UNCTAD

The Republic of Albania
Ministry of Economic Co-operation and Trade

Investor Targeting Strategy for Albania

Advisory Report

Advisory Services on Investment and Training

May 2001

Geneva, Switzerland

Preface

In 1991, the Republic of Albania embarked on a path of economic and social restructuring. One of Government of Albania central pillars of reform was, and continues to be, the promotion of private domestic and foreign investment. In this connection, the Government established its first investment promotion institution as early as 1991, and has since continued to develop its approach in attracting and benefiting from foreign direct investment (FDI). The United Nations Conference on Trade and Development (UNCTAD) has been providing technical assistance in the field of investment promotion to the Government of Albania since 1994. These activities are presently carried out under the ALB/93/014 project funded by the United Nations Development Programme (UNDP). The project is currently close to a completion; the last phase being the preparation of an investor targeting strategy for Albania -- the subject of this report.

In November 2000, UNCTAD's Advisory Services on Investment and Training (ASIT) undertook a mission to Tirana, Albania. The purpose of the mission was to collect information for the investor targeting strategy report. The mission consisted of Mr. Marko Stanovi□, Regional Co-ordinator, Investment Promotion Section, UNCTAD; Mr. Refael Benvenisti, UNCTAD expert; and Mr. Genc Myftiu, UNCTAD consultant.

The UNCTAD mission held discussions with various stakeholders in Albania's investment promotion process, representatives of relevant bilateral, multilateral and international organisations, consular representatives of Albania's major trading partners and representatives of the private sector. In particular, the mission met with Mr. Engjell Skreli, Deputy Minister, Ministry of Economic Co-operation and Trade; Ms. Adriana Berberi, Deputy Minister, Ministry of Finance; Mr. Albert Caci, Deputy Minister, Ministry of Public Works; Eng. Thimio Plaku, Director, Ministry of Transport; Mr. Ilir Ciko, Director of Development Programming, Ministry of Public Economy and Privatization; Prof. Sherif Bundo, Chairman, Tourism Development Committee; Dr. Dashamir Mezini, General Director, Albanian Economic Development Agency; Dr. Parviz C. Fartash, Deputy Resident Representative, United Nations Development Programme (UNDP), Albania; Mr. David Garrigos, Programme Officer, UNDP, Albania; Mr. Eugen Scanteie, Resident Representative, The World Bank, Albania, Ms. Elira Sakiqi, Programme Manager – Southern Europe and Central Asia Department, International Finance Corporation, The World Bank, Albania, Dipl. Ing. Ismail Beka, Coordinator for Technical Cooperation, Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ) GmbH, Albania, Dr. Peter Blomeyer, Counselor, German Embassy in Albania, Mr. Zeki Kaya, Attaché, Economic Affairs, Turkish Embassy in Albania, Mr. Guido De Fraye, First Counselor, Delegation of the European Commission in Albania, and Ms. Emira Kadiu, Executive Director, Foreign Investors Association of Albania.

The UNCTAD team would like to thank all persons who have extended their hospitality and co-operation to them during their stay in Tirana. Special thanks goes to the UNDP office in Tirana for their inputs into this report and for facilitating the work of the mission.

This report was prepared by Mr. Refael Benvenisti. Mr. Genc Myftiu provided additional inputs. Mr. Marko Stanovi□ managed the technical assistance programme under which the report was produced. The views in this report are those of the authors and do not necessarily reflect the views of the United Nations Secretariat.

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LIST OF ABBREVIATIONS

AEDA	Albanian Economic Development Agency
ASIT	Advisory Services on Investment and Training
BAC	Business Advisory Council, Albania
BOBSH	Albanian Union of Business Associations
BOT	Build-Operate-Transfer
CCI	Chamber of Commerce and Industry, Albania
EBRD	European Bank for Reconstruction and Development
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investment
FIAA	Foreign Investors Association of Albania
FIAS	Foreign Investment Advisory Service
GDP	Gross Domestic Product
INSTAT	Albanian National Statistical Agency
IFC	International Finance Corporation
IPA	Investment Promotion Agency
RDA	Regional Development Agency, Albania
SMEs	Small- and Medium-Size enterprises
TNC	Transnational Corporation
UIA	Union of Investors in Albania
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
VAT	Value Added Tax
WAIPA	World Association of Investment Promotion Agencies
WB	World Bank

1. EXECUTIVE SUMMARY

1. **<u>FDI SITUATION IN ALBANIA</u>**: FDI in Albania remains low. In 1998 and 1999, it averaged little over US$ 40 million per year, or 1.5 per cent of GDP, with most of it generated by privatisation of state-owned-enterprises. In contrast, other countries in Central and Eastern Europe regularly attract 5 per cent or more of their annual GDP in FDI inflows. Clearly, there appears to be a potential for increased FDI inflows to Albania. If Albania could attract 5 per cent of its GDP in FDI inflows, it could receive more than US$ 150 million of foreign investment per year[1]. In addition, FDI to Albania is highly concentrated – more than 60 per cent of it is in trade and retailing, and almost 20 per cent in light manufacturing and simple assembly, mostly garments and shoes.

   <u>Recommendation</u>: In order to attract higher levels and more diversified FDI, Albania should work to improve its FDI enabling environment (see Investment Climate section). However, just having a good 'product' will not in itself make that product sell. One also needs effective marketing, and for this, having a well conceived investor targeting strategy is critical for developing a co-ordinated national FDI promotion effort. The Government of Albania should use the herein outlined investor targeting strategy as a basis for formulating its national FDI promotion strategy.

2. **<u>FDI STRATEGY vs. FDI VISION</u>**: To develop an investor targeting strategy, one needs to have an FDI 'vision': what products or services does Albania want to specialise in FDI attraction. In other words, when foreign investors will in the future think of Albania as an FDI destination, what products or services will come to their mind.

   <u>Recommendation</u>: Albania should seek to attract FDI into products in which the country is considered to have international competitive advantage, current as well as potential. In this regard, a chart of Albanian product *champions* (see Manufacturing Section; also Annex) identifying export products for which the country has been able to outperform world market growth and has increased its share in world imports (men's cotton pants and shorts; footware: outer soles of rubber/plastic, uppers of leather; cotton T-shirts, unprocessed tobacco, and women's cotton shirts and blouses), can be a useful starting point. Electronics, household appliances, and small machinery are areas in which Albania could potentially develop international competitiveness (see Manufacturing section). The following is a proposed FDI vision for Albania:

   > 'Made in Albania' becomes the standard for high-quality organic food sold in major European and world markets. Naturally produced wine, early and late season fruits and vegetables, olives, and medicinal herbs and teas become the connoisseurs' choice world-wide.
   >
   > *'We are the young Europeans[2]'* becomes the lead advertising slogan for promoting Albania as an FDI destination. Albania's young and growing population, combined with targeted specialist education, creates a vibrant and technologically savvy workforce. Cost-efficient, state-of-the-art, quick delivery, and customer satisfaction become the economy 'buzzwords'. Information technology becomes the backbone of Albania's industrial development strategy.

[1] In 1998, GDP in Albania was US$ 3.1 billion; 5 per cent of this amount yields US$ 155 million.
[2] 'We are the young Europeans' was an advertising slogan used by the Irish Development Authority (IDA) in the 1980's, and proved to be highly successful in attracting FDI to Ireland.

'IKEA builds new factory in Albania' tops business headlines in Europe's leading newspapers. Albania's rich forests and high quality beech wood, combine with Albania's traditional craftsmanship to produce furniture that is appreciated world-wide.

'CLUB MED opens its latest holiday-village south of Sarande in Albania'. As a self-contained facility, the resort village features 7 and 10 day, all-inclusive holiday packages, with deluxe accommodations, unique access to the beach, heated indoor and outdoor sea-water swimming pools, a comprehensive fitness centre, and features activities such as swimming, boating, diving, snorkelling, wind-surfing, hiking, and escorted coach one-day trips to surrounding areas. With an ample opportunity for souvenir shopping, parents can relax with an all-day baby-sitting centre with meals and activities included for children of all ages, night-life with music, dancing and entertainment, choice foods and meals prepared by expert chefs, pristine waters, sandy beaches and a balmy climate.

'Transport corridor No. 8 is opened in Durres, Albania' tops European television newscasts. The transcontinental transport corridor No. 8 is completed and transforms Albania into an important Adriatic sea gateway to the Balkans. The corridor No. 8 (the old Roman Via Ignatia) runs from east to west of South Europe and links the Adriatic and Black seas. The Corridor starts in the Albanian port of Durres, goes over Skopje, FYR of Macedonia, through the Bulgarian port Burgas and ends in Istanbul, Turkey. The corridor integrates the economies of the South Balkan region with Europe, Middle East, Caucasus and Central Asia. A priority European transportation network, the corridor includes all modes of transport such as: roads, railways, gas and oil pipelines, electric lines, and fibre optic telecommunications cables. The exchange between zones and markets that were not linked before becomes common.

3. **BOOSTING FDI IN THE SHORT-TERM**: In the short-term, the most important assets for increasing FDI inflows to Albania will be the **privatisation** of state-owned-companies in the country's strategic sectors, such as oil and gas, mining and banking. Another major source of FDI can be the involvement of the foreign private sector in the provision of infrastructure services in Albania, for example, on a Build-Operate-Transfer (BOT) basis.

   Recommendation: The current privatisation policy in Albania, which includes the encouragement of private investment in electric power, telecommunication, transport infrastructure, water supply, private export processing zones and industrial estates, should be continued. Foreign investment should be encouraged, as this can bring in requisite capital, technology, and managerial know-how. Companies from Italy, Germany and the United States of America can be especially good targets for these investments. The privatisation of the energy and transport sectors should be accelerated as these are still in their pre-initial stages of privatisation (see Privatisation programme section).

4. **BOOSTING FDI IN THE MEDIUM- AND LONG-TERM**: Albania's resource endowments and low-cost labour make labour intensive manufacturing, mining, agriculture, and tourism obvious targets of an investment promotion strategy. This strategy is further reinforced by the existing pattern of Albania's exports and imports.

   Recommendations: **AGRICULTURE** in Albania has major development opportunities arising from the country's geographical position, resource endowments, the quality and abundance of its labour force and the existence of the resilient private sector. The country can become a significant exporter of **organically-based agricultural products** aimed at European and other world markets. Albania should endeavour to develop an agriculture sector based on organically-produced, high value commodities, including select fruits, vegetables, niche produce and grassland-based livestock products. Foreign investment should help develop Albania's intermediate food processing capabilities and provide critical access to foreign markets. Albania's investor targeting strategy in agriculture should target major food wholesalers and retailers in Europe and the United States of America (see Agriculture section).

The **MANUFACTURING** sector in Albania can attract both market-seeking and efficiency-seeking FDI.

<u>Market-seeking</u> FDI in manufacturing will initially be limited because of the small Albanian market and low consumer purchasing power. The small market impediment to FDI can, however, be mitigated by further progress made in the regional market integration scheme as envisaged under the Stability Pact for South-eastern Europe initiative, in which Albania participates (see Stability Pact section). In attracting market-seeking FDI in manufacturing, investors that are Albania's main import partners can be good targets, for example, Italian, Greek and German firms, producing finished **brand name clothes**, **processed and canned foods**, **and brand-name cigarettes**.

<u>Efficiency-seeking</u> FDI in Albania's manufacturing sector will be attracted to the country's quality low-cost labour force, and attractively priced privatisation deals. The investor targeting strategy should promote to investors specialising in products in which Albania is considered to have export competitiveness, especially **natural fibre garments**, and **footware**, particularly leather shoes. Albania's chart of 'Champions' can provide a good basis for identifying potential investors in this area (see Manufacturing section; also Annex).

Albania should also consider targeting foreign investment in manufacturing products it currently does not export, but in which it could potentially develop international competitiveness, such as **electronics**, **household appliances** and **small machinery**.

TOURISM in Albania has major developmental opportunities arising from the country's beautiful coastal and lake areas, unspoiled environment and rich cultural heritage. However, because of the current security situation in Albania, as well as the state of its infrastructure, FDI in tourism will in the short-term likely be limited to developers of **marinas** and **holiday villages**. Investors from Italy and France can be good targets in this regard. In addition, Albania urgently needs a detailed tourism master plan to guide its infrastructure development and potential investors (see Tourism section).

<u>Resource-seeking</u> FDI in Albania will be attracted to the country's substantial mineral reserves and opportunities for further exploration and extraction. **MINING** in Albania suffers from obsolete equipment and technology, frequent disruptions of production and supply lines, and a lack of modern managerial expertise. An investor targeting strategy in mining should aim at leading international firms practising environmentally sound production processes. In light of the fact that most foreign investment in minerals in transition economies in Central and Eastern Europe in the late 1990's took place in **quarry products**, **cement plants**, and **construction materials**, Albania's investor targeting strategy should aim at firms engaged in these areas, particularly in the **limestone**, **marble** and **dimension stone** production. The strategy should also aim at transnational corporations (TNCs) engaged in **chromium ore** and **ferrochromium** production as this builds on Albania traditional strengths in these areas. Finally, the strategy should aim at privatising the existing mines and production facilities and in selective issuing of new exploration licenses, for example, in **copper** exploration -- currently popular with European mining TNCs. TNCs from Europe and the Americas should be prime targets in this regard (see Mining section). In targeting investors in the **OIL AND GAS** sector, Albania should take advantage of its excess capacity in the petroleum industry, especially in equipment and spare parts manufacturing. The investor targeting strategy should aim at TNCs specialising in **oilfield exploration** and **drilling rigs construction and operation**, and should target the development and rehabilitation of existing oilfields (e.g., Kucova, Amonica, Velca, and Delvina oilfields). However, the

potential of FDI led economic growth in Albania's petroleum industry is not substantial, and promoting FDI into this sector should not be a top priority.

