

**Analysis of problems faced by foreign firms in**  
**Albania**  
**Bulgaria**  
**Macedonia**

Comparative survey of foreign firms in Albania, Macedonia and Bulgaria

January – February 2001

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## Introduction

This survey is accomplished in the frame of the regional project: “**Foreign Direct Investment in Balkan countries: Alternatives to reduce existing barriers**” financed by Freedom House through regional grants. The project includes Albania, Macedonia, and Bulgaria.

The aim of the project is to make an evaluation overview of the stage of FDI in these countries of Balkan, analyze the tendencies and recommend policies in regional level to improve the environment of the foreign investment in the region.

The Institute for Development Research and Alternatives leads the project and the following partners are implementing it:

### **ALBANIA:**

- Institute for Development Research and Alternatives - IDRA
- Institute for Contemporary Studies - ICS

### **MACEDONIA**

- Center for Strategic Research and Documentation – Skopje

### **BULGARIA**

- ARC Fund - Sofia

## Survey Methodology

### Sample

100 foreign firms and joint ventures (the lowest level of foreign share 25%) in all three countries. The sample was selected in a random way from the lists of firms taken from: i) Albania – General Tax Department, ii) Bulgaria- Bulstat iii) Macedonia- Department of Statistics

### **Interviews completed:**

Albania – 74 firma  
Bulgaria – 84 firma  
Macedonia– 100 firma

### Interviews

Face to face interviews with a prepared questionnaire. The interviewees should have been owners or main managers of the firms.

The interviews were realized in the period December 2000 – January 2001.

## Structure of the Interviewed Firms

The structure of the firms interviewed is presented in the tables on the right. This structure should be only as an orientation and should not be taken apriori as the structure of the foreign firms in these countries. However as the sample was a random one this is seen as the tendency of branches were foreign investments are mostly concentrated in these countries.

In Albania and Bulgaria two main branches are manufacturing and Trade (In Albania a considerable branch is Construction) while in Macedonia, Trade has the dominant tendency of attracting foreign investments.

Albania	Percentage
Manufacture	31,5
Trade	20,5
Other	16,4
Construction	15,1
Services	11
Banking Activity	4,1
Transport	1,4
Total	100

BULGARIA	Percentage
Manufacture	40,5
Trade	27,4
Other	13,1
Services	11,9
Transport	6
Banking Activity	1,2
Total	100

MACEDONIA	Percentage
Trade	70
Services	9
Construction	8
Manufacture	5
Banking Activity	4
Other	2
Transport	1
Agriculture	1
Total	100

## Main problems faced by Foreign Investors

The problems were to be evaluated in a scale from 1 to 5 where 1=not a problem at all and 5= Very big problem

From the table in the right seems that there is a diversity of main problems faced by foreign investors in the three countries

In [Albania](#) due to opinions of the foreign firms the main problems is the **Tax Level** followed by **State Bureaucracy** and **Political Stability**. The later is a considered a very important factor that is impeding the attraction of foreign investments in Albania.

In [Macedonia](#) the main problems are **State Bureaucracy**, **Corruption** and **Unpredictability of Laws and Regulations**.

In [Bulgaria](#) – **Unpredictability of Laws** and regulations, **Corruption** and **State Bureaucracy**

