



Program for the Transition to the Rule of Law and an Inclusive Market Economy in Albania



DIAGNOSIS OF EXTRALEGALITY IN ALBANIA
Final Report. November, 2007

VOLUME 1



Instituto Libertad y Democracia

Las Begonias 441, Piso 9
Lima 27, Perú
Tel: (51-1) 616-6100
Fax: (51-1) 616-6190
E-mail: postmaster@ild.org.pe
Web: <http://www.ild.org.pe>

This report has been produced by a team of Albanian experts under the training and supervision of the ILD. The members of the Albanian core team were six professionals appointed by the Council of Ministries, seven seconded by local NGOs, and three by UNDP. The team was organized as follows: Project Director: Nand Shani; Legal Coordinators: Rovena Çadri, Jurida Dimroçi, Odeta Hyseni, Ervin Mete, Erjon Muharremaj, Zamira Xhaferri; Extralegal Coordinators: Indrit Faja, Ekflodia Leskaj, Ermonela Kapedani, Redona Raça, Elona Xhaferri; Economic Coordinators: Delina Nano, Ani Plaku, Klodiana Shahaj; Executive assistant: Nereida Dalanaj.

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Introduction

The “Program for the Transition to the Rule of Law and an Inclusive Market Economy in Albania” is an institutional reform initiative aimed at allowing all Albanians –especially the poor and vulnerable– to gain easy access to the legal mechanisms and protection that the law provides in order to create wealth in a modern market economy. The program is comprised of two stages: Diagnosis and Institutional Reform. The first stage of the Program has been the Diagnosis of the Extralegal Economy, carried out by the Government of Albania (GoA), funded by the United Nations Development Program (UNDP) and complementarily by the Local Government and Public Service Reform Initiative of the Open Society Institute (OSI), with the technical assistance of the Institute for Liberty and Democracy (ILD).

The objective of the Diagnosis was to produce an accurate picture of the hidden reality of the nation’s extralegal sector that will enable the Government of Albania to generate an information base about the root causes, the types, location and size of extralegality needed to design reforms that will be effective in the effort to incorporate the nation’s extralegal assets into the formal market economy. During Diagnosis, the ILD trained a “core team” of top-level Albanian professionals who not only helped execute the research and analysis of Albania’s extralegal economy but will continue to provide the kind of local capacity needed to assure the sustainability of the Program.

The Diagnosis research was based on what the ILD considers are the three main institutions necessary for a modern, inclusive market economy under a single rule of law: *property rights, business organizational forms and mechanisms to operate in expanded markets*. The methodology includes three approaches to each institution: the analysis of the *legal and institutional obstacles* that prevent widespread access to the formal market economy (top-down approach), the study of the *extralegal practices* that support the property and the business interactions (bottom-up approach), and a cost analysis of these two systems plus the *assessment of the amount of dead capital involved*. This division of responsibilities is reflected in the operational structure of the project: more than 20 professionals have been organized in three multi-disciplinary teams: legal, extralegal and economic. Each team consists of Albanian professionals, supervised and trained by ILD experts.

The Diagnosis Stage has generated two reports: a “Progress Report”, which was presented in New York City in June 2007, and this “Final Report”, that will be presented in Tirana in December 2007. Before delivering this definitive version of the Final Report, a draft version of it was shared with the relevant ministries, by special request of the Prime Minister. The ministries submitted their observations and comments during the past weeks, which have been taken into consideration to complete this Final Report. For the purpose of distribution and dissemination among the ministries, this report has been translated to Albanian. However, the only official and valid version is the one in English.

The Diagnosis stage lasted 12 months, from October 2006 to October 2007. Thus, the information included in this report is updated as of September 25th. As a consequence, some important changes introduced in the Albanian legal or institutional framework later than that might not have been included in this document.

Chapter 1 of this report introduces the Albanian institutional setting through the ILD conceptual framework and the estimated amount of dead capital in the extralegal sector. Chapter 2 deals with real estate property, including how property rights are allocated, what the rules and restrictions for its economic use are, and how the information about rights and restrictions are made available to the marketplace. Chapter 3 deals with the various ways of organizing businesses available to Albanians, including the incorporation and registration, along with the licensing, tax, and labor obligations required to operate formally; Chapter 4 analyzes the mechanisms required to operate in the expanded market, including mechanisms of identity for individuals and businesses, financing, contracting, the enforcement of contracts, and exiting the market; Chapter 5 takes a look at why Albania's most promising markets –tourism, the agricultural industry, and the clothing and footwear sector– are not living up to their potential. Chapter 6 contains policy recommendations stemming from the Diagnosis, though not yet reform proposals that will be developed during the next stage of the Program. A detailed description of the research methodology and of how the amount of dead capital was estimated is included in the corresponding annexes. Finally, the second volume contains the sequences, flowcharts and costing tables of the 42 administrative and judicial procedures analyzed.