5. **INVESTMENT PROMOTION TACTICS**: Successful IPA's from around the world use a variety of techniques for attracting FDI. These techniques usually focus on a) *image building* – building or changing the investment 'image' of a country (as seen from the eyes of foreign investors); b) *investment generation* – getting potential investors interested, and ultimately, have them make the investment in a country (using personal selling, advertising, public relations, and publicity); and *investor servicing* – providing personalised pre- and post-investment assistance to investors. The 'right' combination of these techniques is indispensable for a successful and efficient investment promotion campaign.

   Recommendation: As an immediate step, Albania should focus its energy on **investor servicing**, of both potential and existing investors. Satisfied investors are usually the best advertisement for a country; and their opinion is generally judged by other potential investors as genuine and objective. Satisfied investors are likely to remain in the country longer than those that are unhappy, and are also likely to make subsequent, or 'sequential' investments. In fact, the sequential investment can be as high as three or four times the original investment[3]. Initially, Albania should spend a moderate effort on **investment generation**, selectively targeting investors in areas identified in this report. Care should be taken to develop a group of potential investors that will become the 'core' group of Albania's investment promotion efforts. This group of TNCs should be regularly contacted with news about investment opportunities in Albania. The IPA should also stay abreast of companies' future plans, including possible expansions. In fact, every company in the core should have an IPA desk officer assigned to it, with a view to develop personalised and problem-solving relationship with the company key personnel responsible for foreign investment. **Image building** activities in Albania should receive less attention at this time. It is important however, that Albania is represented at key international investment forums, and that the country maintains a pro-active membership in key investment promotion organisations and associations. Publication of a newsletter aimed at international investment actors (key TNCs, banks, trade associations, certifying agencies, etc.) could provide an additional and cost-effective strategy in this respect.

6. **INSTITUTIONAL ARRANGEMENTS FOR THE FUTURE: THE NEW ALBANIAN INVESTMENT PROMOTION AGENCY (IPA)**: Promoting and attracting FDI is a highly competitive and specialised activity, with an increasing number of countries actively seeking foreign investment and mounting systematic promotional campaigns. Moreover, an increasing number of countries choose to focus the investment promotion function in a separate Government agency.

   Recommendation: In order to attract greater levels of FDI inflows to the country, as well as to upgrade the technological level of foreign investment, the Government of Albania should establish an IPA that can:

   - Prepare and seek agreement on an investment promotion strategy that is suitable for the country;
   - Develop policy positions and advocate policy changes which will reduce or remove existing obstacles and hindrances to investment, and create competitive conditions necessary to attract modern information age investments across a range of sectors; and

[3] General Electric company is estimated to have subsequently invested an amount 3 or 4 times higher than the original purchase price in its privatisation of Hungary's Tungsram company (Weiszburg, 1997).

- Implement in a strong and pro-active manner promotional campaigns, which can ensure that the country is well positioned to attract the types of investments it targets.

Without a well defined legal basis establishing the agency in clear legal terms, experience suggests that it is difficult for an IPA to survive through the many crises and attacks it is likely to face, to withstand the repeated and often unwarranted incursions likely to come from various Government or private sector bodies, and to attract the calibre of staff and Supervisory Board members which are necessary for its successful operation.

The Government should establish an IPA:

- As an independent body, with its own legal mandate, its own operational Board, which is linked to the Government through the Prime Minister' Office;
- Solely responsible for the development and implementation of investment promotion strategy;
- With a Board, chaired by the Prime Minister (or his representative), with strong private sector membership, and including representatives of key Government ministries and agencies, who will manage and control the agency;
- With a small staff of trained executives, operating under the control of the Board, and working with performance linked rewards;
- Operating under an agreed strategic plan with clear targets and performance measurement systems; and
- Receiving the bulk, if not all, of its funding from the Government on a long term basis.

2. FRAMEWORK

2.1. FDI Trends

FDI flows continued to rise globally, and in 1999, reached US$ 865 billion world-wide. Between 1990 and 1999, global FDI increased by 314 per cent, greatly exceeding the growth of world trade and world GDP, which increased during the same period by 65 and 40 per cent, respectively. FDI to Albania however remains low; it averaged about US$ 40 million per year over the period of 1997 to 1999 (US$ 14 per capita or about 1.5 per cent of GDP) staying far below the volume of 3 to 5 per cent of GDP or US$ 50 – 200 per capita, experienced by other Central and Eastern European countries (see table I). In 1995 and 1996, FDI annual inflows to Albania were nearly twice as large as in the period from 1997 to 1999. The decline in FDI was undoubtedly due to the series of crises, which affected the country; starting with the 1997 civil disturbances that followed the collapse of the pyramid schemes; the coup attempt in September 1998; and the Kosovo crisis in 1999. Nonetheless, judging from the relationship of FDI to GDP in other countries in the region, there appears to be significant potential for increased FDI inflows to Albania (see Table I.).

In 2000, FDI activity increased both in terms of the volume and number of foreign companies investing in Albania. Total FDI inflows reached over US$ 90 million and the number of registered joint-venture and foreign wholly-owned firms increased by about one-third, between 1999 and 2000. Most of the increase in FDI activity however, came as a result of privatisation programmes undertaken in the telecommunications and banking sectors. While the difficult business climate continues to have a dampening effect on FDI flows into general economy (non-strategic sectors), the increase in privatisation activity is expected to boost FDI inflows in 2001, as interesting investment opportunities tempt some investors to take on the related risks. In 2001, the Government is planning further privatisations of Albtelecom – Albania's fixed line telephone company, two hotels in Durres and Tirana, and the Albanian Savings Bank.

Table I. Regional FDI flows and comparative information, 1998

	FDI inflows (US$ millions)	Population (millions)	FDI per capita (US$)	GDP *	FDI/GDP (percentage)
Romania	2031	22.5	90	38.2	5.3%
Moldova	81	4.3	19	1.6	5.1%
Czech Republic	2'720	10.3	264	56.4	4.8%
Bulgaria	537	8.3	65	12.3	4.4%
Hungary	2'036	10.1	202	47.8	4.3%
Croatia	893	4.5	198	21.8	4.1%
Slovakia	631	5.4	117	20.4	3.1%
Albania	45	3.3	14	3.1	1.5%

Source: UNCTAD and World Bank: World Development Indicators database

* Note: US$ billions, at market prices

Low levels of FDI in Albania persist for reasons beyond low per capita income and political instability. Other major deterrents frequently cited[4] include: lack of application and enforcement of law; frequent and disruptive inspections by public officials (especially customs, taxation and where special licenses or permits are required); expectations by public administration officials of illicit payments; inadequate basic infrastructure services (roads, power, water, and communication); problems in accessing land and construction permits; and a weak and generally non-supportive financial sector.

[4] Based on a survey conducted by the Foreign Investment Advisory Service (FIAS) of the World Bank Group as part of its *Albania Diagnostic Study*, prepared in 2001. The study examined Albania's administrative, legal and regulatory frameworks in relation to FDI attraction and promotion.

Opportunities for acquisition of domestic enterprises in Albania by foreign investors remain limited. There were an estimated 56,000 enterprises registered in Albania in 1999. However, the size of the companies remains relatively small: 75 per cent have just one employee, 0.2 per cent have more than 100 employees, and only 4 per cent of companies have a turnover greater than US$ 600,000. Most companies, in terms of numbers, are engaged in trade and retailing (52 per cent), services (18 per cent), transport (16 per cent), manufacturing (9 per cent), and construction (3 per cent). Nearly half or them are located in Tirana – Durres – Elbasan corridor.

Table II. Registered private enterprises, by activity, 1999

(number)

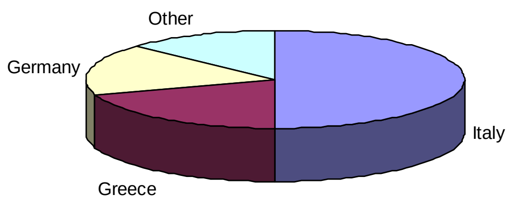
	Physical persons	Private Albanian company	Joint venture	Foreign wholly owned	Total	Per cent
Trade	22'082	5325	1'314	883	29'604	52%
Services	8'827	958	136	166	10'087	18%
Transport	8'253	415	88	61	8'817	16%
Manufacturing	2'668	1'875	426	254	5'223	9%
Construction	148	1'533	120	90	1'891	3%
Agriculture	630	288	36	13	967	2%
Total	42608	10394	2'120	1'467	56'589	100%

Source: INSTAT, Albania

According to the Albanian Statistical Institute - INSTAT, in 1999 there were 2,120 joint ventures, and 1,467 foreign wholly-owned affiliates registered in Albania (see Table II.). Most of them are small companies, employing only a few employees, and only about 8 per cent of them employ more than 10 persons. The total number of persons employed by foreign affiliates was about 19,000, with an average value of the foreign investment of US$ 87,000. The average size of foreign companies in Albania is therefore small and lags considerably behind that found in other Central and Eastern European countries. Most foreign investment in Albania takes place by way of joint-ventures. The relatively high proportion of joint ventures reflects the reluctance on part of many foreign investors to get more substantially involved in the Albanian economy. By entering the Albanian economy through joint-ventures, foreign companies can minimise their risks associated with the exposure to the weak Albanian financial market, political instability, private property protection system, and local labour-management issues.

The country of origin of FDI in 1999 was 50 per cent from Italy, 20 per cent from Greece, and 17 per cent from Germany; with the remaining 13 per cent distributed between other European countries and the United States of America (see Figure I.). In contrast to other Central and Eastern European countries, FDI in Albania originates mainly from its neighbouring countries, notably Italy and Greece.

Figure I. FDI in Albania, by country of origin, 1999



Source: INSTAT

The Italian investment is located mostly in the western part of Albania, next to the Adriatic sea. Most Italian investors in Albania are small- and medium-size enterprises (SMEs), engaged in construction (35 per cent), textiles and shoe-making (21 per cent), trade and services (16 per cent), and agrifood industry (8 per cent), and most come from southern

Italy. Italian firms take advantage of Albania's comparative advantage in low-cost quality labour -- Albanian wages being almost ten times less than in Italy. In addition, Italian investors can take advantage of the Italian Government grants and subsidies aimed at promoting Italian investment to Albania.

Investors from Greece are concentrated mostly in the southern and south-eastern part of the country, close to the Greek border. Almost all Greek investors in Albania are engaged in trade, with less than 2 per cent engaged in other industries, such as textiles, garments, and leather products manufacturing, and tobacco processing. Furthermore, more than 60 per cent of Greek FDI benefits from grants offered by the Greek Government to Greek firms undertaking investment in Albania.

In terms of FDI inflows, tourism attracts around 34 per cent, light industry (20 per cent), agrifood (18 per cent), and construction (15 per cent). The low amounts of FDI inflows in trade, underscores the marginal role this sector plays in attracting FDI, despite the large number of foreign enterprises involved in it.

FDI in agriculture is low due to small and fractured land plots, restrictions on foreign ownership of rural land, and weak roads and transport links to major national and regional markets. Sectors most attractive to foreign investors in agriculture and related industries include fisheries, fish processing and canning, food processing, olive oil refining, beverages production, and wood processing.

In services, FDI is concentrated in banking, retail and construction. FDI in the construction sector has grown in terms of the number of enterprises and volume of activity. Most investors in construction originate from Turkey, Italy and Greece. FDI will likely expand in this area as investment in infrastructure and buildings (business centres and housing) grows, based on the flow of resources from donor countries, and in response to significant rural to urban migration.

In manufacturing, the majority of foreign enterprises are engaged in re-exporting finished and semi-finished goods, mostly garments, small leather articles, and shoes. Re-exporting takes place when foreign affiliates in Albania import raw materials from abroad (usually the investor's home country), process them using labour-intensive production methods that capitalise on Albania's low labour cost, and then re-export the goods at various stages of processing (often back to the investor's country of origin).

The Albanian investor targeting strategy should address the key short to medium-term challenge facing Albania in promoting FDI to the country – how to attract more stable and higher value-added activities into the economy's productive sector. Most FDI to Albania currently takes place in low value-added activities, utilising labour-intensive production methods, with low technology content, and minimal capital investment. Many foreign enterprises make few linkages with Albanian counterpart companies and avoid majority investments. The FDI situation in Albania can best be described as superficial and footloose. It is important that the Albanian Government creates conditions conducive to foreign investment, while at the same time, and using the right mix of policy measures and incentives, attracts FDI into sectors that will build on Albania's comparative advantages, current and potential, given its resource endowments, existing cost-structures, national development goals, and geo-strategic position vis-à-vis neighbouring countries, the region, and the world as a whole.

2.2. The Stability Pact and regional co-operation trends

On 10 June 1999, at the initiative of the European Union, the Stability Pact for South Eastern Europe was adopted in K l̄n, Germany. In the founding document, more than 40 partner countries and organisations undertook to strengthen the countries of South Eastern Europe "in their efforts to foster peace, democracy, respect for human rights and economic prosperity in order to achieve stability in the whole region". Euro-Atlantic integration was indicated as a distinct possibility to all the countries in the region.

