European Bank
for Reconstruction and Development

Taxes, competition and finance for Albanian enterprises: evidence from a field study

by Holger Muent, Francesca Pissarides and Peter Sanfey

Abstract

This paper analyses the results from a survey conducted in 1999 of more than 100 enterprises in Albania. The main finding of the survey is that registered businesses regard competition from the informal sector as the most important problem they face in doing business. Unregistered firms have a significant advantage because they are able to evade the relatively high tax burden. Poor access to loans is also a significant obstacle. Enterprises tend to rely on their own sources of funds for business start-up and expansion. Large enterprises are more likely to apply for loans than small enterprises but, having applied, are no more likely to be successful.

Address for Correspondence: Peter Sanfey, European Bank for Reconstruction and Development, One Exchange Square, London EC2A 2JN, UK.

Phone: +44 20 7338 6227; Fax: +44 20 7338 6110; e-mail: sanfeyp@ebrd.com

---

1. INTRODUCTION

As the transition in central and eastern Europe enters its second decade, policy-makers and analysts in the region increasingly recognise the importance of a good "investment climate" as the basis for sustainable economic growth and improvements in living standards (see, for example, EBRD, 1999). In this regard, particular attention is now being paid to the role of small and medium-sized enterprises (SMEs) but so far there is little understanding of the difficulties and constraints facing SMEs, especially in economies with a large informal sector.

This paper attempts to further our knowledge of the problems and constraints for SMEs in transition economies by focusing on a country with a very difficult investment climate but high growth potential – Albania. Reliable information on the problems and constraints facing Albanian enterprises is difficult to find from existing data sources. We therefore carried out a survey during the summer of 1999 of more than 100 enterprises throughout the country, and this paper is based on the results of this survey. The purpose of the survey was twofold: first, to identify the most critical problems faced in doing business in Albania, as perceived by owners and managers of enterprises; and second, to investigate the degree of access to different sources of finance.

Among the various results from the survey, one stands out: nearly half of the enterprises in our sample – all registered in the formal economy - identify unfair competition from the informal sector as their biggest problem in doing business. Other problems such as the tax burden and lack of finance are also significant impediments, but score relatively lower. The size of the informal sector in Albania – nearly half of GDP according to some estimates – highlights the significance of this result. With regard to access to finance, we find that the supply of bank loans is limited in Albania and enterprises therefore have to rely, to a large extent, on other sources of finance, especially their own savings and remittances. Using a simple econometric framework, we show that large enterprises are more likely to apply for a loan than are small firms, but having applied they are no more likely to be successful.

Section 2 of the paper provides some brief background information about recent developments in the Albanian economy and about the structure of the enterprise sector. Section 3 presents descriptive statistics from the survey. Section 4 examines the main constraints facing enterprises, and Section 5 considers the role of different sources of finance. Section 6 concludes the paper.

2. BACKGROUND

2.1 MACROECONOMIC PERFORMANCE

Albania's economic performance during the 1990s has been something of a roller-coaster.[1] After a large output collapse in 1991-92, the country enjoyed strong growth between 1993 and 1996. In 1997, however, the country entered a period of extreme social and political instability following the collapse of a number of fraudulent pyramid schemes, and real output that year fell by an estimated 7 per cent.

The legacy of the 1997 crisis is still being felt throughout the Albanian economy. Nevertheless, the economy has been growing strongly since then, reflecting improvement in all sectors, especially construction, trade and services. Real GDP growth was 8 per cent in both 1998 and 1999, annual inflation fell below 0 per cent by the end of 1999, and measures have been introduced to control government expenditure and enhance revenue collection. By the middle of 1999 therefore (when we carried out the survey), Albanian enterprises were at least facing a relatively stable macroeconomic environment.

2.2 THE ENTERPRISE SECTOR

Almost all enterprises in Albania fall into the category of SMEs, as defined by the European Union (i.e. less than 250 employees). Data from the Albanian statistical office show that about 98 per cent of Albanian enterprises can be classified as micro enterprises (10 employees or fewer) by EU standards. Table 1 provides a breakdown of enterprises and employment by sector. The majority of all enterprises – due to the dominance of micro enterprises – are active in trade. The next most important sector is services (around 18 per cent overall). Enterprises with more than 10 employees, on the other hand, are twice as likely to be in industry as in services.

In terms of employment, micro enterprises account for about 40 per cent of total employment in the enterprise sector. Again, most of this employment is generated in the trade sector, followed by the service sector for the self-employed and the industrial sector for micro companies. Larger firms (more than 10 employees), on the other hand, have generated the most employment in industry, followed by the transport sector.

Regional differences in the density of private enterprises appear to be the result of urban-rural differentials. Thus the region of Tirana-Durres has a higher concentration of private enterprises than the other regions. Heavy industry is concentrated mainly in Elbasan (about 30 miles south-east of Tirana), while trade opportunities are mainly found in the southern border regions. The coastal regions have an obvious potential to develop tourism, although in the short to mediumterm they will suffer from the overall instability in parts of the country and the lack of infrastructure.

---

[1] For a comprehensive account of economic developments during the transition in Albania, see Vaughan-Whitehead (1999).

