The Ease of Doing Business in Albania Compared with Countries of the Region

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Abstract

Ease of doing business is an important financial metric for the economy of every country. This study analyzes the ease of doing business in Albania. Based on reports and publications by the World Bank for the year 2019, Albania ranks 63rd of 190 different countries in the world included in the rankings. Even when comparing to countries in the region, Albania still ranks behind in the classification. For example, North Macedonia falls in rank 10, Slovenia in rank 40, Kosovo in rank 44, and Serbia in rank 48. This is a point of concern for our country when considering the plentiful natural resources, strategic geographical position, and the young age of the population, a set of significant advantages which should positively affect the number of new businesses in Albania as compared to regional counterparts. For this reason, we have determined a set of variables which impact the ease of doing business metric. There are 10 distinct variables, also supported by the World Bank, which influence a country's ease of doing business. In summary, the variables relevant to this study that provide clarity into the financial analyses include number of new businesses, startup costs, and variety of taxes. Using a multi-factorial linear econometric model, we have analyzed these variables as well as the impacts they have on the ease of doing business considering only Albania and North Macedonia. In particular, we determine which of these factors lead to more favorable ease of doing business in North Macedonia, ultimately resulting in increased foreign investments.

Keywords: The ease of doing business, number of new businesses, types of taxes, panel data analysis.

JEL: F21, H2

Introduction

The economy of a country cannot prosper without a healthy private sector. Successful businesses drive not only the creation of jobs, but also the generation of profits and investments within the country's economy.

On the report by the World Bank for the year 2019, Albania ranks 63rd of 190 different countries in the world with respect to the ease of doing business. This metric represents a very wide background of the subject. Many studies on the ease of doing business convey that this indicator is influenced by

the conditions in which a country is situated. For example, the study on the ease of doing business (Rocha,R. Oliveira,V. Rodrigues,R. 2019), highlights the differences on this indicator among member and non-member countries of OECD (Organization for Economic Co-operation and Development). Thus, it is reasonable to agree that regarding the ease of doing business Albania should not be compared with whatever country. That is why in this study Albania and Macedonia are placed side by side as two countries standing in similar and likely comparable situation.

Table 1: Evaluation on the ease of doing business

Rank	Economy	EODB score	EODB score change	Rank	Economy	EODB score	EODB score change	Rank	Economy	EODB score	EODB Score Change
1	New Zealand	86.59	0.00	65	Colombia	69.24	+0.20	129	Barbados	56.78	0.00
2	Singapore	85.24	+0.27	66	Luxembourg	69.01	0.00	130	St. Vincent and the Grenadines	56.35	+0.01
3	Denmark	84.64	+0.59	67	Costa Rica	68.89	-0.47	131	Cabo Verde	55.95	+0.02
4	Hong Kong SAR, China	84.22	+0.04	68	Peru	68.83	+0.56	132	Nicaragua	55.64	+0.37
5	Korea, Rep.	84.14	-0.01	69	Vietnam	68.36	+1.59	133	Palau	55.59	+0.01
6	Georgia	83.28	+0.48	70	Kyrgyz Republic	68.33	+2.57	134	Guyana	55.57	-1.21
7	Norway	82.95	+0.25	71	Ukraine	68.25	+0.94	135	Mozambique	55.53	+1.78
8	United States	82.75	-0.01	72	Greece	68.08	-0.12	136	Pakistan	55.31	+2.53
9	United Kingdom	82.65	+0.33	73	Indonesia	67.96	+1.42	137	Togo	55.20	+6.32
10	Macedonia, FYR	81.55	+0.32	74	Mongolia	67.74	+0.27	138	Cambodia	54.80	+0.41
11	United Arab Emirates	81.28	+2.37	75	Jamaica	67.47	+0.55	139	Maldives	54.43	+0.10
12	Sweden	81.27	0.00	76	Uzbekistan	67.40	+1.08	140	St. Kitts and Nevis	54.36	+0.01
13	Taiwan, China	80.90	+0.24	77	India	67.23	+6.63	141	Senegal	54.15	+0.37
14	Lithuania	80.83	+0.29	78	Oman	67.19	-0.02	142	Lebanon	54.04	+0.07
15	Malaysia	80.60	+2.57	79	Panama	66.12	+0.41	143	Niger	53.72	+1.24
16	Estonia	80.50	+0.01	80	Tunisia	66.11	+1.51	144	Tanzania	53.63	+0.34
17	Finland	80.35	+0.05	81	Bhutan	66.08	+0.20	145	Mali	53.50	+0.23
18	Australia	80.13	-0.01	82	South Africa	66.03	+1.37	146	Nigeria	52.89	+1.37
19	Latvia	79.59	+0.33	83	Qatar	65.89	+0.64	147	Grenada	52.71	+0.07
20	Mauritius	79.58	+1.29	84	Malta	65.43	+0.28	148	Mauritania	51.99	+0.92
21	Iceland	79.35	+0.05	85	El Salvador	65.41	+0.21	149	Gambia, The	51.72	+0.23
22	Canada	79.26	+0.38	86	Botswana	65.40	+0.46	150	Marshall Islands	51.62	+0.01
23	Ireland	78.91	-0.51	87	Zambia	65.08	+1.48	151	Burkina Faso	51.57	+0.12
24	Germany	78.90	0.00	88	San Marino	64.74	+2.27	152	Guinea	51.51	+2.02
25	Azerbaijan	78.64	+7.10	89	Bosnia and Herzegovina	63.82	+0.27	153	Benin	51.42	+0.13

