportunities in Albania.

The phase I scope is well-defined and represents tasks from which an initial work plan can be developed for implementation. The scope described for phases II and III are representative of the actions planned for these parts of the program. The full definition of the scope for phases II and III will occur as part of the recommendations resulting from phase I and will depend on the data collection and analysis of that phase. This will allow the later phases of the program to be tightly targeted to those actions identified to be most productive in meeting the goals of the Albanian government for privatization.

Program Benefits

This program has been designed to have broad and long lasting effects in the food and agribusiness sector of Albania. The elements of the program have been designed to be sustainable and able to be duplicated. The key benefits that will be derived from the project include:

- Pilot privatized processing, distribution, and production enterprises;
- A functioning wholesale/retail distribution system capable of being replicated;
- Domestic market development for the industry including retail market development and support;
- Export markets developed for processed products;
- Pilot privatized supply cooperative to replace the existing centrally controlled allocation system for inputs;
- Relationships with U.S. agribusinesses for:
 - internships for training support
 - technical assistance to the industry
 - potential investment and joint venture interest.