Table 1. Enterprises in Albania (1998)

	No. of enterprises			
Sector	Self-employed	1-10 employees	>10 employees	Total
Agriculture	839 (1.9%)	324 (3.0%)	80 (7.0%)	1,243 (2.3%)
Industry	3,484 (7.8%)	1,745 (16.0%)	445 (39.2%)	5,674 (10.4%)
Construction	878 (2.0%)	823 (7.6%)	204 (18.0%)	1,905 (3.5%)
Trade	24,161 (54.4%)	5,089 (46.8%)	120 (10.6%)	29,370 (53.7%)
Transport	7,002 (15.8%)	1,086 (10.0%)	93 (8.2%)	8,181 (14.9%)
Service	8,049 (18.1%)	1,799 (16.5%)	194 (17.1%)	8,343 (15.2%)
Unidentified	20 (0.0%)			20 (0.0%)
Total	**44,433 (100%)**	**10,866 (100%)**	**1,136 (100%)**	*54,736 (100%)*
	No. of employees			
Sector	Self-employed	1-10 employees	>10 employees	Total
Agriculture	839 (1.9%)	1,201 (3.8%)	4,896 (4.3%)	6,936 (3.7%)
Industry	3,484 (7.8%)	6,181 (19.5%)	68,890 (60.9%)	78,555 (41.5%)
Construction	878 (2.0%)	3,158 (10.0%)	11,951 (10.6%)	15,987 (8.4%)
Trade	24,161 (54.4%)	13,290 (41.9%)	3,793 (3.4%)	41,244 (21.8%)
Transport	7,002 (15.8%)	2,764 (8.7%)	13,342 (11.8%)	23,108 (12.2%)
Service	8,049 (18.1%)	5,150 (16.2%)	10,316 (9.1%)	23,515 (12.4%)
Unidentified	20 (0.0%)			20 (0.0%)
Total	**44,433 (100%)**	**31,734 (100%)**	**113,188 (100%)**	*189,365 (100%)*

Source: Albanian Institute of Statistics.

3. THE SURVEY

Our survey was carried out during July and August 1999 and 104 enterprises agreed to answer a written questionnaire.[2] The sample was not chosen completely randomly, but rather was designed to cover different sizes of enterprises throughout the country. The questionnaire contained 58 questions on constraints faced by enterprises in the areas of finance, business advisory services, taxes, regulatory environment, and infrastructure. In some cases, respondents were asked to rank the importance of constraints (see Annex for the full questionnaire).

Table 2 provides a breakdown of the sample by number of employees, sector, region and type of ownership. The table shows that, according to the EU employment-based definition, 101 of the 104 firms can be classified as an SME (less than 250 employees), and 43 firms are micro-enterprises. Although most SMEs are concentrated in the retail sector, their presence in the sample has been deliberately kept down because of the relatively easier starting and operating conditions for such enterprises.[3] The sample comprises enterprises from seven districts, with the highest concentration in Tirana. This geographical distribution broadly reflects enterprise distribution in Albania.

Table 2. Description of survey data

Location	No. of firms		No. of employees	No. of firms
Tirana	39		0 to 9	43
Durres	12		10-49	48
Fier	15		50-250	10
Lushnje	9		More than 250	3
Shkoder	15			
Elbasan	1			
Korce	13			
Sector			**Change in ownership structure**	
Manufacturing	40		Privatised	17
Agribusiness	13		Spin-off	10
Transport	0		No Change (newly established)	77
Hotel/Restaurant/Catering	9			
Construction	16		**Ownership form**	
Trade	14		Limited Liability	80
Financial	0		Sole Proprietor	21
Retail	6		Public Limited Joint Stock	3
Personal Services	2			
Business Services	1		**Employment growth**	
Media	2		Positive	71
NA	1		Zero/negative	33

Source: EBRD Albanian Enterprise Survey.

---

[2] In most cases, the questionnaire was filled in by the manager of the company.

[3] The retail sector is generally thought of as an easy "entry" sector in which to start a business, allowing the entrepreneur to accumulate sufficient capital to move to a different sector.

In Albania, more than 83 per cent of enterprises are newly established private enterprises. Our sample reflects this by including only 17 privatised companies, seven of which are spin-offs from larger companies. The preferred legal form is the equivalent of limited liability company (80 companies) followed by sole proprietor (21 companies) with only three companies registered as public limited joint-stock companies (these being privatised companies). There were 71 companies in the sample that grew in size between establishment and interview date, and 43 per cent of these at least doubled in size.

4. CONSTRAINTS TO SME DEVELOPMENT

Albania's investment climate is generally believed to be one of the most challenging among all transition countries, and SMEs in particular face great difficulties both in carrying out day-to-day operations and in attempting to expand. In order to gain a better understanding of the constraints facing SMEs in Albania, interviewees were asked a series of questions about general problems and specific issues such as taxation and infrastructure.[4]

We asked companies to indicate and rank the three most important constraints they faced. They could choose from among the following:

- tax burden

- unofficial payments to state officials

- other unofficial payments

- unfair competition from unofficially operating enterprises

- poor access to bank loans

- problems in obtaining inputs

- problems with physical infrastructure

- bureaucratic procedures

- inspections.