26	Austria	78.57	+0.03	90	Samoa	63.77	+0.01	154	Lao PDR	51.26	+0.11
27	Thailand	78.45	+1.06	91	Tonga	63.59	+0.03	155	Zimbabwe	50.44	+1.92
28	Kazakhstan	77.89	+0.73	92	Saudi Arabia	63.50	+1.62	156	Bolivia	50.32	+0.15
29	Rwanda	77.88	+4.15	93	St. Lucia	63.02	+0.06	157	Algeria	49.65	+2.06
30	Spain	77.68	+0.07	94	Vanuatu	62.87	-0.21	158	Kiribati	49.07	+0.33
31	Russian Federation	77.37	+0.61	95	Uruguay	62.60	+0.34	159	Ethiopia	49.06	+0.91
32	France	77.29	+0.99	96	Seychelles	62.41	-0.01	160	Micronesia, Fed. Sts.	48.99	0.00
33	Poland	76.95	-0.36	97	Kuwait	62.20	+0.75	161	Madagascar	48.89	+0.71
34	Portugal	76.55	-0.07	98	Guatemala	62.17	+1.01	162	Sudan	48.84	+3.75
35	Czech Republic	76.10	+0.05	99	Djibouti	62.02	+8.87	163	Sierra Leone	48.74	+0.15
36	Netherlands	76.04	+0.01	100	Sri Lanka	61.22	+1.80	164	Comoros	48.66	+0.14
37	Belarus	75.77	+0.72	101	Fiji	61.15	+0.04	165	Suriname	48.05	-0.05
38	Switzerland	75.69	+0.01	102	Dominican Republic	61.12	+0.55	166	Cameroon	47.78	+0.83
39	Japan	75.65	+0.05	103	Dominica	61.07	+0.04	167	Afghanistan	47.77	+10.64
40	Slovenia	75.61	+0.02	104	Jordan	60.98	+1.42	168	Burundi	47.41	+0.73
41	Armenia	75.37	+2.06	105	Trinidad and Tobago	60.81	-0.12	169	Gabon	45.58	-0.23
42	Slovak Republic	75.17	+0.29	106	Lesotho	60.60	+0.19	170	São Tomé and Príncipe	45.14	+0.30
43	Turkey	74.33	+4.34	107	Namibia	60.53	+0.24	171	Iraq	44.72	+0.04
44	Kosovo	74.15	+0.44	108	Papua New Guinea	60.12	+1.19	171	Myanmar	44.72	+0.51
45	Belgium	73.95	+2.24	109	Brazil	60.01	+2.96	173	Angola	43.86	+2.16
46	China	73.64	+8.64	110	Nepal	59.63	-0.32	174	Liberia	43.51	-0.04
47	Moldova	73.54	+0.38	111	Malawi	59.59	+0.84	175	Guinea-Bissau	42.85	+0.27
48	Serbia	73.49	+0.17	112	Antigua and Barbuda	59.48	+0.06	176	Bangladesh	41.97	+0.91
49	Israel	73.23	+0.64	113	Paraguay	59.40	+0.41	177	Equatorial Guinea	41.94	+0.28
50	Montenegro	72.73	+0.20	114	Ghana	59.22	+2.06	178	Timor-Leste	41.60	+1.71
51	Italy	72.56	-0.15	115	Solomon Islands	59.17	+0.33	179	Syrian Arab Republic	41.57	+0.02
52	Romania	72.30	-0.53	116	West Bank and Gaza	59.11	+0.39	180	Congo, Rep.	39.83	+0.36
53	Hungary	72.28	+0.34	117	Eswatini	58.95	+0.13	181	Chad	39.36	+1.15
54	Mexico	72.09	-0.18	118	Bahamas, The	58.90	+0.77	182	Haiti	38.52	+0.11
55	Brunei Darussalam	72.03	+1.85	119	Argentina	58.80	+0.87	183	Central African Republic	36.90	+2.67
56	Chile	71.81	+0.37	120	Egypt, Arab Rep.	58.56	+2.74	184	Congo, Dem. Rep.	36.85	+0.67
57	Cyprus	71.71	+0.44	121	Honduras	58.22	+0.09	185	South Sudan	35.34	+2.04
58	Croatia	71.40	+0.34	122	Côte d'Ivoire	58.00	+4.94	186	Libya	33.44	+0.23
59	Bulgaria	71.24	+0.11	123	Ecuador	57.94	+0.12	187	Yemen, Rep.	32.41	-0.59

