

Albania – Building Competitiveness from the Ground Up



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The Economist

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The Economist agenda

- Should businesses be concerned by any of Albania's **macroeconomic indicators**?
- What steps can the government take to encourage **job creation**?
- Should Albania offer **tax breaks and other investment incentives**?
- Improving Albania's **competitiveness and international image**
- Which **sectors** are the most attractive for foreign investment?
- Prospects for **regional cooperation**

Should businesses be concerned by Albania's macroeconomic indicators?

- Sustained economic growth has delivered rising incomes and poverty reduction.
- Productivity growth has been central – around 6.1% of 6.3% avg growth during 1993-2003
- Over the medium term, this productivity growth needs to be accompanied by increasing investment and exports
- The track record on macroeconomic management is strong. Fiscal adjustment remains strong, and inflation low.
- Current account deficit is still financed by remittances while export growth is picking up, with some diversification



What steps can the Government take to encourage job creation?

- Jobless growth is a regional problem
- The **labor force** is growing despite migration and low participation rates
- Labor **regulations** are quite flexible, although **non-wage** and **firing costs** could be further reduced
- **Wages** remain comparatively low within the region, but are relatively high compared to non-European competitors
- There appears to be a **mismatch** bet. wage rates and productive structures in exports
- Remittances may also be raising the **reservation wages**
- Improving the **skills base** and **labor productivity** through expanding secondary ed, refocusing curricula is critical
- And retraining **agricultural labor** for semi-/skilled jobs?

What steps can the Government take to encourage job creation? (2)

	Albania	SEE	OECD	E. Europe & Central Asia	Latin America	Mid East & N. Africa	E Asia
Rigidity of employment	35	45	31	40	32	33	20
Non-wage labor cost (% of salary)	22	22	21	25	13	15	9
Firing costs (weeks of wages)	56	29	26	26	56	56	38

Should Albania offer tax breaks and other investment incentives?

- *Nope!* There is a world of evidence that **serious and good quality investors** do not weigh these highly in their location choices
 - MIGA 2002 survey of 191 firms only 18% of mfg and 9% of service firms reported incentives as key
 - 2001 survey of 75 Fortune 500 firms – only 4 pointed to incentives
- Albania is making progress on improving **tax policy** and **strengthening the business environment** and should stay the course
- That said, transparent, even-handed **investment facilitation** is very important (*Costa Rica and Intel*)
- ...as is good quality **investment promotion**.

What can Albania do to improve its competitiveness and international image

- Reforms may be slower to show impact in **business perception surveys** such as EBRD-WB BEEPS
- ... but **reform implementation** can be captured in ratings like the WB *Doing Business* and send very powerful signals
- The **pro-business stance** by government is great...
- ...but can be reinforced by **demonstrations of sound public policy implementation**, e.g. orderly strategic planning, selection and execution of projects and PPPs to solve infrastructure constraints
- Albania also needs to strengthen its image on governance and business environment with **Diaspora investors**.
- Can more be done to showcase improvements in **public service delivery improvements** at the firm level?

Which sectors are most attractive for foreign investment?

- The World Bank does not encourage governments to **pick winners** ... this is the work of the private sector
- There may be areas of “**revealed comparative advantages**”, e.g. tourism
- ... and other areas where Albania can efficiently build **competitive advantage**
- Building a **strong tourism sector** will require a host of issues
 - spatial planning and other types of public-private coordination, e.g. garbage collection,
 - private-private coordination, e.g. booking systems, tour packages
 - HR development, through vocational and managerial training
 - SME development
 - devt & implementation of standards and quality ratings
 - strategic destination marketing,

Prospects for regional cooperation

The World Bank has partnered with other donors to support regional cooperation in network sectors

- **South East Europe Transport Organization (SEETO)** -- roads, railways, waterways?
- **Energy Community of South East Europe (ECSEE)**

Future areas include:

- Disaster management and mitigation
- ... and possibly higher education reform?



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