Chart 1 presents a nine-dimensional simplex (star chart) of the relative importance of each constraint, weighted according to the ranking assigned by respondents. The chart highlights a new and important result: the constraint given most emphasis and most frequently quoted by Albanian companies is competition from companies in the grey economy. Savings on registration and licensing costs and tax evasion give a substantial cost advantage to small enterprises, whereas the advantage of being officially registered in a country at such a low level of development does not appear to be particularly strong.[5] In fact, 95 out of 104 companies are aware of having unofficial competitors and 68 of these companies believe that these competitors will never register officially in order to continue evading taxes.[6] A sectoral breakdown of responses (not presented here) demonstrates that companies in agribusiness, retail and trade appear to be most heavily affected by this constraint.[7]

---

[4] Pissarides (1998) summarises the extensive literature on typical constraints faced by SMEs in transition countries.

[5] Almost all companies in our sample were inspected by the tax authorities during the previous 12 months, and the inspection resulted in fines in all but seven cases.

[6] It should, however, be noted that there is ample anecdotal evidence that many firms in the formal sector also evade taxes to some extent, for example by maintaining two sets of "books".

[7] Stratification of the sample by size of enterprise and according to whether the firm grew or declined since establishment yielded minor differences among groups (for example, competition from the informal economy appears to hurt small enterprises more than micro or medium-sized enterprises). This analysis is available on request.

Chart 1. Relative rating of constraints
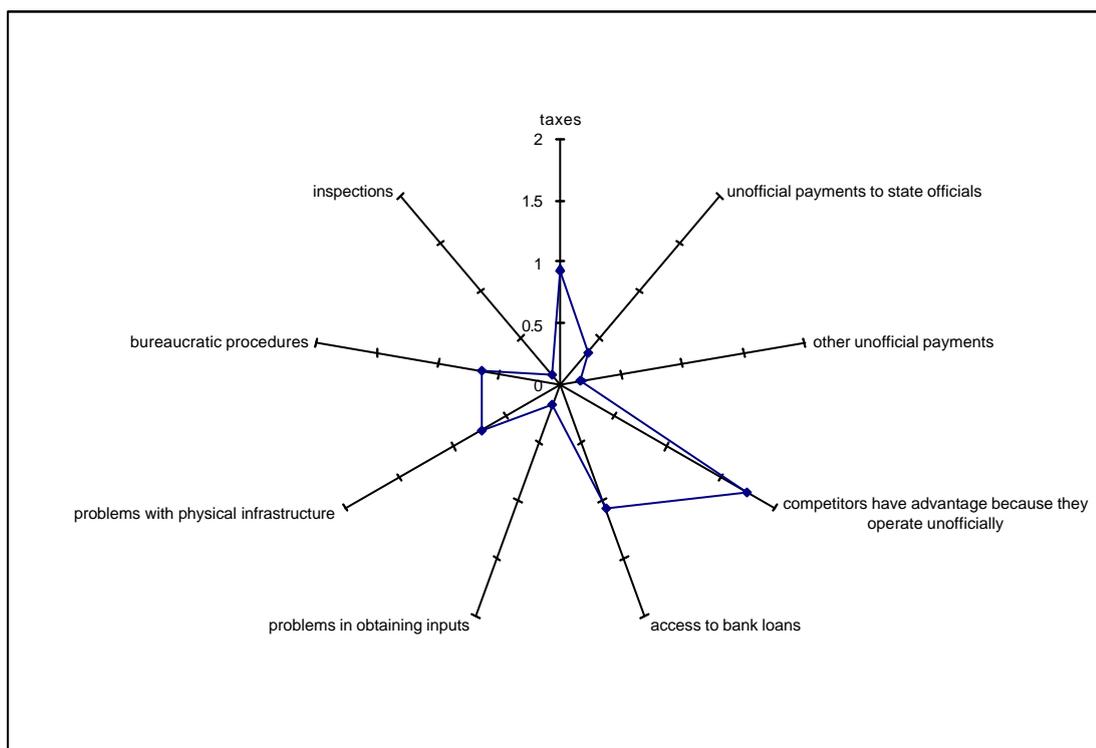
Note: Respondents were asked to name the three most important problems for their business and to rank them in order of importance from 1 (least important) to 3 (most important). For example, 21 firms mentioned taxes as the most important constraint, 11 as the second most important, and 12 as the third. The weighted score (3*21 + 2*11 + 1*12) is divided by the total sample size (104), to give a score of 0.93.

Source: EBRD Albanian Enterprise Survey

Competition from the grey economy is followed at a distance by poor access to bank loans and by the tax burden as the second and third most frequently quoted constraints. Firms in the hotel and catering business appear to suffer most from poor access to bank loans, whereas enterprises in construction are the most affected by the tax burden (they also turn out to be those most frequently fined by the tax authority). In some cases (10), even those firms that were successful in loan applications complained about poor access to bank loans as one of the top three constraints affecting them.

One issue not addressed directly in the survey is whether taxes are burdensome mainly because competitors evade them completely, or because the level is too high, regardless of the fact that others do not pay.[8] The issue is important because if the latter is true, it highlights the importance of bringing firms in the informal economy into the tax net. This would not only remove a key impediment to investment for SMEs, but would also increase government revenues and hence allow tax rates to be reduced.

---

[8] VAT and profit taxes appear to be the most problematic taxes in terms of high tax rates and compliance procedures.