In the founding document, the European Union, which has assumed a leading role in the Stability Pact, undertakes to draw South Eastern Europe "closer to the perspective of full integration ... into its structures", including eventual full membership of the European Union. As an interim step towards membership, the European Union has established a new generation of stabilisation and association agreements. They are aimed at the five south-eastern European countries which still have no contractual relationship with the European Union, i.e. Albania, Bosnia-Herzegovina, Croatia, the Federal Republic of Yugoslavia, and FYR Macedonia[5].

The medium and long-term economic development goals of the Stability Pact can be summarised as follows:

- Private sector development, especially through the liberalisation of trade between the countries of South Eastern Europe and the European Union, through the improvement of the business regulatory environment and the improvement of the financial sector;

- Poverty reduction and social development, especially through policies to foster social cohesion and inclusion; policies to encourage democratic and participatory processes, and; policies to strengthen social protection as well as access to, and the performance of, the social services;

- Institutional development and governance, especially through the improvement of institutional and administrative efficiency and by addressing the problem of corruption;

- Increased investment in infrastructure;

- Improvements in environmental protection.

As part of the Stability Pact initiative, in February 2000, the countries of the region adopted an Investment Compact. In this document, the South-Eastern European countries undertook to introduce free market economy reforms and improve the climate for investment. Every country drew up a specific list of priority reforms and projects it wishes to undertake. In addition, the following bodies were established to facilitate the implementation of the Compact:

- A *Business Advisory Council* was established to work on the improvement of the investment climate in the countries of the region, and help ensure the implementation of the Investment Compact.

[5] For more information see the Stability Pact website at www.stabilitypact.org.

- The *Working Group on Trade* is developing measures to help break down customs and other trade barriers. In this connection, the countries of the region have signed a Memorandum of Understanding.

- A *Co-ordination Group* deals with measures designed to promote vocational training.

- A *Task Force* is working on the development and implementation of environmental programmes.

- The *Social Dimension Initiative* strives to foster increased access to social services and infrastructure (social security, health, housing); promote social dialogue between governments, employers and workers, and advance employment creation for the youth and society's other vulnerable groups.

- A *Financial Sector Reform Initiative* has been launched to promote co-operation between central banks in the region and to foster appropriate conditions for commercial banks.

The Stability Pact initiative could help Albania's prospects for FDI in a major way. Closer regional integration, to the point of eliminating quotas, tariffs, customs or other barriers to trade among participating countries, will in effect, enlarge Albania's relatively small domestic consumer market and make it more profitable for market-seeking transnational corporations to establish affiliates in Albania. Regional integration will also make it more profitable for non-European firms to establish affiliates in Albania in order to gain access to European and regional markets, which are in geographic proximity to Albania, and are easily accessible from the Albanian Adriatic port of Durres. The elimination of customs, VAT, and other taxes in Albania would make it more profitable for European firms to establish affiliates in the country, and take advantage of the country's comparative advantage in low-cost skilled labour. The investor targeting strategy should take into account these implications. For example, in targeting investors from the Far East, the Albanian investment promoters can emphasise that products made in Albania could eventually have non-tariff and non-quota access to the European market. Alternatively, when promoting to European companies, the promotional message should stress that the companies' products will not only reach 3.5 million consumers in Albania, but a much larger regional market.

2.3. The Investment climate

The assessment of a country's economic and political stability is an important element in TNC investment decision-making process . Any negative perception in this area can put at risk the implementation of investment plans and adversely affect the project's perceived profits.

Interviews with company executives over the years have confirmed that market potential and its dynamics alone can not assure a choice of a particular investment location[6]. The additional critical factors that determine FDI locations are: political and economic stability, legal climate, presence of qualified labour and requisite industrial strengths, communication systems, privatisation programmes, and an acceptable fiscal regime. Investors prefer stable, transparent and reliable legal and regulatory framework. Such framework entails stable 'rules of the game', a judicial system that can enforce laws and contracts effectively, promptly

6 The Road to Stability and Prosperity in South Eastern Europe, The World Bank, March 2000.

and honestly, and a minimum amount of bureaucratic red tape and interference and arbitrary decision-making by the government. The low levels of FDI in Albania can in part be attributed to[7]:

- The slow process of privatisation of state lands and buildings, medium and large-size state enterprises in capital-intensive industrial sectors, and strategic sectors such as electricity, water, and transportation;

- Low and declining interest of foreign investors due to a perception of high risk associated with past violent social and political changes in Albania, and current instability in the Balkans and Kosovo.

- Weak governance capacity. Frequent changes of government resulting in changes of decision makers and policies, continuous reform and changes in "the rules of the game". Non-functioning public institutions, rising criminality, and the lack of law and order. The weak governance capacity is the result of a lack of accountability and institutional capacity. In the words of a World Bank (WB) report: "there is a need to build in Albania a stable, accountable and transparent state that has the capacity to govern".

- Weak rule of law. Legislative overload of legal system; weak judiciary due to lack of information, poor education, political influence, illicit payments, vastly inadequate physical infrastructure, low salaries, and lack of inspection; very weak implementation and enforcement of the laws. In the words of a WB report: "business deals in Albania are conducted not on the basis of the legal system but on the basis of a handshake, personal knowledge, and illegal payment for services of Government officials".

- Lack of low cost and efficient infrastructure (transport, electricity, water, industrial parks and Export Processing Free Zones, etc.) for export oriented FDI and tourism.

- Weak and overburdening tax administration, especially income tax, value-added-tax (VAT) and the customs. Unsupportive tax environment for export oriented FDI. Taxes, both duty and VAT, on imported machinery and equipment; lack of a simple and general system of duty and VAT refund for exporters; and the lack of investment inducing tax incentives such as investment allowances, tax credits, and accelerated depreciation.

- Weak financial sector and insufficient availability of financial services to the private sector. High real interest rates, weak credit intermediation services (lack of long term financing and leasing), high collateral requirements, very poor payment and depository services, low quality services for international trade (it takes one week to transfer funds) and weak banks supervision.

- Weak legal and administrative framework to record and protect property rights and land use in urban areas for tourism, as well as commercial and industrial uses. Problems in access to land and construction of industrial parks, office buildings and commercial centres resulting from slow clearance of conflicting title rights and bureaucratic procedures for property rights registration, zoning and construction approvals.

7 Note: The Investment Climate section of the report is based on the outcome of the Albania Diagnostic Study, conducted by the Foreign Investment Advisory Service (FIAS) of the World Bank group in 2000.

- Rising labour costs, lack of managerial expertise, lack of workers having advanced degrees in business and management, and competition from other low labour cost countries in the region.

The above constraints to FDI are overwhelming. In other countries only a limited number of them would be considered a strong impediment to FDI. It is not surprising therefore that FDI flows to Albania were only 1.5 per cent of GDP and the number of registered foreign investors was only 100 per year, with most of them (two thirds) being in the trade, services and construction sectors. The Albanian government is aware of the above problems and is taking strong and bold measures to address them. In this connection, the following programmes aimed at improving Albania's investment climate should be undertaken in co-operation with relevant bilateral, multilateral, and international organisations currently working in Albania.

1. Continue with the privatisation of strategic industry sectors and state holdings in urban land and buildings.

2. Continue with the judiciary and administrative reforms and implement anti-corruption programmes by i) identifying areas of public administration most prone to corruption, ii) streamlining and rationalising legal and administrative procedures to eliminate corruption incentives, and iii) introducing transparent rules and procedures.

3. Commercialise and streamline public utilities. Rehabilitate and strengthen the existing infrastructure systems through least cost investment and improved management. Invest in industrial parks and export processing zones (EPZs) to mitigate the infrastructure problems.

4. Introduce tax incentives to investors in the form of a very low duty on import machinery and equipment, establish effective duty and VAT exemption mechanisms for exporters, and create profit tax incentives for investors in the form of grants, allowances, credits, loss carry forwards, and accelerated depreciation.

5. Continue with the reform of the financial sector and encourage greater involvement of foreign investors.

6. Introduce appropriate educational reforms and establish vocational training programmes as required.

The above analysis underscores the importance of improving the investment climate in Albania before FDI inflows can be increased in a more substantial way.

3. BOOSTING FDI IN THE SHORT-TERM

3.1. The Albanian privatisation programme

Table III. Status of Privatisation in Albania, by industry, 2000

Sector	Stage of privatisation	Expected completion	Legislation defining procedures
Strategic Sectors:			
Oil and Gas	Initial	2000-2003	Partially approved
Mining	Final	2000	Approved
Energy	Pre-initial	not defined	Draft pending
Water supply	Some in pre-initial, and some in final	various dates	Approved for some regions, pending for others
Transport (airport, sea ports, railroad)	Pre-initial	not defined	No draft
Telecommunications	Some in initial, and some in final	2000-2001	Approved
Banking system	Some in initial, and some in final	2000-2002	Partially approved/ approved
Non-strategic Sectors:			
Remaining industries (agroindustry and pharmaceuticals)	Final	2000	Approved

Source: OECD, Stability Pact, Country Fact Sheets, 2000

In the short and medium term, an important strategy for increasing FDI inflows to Albania will be the privatisation of strategic industrial sectors, such as banking, telecommunications, energy, oil and gas, mining, transport, and water supply utilities. The experience of other Central and Eastern European countries' privatisation programmes has been impressive. The region's total privatisation programmes from 1990 to 1998 raised US$ 55 billion, and 56 per cent of this amount came from foreign investors. Hungary alone attracted over US$ 7 billion in foreign investment into its privatisation programme during this period.

Privatisation programmes around the world are part of government sponsored reform strategies to turn the private sector into the prime force of economic development. In most countries these programmes are connected with increased liberalisation in foreign investment regimes. In some countries, while generally acknowledging the benefits of FDI participation, governments succumb to political pressure, giving preferential treatment to domestic buyers. Short-term political goals rather than efficiency, increased competitiveness and economic growth considerations dominate this strategy. The exclusion of FDI from privatisation denies the country the benefit of having an increased number of offers, higher sales prices, and higher probability of success of the programme. The fundamental principles of successful privatisation programmes are strong political commitment, business orientation of the programmes, and fairness in their implementation. Additional aspects of the programmes include a clear privatisation strategy, the creation of the institutional and legal environment and a short and straightforward divestiture process. Most complaints about the privatisation process in general concern the general sense of hesitation and indecisiveness of government officials that foreign investors encounter when entering the privatisation process. This, in turn, means longer processing time and higher risks and costs to the investors.

A study on the effects of privatisation programmes on FDI inflows shows that during the period 1988-1993, about 10 per cent of global FDI inflows resulted from privatisation sales[8]. An econometric analysis of a cross-section of 36 countries indicated that each dollar of privatisation revenue attracted an additional 88 US cents in FDI, independent of the privatisation sales themselves. The countries that conducted large, stable and reliable privatisation programmes such as Argentina, Chile, Czech Republic, Hungary and Mexico

[8] *Privatizing Public Enterprises and Foreign Investment in Developing Countries 1988-1993*, F. Sader, FIAS Occasional Paper #5, 1995.

received substantially larger FDI per capita compared to the developing world as a whole. The study concluded that it appears that privatisation activity has an important signalling function to foreign investors on the future development of the foreign investment climate in the country. In fact, governments can use privatisation programmes as a highly effective advertising tool to attract foreign investors.

Since 1998, the Government of Albania has been implementing privatisation of the remaining state-owned-enterprises with full or partial state ownership (see Table III.). The main objectives of this policy are to provide long-term growth and improve economic efficiency, to increase the effectiveness of the market through the promotion of competition and continued deregulation, and to attract foreign capital into key sectors of the Albanian economy including the strategic sectors (i.e., oil and gas, banking, telecommunication, utilities, mining and transport).

The success of recent privatisation related sales transactions in Albania sends positive signal to foreign investors. If the momentum of this success can be maintained, Albania stands a good chance of appearing on more important investors' *radar screens*, and this can become an excellent advertisement for the country. Yet, in order to capitalise on any interest the world may show to Albania during its 'time in the spotlight', and to be able to tap into added FDI inflows which could be generated in addition to direct privatisation sales, the government should take solid action to show its commitment to FDI and improve the business climate.

The scope of increased FDI to Albania is demonstrated through the recent sale of state assets in the mobile telecommunications and banking sectors. In May 2000, A Greek-Norwegian consortium offered US$ 82 million to purchase 85 per cent of the country's only mobile telecom provider. This figure represents nearly twice the average annual amount of FDI inflows to Albania in recent years. In June 2000, the sale of National Commercial Bank to foreign investors Kentbank (Turkey), European Bank for Reconstruction and Development (EBRD), and International Finance Corporation (IFC), attracted nearly US$ 10 million in revenue. This transaction represents the first bank privatisation in Albania, and with over 25 per cent of aggregate deposits, it will be the largest private sector bank in the country. The transaction also demonstrates foreign investors' interest in the sector which stands to benefit from wide-ranging developmental impacts of increased competition and significant transfer of banking technology and skills, enhanced industry standards and greater access to finance, especially for local SMEs.

So far, slow implementation and disbursements associated with certain projects approved through the concession law may be a sign of investors' 'wait-and-see' attitude. Slow negotiations and implementation can have an undesirable effect on Albania's reputation. Capturing and transforming 'interest' into solid investment will require a strong measure of concrete results and improved investment conditions. Complacency on the part of the Government at this point in time could be seriously counterproductive. The country cannot afford any scandals or "hiccups" while in the spotlight, or else prospects for success may be derailed.

Because privatisation is just a special case of FDI, most investor targeting strategies discussed in the "Boosting FDI in the medium- and long-term" part of this report will be applicable here as well (see next section).