60	Morocco	71.02	+2.46	124	Philippines	57.68	+1.36	188	Venezuela, RB	30.61	+0.24
61	Kenya	70.31	+5.25	125	Belize	57.13	+0.02	189	Eritrea	23.07	+0.13
62	Bahrain	69.85	+1.82	126	Tajikistan	57.11	+0.08	190	Somalia	20.04	+0.06
63	Albania	69.51	+0.50	127	Uganda	57.06	+0.65				
64	Puerto Rico (U.S.)	69.46	+0.20	128	Iran, Islamic Rep.	56.98	+2.34				

Source: World Bank

Based on the World Bank's reports and publications, there are 10 variables which impact the ease of doing business: number of new businesses registered, obtaining construction permits, getting power supply, property registration, getting business loans, investors' protection, tax payments, foreign trade, contract implementation and bankruptcy. The variables that facilitate this study and provide clarity into the financial analysis include number of new businesses, business startup costs and types of taxation.

In addition, in the literature it has been suggested that a strong relation between the ease of doing business and foreign direct investments exists. In the study on the importance of foreign direct investments in the economy of developing countries (Bayraktar,N. 2014), it is explained that countries with a better indicator for ease of doing business tend to attract more long term foreign direct investments. This study not only answers the question of which country is easier to do business in, but at the same time sheds light on the country which has the tendency to attract more foreign direct investments.

Foreign direct investments are an important trust indicator for new foreign investors in a country. For several years, there has been a lack of new foreign investors in Albania, in contrast with neighboring countries like Macedonia and Serbia. (Çela,Sh. 2017)

Albania has applied the highest taxes in the region and has not stimulated foreign investments (Serbia for example, despite the comparable level of taxation with Albania, has offered subventions for investors). As a result, in Albania, the situation has been worsened even for actual investors. (Çela,Sh. 2017) This study reveals that profit tax has a strong negative impact on the inflow of foreign direct investments.

In order to give this study a clear structure and correct direction as per the above mentioned approach, we have provided the following data corresponding to two developing countries, Macedonia and Albania. These data are useful for regression analysis

Table 2: Indicators for ease of doing business in Albania and Macedonia

Country Name	Series Name	2013	2014	2015	2016	2017	2018	2019
North Macedonia	New businesses registered (number)	5452	5524	5794	5687	5438	5282	5175
Albania	New businesses registered (number)	2114	2219	2616	2679	2985	2990	2995
North Macedonia	Cost of business start-up procedures (% of GNI per capita)	1.8	0.2	0.2	0.1	3.4	3.3	3.1
Albania	Cost of business start-up procedures (% of GNI per capita)	21.2	10.1	10.3	12.5	12	11.3	10.8
Albania	Labor tax and contributions (% of commercial profits)	18.8	18.8	18.8	18.8	18.8	18.8	18.8
North Macedonia	Labor tax and contributions (% of commercial profits)	0	0	0	0	0	0	0
Albania	Profit tax (% of commercial profits)	9.4	9.5	14.1	14.1	14	14	14.1
North Macedonia	Profit tax (% of commercial profits)	5.5	6.4	11	11	11	11	11
North Macedonia	Other taxes payable by businesses (% of commercial profits)	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Albania	Other taxes payable by businesses (% of commercial profits)	3.5	3.3	4	4	4.4	4.4	3.6
North Macedonia	Total tax and contribution rate (% of profit)	7.4	8.3	13	13	13	13	13
Albania	Total tax and contribution rate (% of profit)	31.7	31.6	36.9	36.9	37.3	37.3	36.6

Source: World Bank

From all the variables under consideration, the one which reveals quite a striking difference is that of labor tax. The labor tax and contributions are present in many economies. But what role do they play in the economy?