We address this question indirectly by looking at the extent of overlap between those who cite unfair competition as one of the three main constraints, and those who mention the tax burden. The assumption is that a strong overlap would indicate that unfair competition is a problem because of high rates of taxes and/or taxes that are difficult to evade once one is in the formal sector, whereas a weak overlap would imply that those complaining about unfair competition are doing so for reasons unconnected with taxes (for example, competitors are able to avoid inspections).

Table 3 presents the formal analysis. Column 1 shows the number of enterprises that declared taxes to be the first, second or third biggest problem, and the adjacent column shows the corresponding overlap with unfair competition. From these data, we construct a weighted overlap index, defined as:

$$\text{Overlap} = \sum_i \sum_j (w_j(CT_{ij})) / \sum_j w_j T_j,$$

where $i, j, = 1, 2,$ or 3, T_j represents the number of enterprises reporting that the tax burden is rated as the most significant problem (1), second most important (2) or third (3), CT_{ij} is the number who say that competition is ranked i and tax burden j (e.g. seven firms ranked competition as the most important problem and taxes as the second most important), and w_j is a weighting factor, such that $w_j + j \equiv 4$.

If the value of the overlap index were close to 1, it would indicate a strong overlap and hence that unfair competition is a problem primarily because of high taxation, and conversely for values close to 0. Performing the calculation from the data in Table 3, the value is 0.54, giving a somewhat ambiguous conclusion, namely that the tax burden is a problem for a significant number of firms both because of the level and because of the unfair advantage to untaxed competitors.

Table 3: Overlap between tax burden and competition
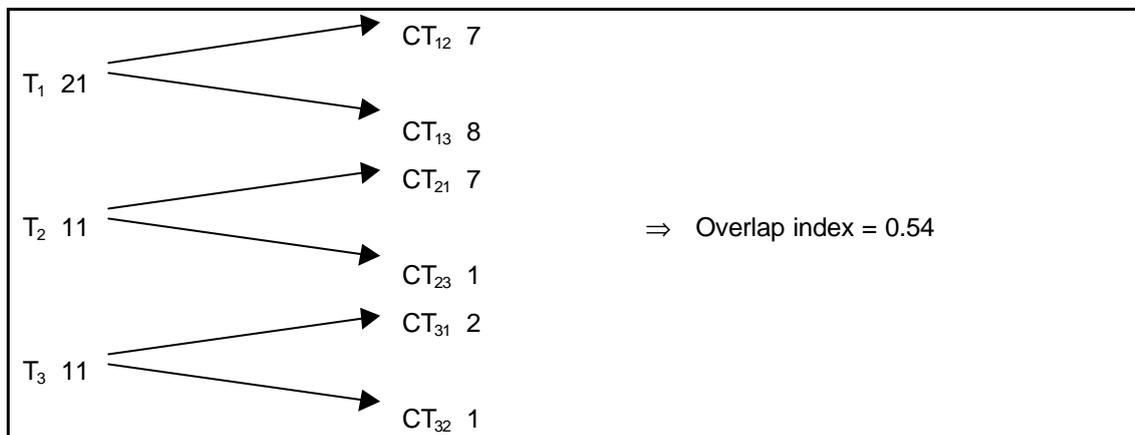
Source: Authors' calculations from EBRD Albanian Enterprise Survey.

5. ACCESS TO FINANCE

We asked enterprises in our sample a series of questions about access to different sources of finance. Exactly half (52) had applied for a bank loan at some stage since establishment. Of these, 10 withdrew their application before a decision was taken, mostly because of the high interest rates quoted by the banks. The bank took less than two weeks to take a decision in half of the remaining applications, and it rarely took more than four weeks before a decision was made. Of the 24 enterprises that were offered a loan, only two refused it. Of the companies that were offered a loan 13 were in manufacturing, six in agribusiness, two in trade and three in catering. The 18 enterprises that were refused a loan were all told that the reason for refusal was that the bank could not offer a loan at the requested maturity.[9] The fact that the bank did not have knowledge of the entrepreneur was another factor frequently cited.

We found that large firms are more likely to apply for loans than small firms. However, two issues are worth exploring further. First, are large firms more likely than small firms to be successful in their applications? Second, does the association between size and loan application hold even when other factors such as location and sector are controlled for? These questions are addressed in this section using a simple econometric model.

The model we estimate is a bivariate probit model with censoring. That is, the decision on whether or not to apply for a loan is one taken by all firms and depends on a set of exogenous variables, X. The decision by the bank to offer a loan or not is taken only for those firms that decided to apply for a loan in the first place, and also depends on a set of exogenous variables, Z (possibly identical to X).[10] Failure to take account of this self-selection at the second stage (offer/no offer) can bias the results; hence the offer equation includes a correction for selectivity bias.[11]

Table 4 reports the results of the two regressions, one for loan application and one for offer, where each regression contains three explanatory variables: (the log of) average employment (measured as a simple average of number of employees at establishment and current number of employees), a dummy variable for manufacturing, and a dummy variable for location in the capital, Tirana. The results show that the association between application and size remains positive and statistically significant at 95 per cent, even when location and sector are included; the latter two variables are insignificant. However, among those firms that applied, there is no evidence that size matters for success, as Column 2 indicates. The small size of the sample, however, indicates that these results must be treated with caution.[12]

---

[9] It is unclear whether they were offered short-term loans instead, with the possibility of roll-over.

[10] To keep the estimation tractable, those who withdrew their application are treated as having been refused an offer.

[11] For details, see, for example, Greene (1993).