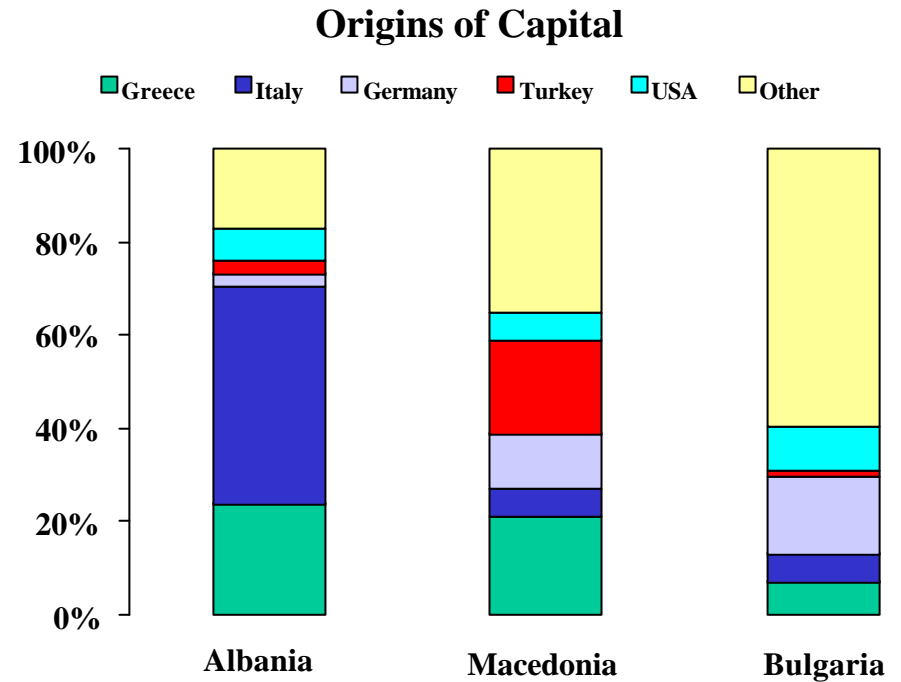
Problems	Albania	Rank	Macedonia	Rank	Bulgaria	Rank
Unpredictability of Laws and regulations	3,25	7	3,74	3	4	1
High cost of corruption	3,41	6	3,98	2	3,85	2
State bureaucracy	3,72	2	4,02	1	3,81	3
Tax level	4,08	1	3,5	8	3,74	4
Financing	2,58	16	3,38	11	3,57	5
Unfair competition	3,51	4	3,33	12	3,48	6
Crime and Theft	3,03	9	3,42	9	3,45	7
Internal Market Size	2,44	17	3,53	7	3,24	8
Physical infrastructure level	3,49	5	3,6	6	3,2	9
Inflation	2,62	15	2,72	17	3,11	10
Political Stability	3,51	3	3,41	10	3	11
Property Registration	2,82	12	3,19	13	2,99	12
Exchange rate	2,94	11	3,64	5	2,93	13
Laws and regulations for Foreign investments	2,97	10	3,14	14	2,92	14
Problems with technology/production etc.	2,76	13	3,74	4	2,87	15
Laws and regulation for starting a business	3,06	8	3,12	15	2,62	16
Qualified human resources	2,68	14	3,02	16	1,98	17

# Origins of the Capital

In Albania the tendency is, that Italian capital is dominating followed by the Greek one.

It is interesting the Turkey is much more present in Macedonia than in Albania.

Bulgaria is noted for a diversity of investments where Germany has a considerable place.



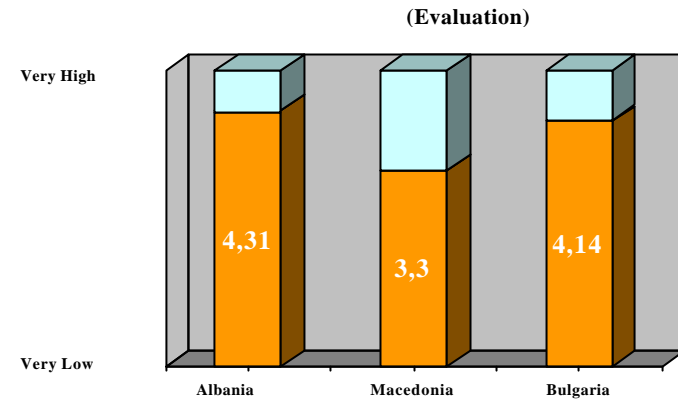
# Evaluation of Taxes in all three Countries

The interviewees were asked to evaluate the level of taxes and duties in each country in a scale from 1 to 5 where 1= very low and 5= very high.

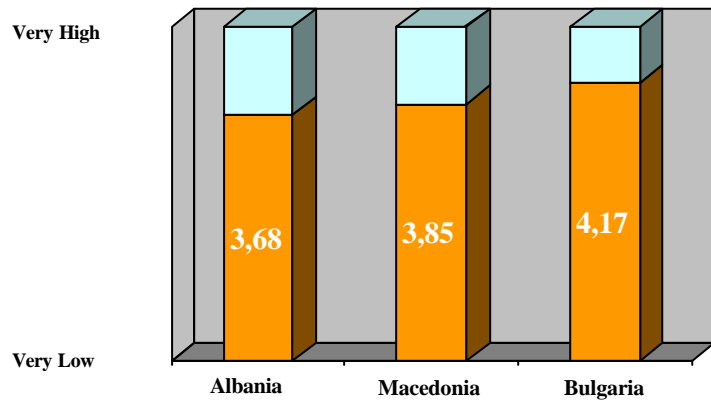
The first thing to notice is that in all three countries the evaluation is that for the main taxes and duties the level is considered to be higher than 3 (middle point).