Taxation structure in most of the EU member countries shows the tendency towards higher labor taxes. In many member states, labor taxes play a decisive role as a mechanism of income increase because they have a relatively wide basis on personal income tax and on the system of social insurance contributions. Moreover, labor taxes frequently experience fiscal evasion control, and

thei'r administration procedures are easier to be implemented. (Kalyva,A. Princen,S. Leodotler,A. Astarita,C. 2018)

A taxation structure greatly dependent on labor tax may hold back economic growth and employment. High labor taxes are an obvious barrier for an effective and smoothly functioning labor market. They work against the goal of economic activity expansion and employment growth. Labor tax cuts have the potential to support spending, stimulate employment opportunities, provide benefits for low-income groups, and improve profit and competition amongst businesses. (Kalyva,A. Princen,S. Leodotler,A. Astarita,C. 2018)

For these reasons, labor taxes should support the demand, economic growth, and creation of new jobs, all-the-while contributing in the normal development and function of the Economic and Monetary Union. High labor tax does not necessarily represent a problem in itself. However, a considerable burden of labor tax for certain vulnerable groups of society may become challenging. (Kalyva,A. Princen,S. Leodotler,A. Astarita,C. 2018)

Definition and progression of selected variables as per the World Bank

1. New businesses registered are represented by the number of new corporations with limited liability registered during an academic year.
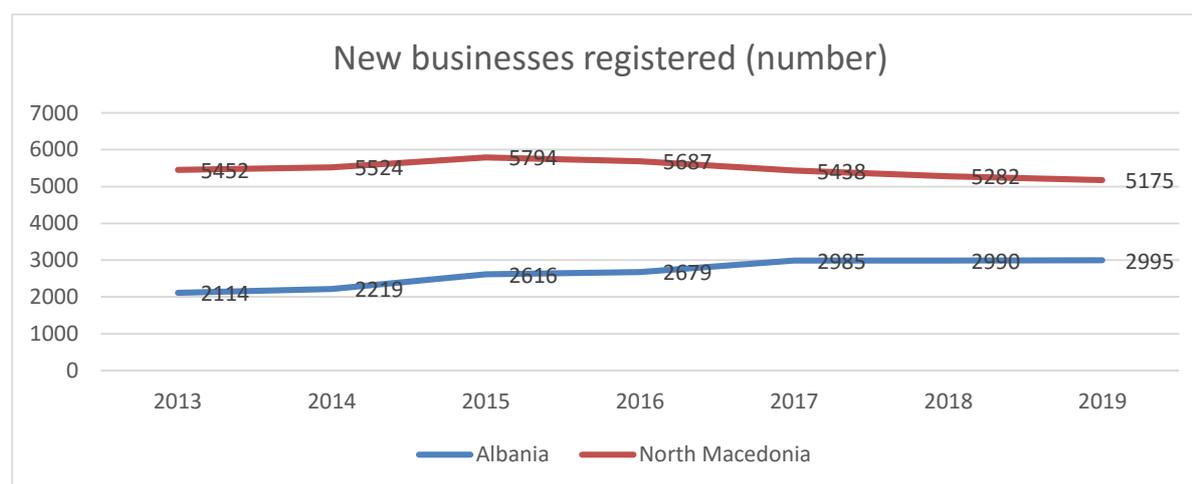
Graph 1: New business registered (number)

2. The cost of business startup is normalized by representing it as a percentage of Gross National Income (GNI) per capita.
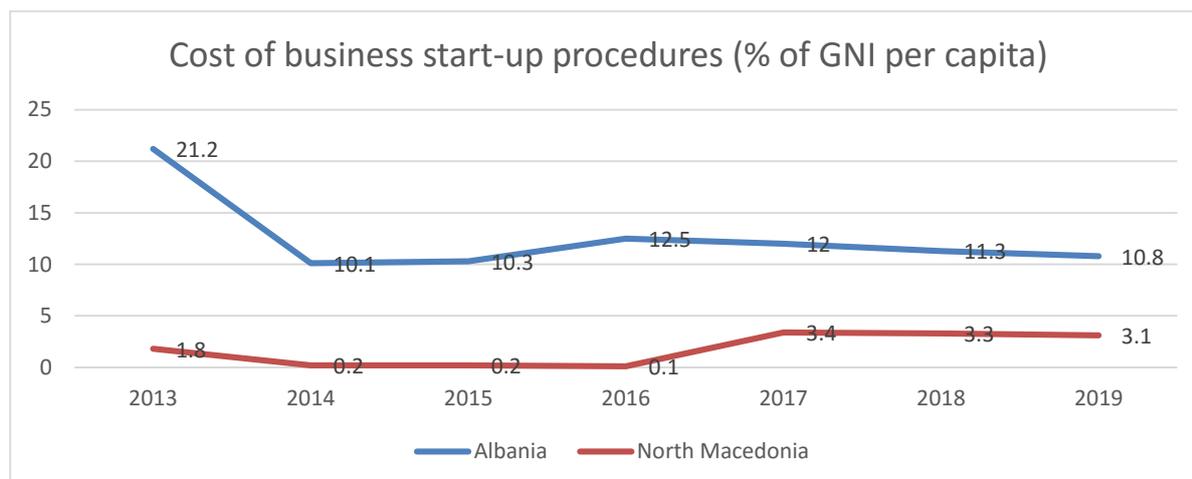
Graph 2: Cost of business start-up procedures (% of GNI per capita)

