

Albania

In BEEPS V, the top three business environment obstacles identified by Albanian firms were electricity issues; competitors' practices in the informal sector; and corruption (Chart 1). Competitors' practices in the informal sector were the main obstacle for SMEs, while corruption was more problematic for large firms. Tax administration and access to land were among the chief constraints for young firms.

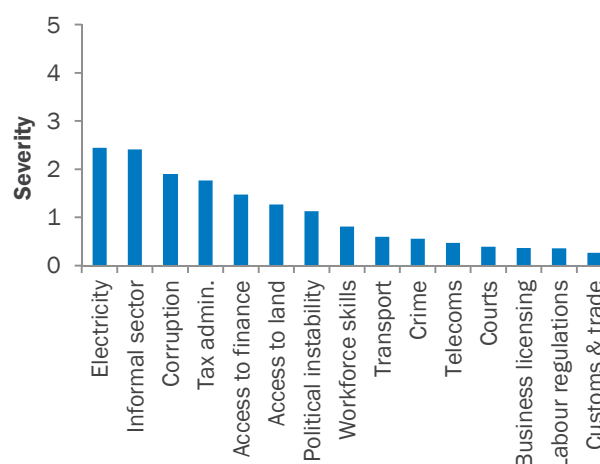
Improvements in reliability of electricity supply and concerns about corruption

Though some improvements have taken place since BEEPS IV, **electricity issues** remained the most severe obstacle for firms in Albania. The number of power outages in a typical month decreased from 32.8 in 2007 to 7.8 in the latest BEEPS round, partly owing to increased precipitation. However, this still exceeded the south-eastern Europe (SEE) average of 5.4. The percentage of annual revenue lost due to power outages decreased from 15% in 2007 to 7.7% in the latest survey (Chart 2).

The **informal sector** has been a major issue in Albania since the early stages of its transition towards a market economy. In BEEPS V, 40.2% of the firms surveyed reported competing against firms in the informal sector, which is slightly below the SEE average of 48.6%. This competition is highest among SMEs: 41% of them reported competing against unregistered firms, compared with 27.8% of large firms. The informal sector is an important contributor to employment and production in Albania. According to the International Labour Organization, 30% of the total workforce in the construction sector is employed informally. Discrepancies in Albania's national accounts suggest that the informal sector accounted on average for 36.2% of GDP over the period 1996-2012. This leads to tax revenue losses, a lack of labour protection and unfair competition among firms.

Corruption replaced political instability as the third most important obstacle in BEEPS V. Although relatively few firms applied for construction-related permits, almost one-third of the firms that did said that an informal gift or payment was expected or requested during the application process, well above the SEE average of 18.8%. Likewise, although informal payments typically made by firms to secure a government contract dropped from 6.5% (of contract value) in BEEPS IV to 1.5% in BEEPS V, it was above the SEE average of 1% (Chart 3). Similarly, the percentage of firms that never had to make informal payments to "get things done" increased to 52.7%, but was still slightly below the average of 56.2% for transition countries.

Chart 1. Business environment obstacles



Estimated for a hypothetical "average" firm. Higher values correspond to a weaker business environment.

Chart 2. Losses due to power outages

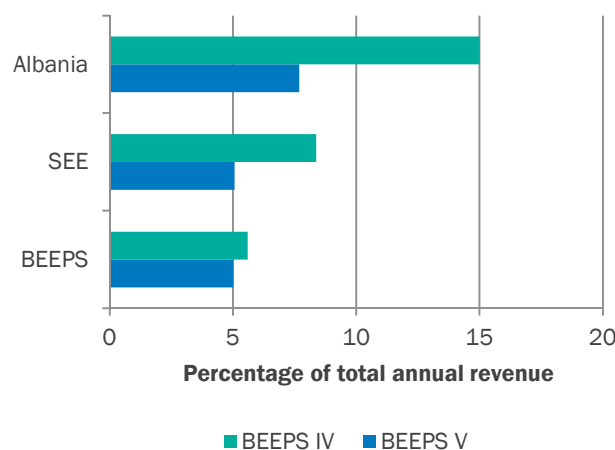


Chart 3. Informal payments to secure a government contract