In Albania and Bulgaria these taxes and duties are considered to be higher.

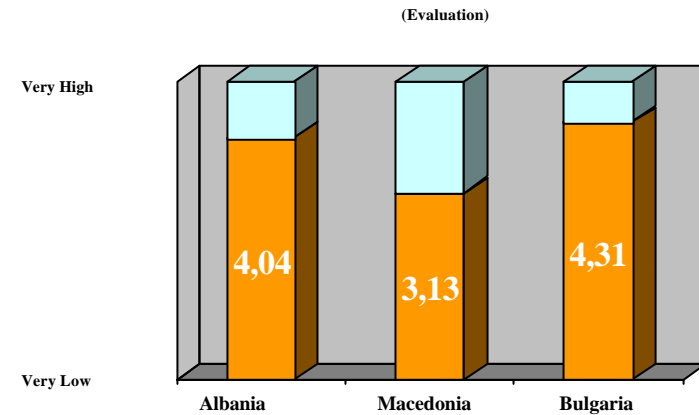
## Profit Tax



## Social Insurance Duties



## VAT





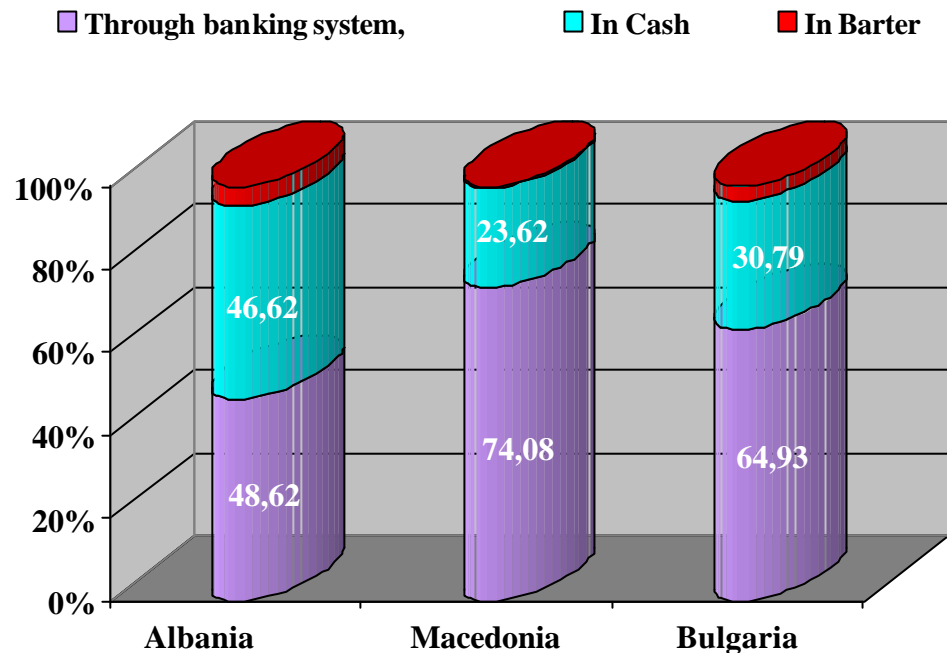
## Cash Economy and the Foreign Investors

It seems that the “Cash-Economy” syndrome has affected Albanian foreign investors as well, who have the highest percentage of revenues realized in Cash (46,6%). Macedonia seems to be presented better in this regard with only 23,62% revenues in Cash.

In case of Albania this is a results that can be commented in several ways:

- 1) Foreign Investors in Albania are of the type “small”, and in this case they are not able to cover the costs of using banks for their sales.
- 2) Albanian banking system is not able to offer such services that would attract foreign investors to use those services.
- 3) Foreign Investors are not safe from “Albania disease” of fiscal evasion and using two financial balances, and in this regard using banks would make them much more controlled.