3. Total tax rate determines the sum of mandatory taxes and contributions payable by the businesses after allowable deductions and exclusions from commercial profit. Withheld taxes (such as personal income tax) or those collected and paid to taxation authority (such as value-added taxes, sales tax or goods and services taxes) are excluded.
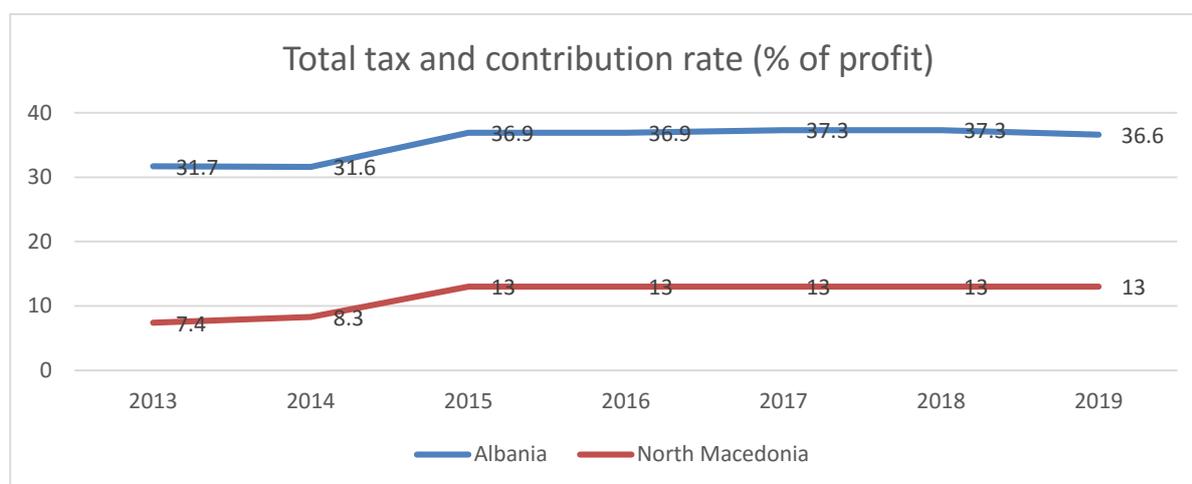
Graph 3: Total tax and contribution rate (% of profit)

4. Labor tax and contributions are the sum of mandatory taxes and contributions for the paid work from the business. Labor tax and contributions make up one of the factors closely related with ease of doing business, and consequently with foreign investments and the number of new businesses created in the country. These taxes are predetermined and their calculation is straightforward. From the graph, it is quite evident that Macedonia and Albania differ immensely in the percentage of the above mentioned taxes. It is for that reason that this variable will play the most important role on the regression analysis between the two countries.
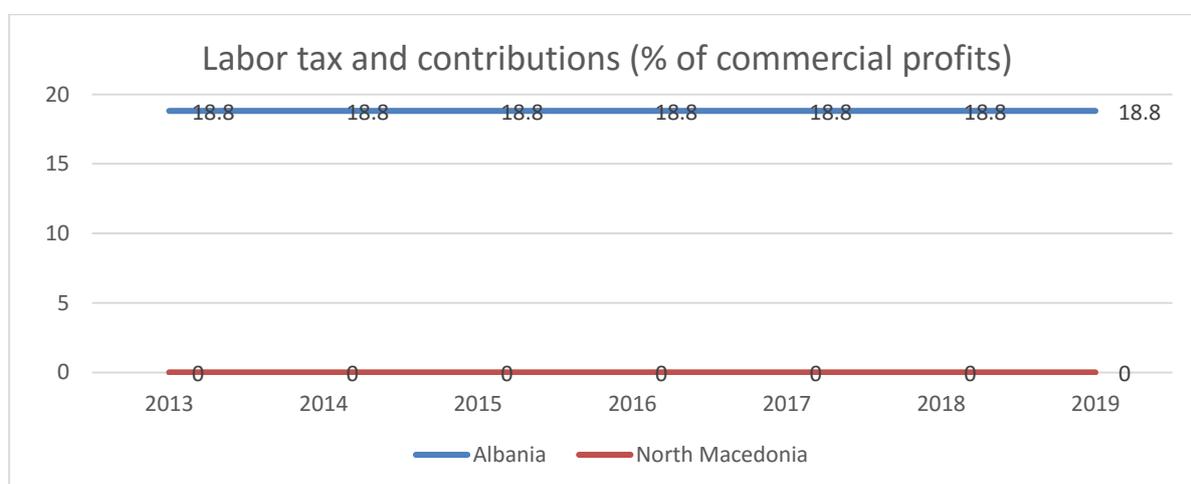
Graph 4: Labor tax and contributions (% of commercial profits)