4. BOOSTING FDI IN THE MEDIUM- AND LONG-TERM

4.1. General considerations

The role of FDI in meeting national development objectives can differ greatly across countries, depending on the nature of the economy and the government. One vision – pursued, for example, by Malaysia, Singapore, and Thailand – was to rely substantially on FDI, integrating the economy into TNC production networks and promoting competitiveness by upgrading their country's position in those networks. Another vision – pursued by the Republic of Korea and Taiwan P.O.C. – was to develop domestic enterprises and autonomous innovative capabilities, relying on TNCs mainly as sources of technology, and held primarily at *arm's length*. There is no ideal development strategy with respect to the use of FDI that is common for all countries at all times. Any good strategy must be context specific, reflecting a country's level of economic development, the resource base, the specific technological context, the competitive setting, and a government's capability to implement policies.

There are two basic approaches to defining a country's investment promotion strategy. The first is to analyse a country's resource endowments and locational strengths and weaknesses. This type of analysis is commonly referred to as the *SWOT -- Strengths, Weaknesses, Opportunities and Threats*, analysis (see Box I.).

Box I. SWOT analysis of Albania as an FDI location

Opportunities	**Strengths**
• Regional economic integration • Bilateral and multilateral agreements • Large diaspora • Reform educational system • Rebuild infrastructure	• Low-cost skilled labour • Strong work-culture • Mineral resources endowment • Natural and tourist attractions • Investment permissive legal environment • Geographical proximity to major regional and European markets • Access to Adriatic and Mediterranean seas
Weaknesses	**Threats**
• Security and safety • Small domestic market • Low per capita income • Poor infrastructure • Outdated industrial technology • Weak financial sector	• Competition from neighbouring countries • Rise in wages and erosion of labour-cost comparative advantage • Political instability • Law and order is not established

The SWOT analysis assumes that all countries can be the target of FDI provided they build on their strengths, take remedial actions to correct their weaknesses, are prepared to take advantage of new opportunities, and protect themselves against developing threats. The weakness of this approach is that it neglects the decision-making process that takes place within TNCs and that causes companies to prefer one location over the other.

The second approach is borne by a number of economic analyses and company surveys, and focuses on the investment decision-making process that takes place within TNCs and its underlying motivations. The basic tenet of this approach is that an investor targeting strategy can aim at a particular stage of the investment decision process, and thus directly and favourably affect the outcome (see Table IV.).

Table IV. Host country determinants of FDI*

Host country determinants

I. Policy framework for FDI

- economic, political, and social stability;
- rules regarding entry and operations;
- standards of treatment of foreign affiliates;
- policies on functioning and structure of markets (especially competition and M&A policies);
- international agreements on FDI;
- privatisation policy;
- trade policy (tariffs and NTBs) and coherence of FDI and trade policies;
- tax policy.

II. Economic determinants

III. Business facilitation

- investment promotion (including image-building, investment generation, and investment facilitation services);
- investment incentives;
- hassle costs (related to corruption, administrative efficiency, etc.);

Market-seeking FDI

- market size and per capita income;
- market growth;
- access to regional and global markets;
- country-specific consumer preferences;
- structure of markets

Resource/asset seeking FDI

- raw materials;
- low-cost unskilled labour;
- skilled labour;
- technological, innovatory and other created assets (e.g. brand names), including as embodied in individuals, firms and clusters;
- physical infrastructure (ports, roads, power,

Efficiency-seeking FDI

- cost of resources and assets listed under *Resource/asset seeking FDI* above, adjusted for productivity for labour resources;
- other input costs, e.g. transport and communication costs to/from and within host economy and costs of other intermediate products;
- membership of a regional integration agreement conducive to the

* Source: UNCTAD, World Investment Report 1999: Foreign direct investment and the challenge of development, Geneva, New York, 1999.

There are three basic motivations underlying a TNCs' decision to undertake FDI. A firm may pursue: a) market-seeking, b) resource or asset seeking, or c) efficiency seeking strategies. Under market-seeking FDI, a TNC may enter a foreign market to take advantage of its size, consumer purchasing power, lack of competition, or gain access to a regional market of which the country is a member. Market growth is important in this case, as well as consumer preferences and spending habits. For example, Coca-Cola has entered the Albanian market to sell its beverages to the Albanian consumers, whereas a Japanese company may establish an affiliate in Albania in order to obtain an easier access to the European market for its products. Resource or asset seeking FDI seeks natural resources or man-made assets which can be exploited. Thus, a TNCs may enter Albania to access its mineral ores or oil and gas reserves. The last motivation -- efficiency seeking -- takes place when a country has a comparative advantage in one or more factors of production. For example, a TNC might enter Albania to take advantage of its low-cost skilled and unskilled labour. Of course, a firm may undertake FDI to pursue all three strategies.

Albania could attract all three types of FDI. Resource-seeking TNCs would be interested in Albania's mineral, forest, and oil and gas reserves. Initially, the investor targeting strategy aimed at these types of investors should focus on well-known international mining and petroleum extraction and refining companies. They can be located anywhere in the world, but because of geographical considerations, the best choice will be TNCs from Europe and North America. The next step should be to target companies engaged in intermediate minerals processing and oil refining. This strategy would move Albania higher-up on the 'value chain', with an ultimate objective to develop and retain more value-adding activities in Albania.

Albania could also attract market-seeking and efficiency-seeking, or export-oriented FDI. In both cases, and in the short-term, TNCs will mostly be firms from across the Adriatic Sea, or the border – notably Italy and Greece. The market-seeking portion of FDI may be interested in entering Albania's nascent consumer market and in establishing a presence to grow with the market. In this category, important will be policy-induced FDI as a result of Albania's privatisation programme, particularly in the strategic sectors (telecommunications, energy, banking, transport, and water), as well as private investment in the infrastructure. With a small domestic market and low per capita income, most FDI outside the strategic or infrastructure sectors is initially likely to be efficiency-seeking for export and re-export oriented light manufacturing. Other forms of market-seeking FDI will likely be limited until countries of the Balkans can achieve greater economic integration, thereby increasing the regional market size and income levels, and severe physical barriers of poor infrastructure and transport routes can be overcome.

It must be stressed, however, that significant FDI in Albania's 'non-strategic' sectors can be expected only after progress has been made in improving the country's general business climate. Both, focused Government commitment and support from the international community will be required to improve "the product" of Albania as an investment destination. In the absence of important improvements, any increases in FDI will be marginal and strongly linked to the sale of public sector assets with high profit potential.

4.2. Mining

Albania has considerable mineral resources, including chromium, copper, nickel, and coal which are all extracted. The quality and quantity of chrome in particular is high. Before 1990, Albania was the third largest chrome ore producer in the world. It is the only country in Europe with significant reserves of this mineral. Albania's significant deposits of bauxite and phosphate rock are not yet exploited. Production collapsed during periods of civil disturbances in 1991-92 and 1997, and has since moderately resumed. The mining industry's workforce was halved following the latest unrest, while the neglect of mines that were already in poor condition resulted in further deterioration and damage.

Mining in Albania suffers from obsolete equipment and technology, frequent disruption of production and supply lines, and a lack of modern management expertise. Production methods are labour intensive, and work safety is at times precarious. The Government is looking to foreign involvement to help modernise the sector. The Government opened the mining industry to private investment in early 1990's. About 400 SMEs were established by 1999, some of them with foreign participation, and many received mining licenses in chrome mining and building materials (see Table V.). The Albanian Government is encouraging further private investment in this sector to facilitate the rehabilitation of existing mines and processing of new deposits.

Technical assistance, notably with the support of the European Union, is being provided to assist in the reconstruction of Albania's mining industry. In 1997, an Italian consortium signed a joint venture to rehabilitate Albkrom's mines with an initial investment of US$ 41 million. The new consortium forecasts that within two years, ferrochrome production will triple to 80,000 tonnes and chrome ore extraction will almost double to 250,000 tonnes. While Fushe Kruja cement factory was sold to UK-Leban consortium in 2000, for US$ 12.5 million.

Table V. Foreign companies involvement in Albania's mining sector, 1992 - 2000*

Company	Country	Year
Union Carbide	U.S.A.	1992
ILVA, S.p.a./Techint	Italy	1992
I.T.S. Group (Acciaierie Venete)	Italy	1992
Considar Europa	Belgium	1992
A.W.T.	Austria	1992
Marc Rich + Co. A.G./Sot Glencore International A.G.	United Kingdom	1992
Sumitomo Corporation	Japan	1992
B.S.E.-Essen, G.m.b.H.	Germany	1992
Macalloy Corporation	United Kingdom	1993
Fucinati S.p.a.	Italy	1993
Preussag	Germany	1995-1996
Acciaierie Venete	Italy	1995-1996
Kinglor s.r.l.	Italy	1997-1998
Robinco, s.a.	United Kingdom	1997-1998
Nebex	Canada	1995-1998
Karma Royal Roads	Canada	1996-1998
Acquater & Descat	Italy	1996-1998
Triakom	Germany	1997
Hayri Ogelman Madencilik	Turkey	1995-1999
Metal Research Group L.T.D.	Canada/U.S.A.	1999
Darfo	Italy	1999/2000
Tesara	Italy	1999/2000
Ben Oner	Turkey	2000

* Note: the list includes Oil and Gas sector

Source: Sustainable Economic Development Agency (SEDA), Albania

In the late 1990's, most foreign investment in minerals in transition economies of Central and Eastern Europe took place in quarry products, cement plants, and construction materials. Albania has unrestricted reserves of limestone, and an estimated 130 million tons of marble and dimension stone reserves; therefore, an investor targeting strategy aimed at foreign investors considered 'market leaders' in these products should be effective. Albania should also target foreign investors engaged in chromium ore and ferrochromium extraction, the traditional strenghts of its mining sector. In the late 1990's, the trend in mineral exploration in Europe continued to be for, amongst others, copper, of which Albania has an estimated 45 million tons of reserves. An investor targeting strategy aimed at international copper mining companies could provide an additional source of FDI to Albania. Finally, the privatisation of state-owned mines and cement factories provides an obvious strategy for FDI promotion in Albania's minerals sector.

4.3. Oil and Gas

The oil recoverable reserves from the existing oil fields in Albania are around 440 million tons: 100 million of which are in carbonatic reservoirs, and 340 million of which are in deeper terrigenous reservoirs. Gas reserves are estimated at 1.56 billion Nm3, of which 75 million Nm3 is natural gas, and the rest is associated gas. Reserves of tar sand are estimated at 600 million tones, of which 55 million tons are bitumen. Further exploration may uncover yet additional reserves of oil and gas.

Oil and gas have been extracted since 1918. Crude oil is exported to Italy and gas is used by the local industry. A number of foreign firms and the Albanian Albpetrol, undertake oil and gas exploration. The government plans to privatise the oil and gas sector by 2002. Oil extraction is centred in the Berat and Fier districts, with a large refinery at Ballsh. Onshore extraction is expected to increase from 350,000 tones in 1997 to 2.5 million tones by 2016 as a result of a US$ 247 million investment programme from Premier Oil (United Kingdom) and Preussag (Germany) in a joint venture with Albpetrol.

Foreign investment could tap into Albania's current excess capacity in the petroleum industry, especially in equipment and spare parts manufacturing, provide important raw materials, as well as introduce modernisation of industry processes, communication, transportation, as well as advanced environmental and equipment technologies. Foreign investment in drilling rigs and oilfield exploration could help revitalise Albania's ailing equipment, improve recovery rates, enhance economic efficiency, and uncover additional reserves of oil and gas. The investor targeting strategy should, in particular, identify and promote foreign investment in the: development and rehabilitation of the Kucova, Amonica, Velca, and Delvina oilfields; rehabilitation of Albpetrol's several hundred kilometres of crude oil pipes; modernisation and construction of crude oil and product storage facilities; and modernisation of the Ballsh refinery. Oil and gas extraction and processing TNCs from Europe and the United States of America would be good targets of an investor targeting strategy in this sector.

Privatisation can play an important role in this process. In addition to oil and gas exploration, Albania's investor targeting strategy should promote processing and refining operations in Albania, as well as, the manufacturing of oil related products. This strategy would move foreign investment in Albania's oil and gas sector higher-up the value chain with more value adding activities performed locally.

4.4. Agriculture

Albania has significant development opportunities in agriculture due to its favourable climate and the abundance of low-cost rural labour. Because of the still traditional methods of producing fruits, vegetables, meats, and dairy products, using few artificial additives, chemicals, or pesticides, Albania is well suited to become a world-class producer and exporter of quality 'organic' foods destined for major regional, European and North American markets (see Box II.).

Total agricultural land in Albania covers 1,126,000 acres, or 41.1 per cent of the country's total land area. Agricultural land consists of 577,000 acres (51.2 per cent) of arable land, 424,000 acres (37.8 per cent) of pasture land, and 125,000 acres (11 per cent) of area covered with vineyards, olive trees, and orchards. Albania's forests cover approximately 38 per cent of the total land area and constitute one of the country's most important resources.

Following agricultural land reforms of the early 1990's, Albania's agricultural land became highly fragmented and is today characterised by small land plots owned by individual families. More than 95 per cent of agricultural land is used by approximately 490,000 individual farms in at least 1.9 million separate parcels, with an average of about 3 parcels per farm. Many parcels are physically disjointed. The average farm size is about one hectare, ranging between 1.3 hectares in the valley and foothill regions, to 0.8 hectares in the mountains. Small and fragmented land plots are an obvious impediment to efficient production methods and economies of scale. In addition, Albania's agriculture is plagued by obsolete technology, low mechanisation, a poor transportation network, lack of food processing and other food packaging and labelling intermediaries, lack of marketing and modern production know-how, lack of adequate credit and financing facilities, and lack of effective market for land with opportunities to buy, lease, and consolidate land. The result is the subsistence level food production in rural areas with urban markets increasingly depending on food imports from neighbouring countries (see Table VI).

