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“SOCIAL AND ECONOMIC CHALLENGES
IN EUROPE 2016 – 2020”

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Faculty of Business*

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TABLE OF CONTENTS

Introductory Notes	10
Bozidar Cerovic (Serbia)	

MARKET EFFICIENCY AND INNOVATIONS

Certification of Food Products and the Impact on the Market	14
Morena Boja, Fatbardha Morina	
Inclusive Institutions and Entrepreneurship	22
Miomir Jakšić, Milica Jakšić	
SMEs Development in Albania - The Impact of Tax Policies on Sustainable Sector Growth	29
Almarin Frakulli	
The Role Of Smes in Economic Development - An Empirical Study of Albania	36
Luftim Cania, Olta Nexhipi, Bajram Korsita	
The Special Economic Areas, Best Practices for Attracting Investment and Flexible Forms of Employment. Economic Impact in Albania	43
Aldo Berlinguer, Roberto Laera, Antonio Vito Boccia	

MARKETING INNOVATION & MANAGEMENT

Marketing Idea on A Limited Budget. Case of Albanian Business	57
Blerim Kola, Jehona Gjermizi	
Impulsive Purchases in Supermarkets	63
Mamica Nene, Ledina Alolli	
Determination of the Effectiveness and Profitability Metric Marketing and Sales Force	69
Eda Bezhani	
The Increase Trend of Divorce in Community of Families Living in Tirana-Durres Corridor	73
Anila Sulaj, Eris Dhamo	
Social Media and Political Participation in Albania	76
Erjonilda Hasrama, Azeta Tartaraj, Elez Osmani	
How Social Marketing Influences Behavioral Change	84
Nevila Furxhiu, Anri Kusaku, Elona Cera	

Management of Coastal Areas and the Sea Yet a Challenge to Sustainable Tourism in Albania	90
Majlinda Muka, Arlind Kasa	

CRM in the Government	100
Selma Kaçaniku, Ina Sina	

MARKET COMPETITIVENESS

Pension Funds and Economic Growth: Evidence from OECD Countries	107
Bayar Yilmaz, Ozturk Omar Faruk	

Barriers to Enter into Foreign Markets: Firm-Level Evidence from Western Balkan Countries	113
Etis Jorgji	

Remittances and Financial Development in Central and Eastern European Countries	123
Bayar Yilmaz & H. F. Sezgin	

Some Problems of the Albanian Railway Restructuring	132
Alush Kuçi	

The Role of Energy in Economic Growth of the Balkan Countries	140
Galip Altınay	

Performance of Small and Medium Enterprises in Albania (Focus Area - Gjirokastra)	149
Bitila Shosha, Romeo Mano, Lorenc Kociu	

Lessons from the Crisis: Introducing Resilient HR Practices in Albania	155
Iva Veshi	

SOLIDARITY ECONOMY AND REGIONAL DEVELOPMENT

Evaluation Analysis of the Regional Development Process in Albania	164
Eva Dhimitri	

Sustainable Development	170
Alba Ramallari	

Securing the Future: Reconciling Albania's Development Urgency with Sustainability, Protection of Environment and Social Justice	177
Erisa Musabelli, Valbona Mehmeti	

Beyond Hyper-Capitalism: Can the Sharing Economy Reshape Sustainable Development? 184

Romina Gurashi

An Economic Valuation of Tourism in Shëngjini Beach Using the Zonal Travel Cost Method 189

Elona Pojani

An Empirical Investigation of The Determinants of Food Waste Generation in Urban Area at Household Level in Albania 199

Arben Kambo, Remzi Keco, Ilir Tomori

Functional and Financial Decentralization of Social Services in Albania Through A Case Study in the Lezha Municipality 207

Tatjana Elezi

ECONOMIC POLICIES AND REFORMS

Off-Shoring of Manufacturing Smes: The Impact of Knowledge Management on Firm Performance 216

Denada Lica Berberi

The Firm's Size Investment Assessment Depending on The Likelihood of Financially Constrained Firms 225

Dorina Koçi (Janku), Besa Shahini

Flexible Forms of Employment Integration. Assessing the Implementation of Employment Policies with Flexible Work Arrangements. The Case of Cyprus 230

Staboulis Miltiadis

Impact of Integration in The European Union in the Economy of the Republic of Macedonia 239

Mahije Mustafi, Diturije Ismaili

Adoption of New Mechanisms in International Assistance Programs (IPA) in Albania 250

Josif Gjani, Rajmonda Duka

The Benefits of Albania from The European Union Cohesion Policy and Their Significance 257