The Final Report completes the Diagnosis Stage of the Program, creating the foundation for the Institutional Reform stage. The ILD is eager to continue its collaboration on this Program with the Government of Albania along with the support of UNDP.

Tirana, November 23rd, 2007

Executive Summary

Since the end of the communist regime 16 years ago, Albania has taken a major step forward on the economic front to join that remarkable group of once desperately poor and struggling states who through visionary leadership and the hard work and entrepreneurial ingenuity of ordinary people have managed to boost their nations into “middle income” status and the economic stability that accompanies such success.

Nevertheless, Albanians and their leaders know that their progress is still insufficient to gain entry to the European Union. A tough and wily enemy remains in the way of the economy and the hope of the population: corruption; and there are still barriers that impede the majority of Albanians from connecting their energy and creativity to the global markets by operating productive economic units in the formal world.

For that reason, the current Government, within its first year in office, initiated an impressive list of actions and reform initiatives on both the real estate and business fronts. One of these initiatives was creating, in association with the ILD, the “Program for the Transition to the Rule of Law and an Inclusive Market Economy in Albania.” Financed by UNDP with additional support from OSI-LGI, the Program’s objective was to train a group of Albanians to legally empower their fellow nationals by:

- sizing up the potential of the country –by shining a light on the considerable number of assets that are locked out the market economy;
- getting a deeper knowledge of the obstacles to consolidate and modernize the property system in the country and to do business competitively;
- extracting policy recommendations from a comprehensive diagnosis aimed at designing an institutional reform that allows the economy to grow faster and continuously.

When the GoA decided to create this Program, three things were crystal clear:

- determination to take the necessary actions to make the government reforms work and have long-lasting effects on the lives of all Albanians;
- conviction that to complete the design of the reform initiatives a closer look at how the majority of Albanians actually make transactions in the nation’s dynamic economy was required; and
- something was missing in the broad strategy to help Albania take its place in Europe.

The GoA knew that something was missing in the broad strategy to help Albania take its place in Europe.

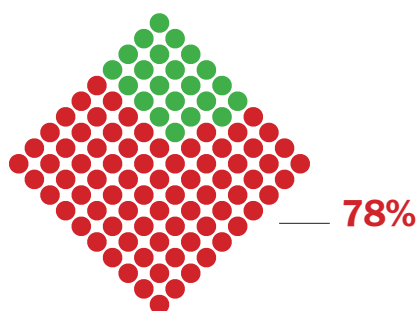
The main findings of this Diagnosis are summarized below.

Size and Potential of the Extralegal Economy

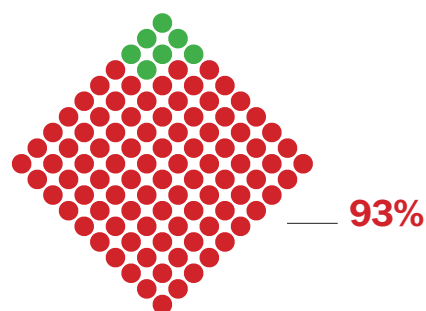
After twelve months in the field executing a complete Diagnosis of how the Albanian economy and its institutional framework functions (and does not function), along with the impact of on-going reforms, the Albanian Program's researchers, together with the ILD supervisors, have accumulated the kind of knowledge the GoA was looking for to optimize the government's policy design; we have found answers to its question of how to maximize the impact of the current reform efforts on the majority of Albanians, which can be summarized as follows:

1. A large portion of Albania's impressive economic potential – estimated to be worth US\$ 18.5 billion (US\$ 17.1 billion in dwellings and US\$ 1.4 billion in businesses)- is in the hands of ordinary Albanians who hold valuable assets, mainly in the form of property and businesses. But these valuable assets remain outside the legal system, unable to be leveraged to fuel economic productivity and progress.