Table VI. Agricultural production in Albania, 1992, 1996

Agricultural products	1992	1996
Main products' share in total value (millions of Lek)		
Livestock	29'693	51'688
Crops	37'829	49'079
Fruit trees	4'080	6'457
Total	71'602	107'224
Number of fruit trees (thousands)		
Fruit trees	3'583	5'072
Olives	3'129	3'405
Citrus	364	420
Pergola	2'615	4'064
Vineyard	7'285	5'024
Number of animals (thousands)		
Cattle	616	806
Sheep	1'796	1'982
Goat	1'234	1'250
Pigs	90	98
Equidae	168	226
Poultry	2'539	4'108
Beehives	36	54
Animal production (thousand tons)		
Milk	612	1'044
of cows	486	895
of sheep	55	70
of goats	71	79
Eggs (millions)	270	314
Sheep wool	3	3'155
Honey (tons)	237	705
Timber production (cubic meters)		
Cut wood	49'182	79'739
Timber wood	1'998	11'951
Timber for mines	16'574	2'727
Wood for fire	427	377

Source: http://www.albanian.com/economy/agricult.html

However, the potential of Albania's agriculture is considerable; its mild Mediterranean climate (mild winters, dry summers), and abundant precipitation (an average of 1,400 mm in the coastal areas and 1,800 to 3,000 mm in the hill and mountain regions), are especially suited for growing early and late season fruits, olives, and medicinal plants, as well as producing wine. Albania's large rivers provide an effective irrigation potential especially in the coastal plains where 60 per cent of the arable land is located. The coastal plain is the most fertile area and regarded as having the most agriculture potential. The lower fertility hill and mountain areas are used for livestock production, mostly of cattle, sheep and goat.

Albania's investor targeting strategy in agriculture, in the short and medium-term, should target foreign companies engaged in naturally made or organic-food processing, packaging, and labelling industries. Albanian farmers should continue to grow and produce fruits, vegetables, meats, and fish, and foreign affiliates in Albania should process, package, label, and distribute these for export to European and North-American consumer markets. Over time, as the requisite technology is transferred from foreign to Albanian domestic enterprises, the latter can take up more processing, packaging, and labelling activities themselves, and move up higher on the value chain. However, the exports distribution network will likely remain in the domain of TNCs for some time to come.

Box II. Albania's Investor Targeting Strategy in Agriculture: the Case for Organic Foods

World trade in organic foods amounted to US$ 10 billion in 1997, and is expected to surpass US$ 100 billion by 2010. The world demand for organic foods and beverages has been growing at an annual average rate of 15 per cent in the late 1990's and is expected to continue in the years to come.

Organic, or naturally produced foods contain no, or a minimal amount of preservatives, pesticides, fertilisers, or artificial additives, and is a growing niche market in industrialised economies. Organic fruits, vegetables, and especially meats, command high market prices in these markets. World's major markets for organic foods in 1997 included the United States of America (US$ 4,200 million), Germany (US$ 1,750 million), France (US$ 770 million), the United Kingdom (US$ 450 million), the Netherlands (US$ 400 million), Denmark (US$ 300 million) and Japan (US$ 100 million).

Agricultural industries in Europe and North America increasingly utilise non-traditional methods of food production, such as bio-technologically engineered crops, antibiotics and growth hormones in meat and dairy production, pesticides, artificial fertilisers, and other growth aids. The potential of abuse of these production methods, coupled with the recent epidemics of the 'Mad Cow' and 'Foot and Mouth' disease in Europe, and the increasing preference of consumers in European and North American markets to lead healthy lifestyles, virtually assures the continuing growth in the demand for organic foods.

Agricultural labour is present in large quantities and at very low wages in Albania. This coupled with Albania's still traditional methods of producing agricultural products, should provide interesting opportunities for foreign investors engaged in organic foods production and trade in North America, Japan and especially Europe. In this connection, Albania's participation in the Stability Pact for South-Eastern Europe is important as it can facilitate preferential access to the European common market which in 1997 alone, accounted for US$ 4,500 million trade in organic foods.

Albania's investor targeting strategy in organically-based agriculture should aim at companies who are either wholesalers (producing their own brands for sale by retailers) such as Nestlé (Switzerland), Sara Lee, Quaker Oats, RJR-Nabisco (U.S.A.), Cadbury-Schweppes (United Kingdom), and BSN (France), or large retailers such as Coop and Migros (Switzerland), and Keyfood (U.S.A.) who sell their own 'house' brands.

Source: UNCTAD

Albania's significant forest resources present additional opportunities for foreign investment. Targets could be foreign furniture and cabinet-making companies with their own distribution networks such as IKEA (Sweden). Albania's fine beech wood, which has been identified as Albania's *underachieving* product[9] -- offering potentials for growth, could be of interest to TNCs engaged in quality furniture making. The privatisation and foreign investment in local wood and furniture factories should be the immediate objective of the investor targeting strategy in this sector.

Finally, to exploit these potentials fully, Albania's agriculture sector should seek greater integration with other Central European and international markets, exploiting fully the planned transport corridor number 8. Further developments in the sector will also depend on major improvements made in the transport and communication infrastructure including rural roads, railway, and sea and airport facilities. This will require continuing commitment on the part of the Albanian Government to pursue policies aimed at rehabilitating the irrigation systems, continuing with land market reforms, improving forest and pasture management, establishing efficient agriculture marketing and agroprocessing enterprises, and making sure that effective credit and financing facilities are available, especially to support the development of local SMEs.

[9] The National Export Performance chart of champions, underachievers, losers, and achievers, is available from the International Trade Centre website at http://www.intracen.org/menus/countries.htm/albania, and has been reprinted in the annex.

4.5. Tourism

Albania has abundant tourism assets with scenic mountains, valleys, forests, rivers and lake regions, cultural heritage, old villages and castles and a beautiful coastal area. The Albania coastline stretches for over 450 km. The seashore contains some of the most pristine and spectacular stretches of coastline in the Northern Mediterranean, rivalling those of Italy and Croatia. South of Albania is just across from the major tourism destination - the Greek Island of Corfu. Although Albania has good development opportunities in tourism, it should be underscored that tourists are very sensitive to issues relating to personal safety and crime. In addition, frequently it is not even necessary that these risks are real; even a perception that a particular holiday destination can be risky is all that is required to dissuade potential tourists from further looking. In addition, recent and ongoing violence in Kosovo and FYR of Macedonia, and civil disturbances in Turkey, further complicate prospects for future tourism to Albania, and have caused the whole South-Eastern European region to be perceived by tourists as somewhat volatile and risky.

The Government of Albania has prepared a partial physical plan for priority tourism development areas located mainly in the coastal plain and the lake regions. Furthermore, to facilitate investment in tourism, the Government has enacted a *Law On Priority Tourism Development Zones*. The Law establishes priority zones in which investment in hotels, holiday villages, and other tourism facilities is granted customs and tax facilities. Albania's long-term vision for tourism development foresees the use of tourism assets to develop a 'niche' destination catering to individuals and small groups interested in adventure, culture, sports, environment, health, and essentially new experiences. The tourism products and activities will target quality markets catering to relatively high spending tourists, rather than seeking volume. The planned development of tourism in Albania will try to balance the potential of income from this economic activity with its inevitable impact on the environment.

Current prospects for FDI into Albania's tourism sector are, however, limited due to the under-developed state of Albania's infrastructure, lack of tourist facilities, and most importantly, lack of safety in many areas of the country. All of these factors contribute to create an image of Albania as a 'prospective' rather than the 'current' tourist destination. Therefore and initially, foreign investment in Albania's tourism will likely come from developers of holiday villages and marinas.

International operators of **holiday villages**, such as Club Mediterranee (France), or Valtour (Italy), providing all-season package tour holidays should be the initial target of Albania's investor targeting strategy in this sector. Because holiday villages are all-inclusive and completely contained resorts, often 'fenced' off from the outside world, they are not likely to be affected by power outages, lack of foreign exchange conversion facilities, poor infrastructure, crime or other impediments to tourism. Escorted bus tours can be organised to archaeological sites such as Apollonia in the Fier district, or Butrinti south of Sarande; or to the 'thousand windows town' – Berat, located in South-Central Albania, east of Fier.

Development of **marinas** and accompanying facilities for nautical tourism present additional opportunities for targeting foreign investors in the short- to medium-term in Albania. The advantages provided by these investments are similar to those offered by holiday villages, in that they are self-contained and self-sufficient 'packages' of services and facilities. This in turn, makes the provision of quality service to nautical tourists that much easier. It should be highlighted that holiday villages and marinas, offer many opportunities for the development of local SMEs, such as restaurants, boat maintenance services, clothing, food, and souvenir shops, and others.

The most attractive area for FDI in holiday villages and marinas in Albania could be in the coastal area delimited by Durres, Vlora, and Sarande. The Adriatic coastline, especially between Durres and Vlora, featuring long sandy beaches and shallow waters, having good ferry connections to Italy and Croatia, being close to the capital city of Tirana, and benefiting from the future likely development of the Durres harbour, with its accompanying infrastructure, will make this area especially attractive for tourism development and foreign investment.

Initially, the visitors will likely come from Austria, Germany, and Italy. It should be noted that foreign investment in tourism usually originates from the countries of origin of the tourists. This means that initially, companies from Italy and Greece should be targeted, in addition to operators of holiday villages and marinas, who can be located anywhere in the world. In the medium- to long-term, when the investment climate improves, it should be easier to target companies from other European countries and the United States of America. Finally, for Albania's tourism potential to be fully developed, it is important that political stability, reduction in crime, and proper infrastructure be developed as soon as possible. The country urgently needs a detailed tourism master plan to guide its infrastructure development and potential investors.

4.6. Manufacturing

Prior to 1991, Albania pursued the policy of promoting economic self-sufficiency, with little attention paid to the development of commercial activities and industrial specialisation. The largest number of industrial establishments were in the food industry (22 per cent), followed by textiles and clothing (around 20 per cent in 1997), wood and paper (14 per cent in 1997), and minerals (12 per cent). With respect to employment, mining accounted for approximately 30 per cent of all industrial employees, followed by textiles and clothing (15 per cent), leather and shoes (10 per cent), and food (10 per cent). Traditional labour-intensive industries such as minerals and chemicals, are still mainly state-owned. Nearly 70 per cent of all industrial employees work for large enterprises with 200 or more employees.

Prior to 1991, chrome ore was Albania's largest export, and the country ranked as number three producer in the world. Since then, exports of mineral resources have declined primarily due to obsolete mining technology and equipment, and lack of adequate financing. Recently, Albanian exports have rebounded with exports of small manufactured finished goods such as leather products, small garments, and shoes (48 per cent); agricultural and food products (16 per cent); and base metal ores (7 per cent) (see Table VII.). The primary export destinations were Italy (71 per cent), Greece (15 per cent), and Germany (7 per cent). A large portion of garments and shoes exports are produced by Albanian companies working as subcontractors for small and medium-size enterprises from Italy and Greece. In the case of subcontracting, foreign companies supply Albanian counterparts with raw materials used in the production of the finished product; the raw materials are then processed using Albania's competitive low-cost labour; and the finished product is finally re-exported abroad, usually back to the

Table VII. Structure of Albania's exports, 1999

Major merchandise groups (US$ millions)	1999
Garments	98.3
Footware	67.9
Mineral products	17.5
Base metals and related articles	14.6
Prepared foodstuffs, beverages, tobacco	12.7
Vegetable products	12.6
Machinery and equipment	12.4
Leather goods and accessories	7.0
Wood, and articles of wood	6.4
Paper and pulp	4.6
Live animals, and related products	3.4
Stone, glass, cement, and ceramic products	0.6
Other	16.4
Total	274.4

Source: Bank of Albania, Balance of Payments Bulletin, December 1999 investor's country of origin. In 1998, re-exports amounted to 58 per cent of Albania's total exports.

The economic crisis of the mid 1990's resulted in many enterprises closing down. In fact, in 1996, the only industries registering positive sales growth were textiles, leather, shoes, and food. In 1996, most industrial sectors produced goods aimed exclusively at domestic markets, particularly food (96 per cent) and minerals (95 per cent). The only exporting sectors were textiles, garments, leather, and shoes, with about 80 per cent of their output sold abroad. In the late 1990's Albanian industry operated at around 65 per cent of its full-capacity, constrained by obsolete technology, fall in domestic purchasing power, lack of Albanian products' competitiveness on foreign markets, and lack of provision of adequate finance.

FDI can play an important role in the restructuring of the Albanian industry and improving the competitiveness of Albanian products in world markets. FDI can help fill the gap between Albania's industrial capacity and current under-utilisation. Moreover, FDI can help bring in additional capital, new production technologies and managerial know-how. FDI in Albania's manufacturing sector can be both market-seeking (producing goods aimed at the domestic market) or efficiency-seeking (based on Albania's low-cost labour, or attractive incentive packages, e.g. privatisation offers), producing goods aimed at both local and export markets.