[12] The results are unchanged if other variables are added to the equation, or if the offer model is estimated without the correction for censoring.

Table 4: Loan applications and offers – econometric results

	Application	Offer
Constant	-0.77	-0.61
	(2.08)	(0.05)
Log average employment	0.30	0.26
	(2.31)	(0.11)
Manufacturing	-0.07	0.67
	(0.27)	(0.48)
Tirana	0.17	-0.16
	(0.26)	(0.26)
Sample size	101	50
Log-likelihood	-96.83	
Rho	-0.46	
	(0.06)	

Source: EBRD Albanian Enterprise Survey.

Note: t-statistics (absolute values) in parentheses. Rho is the selectivity correction term. For other variable definitions, see Annex.

Why have some enterprises never applied for a loan? Chart 2 shows the reasons given by respondents. High interest rates, typically in the order of 10-15 per cent for foreign currency loans and more for domestic currency loans at the time of the survey,[13] and the availability of other (cheaper) funds play a major role in discouraging SMEs from approaching banks. A significant proportion of the sample also reported that they had enough of their own funds to finance their activities.[14] Collateral requirements appear to be irrelevant in the Albanian case, most likely due both to the remaining confusion regarding land titles, and to poor law enforcement.

How strong are the main alternatives to bank finance for enterprises in Albania? Interviewees were asked to rank the three most important sources of finance among the following options: family and friends, commercial banks, own funds, moneylenders, client credit, other sources (e.g. international aid funds/grants). Chart 3 shows the sources of finance the sampled enterprises would resort to for financing the start-up of business, expansion and working capital respectively, weighted by the ranking assigned to them by the respondents.

---

[13] The micro enterprise bank, FEFAD, at that time was charging annual rates of about 13% for loans in Deutschmarks and about 25% for loans in lek.
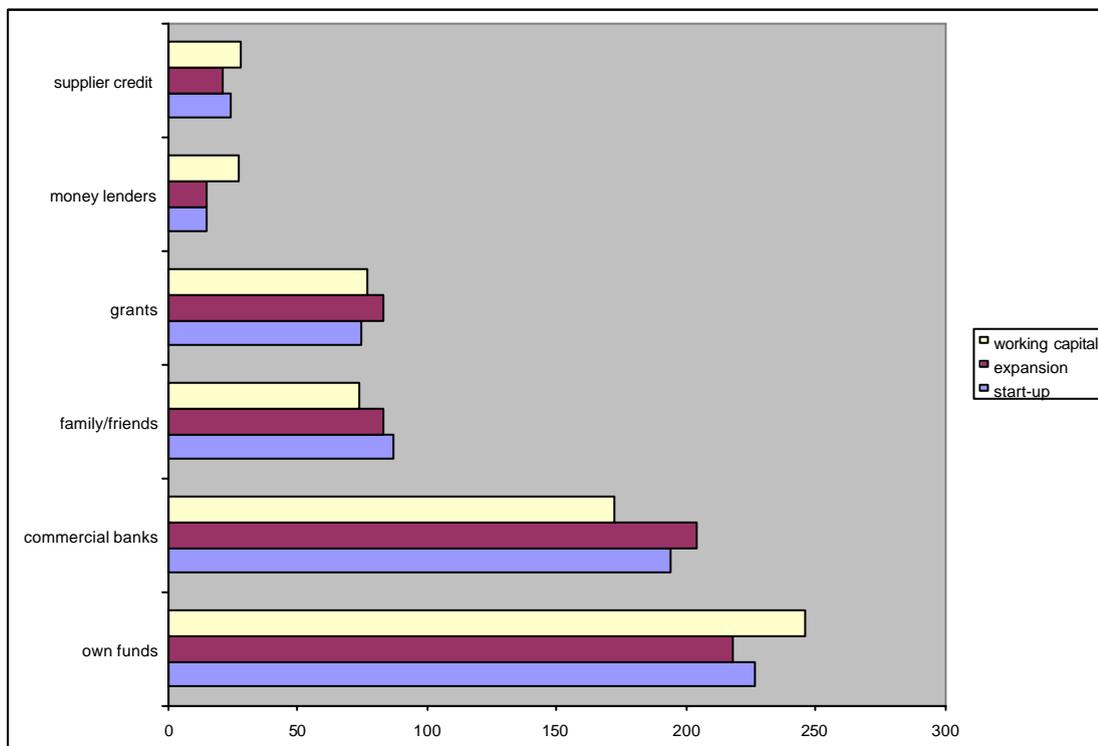
[14] Most loan requirements are quite small; 60% of respondents said that, if faced with an interest rate of 12%, they would ask for loans of less than US$ 10,000.