EXTRALEGAL PROPERTIES



EXTRALEGAL BUSINESSES



2. The current national reform initiatives were absolutely necessary and definitely aimed in the right direction. However, they are still not sufficient for unleashing the country's full economic potential. The explanation proposed in this report is that while for the GoA "formalization" in a broad sense is a prime ticket to economic and social success, the Program's researchers have found that this relationship is far more complicated.

We will show in this report that formalization could end up being only an experiment in reform (and a very expensive one at that) – if it is limited simply to the registration of a business before the authorities or the sole inscription of a property at the registry. To maximize its effects and to assure its sustainability, formalization must have goals larger than just raising tax revenues, or issuing building permits. With such a massive percentage of businesses and property outside the law, formalization must fit into a broad strategy for empowering all Albanians by giving them a platform to create value and interact efficiently with broader markets.

Our research in the field has confirmed that the majority of Albanians are ready for reform. In fact, in the ways that they have managed to do business and hold their property outside the law, they are showing the way. The people are certainly not sitting and waiting for opportunities to come. More often than not they search for opportunities to prosper, and when they fail to find them, too often

they leave the country in search of an opportunity. We have plenty of evidence for that. We have also found that whenever there is an institutional failure, Albanians dare to fix it to their advantage using what we call “extralegal practices.”

However, no matter how creative their solutions might be, these extralegal practices are full of shortcomings and condemned to failure: institutions crucial to building a modern, inclusive market economy cannot be designed by accident or by convenience; they need to be framed in a global vision; they need to incorporate the legal devices that exist in modern economies; and they need to reflect the existing practices of the majority.

In this report we have tried to shine light on these issues and propose a global vision that could help the government to start making the necessary adjustments to their institutional framework to the benefit of the majority of Albanians.

The Program has concluded that the reason why informality persists, why corruption is so widespread, and why the effects of the reforms that have cost Albanians so much are vanishing has nothing to do with any alleged defects in Albanian culture, entrepreneurial talent, or basic work habits. No less than any average Croatian, Greek, German, or Chinese, Albanians have the will and the talents to succeed individually and thus collectively help speed up the nation’s economic growth.

The real enemy is within the nation’s existing legal framework full of regulatory bottlenecks, unpredictable norms, and just plain bad laws that force citizens and enterprises to operate in the extralegal marketplace. Stuck in the shadows of the law, they have no alternative but low productivity and scarce accumulation of capital, and therefore no possibility of business growth—the ideal environment for breeding public and private corruption, which our research has extensively documented. As the present report will make clear, Albania needs less arbitrary power and favoritism among its public officials and more transparency in its rules and procedures: requirements must be listed and followed, fees, too, have to be indisputable and thus incorruptible; above all, ordinary people have to know the rules of the game.

The reason why informality persists, why corruption is so widespread, and why the effects of current reforms are vanishing has nothing to do with Albanian culture, entrepreneurial talent, or basic work habits.

Albanians live in Extralegality

While Albania has erected a new, modern, European-style legal system directed towards nurturing a market economy, its laws and regulations remain costly, complex, unnecessarily intrusive, and ultimately unreachable for the majority of Albanians. The failure of the current legal order to keep pace with Albania’s economic and social growth has forced the majority of Albanians to invent extralegal substitutes for established law¹, a whole set, in fact, of informal arrangements that constitute a reflection of the very legal institutions outside their grasp.

1 DE SOTO, Hernando. *The Mystery of Capital*. New York: Basic Books, 2000. p. 71.

What follows are some examples of extralegal practices which pertain to both real estate and business operations that we have found in the parallel economy throughout Albania.

Extralegal practices regarding the handling of real estate property:

Extralegal occupation: When Albanians were granted the right to move freely around their country, masses of them headed towards the main cities and squatted on what had been agricultural lands surrounding urban areas- some of the newcomers “bought” the land from previous settlers, most of them just built their houses wherever they could. This is the case of the large settlements of Kamza and Këneta outside Tirana and Dürress, which are now districts with some 130,000 inhabitants each.

Extralegal settlers do not live in chaos; instead, they have fabricated their own extralegal arrangements.

Though these new settlers live outside the legal system, they do not live in chaos; instead, they have fabricated their own extralegal arrangements. In the surrounding of Vlora, for example, we have retrieved evidence of what appears to be a kind of local zoning ordinance. Most of these occupiers, however, lack adequate security over their lands, and are thus unable to fully exploit the economic potential of their dwellings.