Market-seeking FDI can be targeted by identifying major import merchandise groups, and their countries of origin. Foreign companies currently exporting to Albania may

eventually decide to establish their operations locally. In this way they can save on transportation costs, protect their proprietary production methods or processes, and gain better control over the distribution network for their products. In fact, there is a significant body of evidence that suggests that frequently, FDI is undertaken by firms who first begin exporting to a country, and later on invest in that country. This is called the 'sequential process' (see Box III.).

Box III. Linear sequence in manufacturing: Singer & Company

Singer was one of the first United States of America (U.S.A.)-based companies that internationalised its operations. In August 1850, I. M. Singer invented a sewing machine and established I. M. Singer & Company in New York in 1851 to manufacture and sell the machines in the U.S.A.. To protect this innovative product, Singer had applied for and obtained domestic and some foreign patents by 1851. Until 1855, the company concentrated on fine tuning its operations in the domestic market.

The first step towards internationalisation took place in 1855, when Singer L Co. sold its French patent for the single thread machine to a French merchant for a combination of a lump sum payment and royalties. This proved to be a bad experience for Singer as the French merchant was reluctant to pay royalties and handled competitors' products, leading to disputes and discouraging Singer from selling foreign patents to independent business persons. By 1856, Singer stopped granting territorial rights to independents in the domestic market due to bad experiences and began establishing its own sales outlets. Independent agents were not providing user instructions to buyers and failed to offer servicing. They were also reluctant to risk their capital by providing instalment payments as well as carrying large inventories.

Learning from its domestic problems, Singer used franchised agents as a mode of entry abroad; they sold and advertised the company's product in a given region. By 1858, Singer had independent businesspersons as foreign agents in Rio de Janeiro and elsewhere. Between September 1860 and May 1861, the company exported 127 machines to agents in Canada, Cuba, Curacao, Germany, Mexico, Peru, Puerto Rico, Uruguay and Venezuela. Due to its domestic experience, Singer was able to speed-up the linear sequence, sometimes simultaneously using both franchised agents and its own sales outlets.

Singer also started extending its policy of establishing sales outlets to foreign markets. By 1861, it had

(box continued next page)

engaged representatives in Glasgow and London. They established additional branches in England, to each of which the machines were sold on commission. By 1862, Singer was facing competition in England from imitators. Foreign sales of Singer machines increased steadily as the company was able to sell machines abroad at prices lower than in the U.S.A. because of the under-valuation of the dollar. In 1863, Singer opened a sales office in Hamburg, Germany, and later in Sweden. By 1866, the European demand for Singer machines surpassed supplies and competitors were taking advantage of Singer's inability to supply the machines. After the civil war, the U.S.A. currency appreciated; and at the same time, wages in the U.S.A. began to rise, increasing manufacturing costs and affecting firms' international competitiveness. As a result, some U.S.A. firms started establishing factories abroad.

In 1868, Singer established a small assembly factory in Glasgow, with parts imported from the U.S.A.. The venture proved to be successful and, by 1869, Singer decided to import tools from the U.S.A. to manufacture all parts in Glasgow. By 1874, partly due to the recession at home, Singer was selling more than half of its output abroad. Then, Singer started replacing locally-financed independent agents with salaried-plus-commission agents. By 1879, its London regional headquarters had 26 offices in the United Kingdom and one each in Paris, Madrid, Brussels, Milan, Basel, Capetown, Bombay and Auckland.

By the 1880s, the company had a strong foreign sales organisation, with the London regional headquarters taking the responsibility for sales in Australia, Asia, Africa, the southern part of South America, the United Kingdom and a large part of the European continent. The Hamburg office was in charge of northern and middle Europe, while the New York office looked after sales in the Caribbean, Mexico, the northern part of South America and Canada. By 1881, the capacity in Singer' s three factories in Glasgow was insufficient to meet demand. Therefore, in 1882, Singer established a modern plant in Kilbowie near Glasgow with the latest U.S.A. machine tools and with a capacity equivalent to that of its largest factory in the U.S.A.. In 1883, Singer set up manufacturing plants in Canada and Australia. Through experience, Singer learned that it could manufacture more cost effectively in Scotland than in the U.S.A. for sales in Europe and other markets.

Source: UNCTAD, World Investment Report 1996: Investment, Trade and International Policy Arrangements, Geneva, New York, 1996.

In the case of Albania, the ‘sequential’ process would start with foreign firms exporting goods to Albania. From the Albanian perspective, these goods would be considered imports. Eventually and over time, as firms became more familiar with local conditions in Albania, make local contacts and networks, and get more accustomed to doing business in Albania, they may decide to establish greater control over their operations locally. The desire to establish control over foreign operations, amongst other things, can eventually lead firms to undertake foreign investment. In light of this, the Albanian investor targeting strategy should aim to promote FDI into industries from which its imports are the greatest, and then target firms located in countries that are Albania’s main imports partners – namely, Italian, Greek and German firms producing *brand-name clothing*, *processed and canned foods*, *and brand-name cigarettes*.

Likewise, Albania’s other significant import industry groups and countries of origin can provide clues to additional targets (see Tables VIII and IX.). It should be noted that market-seeking FDI in Albania will initially be limited because of Albania’s small market size (population size is 3.4 million) and limited consumer purchasing power. Regional integration efforts, especially through the Stability Pact for South-eastern Europe (see Stability Pact section) can, substantially help in this regard and mitigate the market size impediment to FDI in Albania.

<u>Efficiency-seeking</u> FDI will be attracted to Albania’s low-cost labour (estimated to be ten times less expensive than in southern Italy), and attractive

Table VIII. Structure of Albania's imports, 1999

Major merchandise groups (US$ millions)	**1999**
Garments	118.1
Machinery and equipment	108.9
Prepared foodstuffs, beverages, tobacco	108.8
Vegetable products	85.9
Mineral products	81.3
Base metals and related articles	75.8
Vehicles, Aircraft	70.6
Chemical Products	51.4
Live animals, and related products	41.4
Footware	34.8
Stone, glass, cement, and ceramic products	30.1
Leather goods and accessories	21.1
Wood, and articles of wood	16.2
Paper and pulp	14.3
Other	84.3
Total	943

Source: Bank of Albania, Balance of Payments Bulletin, December 1999 privatisation deals in non-strategic sectors, for example food processing and furniture manufacturing. High quality labour at low cost is available in large numbers in Albania. Unemployment and under-employment, especially in rural areas is high and is estimated at about 40 per cent of the total labour force. Many workers in rural areas are seeking jobs in urban areas, or are immigrating abroad.

Most efficiency-seeking investors in Albania will be producing goods for export. It is therefore important that targeted industrial sectors include those in which Albania is considered to have international competitive advantage. In this regard, Albania's exports can be classified into four groups, based on the products' domestic and world market growth dynamics. This type of analysis can be a useful preliminary step in identifying concrete policy applications and product-specific investor targeting strategies and measures (see Appendix: Chart of 'Champions')[10].

Table IX. Distribution of Imports, by country of origin, 1999

Country	Percentage
Italy	37.6%
Greece	28.2%
Germany	5.5%
Turkey	5.5%
Bulgaria	2.8%
Spain	2.5%
Other	17.9%
Total	100.0%

Source: INSTAT, Albania

Champions – products for which Albania has been able to outperform world market growth, and has increased their share in world imports (in order of importance): *men's cotton pants and shorts; footware: outer soles of rubber/plastic, uppers of leather; cotton T-shirts; unprocessed tobacco; and women's cotton shirts and blouses*. Albania's investor targeting strategy should aim at expanding the productive capacity of these products by attracting Greenfield investment, as well as continuing with the privatisation of state-owned-enterprises in these sectors. Good targets in this respect can be investors from Italy and Greece.

Underachievers – the international demand for *beech wood lumber and related articles* has been growing at above-average rate, but Albania's exports have either declined, or grown at a lesser rate. As in the case of 'champions' the investor targeting strategy should aim at attracting foreign investment in expanding the productive capacity of this product. Good targets in this area can be investors from northern Europe.

Losers in declining markets – world imports of *ferrochrome containing more than 4% carbon content* have declined or grown at a below-the-average rate, and the world market share of Albania in this product has decreased. Albania should not spend significant resources in targeting foreign investors manufacturing this product, at this time.

Achievers in adversity – winners in declining markets. Albania's share in world imports of these products has increased, but the world market has been growing at a below-the-average rate (in order of importance): shoes upper parts; medicinal plants, select fruits and seeds; men's cotton shirts; and women's synthetic dresses. Albania should target brand-name international manufacturers of these products known for their niche marketing strategies. European investors can be especially good targets for these products.

Targeting export-oriented FDI in light manufacturing and assembly is the traditional object of FDI promotion practice in many countries around the world. It is closely associated with the international trend of globalisation. Firms in many industries are being forced by competition to find more efficient locations for all, or parts of their production processes. They will relocate any operations that are moveable from their home countries to places where improvements (e.g. lower costs, better service, and higher quality) can be obtained. The operations relocated may be in manufacturing, or administrative (e.g. accounting operations).

[10] This discussion is based on the International Trade Centre (ITC - Geneva, Switzerland) analysis of National Export Performance. The Albania data sheet is available from the ITC website at www.intracen.org.

The significant sectors in Albania characterised by this strategy are the garments and footwear. Both industries have similar market structure, are regulated by quantitative trade limitations in their export markets, and generally speaking, their manufacturing processes are subject to the same technological and economic constraints. There is continuous pressure within the industry to keep prices low. As a result they have tended to exhibit similar world-wide locational patterns and have historically been most driven to seek out the lowest-cost production environment.

In addition to investor targeting potentials revealed by the existing pattern of Albania's imports and exports, the country's investor targeting strategy should consider targeting investors in industries in which Albania is considered to have a *theoretical* or potential, international comparative advantage[11]. These include *consumer electronics*, *electronic components*, and *non-electric machinery*. The potential of these industries is further validated by the abundance of low-cost labour in Albania; large number of graduates with engineering degrees – engineering is traditionally valued profession in Albania; the country's industrious work-culture; and its short distance from major regional and European markets. In addition, Albania's potential future role as the Adriatic sea-gateway to the Balkans, may provide just the kind of opportunity for TNCs to incorporate Albania into their international production networks as a 'hub' or 'springboard' site for their manufacturing and supplying operations in Europe. For example, investors from the Far East may be interested in establishing electronics assembly plants in Albania to save on transportation costs, gain access to regional and European markets, and leverage the country's abundant low-cost engineering work force.

Despite past successes, many export-oriented foreign investors (or their representatives) that were interviewed during UNCTAD's mission to Tirana, raised serious concerns with respect to the deterioration of important cost differentials between Albania and its neighbouring countries. Investors pointed to two main areas where cost advantages of locating facilities in Albania were disappearing: first, rises in the cost of labour, including wages, taxation and other social charges levied on labour costs; and second, lack of reliable access to imported inputs for the exporters, including capital goods, machinery and raw material available at international prices, due to the prevailing structure of Albania's duty and VAT taxes, and ineffective reimbursement mechanisms.

Furthermore, in the last few years, investors say that the cost in terms of time and money associated with dealing with administrative obstacles and inefficiencies has also risen. At the same time, the neighbouring competitor countries are offering incentives or are removing disincentives from their business climates, which has effectively lowered the cost of doing business in these locations. In fact, several of the investors were familiar with investment opportunities in neighbouring countries and had expressed plans to expand their operations to Bulgaria, Romania, or other countries in the region. The bottom line is that important cost differentials between Albania and neighbouring countries have begun to narrow and this may have a negative impact on future FDI to Albania, unless right conditions for export-oriented FDI are created. Further development of export-oriented manufacturing will depend on the establishment of a functioning infrastructure. Immediate strategy in this connection, could be the establishment of EPZs or industrial estates with duty and VAT free facilities (see Box V. Boosting export competitiveness with EPZs).

The overall education level of the Albanian labour force is relatively high. A 1996 Living Standard Measurement Study found almost no illiteracy and that about 45 per cent of the population aged between 25 and 35 had at least an upper secondary education degree. Gross enrolment rates in Albania were 35 per cent for the pre-primary education, about 90 per cent for basic education, and about 35 per cent for upper secondary education and 13 per cent for tertiary education. In 1990 the rates were much higher (especially in upper secondary education) but since the transition, gross enrolments rates have declined at all

[11] The analysis is based on the International Trade Centre (Geneva, Switzerland), *Trade Performance Index: ranking of international competitiveness in terms of static indicators*, Albania (see annex).

levels of education. Most of the decline occurred in vocational and technical education (agriculture schools in rural areas). School enrolment rates are higher in urban areas with 57 per cent enrolment in secondary education. Education levels are relatively lower for poor families and in rural areas. The current public vocational training system is weak and needs strengthening. The decline in the number of students receiving university-level and post-graduate degrees, could create difficulties for Albania as it seeks to upgrade its economy technologically. According to some observers, Albania has a growing need for post-university level graduates, especially those holding a Masters or Ph.D. degrees in the area of business and management.

Moreover, foreign companies investing in Albania are likely to seek a technologically savvy workforce. The Albanian educational system should support Albania's national development goals, and by implication Albania's FDI strategy, by providing relevant training in skills required by foreign industries that will be the target of the country's investment promotion effort. In order to continue to offer competitive labour force to future investors in Albania, the Government should increase the current share of public spending on education.

Finally, the investor targeting strategy should take into account industry- and firm-level strategies of individual TNCs, for example, Pepsi Cola will frequently enter a market in which its main competitor, Coca-Cola is present. Since Coca-Cola has already build a production facility in Albania, the investor targeting strategy should promote to Pepsi, as well as other competitors of Coca-Cola. Similar behaviour can be determined of other TNCs as well as wider industry groups and the investor targeting strategy should be focused accordingly.