Chart 2: Reasons for non-application for loan
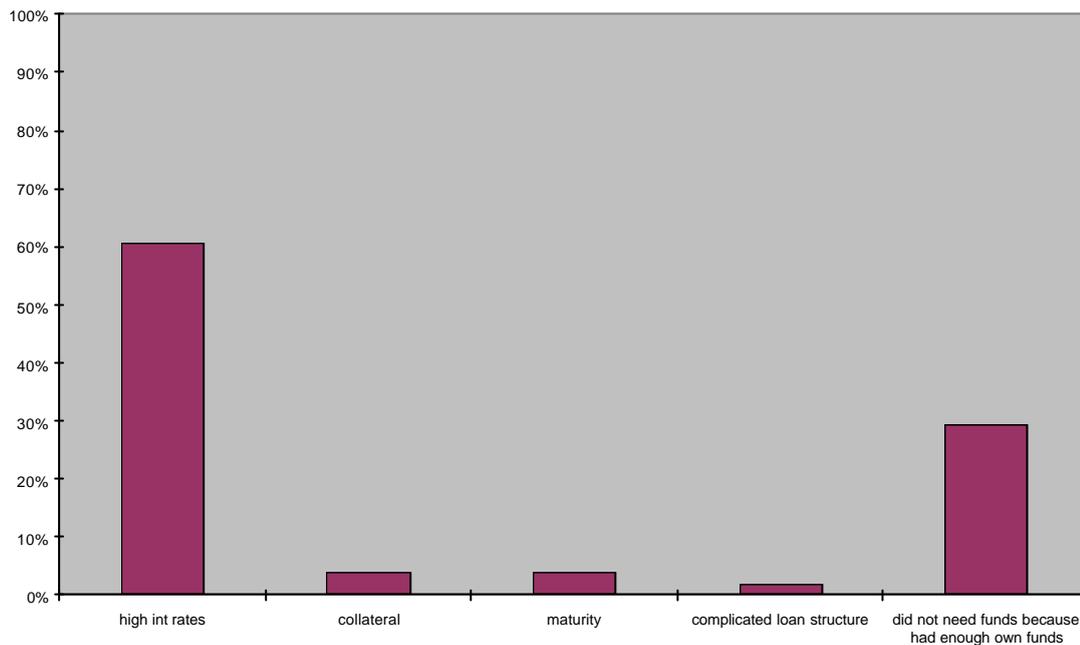
Source: EBRD Albanian Enterprise Survey.

Chart 3: Preferred sources of finance

Source: EBRD Albanian Enterprise Survey.

Note: Respondents were asked to name the three most important sources of finance for each category and rank them in order of importance from 1 (least important) to 3 (most important). The scale on the x-axis corresponds to the weighted sum of responses for each category.

11

Chart 3 highlights a distinctive feature of Albania's enterprise sector, namely the importance of own funds as a source of finance. In Albania, both own funds and family/friends sources are heavily influenced by large-scale remittance flows from Albanians living abroad. These flows are conservatively estimated at 15-20 per cent of GDP (see IMF, 1997) but may well be much higher (see Konica, 1999; Kule et al., 2000).[15] It is perhaps surprising that there is not a larger role for moneylenders; only a small minority of enterprises resort to this source of finance. Grant funds appear to have a relatively increased role in financing working capital requirements.

---

[15] The role of remittances as a source of job creation in Albania is analysed in Mançellari et al. (1996).

6. CONCLUSIONS

The justification for carrying out an enterprise survey in Albania was twofold. First, SMEs are clearly vital for the Albanian economy, and will continue to be so for the foreseeable future. Second, reliable information on enterprise performance and problems in Albania is scarce. Although limited in scope, the survey has generated a number of interesting and potentially important conclusions.

Perhaps the most striking result is the fact that Albanian enterprises are more concerned about unfair competition from the unofficial economy than about other, more obvious constraints. This concern outweighs even the lack of finance as the most binding constraint they face, either in establishing or expanding a business. For many registered businesses, competition from the informal sector is a problem because of the high level of taxation, whereas for others, such competition is a problem independently of the tax burden. Nevertheless, lack of finance is also a major issue and undoubtedly prevents many potentially sound businesses from getting off the ground. Our survey reveals that remittance flows and other funds provided by family/friends tend to make up for the scarcity of available bank finance.

These results suggest that action to help the SME sector can and should be taken by the Albanian authorities in two main areas. First, the government should make a vigorous and sustained effort to reduce the size of the informal economy. Not only would this help improve macroeconomic imbalances (through higher tax revenues) but it would also reduce the importance of an unfair obstacle faced by legitimate businesses. The positive experience of some Western countries in reducing the size of the grey economy through selective tax incentives can be a useful guide for Albania.

Second, the role of business advisory services could be expanded. Many companies in our sample reported that they would benefit from support in areas such as marketing techniques, cost management, and ways to improve output quality, but very few had received such help from business support groups. A better targeting of the provision of services and linking them to complementary forms of business support (e.g. provide assistance to prepare a business plan only to enterprises that intend to apply for a loan) would also be desirable. Furthermore, an effective business support system, perhaps through the Chamber of Commerce, could provide an incentive for firms in the informal economy to become registered, thus helping to alleviate the main problem identified in this paper.

REFERENCES

EBRD (1999), *Transition Report 1999: Ten Years of Transition*, London.

W. Greene (1993), *Econometric Analysis (Second edition*); New York, MacMillan.

International Monetary Fund (1997), *Albania: Recent Economic Developments*, Washington, D.C.

N. Konica (1999), *The Emigration Experience and its Impact on the Albanian Economy*, unpublished Ph.D. dissertation, CERGE, Prague.

D. Kule, A. Mançellari, H. Papapanagos, S. Qirici, and P. Sanfey (2000), "The Causes and Consequences of Albanian Emigration during Transition: Evidence from Micro Data", *International Migration Re*view (forthcoming).