Zoica Kokaveshi, Klarida Prendi

MACROECONOMIC POLICIES IN EUROPEAN AREA

BREXIT - Implications for South East European Countries 265

Ela Golemi, Alma Shahini

Cyclical Behavior of Fiscal Policy in the Western Balkans Ernil Sabaj	273
Estimating the Effects of Fiscal Policy on the Private Consumption: Evidence from Albania Flora Merko, Ermira Kalaj, Alma Zisi	286
An Econometric Analysis of Online Ratings of Hotels in Albania Alma Braimllari (Spaho), Enxhia Sala	296
Procyclical Behavior of the Albanian Financial System Natasha Ahmetaj, Ela Golemi	305
Brexit and its Potential Impact on the Albanian Economy Dorina Kripa, Dorina Ajasllari	313
The Environmental Kuznets Curve (EKC): An Analysis for the Balkans Jonida Gashi, Erinda Guma	325
An Economic Analysis of Terrorism and of Counter Terrorism Policies and Legislation: The Problematic Cases of the EU and the US Armando Memushi	332

ECONOMIC AND EMPLOYMENT POLICIES

Problems of Youth Unemployment in Albania Alma Zisi, Flora Merko	346
Unemployment in the Context of Orthodox Economic Policy Novo Plakalović	352
Estimating the Employment Effects of Education in Albania Eri Gjoka, Raimonda Duka	361
To Participate or Not to Participate? Unfolding Women's Labor Force Participation and Economic Empowerment in Albania Juna Miluka, Reiko Tsushima	371
Evidence of Minimum Wage Effects in the Albanian Labor Market Brikena Leka, Eugena Topi	383
School-to-Work Transition: Evidence from Albania Aseda Banushaj, Albana Hashorva	393
Tourism and Employment in Albania – Is There A Strong Correlation? Leida Matja, Brunilda Liçaj	408

INNOVATION CONTRIBUTION

- The European Integration Process in The Age of Secular Stagnation - Necessity of Conceptual Changes in Economic Policymaking** 417
Aleksandra Prašćević
- Sarbanes-Oxley Act (SOX) Disclosure, Executive Compensation, Internal Control Disclosure and Financial Reporting in Corporate Governance (CG)** 427
Rezart Dibra
- Use of Technology in Heritage Curricula to Further Dialogue in University Aula** 436
Dorina Xheraj-Subashi
- Innovative Thinking Role In Sustainable Growth** 441
Ina Keçi
- New Business Opportunities Based On Sustainable Innovation** 450
Maja Levi Jaksic
- Communicating Through Music: Aspects Of Integrative And Intercultural Education** 456
Vittoria Bosna
- The Aviation Fuel Evolution: A Review** 460
Antonio Patrino, Vera Amicarelli, Giovanni Lagioia

FINANCIAL AND TRADE CHALLENGES

- Real Exchange Rate Volatility and International Trade: The Case of Albania** 469
Irsida Dinoshi, Shkëlqim Fortuzi
- Definitions of Small Firm Failure Signs and Financial Distress** 478
Rudina Lipi, Ilirjan Lipi
- Food Incubators: Innovation for Modern Rural Economies** 486
Zuzana Palkova, Elena Horska
- Anti-Crisis Measures in the Banking System in the Balkan Region. The Revaluation of Capital Adequacy Ratio** 493
Edlira Luçi, Ezida Dako
- Risks and Yields in Not Listed Banks: The Matter of the Repricing Gap** 500
Mauro Bisceglia, Enida Cico

FINANCIAL SERVICES AND REGIONAL APPROACHES

- Italy's Financial Expansion in Albania - National Bank Of Albania and SVEA (1925-1939)** 510
Lavdosh Ahmetaj
- Foreign Direct Investment and Exports. Substitutes or Complements. Evidence from Transition Countries** 520
Bardhyl Dauti, Ismet Voka
- The Factors that Impact Human Behavior to Ensure their Life and Health on Insurance Companies** 530
Ina Shehu, Jonada Mamo, Sivi Asllani
- Short-Term Financial Management of the Company “Bereqeti” llc** 539
Nafi Pollozhani, Nuhi Sela
- The Impact of European Union Policy in the Management and Financing of the Health System in Albania** 547
Zamira Sinaj
- Lessons for Development of Public-Private Partnerships in Albania** 555
Brunilda Duraj, Juliana Imeraj