### Percentage of Revenues realized:



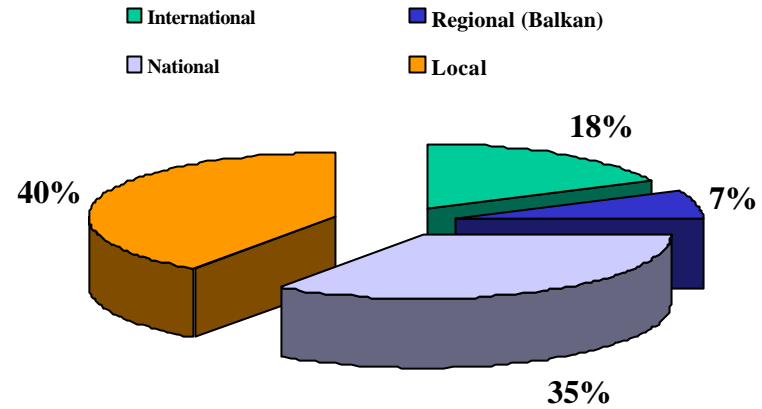
# Market of the Foreign Firms

In Albania 40% of interviewees declare their market to be a Local market. This means that these businesses do serve a small segment of market.

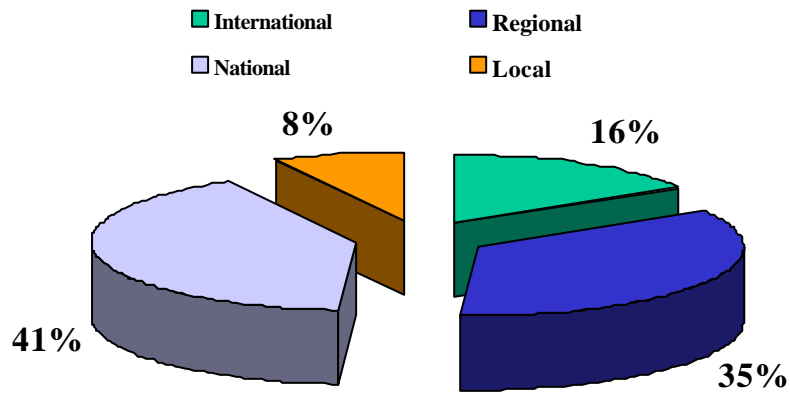
This kind of market is much smaller in two other countries.

Bulgaria has quite a big international market other than regional

**Albania**

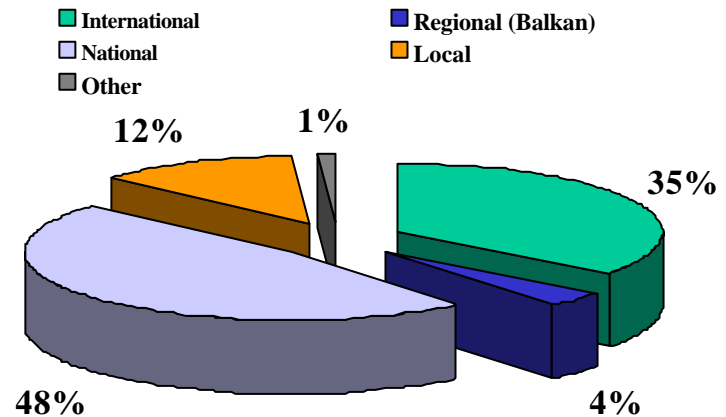


**Macedonia:**



In case of Macedonia there are quite a big number of firms that declare their market to be regional one (35%)

**Bulgaria**



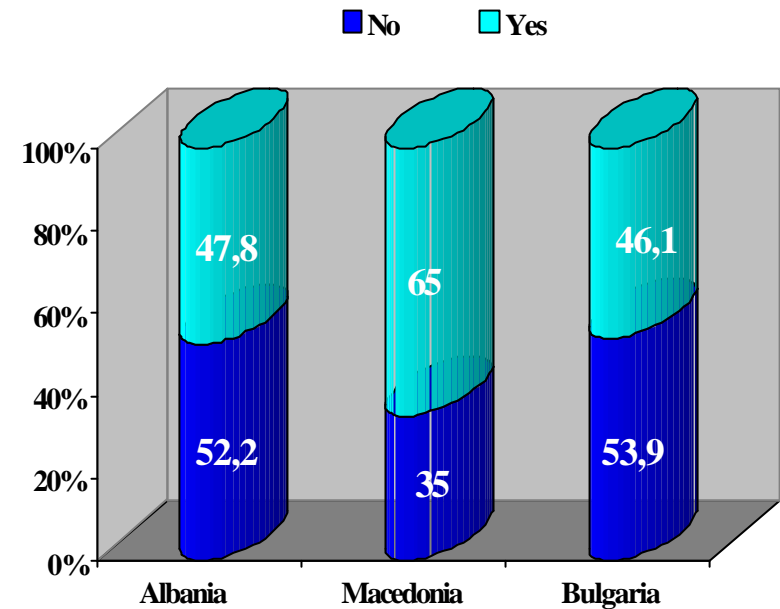
## Involvement in another business abroad

It can be seen that for Albania and Bulgaria almost half of the businesses say that their main owner do not have another business in other countries.