A. Mançellari, H. Papapanagos, and P. Sanfey (1996), "Job Creation and Temporary Emigration: the Albanian Experience", *Economics of Transition*, 4(2), pp. 471-490.

F. Pissarides (1999), "Is Lack of Funds the Main Obstacle to Growth? EBRD's Experience with Small and Medium-Sized Businesses in Central and Eastern Europe", *Journal of Business Venturing*, 14 (5/6), pp.519-539.

D. Vaughan-Whitehead (1999), *Albania in Crisis: the Predictable Fall of the Shining Star*, Edward Elgar; Cheltenham.

ANNEX: QUESTIONNAIRE

Finance:

1. How do you see the attitude of state banks regarding lending to small firms (like yours)?

    -3   -2   -1   0   1   2   3

    Scale (-3 very hostile … 0 indifferent … 3 very helpful)

2. How do you see the attitude of private banks regarding lending to small firms (like yours)?

    -3   -2   -1   0   1   2   3

    Scale (-3 very hostile … 0 indifferent … 3 very helpful)

3. Have you ever applied to a commercial bank for credit?

    Yes   No

4. If no (q3), why not? (then go to q13)

    – **Interest rates and other costs too high**
    – **Collateral requirements unaffordable**
    – **Maturity not appropriate for purpose (e.g. too short)**
    – **Loan procedure too complicated**
    – **Could not get a meeting with bank manager**
    – **Did not expect to be seriously considered for a bank loan**
    – **Did not need more funds**
    – **Did not need a loan because other sources of finance were available:**
        ▪ **Family/friends**
        ▪ **Moneylenders**
        ▪ **Own funds**
        ▪ **International aid/grants**
    – **Other:**

5. If yes (q3), did you withdraw your application before a decision was reached?   **Yes   No**

6. If yes (q5), what was the reason? (Then go to q13)

    – **Interest rates discussed were too high**
    – **Collateral requirements discussed were too high**
    – **Maturity discussed not appropriate for purpose**
    – **Loan approval procedure too complicated**
    – **Investment opportunity had disappeared since application for loan**
    – **Other source of finance became available during that period:**
        ▪ **Family/friends**
        ▪ **Own funds**
        ▪ **Money lenders**
        ▪ **Other bank**
        ▪ **International aid/grants**
    – **Other:**

7. If no (q5), how long did it take the bank to reach a decision?   **(weeks)**

8. Were you offered a loan?

    Yes   No

9. If no (q8), what do you think was the reason? (then go to q13)
    - **Problems with the business plan**
    - **Type of collateral offered**
    - **Amount of collateral offered**
    - **Bank unwilling to lend at the requested maturity**
    - **Bank unwilling to lend to an unknown entrepreneur**
    - **No explanation offered**
    - **Other:**

10. If yes (q8), did you take the loan?

    Yes   No

11. If yes (q10), go to q13.

12. If no (q10), what was the reason?
    - **High interest rates**
    - **High fees etc.**
    - **Maturity offered not appropriate for purpose**
    - **Collateral requested too high**
    - **Investment opportunity had disappeared since application for loan**
    - **Another source of finance became available to me in the meanwhile:**
        - **Family/friends**
        - **Own funds**
        - **Money lenders**
        - **Other bank**
        - **Other (international aid/grants)**
    - **Other:**

13. In case you would get a bank loan: Would you prefer a loan in Lek or in US$?

    Lek (go to q19)
    US$

14. If you prefer a loan in US$: Given an interest rate of 12%, what would your likely requirement for a loan in US$ be in the coming year?   **US$**

15. If the interest rate was 20% higher for a loan in **Lek**, would you prefer this to a loan in US$? (then go to q18)

    Yes   No

16. If you prefer a loan in Lek: Given an interest rate of 32%, what would your likely requirement for a loan in Lek be in the coming year?   **Lek**

17. If the interest rate was 20% lower for a loan in US$, would you prefer this to loan in Lek?

    Yes   No

18. Did you have to down-scale or cancel an investment because of lack of funds? **Yes   No**

19. Who would you turn to first to obtain funds to set up a new business? Please give the three most important sources (ranked with 1 for least important of the three and 3 for the most important)
    - **Family/friends**
    - **Commercial banks**
    - **Own funds**
    - **Money lenders**
    - **Client credit**
    - **Others (e.g. international aid funds/grants)**

20. Who would you turn to first to obtain funds to expand your current business? Please give the three most important sources (ranked with 1 for least important of the three and 3 for the most important)

- **Family/friends**
- **Commercial banks**
- **Own funds**
- **Money lenders**
- **Client credit**
- **Others (e.g. international aid funds/grants)**

21. Who would you turn to first to obtain funds for working capital? Please give the three most important sources (ranked with 1 for least important of the three and 3 for the most important)

- **Family/friends**
- **Commercial banks**
- **Own funds**
- **Money lenders**
- **Client credit**
- **Others (e.g. international aid funds/grants)**

Business Advisory Services:

22. Are you a member of the chamber of commerce?

Yes   No

23. Are you a member of a business association (other than the chamber of commerce) or something similar?

Yes   No

24. If yes (q23), go to q28.

25. If no (q23), are you aware of organisations that support entrepreneurs?

Yes   No

26. If no (q25) go to q28.

27. If yes (q25), can you give the name of a business association that you think could be helpful for your business?

28. Compared to your (legally operating) competitors, in which of the following areas do you think your company should improve?