Extralegal constructions: Seeking more comfortable and bigger dwelling units, Albanians have constructed new buildings and extended existing ones. Yet given the lack of a proper legal platform to handle real estate property, most of them have done so either going against zoning and construction regulations, or without the corresponding permits.

Extralegal transactions: Since most properties are not properly recorded, the only way to transfer them is outside the registry. In addition, due to the high cost of the public registry, properties that were once completely formal have in subsequent transactions head back to extralegality.

Extralegal mechanisms for the formation and operation of businesses:

Extralegal organizations: Most Albanian entrepreneurs associate with family members and close friends using informal association agreements which they incorporate as physical persons. The result leaves their partners in the shadows, notwithstanding how much capital they have contributed or how productive they might be. In doing so, however, they manage to avoid the administrative burdens and the red type typically associated with “bigger” business forms.

In spite of the economic benefits, this practice entails several limitations and risks, mainly due to the lack of enforcement of these contracts and the impossibility of gaining access to such legal benefits as limited liability, asset partitioning, or free transmission of shares.

Business networking: While it is common to hear Albanians say that they only do business individually to prevent default from partners, we have discovered that they do in fact associate, only

most frequently in informal ways, through “gentlemen’s agreements” or rules based on personal trust. Such forms of association are common in the Medreseja market in Tirana, where thousands of entrepreneurs are clustered together, sharing transport, cleaning and security costs; they are also bargaining collectively with the owner of the land for the leasing conditions.

Extralegal identity: Albanians do not have access to a proper identity system. Yet, predictably, they have their own identity solution: accreditation by the *krye plak*, a local authority (alderman) based on customary law and personal legitimacy. Albanians commonly resort to this mechanism as proof of their personal identity in an effort to increase the security of their transactions. Despite their obvious value, these identity mechanisms are limited, imperfect, and unrecognized by authorities outside the zone where they are issued.

Extralegal credit: Formal credit is not available to the majority of Albanian entrepreneurs, thereby reducing their possibilities to expand their activities. Among the extralegal practices Albanians have created to circumvent this problem, perhaps the most interesting is the provision of credit by informal moneychangers. We have found that not only does the practice of informal on-cash credit exist, but also that it constitutes an important source of credit for Albanian entrepreneurs. Informal credit, however, is riddled with shortcomings: interest rates are much higher than in the formal system; loans are not suitable for long-term operations and, in some cases, violence is used as a mechanism for enforcement.

The nature of extralegal transactions in Albania: the “hit and run economy”

One of the features of Albanian extralegality is the type of transactions carried out by economic agents. In the Albanian extralegal world, transactions are not reduced in number, but rather in their added value and in their recurrence between the same parties. Unlike what occurs in the legal world, transactions are mostly completed in cash, performed manually, and essentially are “one-shot” interactions of considerably short duration. Contracts are thus reduced to “take it or leave it”, and “now or never”.

This kind of shortsighted behavior can induce agents to act against their own long-term interests. Cheating and deceiving customers or simply not complying with the terms of the contractual arrangements are just two examples. Such failures in the institutional setting can also lead to a deterioration of social values, producing corruption, crime, mafias, etc. –the greatest enemies of any modern society.

Transactions in Albania - mostly in cash and essentially as “one-shot” contracts- characterize the Albanian “hit and run economy”.

All in all, this behavior leads to an economy that can hardly meet the needs of the local market, much less compete in the global market.

The legal and institutional barriers and the proposed legal solutions

What are the causes of massive extralegality in Albania? We have studied the institutional and legal framework from a three-pronged approach and have identified the main barriers; and proposed preliminary recommendations as orientation to take the decisions necessary to overcome them.

Property rights

A property system is a social contract put into practice; the result of multiple agreements reached by the common citizens, which in time are a result of the functioning of laws and regulations on land, and the actual practices carried out by a set of different agents. In Albania, we have found that although the Government is addressing the critical topics, the entities mandated to do the job are working without a unitary agenda and vision.

The Restitution and Compensation Process needs to define a legal framework that will end the current open-ended process of recognition of rights: establishing a definitive deadline for receiving compensation claims, setting a closed criterion to calculate the total expected compensation, limiting the area to be compensated and the percentage of the value to be paid, and streamlining the procedures.

Although the government is addressing the critical topics, the entities mandated to do the job are working without a unitary agenda and vision.