5. Profit tax is the sum of taxes on profits paid by the business.
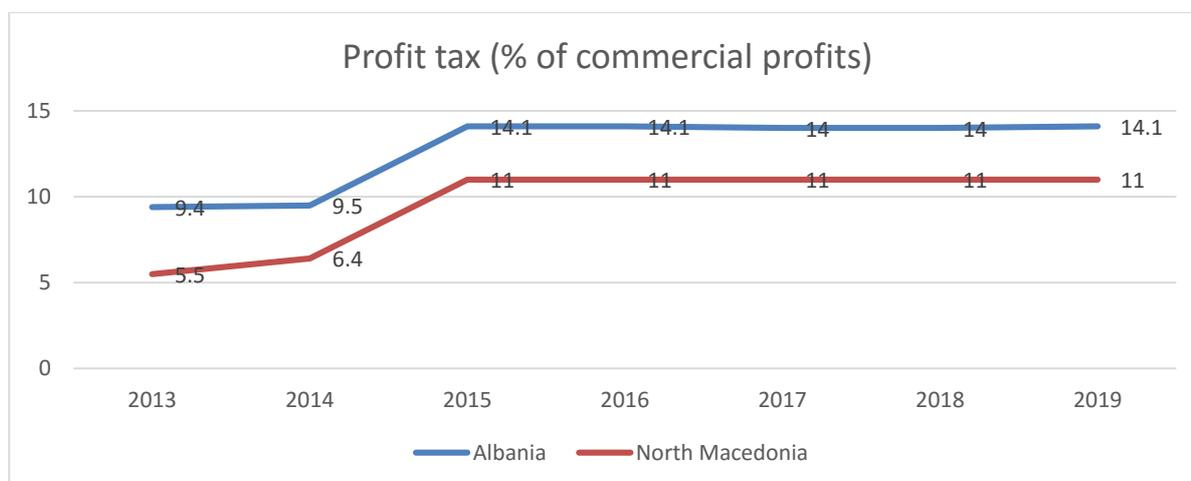
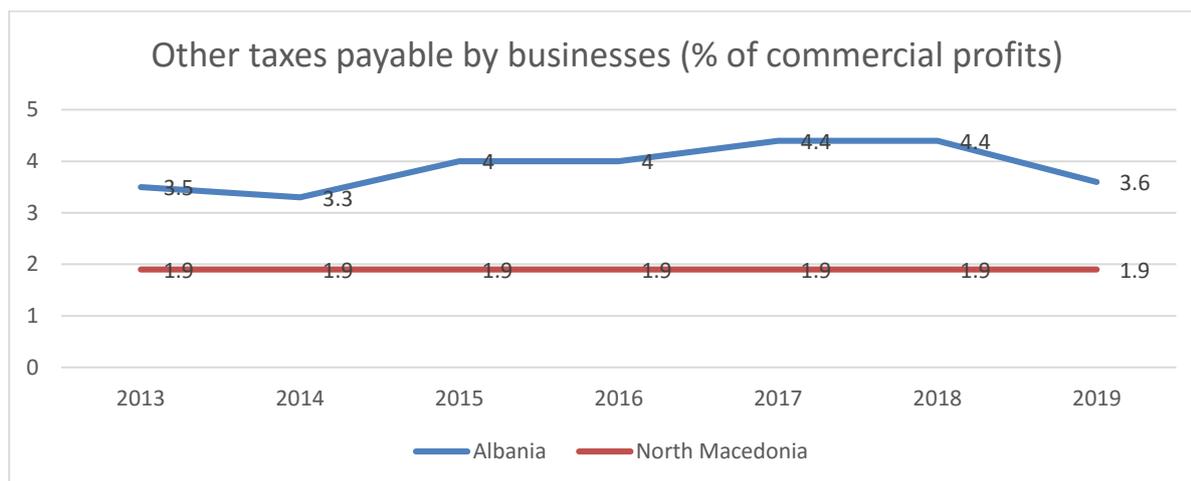**Graph 5: Profit tax (% of commercial profit)**

6. Other taxes payable by the business include the amounts paid for property taxes, turnover taxes, other small taxes as communal tariffs, and motor vehicle and fuel taxes.