- **Costs**
- **Marketing, sales, promotion effort**
- **Distribution of products**
- **Product quality**
- **Procurement of inputs**
- **Production/retail premises**
- **Understanding of export markets**
- **Other:**

29. Have you used business consultants or a Regional Business Agency in the past?

- **Consultancy firm**
- **Regional Business Agency**
- **None of the two**

30. If you have used none of the two (q29), go to q32.

31. If you have used any or both of the above two, for what project did you use their assistance?
    - **Business plan**
    - **General business advice**
    - **Marketing**
    - **Legal advice**
    - **Information technology**
    - **Quality assurance**
    - **Partner search**
    - **Engineering study**
    - **Restructuring/reorganisation**
    - **Other:**

32. Are you likely to need business advice within the next 12 months?

    Yes   No

Taxes

33. Please give the main difficulty of the (for your company) **three** most problematic taxes?
    (ranking: 1 least important – 3 most important difficulty)

34.   Rate too high   Compliance procedures
    - **VAT**
    - **Personal income tax**
    - **Profit tax**
    - **Small business tax**
    - **Social security contributions for employees**
    - **Excise tax**
    - **Customs tariffs**
    - **Other:**

34. Do you pay Small Business Tax or Profit Tax?
    - **Small Business Tax**
    - **Profit Tax (go to q36)**

35. If you pay Small Business Tax, do you pay per quarter or every six months?
    - **Per quarter**
    - **Every six months**

Regulatory environment

36. How many days did it take you to register your business? (from the day of the first application) **days**

37. What were your estimated cost for the registration (including taxes payable up front)? **(in US$)**
    - **Registration fee**
    - **Taxes payable up front**
    - **Other**
    - **Total**

38. How many licenses did you have to obtain in order to operate your business?

39. What were your estimated cost to obtain the licenses?

- **License fees**
- **Other**
- **Total**

40. Do you think that other businesses (similar to yours) usually operate prior to registration?

Yes   No

41. If no (q40), go to q43. How long do you think these businesses usually operate before they decide to register?

(months)

they are unlikely to register at all

42. The reason why they do not register at the time they started up their business was:

- **Did not know they had to register**
- **Tax reasons**
- **Too complicated to register**
- **Too expensive to register**
- **No one would find out if they did not register**
- **Other**

(*if more than one answer is provided, please rank in order of importance, with* **1** *being the least important*)

43. Please name the **three** bodies that conducted most inspections in your business over the last year:

	No. of inspections	**Fines imposed (in US$)**
- **Tax authority**		
- **Fire department**		
- **Health authorities**		
- **Social security authorities**		
- **Police**		
- **Environmental authorities**		
- **Authorities for standards**		
- **Antimonopoly authorities**		
- **Others:**		

44. If you had to pay fines, did you appeal against the fines?

Yes   No

45. Are you satisfied with the security situation of your business?

- **Satisfied   Not satisfied**

Infrastructure

46. Do you have access to

- **Water**		**Yes**	**No**
- **Electricity**		**Yes**	**No**
- **Telephone lines**		**Yes**	**No**
- **Fax**		**Yes**	**No**
- **Internet access**		**Yes**	**No**

19

Do you find it difficult to get access to

–	**Water**	Yes	No
–	**Electricity**	Yes	No
–	**Telephone lines**	Yes	No
–	**Fax**	Yes	No
–	**Internet access**	Yes	No

48. If you don't have phone, fax or internet, how much would you be prepared to pay for them? **(US$)**

	Phone	**Fax**	**Internet**
– **Installation cost:**			
– **Monthly cost:**			

49. Have you had problems finding an appropriate site for your firm?

Yes   No

50. Are you satisfied with your current site regarding

–	**Space**	Yes	No
–	**Location**	Yes	No
–	**Road connection**	Yes	No
–	**Railway connection**	Yes	No
–	**Clarity of ownership rights**	Yes	No

General constraints

51. What would you consider the three most important problems for you business? (please rank with 1 for the least important of the three and 3 for the most important)

- – **Taxes**
- – **Unofficial payments to state officials**
- – **Other unofficial payments**
- – **Competitors have advantages because they operate unofficially**
- – **Access to bank loans**
- – **Problems in obtaining inputs**
- – **Problems with physical infrastructure (e.g. electricity, roads etc.)**
- – **Bureaucratic procedures**
- – **Inspections**

Company information

52. Location   (*name of nearest town*)

53. Location in (*tick as appropriate*)

- – **City**
- – **Town**
- – **Village**

54. Year of establishment

55. Number of employees at establishment

56. Current number of employees

57. Legal form:

   –   **Sh.a.**

   –   **Sh.p.k. (limited liability company)**

   –   **Person fizik**

   –   **Other:**

58. Was the company part of a larger company before?

       Yes   No

59. Is the company a continuation of another company?

       Yes   No

60. If yes (q59): Please state the year of establishment of that company, if known

61. Was the company privatised at any point?

       Yes   No

62. Sector of main activity:

   –   **Manufacturing**

   –   **Agribusiness**

   –   **Transport**

   –   **Construction**

   –   **Trade/Wholesale**

   –   **Financial**

   –   **Retail**

   –   **Personal Services**

   –   **Business Services**

   –   **Hotel/Restaurant/Catering**