The legalization process should set priorities, a timeline and a business plan, based on hard evidence about the characteristics and typologies of the extralegal sector.² Additional information such as who owns the land on which the buildings have been erected, where the process of First Registration has been finalized, existing claims for compensation or restitution, and the value of the actual land to determine compensation has to be collected and systematized. The business plan should combine specific actions designed to address areas in which

quick wins can be attained, so as to legitimize the process; but simultaneously carry out pilot activities in those areas in which the typologies (or a combination of typologies) present more difficulties. The base of information can thus be expanded, and the Government can prepare responses for dealing with more complex areas.

To avoid more illegal settlements, a priority should be placed on designing alternative housing solutions for low-income families. Otherwise, formalization will encourage further illegal settlements.

Registration of property imposes high costs on users. Tax controls for registration, notary and other specialized services, and fines for not registering are insuperable barriers for owners. Registration is also plagued with redundant requirements that place unnecessary burdens on users. Registered

2 The exercise of creating specific typologies to devise specific strategies to each problem (see Annexes 3 and 4) – produced in six months – can be extended to the whole country. Having already identified the sources of information and the tools available, we could speed up the exercise – at a lower cost.

information can only be accessed by the owners or authorized agents, undermining the registry's role as an information provider.

The Land Administration and Management Program will address most of these obstacles, and is already in the process of completing First Registration, digitalizing records, updating and upgrading information, and improving the provision of services. This needs consistent support, but close attention should be paid to creating the kind of incentives (e.g. high registration costs) for not recording transactions after First Registration –thus sending once formalized assets back to extralegality.

There are no planning instruments governing development on rural and urban-growth areas, and thus regulations aimed at channeling development are mainly set on a case-by-case basis. Administrative procedures for urban development, however, are extremely bureaucratic. The Policy and Strategy for the Implementation of the New Legal Framework on Spatial Planning in Albania has set the basis for the drafting of the law on spatial planning and development control, currently under preparation, an initiative that should be supported.

By analyzing the rules of the game for private dealings with property, we have found that the most important institutional barrier for real estate dealings such as the sale, rent and inheritance of land in Albania is the uncertainty of the institutional framework. Addressing the abovementioned problems will have a favorable effect on the institutional framework for private dealings with property. Other pending issues are the lack of legal mechanisms to regulate the relations that arise from co-ownership and horizontal property. The institution of the “Agricultural Family” –i.e. mandatory co-ownership of land by beneficiaries of the agrarian reform of 1991– imposes a series of shortcomings and should be eliminated from the legal framework.

Business organizational forms

The legal and institutional framework for businesses should allow Albanian entrepreneurs to get the most out of their business initiatives, making success a matter of talent and effort rather than mere luck or privileged access to power. After finishing the Diagnosis, we learned that the GoA has already made significant efforts to reduce the costs of formalizing a business with the introduction of a one-stop-shop registration system. Nevertheless, there are some other important measures that should be taken in order to consolidate the position of the State as the business partner that Albanian entrepreneurs need by increasing the benefits of being formal.

The business organizational form most commonly chosen by Albanian entrepreneurs to start their businesses –the physical person – does not provide the basic legal tools for separating the company's capital from their own or to limit the liability of the partners over business debts. Since business assets are not represented in shares, owners are not permitted to take on any partners. Reducing access costs to more complex business forms –such as the limited liability partnership or the joint stock company- would be the most efficient way to quickly allow Albanians to enjoy such benefits. Access costs

Important measures should be made to consolidate the position of the State as the business partner Albanian entrepreneurs need.

are currently being addressed by the National Registration Center (NRC) which has reduced the time and cost of incorporating companies. Still, the requirement of high initial capital to incorporate should be reduced so more Albanians can access complex organizational forms for their companies.

The initiative started by the NRC should be consolidated to make the updated registered information of the businesses available for public access. To keep the information updated, registration should entail benefits for businesses so that they have incentives to voluntarily report any important changes to the business registry.

Once incorporated, in order to start operating the business, entrepreneurs have to complete many cumbersome procedures to obtain their licenses. There is not enough information available, the procedures themselves are unclear, allowing room for arbitrary decisions, which opens the gate to corruption. The many different public agencies involved duplicate controls by performing permanent inspections and demanding renewals. It is therefore necessary to make a serious reengineering of the licensing system. It is also necessary to define clear responsibilities among the different agencies involved in all levels of Government, eliminating duplication of duties, applying standardized procedures and increasing the accountability of public officials.