Other taxes payable by businesses (% of commercial profits)

Albania values: 3.5 (2013), 3.3 (2014), 4 (2015), 4 (2016), 4.4 (2017), 4.4 (2018), 3.6 (2019)
North Macedonia values: 1.9 (all years 2013–2019)

Graph 6: Other taxes payable by businesses (% of commercial profits)

Hypotheses

- H$_0$: Costs related with business startup procedures (% of GNI per capita), total tax and contribution rate (% of profit), labor tax and contributions (% of commercial profit), other taxes paid by businesses (% of commercial profit), and profit tax (% of commercial profit) do not have an effect on the number of new businesses which indicates that it is easier to do business in Albania and foreign investments have the tendency to be higher.

- H$_1$: Costs related with business startup procedures (% of GNI per capita), total tax and contribution rate (% of profit), labor tax and contributions (% of commercial profit), other taxes paid by businesses (% of commercial profit), and profit tax (% of commercial profit) do have an effect on the number of new businesses which indicates that it is more difficult to do business in Albania and foreign investments have the tendency to be lower.

- H$_0$: Costs related with business startup procedures (% of GNI per capita), total tax and contribution rate (% of profit), labor tax and contributions (% of commercial profit), other taxes paid by businesses (% of commercial profit), and profit tax (% of commercial profit) do not have an effect on the number of new businesses which indicates that it is easier to do business in Macedonia and foreign investments have the tendency to be higher

- H_2: Costs related with business startup procedures (% of GNI per capita), total tax and contribution rate (% of profit), labor tax and contributions (% of commercial profit), other taxes paid by businesses (% of commercial profit), and profit tax (% of commercial profit) do have an effect on the number of new businesses which indicates that it is more difficult to do business in Macedonia and foreign investments have the tendency to be lower.

Methodology

Importance of the study

First, the question under consideration is obviously clear because there is a logical relation among the factors. The research is also based on studies that address types of taxation affecting the number of new businesses for Albania and Macedonia.

The main purpose of the study is implementation and analysis of a multi-factorial linear model for variables that express the ease of doing business.

Definition of variables

Based on available data for this analysis, in support of the hypothesis, it is appropriate to utilize the logistic regression (multi-factorial linear model). This model can be described by the equation:

$$Y_i = a + bX_1 + cX_2 + \ldots\ldots + nX_n + e$$

Y is a dependent variable which in our case represents the number of new businesses in Albania and Macedonia. X's are independent variables that represent costs of business startup procedures (% of GNI per capita), total tax and contribution rate (% of profit), labor tax and contributions (% of commercial profit), other taxes paid by businesses (% of commercial profit), and profit tax (% of commercial profit).

Data

In our study we have used secondary data which have widely contributed to the analysis presented herein. The sources of data include reports, bulletins and various studies.

Method Used

The econometric model is based on multi-factorial linear model. Using the World Bank data, the statistical analysis on the relationships and impact among factors will be carried out.

Whether this model is of importance or not will be established by the comparison of the factual fisher (F_f) with critical fisher (F_k) that are calculated by the following formulas:

$$F_f = \frac{R^2/_{k-1}}{1-R^2/_{n-k}} \qquad\qquad F_k = \alpha; (K-1); (n-k)$$

α is the percentage of error that has the values: 1%, 5% and 10%.

K is the number of parameters in the model.

n is amount of data under consideration.

R^2 is coefficient of determination. It indicates what percentage of dependent variable is determined from independent variable and is given by the formula:

$$R^2 = \frac{SHKR}{SHKP}$$

SHKR and SHKP are calculated by these formulae:

$$SHKP = \sum(Y - \bar{Y})^2 \qquad SHKR = \sum(\hat{Y} - \bar{Y})^2 \qquad where \quad \hat{Y} = a + bX$$

$\bar{Y}$ is the average of dependent variable data.

Factual fisher can be determined by formula: $F_f = \frac{SHKR/_{k-1}}{SHKM/_{n-k}}$

If $F_f > F_k$ the model is statistically significant and alternative hypothesis (H_1&H_2) is accepted.

If $F_f < F_k$ the model is does not show statistical significance and the prime hypothesis (H_0) is accepted.

Results and interpretation of regression analysis

Table 3: Analysis based on coefficients of correlation and determination for Albania

Regression Statistics	
Multiple R	0.99863216
R Square	0.997266191
Adjusted R Square	0.983597148
Standard Error	47.39228225
Observations	7

Interpretation: Coefficient of correlation R indicates that the relation between the number of new businesses and other variables is very strong. Coefficient of determination R^2 indicates that around 99.7% of the number of new businesses is determined by independent variables that are: costs of

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business startup procedures (% of GNI per capita), total tax and contribution rate (% of profit), labor tax and contributions (% of commercial profit), other taxes paid by businesses (% of commercial profit), and profit tax (% of commercial profit).