Comments raised by these results could be:

- A good part of investors that come in these countries do not come with the **knowledge** but are new entrants.
- A good part of investors that come in these countries were/are not able to survive in their countries

### Main owner of the company involved in other business elsewhere?

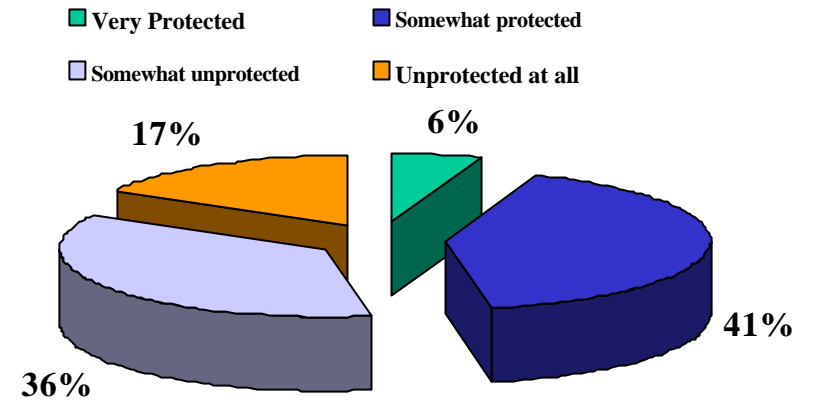


# Legislation and Foreign Investors

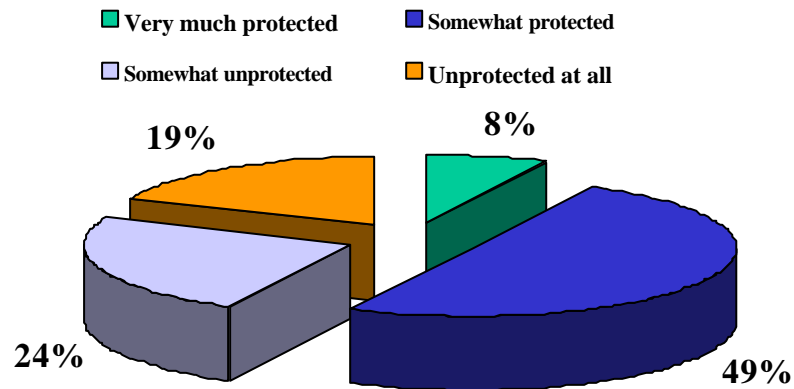
More than half of investors in Albania think that they are somewhat unprotected or unprotected at all from the Albanian legislation.

The situation in other two countries is quite similar in this regard.