5. Investor Targeting

5.1. Targeting Home Countries of FDI

A very important part of an investor targeting strategy is to prioritise the decision of what groups of investors to target and where to promote. Surveys and studies of investment behaviour of investors from different home countries reveal a national preference. Initially, the European investors will be the best targets for investment to Albania. The country destination of Albanian exports and the country of origin of its imports can reveal the trading partner and the potential sources of FDI.

The long trading relations and the significant presence of foreign investors from Europe in the country signal the potential of future increase of FDI from this region. The largest number of foreign investors in Albania come from Italy and Greece. According to the Italian Business Association, there were 700 Italian firms in Albania in 1996, and 530 in 1999. The drop reflects the 1997 – 1999 period of crisis; although many observers agree that the future outlook is favourable given that the Albanian Government continues with planned reforms and nation-wide stability is restored. For historical and geographic reasons, Italian firms feel comfortable with their trading relations with Albania. Italian firms can be the target for FDI in, amongst others, privatisation, infrastructure, and tourism projects. Greece, Turkey and Germany also have significant trading relations with Albania and probably could be interested in market-seeking FDI. In this regard, firms from Greece are the most likely but not exclusive candidates. In the medium to long-term, Albania's geographical proximity to Europe could facilitate "just-in-time" techniques of production, especially attractive for non-European TNCs. Association with the European Union (EU) will continue to reduce import duties for Albania's exports to EU economies. To capture the above type of investors, the Government might need to develop industrial estates or export processing zones (EPZs). Although the history of EPZ success world-wide is mixed, this type of clustering of economic activity has the advantage of transcending difficulties associated with the state of Albania's infrastructure, supply lines, business support services, and general safety conditions, among others. EPZs can also have their own administration, and thus, reduce the amount of red tape necessary, and ensure that business processes take place with minimal interruption and delay (see Box IV.).

Investors from the United States of America can be good targets for privatisation sales and infrastructure projects. On the other hand, American firms are less interested in implementing efficiency-seeking strategies away from their home markets. Those interested in this type of strategy are investing in Mexico, near the United States border, or in Central America and the Caribbean.

The most interesting prospective targets for efficiency-seeking FDI to Albania can come from the Far East. Pressed by rising labour costs and in search of market access to Europe, these investors may be interested in locating their manufacturing facilities in Albania. The Far Eastern investors are mobile and are searching for locations that can guarantee the supply of low-cost productive labour, good infrastructure, and efficient transportation system. The Free Zones of Albania may offer them an opportunity. The best targets are located in Hong Kong (China), Malaysia, Republic of Korea, and Taiwan P.O.C.. These and Singaporean investors can also be good targets for investments in Albania's infrastructure.

BOX IV. Boosting export competitiveness with export processing zones – EPZs

EPZs are geographically distinct areas into which materials are imported duty free and processed for export, with strictly controlled trade with the rest of the country where they are located. They vary considerably in size and composition. In some cases, they are as large as industrial parks; many countries offer EPZ privileges to individual factories (with in-bond facilities). In others, such as Singapore, EPZs cover the entire country. EPZs can allow a country to mitigate problems associated with the state of its infrastructure, security conditions in the country, administrative procedures, and bureaucratic red tape. In addition, they can allow a country to selectively use fiscal and other incentives to attract foreign investment. Moreover, EPZs can provide the benefits of agglomeration of industries and related services; serving as an incubator for domestic industries and companies.

Although there are EPZs in developed countries (in 1997, the United States had 213 out of an estimated 845 EPZs world-wide), they are predominantly located in developing countries, where the comparative advantage is low-cost labour. Apart from access to duty-free imports, most EPZs offer incentives such as tax holidays and training grants. The impact of EPZs on increasing exports by host developing countries is undeniable. Many countries, such as Costa Rica, China, Mauritius, Bangladesh, Singapore, Malaysia and Sri Lanka, have enjoyed spectacular growth in manufactured exports from EPZs. Such exports account for around 50 per cent of Haiti's garment exports and 77 per cent of Mauritius's total exports. The most successful exports have been garments (driven by quota allocation systems under the MultiFibre Agreement) and semi-conductors.

The impact of EPZs on long-term export competitiveness, however, remains uncertain. An once-for-all increase in exports based on low wages is not the same as sustained upgrading of skills and capabilities. Intense competition among developing countries to attract FDI into EPZs, shifting trade relationships, and most importantly, intensifying competitive pressures in the global economy, increasingly favour EPZs possessing highly skilled workers and state-of-the-art infrastructure. For example, Singapore continues to attract large amounts of investment on the basis of its highly qualified workforce, despite high wage levels. In fact, high quality human capital is the factor that increasingly determines the quality of inward investment.

Source: UNCTAD, World Investment Report 1999: Foreign direct investment and the challenge of development, New York and Geneva, 1999.

Investors from Japan are very sensitive to political risks and may feel themselves at a disadvantage compared to European companies that have traditional ties to the region. They will be less interested in privatisation opportunities because they are less keen to have to deal with problems of eliminating surplus labour and restructuring formerly state-owned-enterprises. The most important deterrent for them will be the perception of political instability and the sense of insecurity for their expatriate personnel.

5.2. Targeting Companies and Decision Makers

Targeting of companies and executives should be based on the understanding of the decision-making process that takes place within TNCs. The process of investigating a foreign investment opportunity is a complex procedure made in response to a specific strategy and motivating force. Investigations are carried out in successive phases with built-in checkpoints (project reviews, feasibility studies, etc.). The amount and complexity of information gathered grows as the investigation advances. Other things being equal, the better the availability of information and the higher the quality of information, the higher the probability that a transnational corporation will be willing to investigate an investment opportunity. Conversely, the higher the cost of obtaining information the less inclined will be the firm to investigate the opportunity. At all points during the investigation process, the interplay of the motivating forces and deterrents that emerge from the accumulation of information determine the kind of decision taken. Promotion agencies have a role to play in providing the information and by that, in affecting the outcome of the decision process.

In this connection, it should be emphasised that Albania needs to develop **'smart' FDI statistical data handling methods and procedures**. 'Smart' methodology makes the collection, tabulation, storage, analysis, and reporting of national FDI statistics, an integral part of the national investor targeting and investment promotion strategies. Smart procedures should be organised in such a way as to provide the Government (and the IPA) with useful and timely information necessary for registering feedback on investment promotion efforts, monitoring results, organising follow-up activities, and developing and planning investor targeting and investment promotion strategies. The Government of Albania may consider allocating additional resources to the national statistical institute – INSTAT, as well as providing requisite training to all persons charged with data collection and analysis.

The Government should also stimulate the flow of information within the country. Educating local stakeholders about the benefits of FDI is as important to attracting different types of FDI, as is international marketing. In cases where foreign investors desire to set up joint ventures, lack of willing or capable local partners can be enough to prompt foreign investors to abandon their search efforts in Albania and seek opportunities elsewhere.

The targeting of companies in the chosen sectors can be based on certain criteria such as the size of the company, its performance, involvement in international trade, financial position, the state of the competition in its home country market, and in international trade, the company's position in the market, and the strength of its trademarks. The size of the company may affect the type and intensity of the information needed. Small companies need more information and are good targets for large investigation missions. Targeting firms with international experience may increase the chances of success in getting the company interested. The financial position of the company can be used to determine if the company has the resources to carry out an overseas investment. The company's position in the market may help investment promoters create a "bandwagon" effect – when other firms in the industry follow the market leader – if the market-leader can be persuaded to invest in the country.

The list of potential target companies can be obtained from commercial database companies that can do the search according to chosen criteria. Alternatively, the search can be performed internally, within an IPA. The lists thus obtained can be used to employ direct sale techniques or form the basis for selecting potential participants in seminars or invitees for missions. It is not enough to target the companies. Within the companies there are specific people that are involved it the investment decision-making process. They may include the Chief Executive, Chief Financial Officer, Regional Director, or other managers involved in the site selection process.

5.3. Elements of an Investment Promotion Strategy

As Albania works to eliminate the impediments to FDI in its legal, regulatory and financial frameworks, it will also have to develop a comprehensive and well-organised investment promotion strategy. Promoting and attracting FDI is a highly competitive and specialised activity, with an increasing number of countries actively seeking foreign investors and mounting systematic promotional campaigns. Considerable experience now exists on the strategies and techniques used to attract FDI, and on what works and what does not.

IPAs world-wide use a range of techniques to attract FDI, which can broadly be categorised as follows :

- Techniques aimed at building or changing the investment "image" of a country (image building).
- Techniques used to generate investments directly (investment generation).
- Techniques directed at servicing existing and prospective investors (investor servicing).

IPAs engage in all three types of activities to varying degrees, with the mix depending on the specific needs of the country. They may concentrate on image building or investment generation at particular times; investor servicing, however, remains the most important, basic foundation of all promotional efforts.

Image building is most appropriate when investors' image of a country as a location for investment is less favourable than the reality, and where the fundamental prerequisites for attracting investment are present. The extensive use of image building activities to enhance a country's image abroad, for example, can be sensible and beneficial to investment promotion when it is conducted at the right time, but it can be highly wasteful and counterproductive if conducted too early and when the country in reality offers an "inadequate product" to investors. The techniques used in image building include: fact sheets, newsletters, reports, speeches, literature including a flagship brochure, media and public relations activities, and targeted advertising.

Recommendation: Image building activities in Albania should receive less priority at this time. As mentioned earlier, image building is most effective when the perception of a country as an investment location is incorrect. Then, image building can help educate potential investors about the true nature of the investment climate in the country. As Albania continues to improve its FDI climate, image building will become more appropriate; after all, the last thing Albania needs now is to go out of its way to attract important foreign investors who upon arrival, may become disillusioned by the investment conditions in the country and decide not to give the country a second chance in the future. The techniques for this limited image-building campaign could include: holding public relations events in selected countries, placing stories about Albania in key foreign publications, advertising in foreign media, distributing a periodic newsletter on paper or in an electronic format through the Internet, and other activities aimed at countering unfavourable impressions about the country, and building a positive image of Albania as an investment location.

Investment generation incorporates the identification of potential investors who are most likely to be interested in the country, developing a strategy to contact them, and working with them with the objective of having them commit to an investment. The specific techniques used for investment generation include mail and telephone campaigns, investment seminars, in-bound and out-bound missions, and direct marketing. Each of these techniques has merits when used correctly, but is costly and can produce meagre results unless done well and at the right time. Experience shows that the proper use of each of these techniques requires careful planning and follow-up, and IPAs need to be skilled in knowing when to use, and how to use, these different techniques. Other important issues in deciding on an investment generation campaign are whether to undertake targeted or general promotion activities, what emphasis to give to domestic as opposed to overseas generation activities, and how to deal with overseas representation.

Recommendation: At this time, investment generation should receive moderate resource allocation in Albania. Foreign firms should be targeted with a view to fill specific sector needs and objectives, privatisation tenders, or infrastructure projects, all of which were discussed in previous sections. Company research can be done inexpensively through the Internet, and its publicly available company databases available at no charge, for example from the

Fortune 500 website (www.fortune.com), containing the listing of more than 500 companies with key financial data and contact information, and the *Hoover's* company website (www.hoovers.com). Of course, fee-based Internet services are also available, although their usefulness could be better assessed once the free resources have been exhausted. In addition to resources available publicly on the Internet, target company 'leads' can be obtained from, among others, trade and association directories, technical and industry publications, popular newspapers and journals, television programmes, seminars, industry exhibitions, and conferences.

Investor servicing can be divided into two components: pre-approval and post-approval services. Pre-approval servicing focuses on assisting investors with their requirements up to the point in which the decision to invest is made, and the project is approved (if necessary). The functions involve providing a range of information to investors, assisting them with site visits around the country, and establishing an investor tracking system for follow-up and management of the servicing and promotion functions. The extent of the need for these pre-approval services will vary with investors' familiarity with the country, but most countries seeking FDI place a high priority on providing good pre-approval servicing.

Post-approval (or post-decision if no approval is required) servicing is considered a necessary activity by IPAs in most countries, and here agencies seek to ensure such things as the quick delivery of all government permits and clearances; assistance in the identification of suitable sites and buildings including the operation of land banks and industrial estates in some countries; assistance in obtaining necessary infrastructure such as telephones, power, water and sewage; providing key introductions to government, business and community contacts; assisting in the numerous settling-in problems new investors face in moving to a new location; maintaining follow-up contacts with investors to help ensure progress towards investment realisation and in-time development of expansion plans.

Investor servicing forms an indispensable base for all investment promotion strategies, and the operations of IPAs. The reasons that investor servicing plays such a central role in investment promotion strategies are as follows:

- Satisfied investors are often the best promoters of still further investment; they demonstrate the reality of undertaking investment in a country and they serve as a point of reference for further promotional activity;

- Investor servicing is probably the most cost-effective and manageable element of all investment promotion activities;

- Maximising the number of potential investors that become actual investors enhances the reputation and image of a country as an investment location and makes best use of the sometimes considerable funds spent on generation and image building activities; and

- Investor services are most needed in investment climates where not all the elements are favourable, and there may be obstacles to realising investments from interested firms. Unlike image building and investment generation, providing services is an effective promotional activity at an early stage in a country's effort to attract foreign investment.