Table 4: Fisher analysis for Albania

ANOVA	df	SS	MS	F	Significance F
Regression	5	819328.8287	163865.7657	72.95801092	0.08864191
Residual	1	2246.028417	2246.028417		
Total	6	821574.8571			

Interpretation: F_f is larger than F_k. This demonstrates that the model is statistically significant. Therefore, we might state that costs related with business startup procedures (% of GNI per capita), total tax and contribution rate (% of profit), labor tax and contributions (% of commercial profit), other taxes paid by businesses (% of commercial profit), and profit tax (% of commercial profit) impact the number of new businesses in the country. This indicates that it is more difficult to do business and foreign investments have the tendency to be lower.

Table 5: Generation of multi-factorial linear model for Albania

Column1	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-64024.46	8244.05	-7.77	0.08	-168775.08	40726.16	-168775.08	40726.16
X_1	-7.26	6.21	-1.17	0.45	-86.18	71.65	-86.18	71.65
X_2	3477.42	442.51	7.86	0.08	-2145.21	9100.05	-2145.21	9100.05
X_3	0.00	0.00	65535.00	#NUM!	0.00	0.00	0.00	0.00
X_4	-3471.03	465.79	-7.45	#NUM!	-9389.50	2447.45	-9389.50	2447.45
X_5	-3381.42	445.39	-7.59	0.08	-9040.58	2277.75	-9040.58	2277.75

Interpretation: As we have the coefficients a, b and c, we can now write the equation that describes the multi-factorial linear model as follows:

$$Y = -64024.46 - 7.26X_1 + 3477.42X_2 - 3471.03X_4 - 3381.42\,X_5$$

Table 6: Analysis based on coefficients of correlation and determination for Macedonia.

Regression Statistics	
Multiple R	0.8976883
R Square	0.8058443
Adjusted R Square	-0.054978
Standard Error	134.16926
Observations	7

Interpretation: Coefficient of correlation R indicates that the relation between the number of new businesses and other variables is strong. Coefficient of determination R^2 indicates that around 80.5% of the number of new businesses is determined by independent variables that are: costs of business startup procedures (% of GNI per capita), total tax and contribution rate (% of profit), Labor tax and contributions (% of commercial profit), other taxes paid by businesses (% of commercial profit), and profit tax (% of commercial profit).

Table 7: Fisher analysis for Macedonia.

ANOVA	df	SS	MS	F	Significance F
Regression	5	224144.7	44828.94	4.150507	0.355685072
Residual	3	54004.17	18001.39		
Total	8	278148.9			

Interpretation: F_f is smaller than F_k. This demonstrates that the model is not statistically significant. Therefore, we might state that costs related with business startup procedures (% of GNI per capita), total tax and contribution rate (% of profit), labor tax and contributions (% of commercial profit), other taxes paid by businesses (% of commercial profit), and profit tax (% of commercial profit) impact the number of new businesses in the country. This indicates that it is easier to do business and foreign investments have the tendency to be higher.

Table 8: Generation of multi-factorial linear model for Macedonia

Column1	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-11594.1	20343.3	-0.6	0.6	-76335.6	53147.5	-76335.6	53147.5
X_1	-137.5	39.2	-3.5	0.0	-262.3	-12.7	-262.3	-12.7
X_2	9577.8	11401.0	0.8	0.5	-26705.1	45860.8	-26705.1	45860.8
X_3	0.0	0.0	65535.0	#NUM!	0.0	0.0	0.0	0.0
X_4	0.0	0.0	65535.0	#NUM!	0.0	0.0	0.0	0.0
X_5	-9742.3	11621.8	-0.8	#NUM!	-46728.1	27243.6	-46728.1	27243.6

Interpretation: Having the coefficients a, b and c, we can now write down the equation that describes the multi-factorial linear model as follows:

$$Y = -11594.1 - 137.5X_1 + 9577.8X_2 - 9742.3\,X_5$$

Conclusions and recommendations

1. Based on the regression analysis of data available we might confirm that it is easier to do business in Macedonia in comparison to Albania. It is for this reason that Macedonia has a tendency to attract more long term foreign direct investments than Albania.

2. The main factor that leads to this result is the labor tax and contributions variable which comprises 0% and 18.8% of commercial profit for Macedonia and Albania respectively.

3. Labor tax and contributions have a strong negative impact on the ease of doing business and foreign direct investments. This is quite evident at the regression analysis for Albania wherein the variable of labor tax and contributions when compared with the other variables comes out to have more impact and being of more significance.

4. Other factors that contribute to the outcome are costs of business startup procedures (% of GNI per capita), total tax and contribution rate (% of profit), other taxes paid by businesses (% of commercial profit), and profit tax (% of commercial profit) which also negatively influence on the ease of doing business and attracting of foreign direct investments.

5. For Albania it may be recommended to revise taxation policies, including the labor tax and contribution. These taxes are quite high not only for existing businesses but also, and in particular for, new ones.

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