SOCIAL CHALLENGES

- Turkey Between Two Worlds** 563
Ahmet Salih İköz
- Organizational Communication in Different Cultures. The Albanian Experience** 570
Gaqo Tanku, Piro Tanku
- Student Satisfaction and Quality of Education at the University of Bari** 577
Angela Maria D’Uggento, Fabio Manca, Francesco Girone
- Child Labor: International Standards and Albanian Legislation** 585
Eda Gjoka
- Employment and Social Welfare Issues in Albania** 593
Valbona Sakollari, Marsida Ismaili
- Social Support and Quality of Life** 600
Veronika Duci, Elton Noti, Ervin Myftaraj
- Post-War Commercial History and Re-Positioning of the Greek Economy** 608
Grigoris Zarotiadis

INTRODUCTORY NOTES

Božidar Cerović¹

Dear Madame Rector,
Dear participants of the 13th International conference of the ASECU,
Dear friends and colleagues,

It is my great pleasure to speak today in front of you during the opening ceremony of our Conference. I am particularly pleased that we gather for the first time in the lovely city of Durres, in this old human settlement by one of many beautiful shores of the Balkan Peninsula. Let me congratulate and express our true gratefulness for the conference organization to the University Aleksander Moisiu of Durres and to the Programme and Organisation Committees in particular.

Today we gather for the 13th time to discuss topics of interest for our science but even more for our societies. Though, the history of our association is – as you probably remember – somewhat longer. I am pleased to recall an important event from November 1996 when the Rector of the University of Macedonia from Thessaloniki, Professor Yannis Tsekouras, a man with a bright vision and firm sense for invaluable importance of cooperation between people, after a long preparatory work, took the initiative to invite Rectors of Economic Universities, Heads of Economic Departments and Deans of Economic Faculties from Southeastern Europe to gather in Thessaloniki and to establish the Association of South Eastern Europe Economic Universities (ASECU). The invitation for this first meeting was sent to the Universities of Albania, Bosnia-Herzegovina, Bulgaria, Former Yugoslav Republic of Macedonia, Greece, Romania and Yugoslavia of that time or indeed, the remaining part of former Yugoslavia that is, Serbia and Montenegro.

At the beginning there were 24 member-universities from above mentioned countries whose leading personalities and delegates adopted the first Statute at the founding meeting confirming the name of the Association as an association of the SEE but also made a visionary decision on the necessity of further membership broadening. In the end, our association after ten years only, by a decision of the General Assembly in 2007 developed into an association of economic schools, institutes and universities, well beyond proper borders of the SEE region namely, into the Association of Economic Universities of South and Eastern Europe and the Black Sea Region. Further on, it was decided to approve the acceptance as associated members, Universities from the Middle East and North-Eastern Africa. It is important to highlight that these decisions were taken in response to the expressed interest from countries of these regions.

We are today an association of 52 members that is, 47 with full membership and five associated members. Our member universities are from Albania, Armenia, Bosnia-Herzegovina, Bulgaria, Former Yugoslav Republic of Macedonia, Greece, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Turkey and Ukraine, while another four associated members are from Egypt and Lebanon and from recently, one more from Hungary.

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However, the vitality of our association cannot be fully described by simple figures. A real content of our engagement could be better expressed by our activities. On this occasion I shall draw your attention at just a few of them.

Firstly, and by no means the most known of our activities are our annual conferences like this one that we are attending here. As already mentioned this is the 13th meeting of our scholars while the first one took place in Thessaloniki in the year of 2000 as a tri-annual event taking place in Belgrade in 2003 and in Bankya near Sofia in 2006. After that the conference was once organized bi-annually, in 2008 in Bucharest, and since 2009 each consecutive year changing places from Tirana, then, Podgorica, moving eastward to Rostov on Don and north-westwards to Rzeszow in Poland and then to Skopje, to Cluj-Napoca, to Krakow and last year to Eskisehir in Turkey. After each of these events, a book of proceedings remained and a number of papers were published in journals, while numerous young researches got a new opportunity to present their work. Now, we discuss a possibility to adjust the present schedule and maybe turn again to the bi-annual conferences in order to improve their quality and strengthen their internationalization.

The second important field of our activity and a channel for promoting scientific results of authors from our member schools is our journal – the South-Eastern Europe Journal of Economics (SEEJE), which is open for various topics but primarily interested in contemporary economic themes that occupy public attention in our countries.

The third important and particularly prospective channel of cooperation promoted by the ASECU is the so-called ASECU youth movement. Under this name we encounter an annual meeting of our students in summer schools that include student conferences where our students can present and discuss their first analytical and scientific attempts and results. This year, after Rostov on Don and also after Iasi in Romania, a Montenegrin sea resort, after Rzeszow and Avala aside Belgrade, we shall already have the 7th ASECU gathering of the kind, which will be organized by the Aristotle University from Thessaloniki yet in an attractive summer camp on Khalkidhiki peninsula. From this year and onwards we shall have an extraordinary support – the Tsekouras Prize for the best paper in ASECU youth conferences – a prize which is based on a generous offer and donation of our honorary president professor Tsekouras and his wife, introducing a special fund for this award. I use this opportunity to express on behalf of you all, a sincere gratitude to professor Tsekouras for his noble gesture.