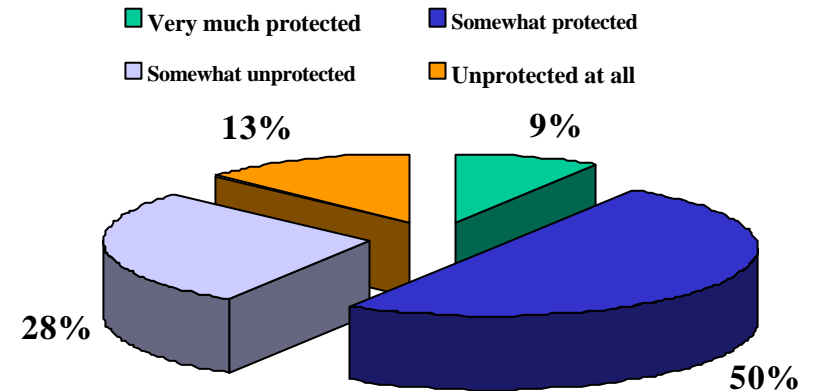
### Albania



### Bulgaria



### Macedonia



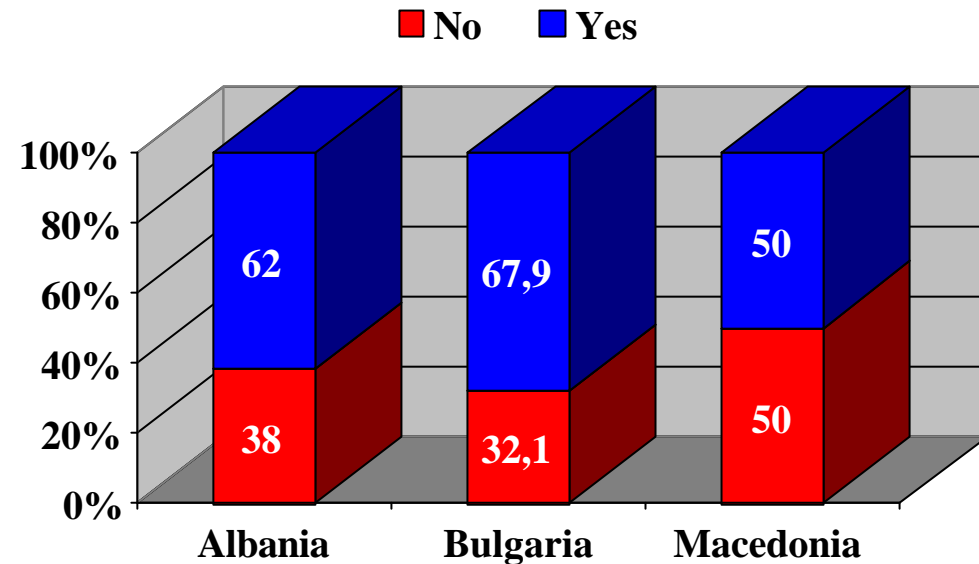
## Judiciary and the Foreign Investors

Judiciary is a very important factor in implementing rule of law and legislation in general. For foreign investors this means firstly **Contract Enforcement**.

From the responses of the question "...would you fear an unjust judgment in case of contract breach" it can be seen that this problem is more sensitive in Bulgaria and Albania.

The problems deriving from this response has to do with professionalism of judges as well as with their corruption.

## Fear from unjust judgment in case of contract breach



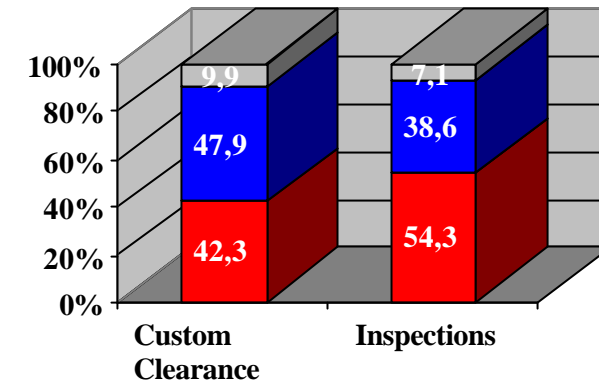
# Corruption and Foreign Investors

This question has to do with the fact if foreign investors were ever obliged to pay bribes to state officials for different problems related with their business.

Albania and Macedonia are noted for high percentages of foreign investors that have pay bribes for two aspects (customs clearance and inspections of different type - tax, labor, hygiene, construction etc)

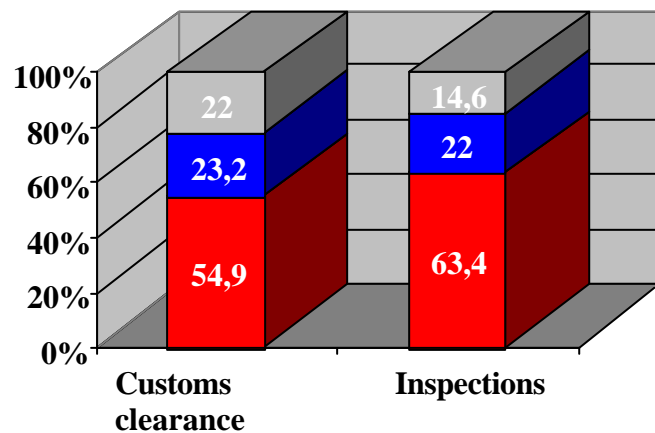
Albania

■ No ■ Yes ■ N/A



Bulgaria

■ No ■ Yes ■ N/A



Macedonia

■ No ■ Yes ■ N/A