Complying with tax and labor regulations is one of the most difficult tasks for entrepreneurs, not only because of the rates they have to pay, but also because of the procedures they have to follow, the uncertainty, and the risk of arbitrary inspections. Reducing the differences between small and big taxpayers will also reduce the distortions in the system, currently the main incentive to cheat the tax authorities and thus increase corruption that injures the whole system. Moreover, it is necessary to establish simple accounting standards and to simplify and standardize the tax and labor inspections in a way that makes them predictable to business people.

Mechanisms to operate in expanded markets

To grow, Albanian businesses need the institutional tools necessary to contract with clients, suppliers, workers, investors and the State with certainty and predictability. Currently, Albanian citizens and businesses do not even have a proper identity that allows them to introduce themselves to people beyond their circles of family and acquaintances, thus preventing them from operating in the expanded market. This is as harmful for the economy, as not having an identity document to vote is for democracy.

Albanian citizens and businesses do not have an identity that allows them to operate in the expanded market. This is as harmful for the economy, as not having an identity document is for democracy.

Albania needs to hurry toward creating an official identity document, as well as an updated information network to serve as an identity mechanism to both individuals and businesses. All available identity systems need to be interconnected and need to provide consistent information with each other. That requires setting standards for the use of technology and platforms for sharing information.

Information managed by the personal identity system (being created), the business registry, the credit registry (being created), the immovable property registry, and the information regarding addresses (being created) should be made available for public and private use in accordance with the provisions concerning the right to privacy contained in the Albanian legislation.

Compliance and enforcement of contracts has also become a major barrier to entrepreneurs eager to expand their markets. Without accountability and effective sanctions for breach of contract, incentives to comply are too limited. Albanians urgently need fast and predictable conflict resolution systems. Out-of court procedures that are not extensively used should be promoted by making arbitration and mediation decisions executive orders, thus avoiding the additional stop at the Judiciary before the execution. The possibility of contractually setting out of court, even using private execution mechanisms for the foreclosure of collateral to recover unpaid debts should also be allowed. All of this can happen while the reform of the Judiciary is consolidated.

Rule of law

The barriers that prevent Albanians from enjoying a single rule of law have its roots in the legal framework and can be analyzed from two perspectives: those related to the production of legislation and those related to its implementation.

The production of laws and regulations is characterized by the lack of predictability and transparency, which prevents entrepreneurs from making long-term and substantial investments with an accurate risk-benefit calculation; the excessive complexity of Albanian legislation that in turn generates costs associated with its implementation, compliance and control; and overlapping legislation that also imposes unnecessary costs for businesses and citizens and create legal uncertainty that hinders efficient transactions. The enforcement of legislation is plagued by excessive discretionary power and arbitrariness, lacking criteria to inform public officials how to interpret and enforce it; lack of transparency arising from the reduced access to key information that prevents public officials from being accountable to citizens; lack of skilled civil servants; and limited enforcement of administrative or judicial decisions that therefore only reduce the confidence of citizens in the State.

To make existing laws more transparent, rational, accessible, and enforceable we propose a strong “bottom-up” component to be included in reforms, taking advantage of the experience, knowledge, and advice of the very people that the new legal system seeks to serve.

To address these problems, this report presents a series of policy recommendations geared towards making existing laws more transparent, rational, accessible, and enforceable – and in the process improving public administration overall. Any legislative design based on these recommendations will have a strong “bottom-up” component, taking advantage of the experience, knowledge, and advice of the very people that the new legal system seeks to serve. This is democratic reform at its best: transparent, interactive, the people delegating power to lawmakers who are actually listening to what their constituents have to say about what they know better than any politician, legislator,

or administrator: the daily trials and tribulations of doing business. These recommendations, too, are likely to increase the effectiveness of reforms already initiated by the GoA.

Our preliminary recommendations described in the report include the pre-publication of laws and regulations before their approval, the cost-benefit analysis of legislation to guarantee the value and suitability of a legal provision before it is put up for vote, the publication of handbooks of administrative procedures for each agency – at all levels of government – that directly deals with citizens, and the definition of a public agency responsible of supervising the process of administrative simplification.