Investor servicing can be provided in a pro-active or reactive manner. With a pro-active approach, the IPA actively seeks to assist the investor and to follow-up on progress, while the reactive approach focuses on responding to specific requests for assistance. Conscious decisions are required on which of the two approaches to follow, as both have merits, and each approach has substantially different resource implications. Staff and budget availability, the scale of the country, the number of investors visiting, and the degree of urgency attached to successful servicing, will all influence the decision made in this respect. Locations like Ireland and Singapore have followed a highly pro-active servicing approach, and particularly so in the early years of their drive to win FDI. Such an approach, however, is generally costly in terms of the resources required.

Recommendation: Albania should initially focus significant efforts on investor servicing (of both existing and potential foreign investors), and providing information, to both foreign investors and local stakeholders. Investor servicing is crucial; helping potential investors find their way through the maze of legal and procedural steps required in making an investment should form a critical part of Albania's short-term FDI promotion strategy. Servicing existing foreign investors can serve as an effective advertisement for the country. Satisfied foreign companies are usually passionate advocates of the country as an investment location; they are also perceived by other investors as more objective judges of the investment climate, and a good 'word of mouth' goes a long way towards persuading other firms to more seriously consider the country as an investment location.

6. Looking Ahead

6.1. The Albanian Network and Stakeholders in Investment Promotion

Until recently, FDI promotion has not been a high priority for Albania. The lack of commitment to FDI was also reflected in the weak institutional support established for investment promotion. All three investment promotion agencies founded since 1991 have been largely unsuccessful. The *Foreign Investment Agency*, formed in October 1991, was in charge of co-ordinating investment promotion on a national basis. The agency was placed under the Ministry of Trade and had no formal authority or power regarding neither its functions or duties, nor formal linkages with other ministries, which also handled promotional functions abroad. Efforts to work with other ministries resulted in conflict and the agency became ineffective and ultimately failed.

The *Albanian Center for Foreign Investment Promotion* replaced its predecessor by decree in 1993. This time the agency was placed under the Council of Ministers. Yet again, the agency was given limited resources, had no real authority and was given no formal linkages within the government and across ministries. Relations with ministries were informal and based on personal contacts. In addition, the agency had no one to report to—not even a board of directors—and the Council of Ministers was not actively committed to promoting the agency's mandate. Eventually, the Agency was replaced by the *Albanian Economic Development Agency (AEDA)*.

AEDA was created in 1998, as a public sector joint-stock company reporting to the Ministry of Privatisation and Public Economy and the Ministry of Economic Co-operation and Trade. A board of six directors was formed this time, composed of Government representatives from the Prime Minister's Office, the Ministries of Public Economy and Privatization, Economic Co-operation and Trade, and Finance, the country's statistical agency (INSTAT), and a member of the private sector, whose seat still remains vacant. Once again, no formal linkages across ministries were made to facilitate investment promotion. Moreover, AEDA's mandate was expanded to include numerous tasks and duties with the broad objective of promoting economic development in Albania, including:

- Collection and distribution of economic, financial and commercial information from state-owned, private, national and international institutions;
- Organization of conferences, seminars, roundtables and publication of materials to promote commercial exchanges and private investment in Albania;
- Sectoral studies to identify investment opportunities;
- Promotion of the privatisation process in Albania;
- Promotion of Albania exports and commercial exchanges;
- Assistance to local and foreign investors for information and consulting services, and contract finalisation;

- Co-ordination of information and co-operation with other similar agencies, chambers of commerce and industry, business associations, NGOs and international organisations active in promoting economic development in Albania; and

- Publication of a government financial newspaper.

AEDA's current mandate of activities is far too wide to be an effective IPA. It includes publishing a financial newspaper, offering consulting services, promoting exports, and many other activities. Publishing of the economic newspaper, for example, consumes nearly half of the monthly expenditures, generates marginal revenue, and adds little value to the agency's mandate. Offering consulting services conflicts with investment promotion activities and the two activities typically do not rest side by side in the same agency. The Agency does not have sufficient funding and support needed to execute even the most basic promotional activities, let alone carry out all the tasks drawn up in its mandate. The result is that AEDA relies financially on funding raised on an ad hoc basis mostly from foreign donors, and all staff, regardless of specialisation or existing work programme or duties, are reassigned to work on whatever activity comes up with the funding. In sum, the broad mandate of AEDA is complicated, at times conflicting, and lacks purpose and focus, and funding is not available to implement most of its activities. In addition, the agency has neither an operational budget nor a business plan. The agency now finds itself in a situation similar to that of its predecessors — a marginalised body, lacking authority and power to execute its mandate.

In addition to AEDA, the investment promotion network and stakeholders in Albania include the Business Advisory Council (BAC), the Chambers of Commerce and Industry (CCIs), the Regional Development Agencies (RDAs), the Albanian Guarantee Agency (AGA), and a number of private business associations. Participation of the private sector in investment policy-making and promotion is still very limited. The BAC was established in early 2000 to provide a vehicle for continuous dialogue between the Government and the business community. The Council provides input into policy and legislation discussions. The private and public sector organisations are represented through the CCI and the Union of Business Associations. There are 36 CCIs in Albania and their Secretary-General is elected by the Government. The scope of the services provided by the Chambers is limited to registration of companies, issuing of business licenses and certificate of origin, and a low key lobbying performed on behalf of its members. Only the Tirana CCI provides promotional services to its members such as holding meetings with foreign delegations, organising trade missions, and assisting in fair participation abroad.

The RDAs are independent bodies that offer services such as counselling, preparation of start-up business plans and training courses to domestic small businesses. They operate as private sector entities but are weak because the demand for their services is limited. The Albanian Guarantee Agency provides guarantees to foreign investors that undertake investment in Albania. The investments that contribute to the county's productive capacity are eligible for guarantees under this scheme.

The private sector business associations are mostly engaged in lobbying on behalf of their members. The most visible associations are the Albanian Union of Business Associations (BOBSH), the Union of Investors in Albania (UIA) and the Foreign Investors Association of Albania (FIAA).

To ensure success of Albania's investor targeting strategy, the public sector institutions will have to increase their dialogue and co-operation with private sector business associations, such as FIAA. The Albanian IPA will also have to work closely with relevant Government ministries such as the Ministry of Economic Co-operation and Trade, the Ministry of Public Economy and Privatization, the Ministry of Public Works, the Ministry of Transport, and the Tourism Development Committee, to ensure that impediments such as inhibitive regulations and legislation, land availability, and power and water connections to investors are all handled in tandem with the investment approval process. In this regard, it would be advisable that the IPA maintains a desk officer charged mainly with co-ordinating this task.

In addition to relevant Government ministries, the IPA should also co-ordinate with other stakeholders in the Albanian investment promotion network such as the Business Advisory Council (BAC), the Chambers of Commerce and Industry (CCIs), the Regional Development Agencies (RDAs), and the Albanian Guarantee Agency (AGA). Co-ordination with the BAC should centre around providing input into investment related Government policy making. This forum can also provide opportunity for closer contact with the business community in Albania, and allow IPA officials to learn about the private sector perceptions, concerns and plans regarding investment opportunities in the country.

The IPA should also co-ordinate with CCIs to facilitate the investment promotion process and avoid duplication of promotional activities. Co-ordination with CCIs and RDAs should focus on promoting greater linkages between foreign investors and local suppliers of goods and services. In this connection, the IPA should maintain a comprehensive data base of qualified domestic suppliers, for example, their products or services, company location, contact information, preferred language of communication, certifications, membership in trade associations, and other information useful for foreign investors who want to identify and contact domestic suppliers.

6.2. Institutional Arrangements for the Future and Concluding Remarks

The previous analysis underscores the importance of Albania's investor targeting strategy complementing, reinforcing, and advancing the country's development strategy. In many countries, the primary institution charged with promoting FDI is the IPA. The best practice in IPA organisational design suggests that it is important to have an agency that can effectively discern and address investor demands and preferences, and can quickly adapt to changes in its domestic and external environments. In particular, an IPA should be able to:

- Prepare and seek agreement on an investment promotion strategy which is suitable for the country; especially among various government ministries and agencies, educational and research institutes, and representatives of the private sector;

- Develop policy positions and advocate policy changes which will reduce or remove existing impediments to investment, and create competitive conditions necessary for attracting and *retaining* foreign investors; and

- Implement in a strong and pro-active manner promotional campaigns, which can ensure that the country is well positioned to attract the types of investment it chooses to target.

The Albanian Government should work to develop an IPA that will reflect international best practice in organisational design. This agency does not have to be large, in fact it can be quite small. But it does need to be well funded, be appropriately structured in the

Government, have strong private sector links, operate efficient networking systems, and have the operating procedures and personnel policies adequate for the task. It can be a public body. If it is a public body, it needs to be established with the legislation which defines its functions, responsibilities, supervisory board structures, staffing procedures, and reporting requirements. Regarding its staff, it needs to have rights to employ and terminate staff as required by its strategy. In particular, the IPA should be established:

- As an independent body, with its own legal mandate, its own operational Board, linked to the Government through the Prime Minister's Office;
- With sole responsibility for the development and implementation of an investment promotion strategy;
- With a Supervisory Board chaired by the Prime Minister (or his representative), with strong private sector membership, combined with representatives of key Government ministries, that will manage and control the Agency;
- With a small staff of trained executives, operating under the control of the Board, and working with performance linked rewards;
- Operating under an agreed strategic plan, with clear targets and performance measurement systems; and
- With the bulk, if not all, of its funding from the Government on a long-term basis.

Without a well defined legal basis experience suggests that it is difficult for an IPA to survive through the many crises and attacks it is likely to face, to withstand the repeated and often unwarranted intrusions likely to come from the Government or private sector bodies, and to attract the calibre of staff and Board members which are necessary for its successful operation. Also, it is important that the assignment of authority and control of the investment promotion functions be defined clearly, and fortified with a strong legal instrument.

Experience shows that FDI promotion agencies need to be linked to the government, and that purely private sector bodies are normally not a feasible alternative. Promotional activities, however, are not the usual function of the government, and specialised skills and training, together with effective private sector inputs, are required to execute these activities. To do their tasks effectively, agencies need to be independent from other government activities and should be required to focus exclusively on investment promotion. The public company approach, which combines both public and private sector Board structures, operating procedures and personnel policies, has been adopted by many governments and found to be an effective institutional format for this purpose.

The positioning of the agency within the Government structure is a matter of choice. Many governments choose to place their IPA under the Prime Minister's office so as to give it greater clout, and reduce the potential for inter-ministerial frictions and conflicts. The conflicts can arise on a range of topics including when promoting particular sectors or areas for investment, evaluating *ex post* performance of investments, or requesting infrastructure or other services in order to promote the investment.

The establishment of the Supervisory Board to manage and control the Agency is common practice for several reasons. It takes government out of day-to-day promotion operations, activities for which the government is normally not well suited. At the same time the Government can require the agency to operate within defined policy guidelines, thereby maintaining directional control while avoiding involvement in its daily operations. Furthermore, the Board's structure can provide a mechanism for various government ministries and agencies to become directly involved in both the preparation and implementation of investment promotion strategies. The Board should be chaired by the Prime Minister, to give the Agency a greater clout and high-level decision making capability. This involvement is important for consensus building, and winning agreements and acceptance of implications and results arising from IPA activities.

Strong private sector membership on the Supervisory board is seen as highly beneficial. It brings the private sector ethos and culture to bear on the operations of the agency and this is particularly useful in promotional activities. It helps ensure a degree of independence and credibility for the agency which otherwise could come under undue pressure from individual government ministries or agencies. There exist well-established mechanisms for appointing private sector members to the Board in agreement with the government and for removing or reducing any conflicts of interest that may arise in the course of appointment of such members.

The staffing levels required by FDI promotion agencies, and especially in a country the size of Albania, do not have to be large. In this case, a minimum staff of 10 executives is required to formulate and implement a suitable investment promotion strategy for the country. In addition, it is important that those employed are properly trained, paid, equipped, directed, and monitored in the implementation of their tasks. The Board should desirably have the power to employ and terminate staff and to define their pay and conditions of work. In many IPAs world-wide, supervisory boards typically have the flexibility in implementing these norms, including flexibility in rewarding performance, provision of fringe benefits, and if necessary, employment of staff on a contractual basis.

Successful investment promotion agencies world-wide conduct their operations in a systematic and organised way, and they regularly measure and report on their performance. Clear work planning methods can be introduced starting with the development of an investment promotion strategy, and from this, annual organisational and divisional plans and targets can be agreed on. These can subsequently be measured, evaluated, and reported upon. Such clear management and control procedures are essential for successful investment promotion.

Decisions are required on key measures by which the effectiveness of FDI promotion activities are judged. These measures could be outcome-based, such as the level of new investment realised, or in the short-term, the level of new investment registered. Important national policy issues underlie the actual measurement yardstick used, so the authorities in Albania need to consider the implications of using different measures of success before deciding on which measures of performance to prioritise for IPA's operational activities.

Within the agency, ongoing management activities will require measurements dealing with the completion of different activities or inputs, but it is strongly suggested that the overall measures by which the Government will judge the effectiveness of investment promotion activities, and of the agency itself, should relate to pipeline, registered, or realised investments. Pipeline and registered investments are useful lead indicators of the outcome of promotions, but realised investments are ultimately the main measure of success.

Finally, on the issue of funding of IPAs, international experience shows that the most practical method of funding these bodies is from government sources. The private sector can assist promotional activities in a variety of ways but no country has succeeded in having the private sector completely fund its IPA promotional activities to attract new foreign investors, some of whom may be, or might become, future competitors of private sector donors. The fee earning capacity of investment promotion agencies is limited and the introduction of charges is often more of a distraction than a serious source of funding. This leaves the government as the only practical funding alternative.

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