The importance of the involvement of the highest political leadership is absolutely necessary to overcome the multiplicity of obstacles that will appear in the path of reform. The kinds of reforms we advocate seek to address these problems, and, consequently, will very likely confront strong opposition. A strong and carefully planned communications strategy involving all relevant actors will help generate consensus and forge coalitions.

The Opportunities: From Great Potential to Real Growth

Albania has the kind of resources that, if used imaginatively and efficiently, could have travel writers around the world trumpeting “Europe’s next best destination”. The result could raise the living standards of most Albanians within reach of the populations of the EU’s high-income countries.

The effort to estimate dead capital, the amount of wealth that remains in extralegality, is not a mere academic exercise; it reflects a country’s potential to growth. In this report we have analyzed how solving the institutional problem will impact on three specific economic sectors in which both government and citizens think Albania has the highest potential: Agro-industry, Clothing & Footwear, and Tourism. Our conclusion is that the net present value of the additional income that could be generated in these three sectors totals US\$ 22.92 billion, a figure that is 24% higher than the estimates of Dead Capital (US\$ 18.46 billion).

The Next Steps

The promising fact of the Albanian situation is that the Government has not only recognized that something has to be done to change the *status quo* but that is trying to move to the next level with a vision for reform and a series of changes in the works. After this Diagnosis exercise, the outlook looks even more promising: this political will now can leverage from a group of young and talented Albanian professionals, who have in their hands all the knowledge this Project has generated and are ready to move ahead in the design of solutions to upgrade the current reform efforts and their implementation. It is now time to take action, something that the Government has proved it can do. To continue the momentum of the reform agenda, the next steps should involve the development of an institutional setting for reform. This will include the identification of which government entities will participate or be impacted by the reforms, which coordination

mechanisms should be put in place, the relevant laws and regulations to be amended, and the contributions and responsibilities of each entity involved.

The reform agenda should also include the establishment of a high-level institutional vehicle in charge of the coordination of all reform efforts and of implementing a consistent, integral strategy of institutional reform. This will include the development of a short, medium, and long term reform agenda, the amendment of norms and laws, the design and restructuring of some public entities, the coordination of policies and programs, the collaboration with public agencies and local governments, the engagement of different political actors, among other activities.

It is now time to take action, something that the Government has proved it can do. The next steps should involve the development of an institutional setting for reform.

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Abbreviations and Acronyms

ACIT	Albanian Center for International Trade
AITPP	Agency for Inventorying and Transferring the Public Property
ALL	Albanian Lek
ALUIZNI	Agency for Legalization, Urbanization and Integration of Informal Constructions in the Republic of Albania
ATC	Adjustment Territorial Council
BOOT	Build on Operate and Transfer Contract
CM	Council of Ministers
CSO	Civil Status Offices
ECHR	European Court of Human Rights
EU	European Union
EU-19	All European Union countries prior to the accession of the 10 candidate countries on May 1st, 2004, plus the Czech Republic, Hungary, Poland, and the Slovak Republic
FRP	First Registration Process
GDCS	General Directorate of the Civil Status
GDP	Gross Domestic Product
GoA	Government of Albania
ILD	Institute for Liberty and Democracy
IMF	International Monetary Fund
INSTAT	Institute of Statistics
IPRO	Immovable Property Registration Office
IPRS	Immovable Property Registration System
JSC	Joint Stock Company
LAMP	Land Administration Management Project
LGU	Local Government Unit
LLP	Limited Liability Partnership
MCATA	Millennium Challenge Account Threshold Albania
MEDART	Albanian Commercial Mediation and Arbitration Center
METE	Ministry of Economy
MoT	Ministry of Tourism, Culture, Youth and Sports
MSM	Micro, Small and Medium Enterprises
NIPT	Number of Identification as Taxable Person
NISSH	Social Security Number
NRC	National Registration Center
NUIS	Unique Identification Number
OECD	Organization for Economic Co-operation and Development
OSCE	Organization for Security and Co-operation in Europe
PPP	Purchasing Power Parity
PRCA	Property Restitution and Compensation Agency

PRGF	Poverty Reduction and Growth Facility
R&C	Restitution and Compensation
SME	Small and Medium enterprise
TACRA	Territorial Adjustment Council of the Republic of Albania
The Program	Program for the Transition to the Rule of Law and an Inclusive Market Economy in Albania
TMR	Tirana Metropolitan Region
USAID	United States Agency for International Development
VAT	Value-Added Tax