Finally, I shall mention a new activity that is still developing and is found in its pilot phase. Recently, the ASECU has appointed the Committee for Educational Cooperation with a task to organize series of web-lectures provided by lecturers from our Association and followed by students from member-universities. The pilot action showed that the quality of the provided lectures was indeed impressive. Also, the technical abilities of participants proved to be quite sufficient, giving the opportunity to the students to connect from their own personal computers, which gave the base for more regular future events of that kind.

As you can see our association is permanently advancing and I hope that you also could get that impression through another new channel of our internal communication which is the ASECU newsletter intended to reach every member of teaching staff from our member universities. As you probably know, the newsletter entered the distribution quite recently and I hope that it will remain as a regular way of communicating important information among all professors and other researchers and teachers from our member universities.

At the end, let me add a few words regarding this particular conference. By no means, the topic of the conference although looking pretty broad at a first sight is extremely inspiring. What challenges our continent is facing after or – should I be more precise if I state – during the crisis that still lasts almost a full decade up to now? What responses we as economists are eager to offer? Are we somewhat petrified within once promoted theories that are not capable to react at newer events? In my view, as researchers, as professionals, we are obliged to sincerely face some of these – not always very pleasant dilemmas.

For instance, are we really sure that efficiency in our countries and their surroundings could be achieved by sharp diminishing of social care and/or less controlled yet more flexible labour market rules. Are we really sure that it could be an effective policy particularly in the world of growing inequalities? Why then, we witness less turbulent situation in countries like Sweden where social care is significantly better than elsewhere? Whether fighting budget deficits by means of diminishing salaries and pensions will really secure a sustainable growth and progress? And why then – as recently remarked Joseph Stiglitz – countries like Spain and Ireland that had budget balances and low debt to GDP ratios were struck by the crisis that severely? Aren't eventually, all these above mentioned general recipes for alleged efficiency, just simple instruments for satisfying foreign creditors regardless of local circumstances, living standard and people's contentment?

All of these questions deserve proper answers, moreover, answers that can be checked and approved by a broader public. If this won't be the case a tremendous public discontent and frustration could raise up shortly, making our societies fragile and vulnerable for all kind of "easy" solutions that is, for all kind of regressive ideologies, predominantly populist and nationalist that are always "at hand" in confused times. Such ideologies and political options already threaten Europe and European idea of cooperation. This is primarily due to very much delayed reaction to growing social controversies developed under the crisis; and also to some simplified quasi liberal doctrines popularized in the preceding period of say, good times.

But who else, or who can testify better about the disastrous consequences of populism and nationalism than people and nations of our southeast European region, and particularly of the Western Balkans, who suffered until recently from such politics and probably still do not feel fully safe. For that reason our professional responsibilities are even bigger than under some different circumstances. Not only in finding correct economic solutions and policies but also in promoting cooperation since this can only guarantee some economic strength and prospect to each of relatively small nations in this part of the world.

This brings me back to the main mission of our association and that is cooperation and joint efforts in improving our scientific and research results "for the benefit of the economy, the society, peace and the cultural development" of our countries, as it is stipulated in the Statute of the ASECU. I sincerely hope that we shall fulfill this aim during the coming days. In this hope I wish you a successful work and conference and a useful book of contributions that will be printed after the event.

CERTIFICATION OF FOOD PRODUCTS AND THE IMPACT ON THE MARKET

MSc. Morena Boja¹
MSc. Fatbardha Morina²

ABSTRACT

Insecure food has always been a problem, even now days, that's the government is obligate to control food chain. Product certification is a process that aims to prove that the production process of a product is analyzed and evaluated by the relevant authorities and ensure that the product is analyzed and evaluated by the relevant authorities and ensures that product before launching it fulfills all the conditions European or National legal. The quality management of products and their certification is not only a condition set by the EU (European Union), but also a necessity to meet requirements always growing by customers for a healthy food with controlled nutrients. For the promotion and protection of food products to the European Union has established a quality label system. According to this system the material of food products must come from protected areas of origin, protected geographical indication and traditional specialty guaranteed. This system allows not only control over the food products, but enables consumers to be better informed on the specific characteristics of production. Certification of products is made by independent institutions which valuate compliance of the standards required with management systems or product. In our country certification and food safety is still in the development stage. We do not have a consolidated system monitoring and control and because not product certification in origin, many food industry companies cannot export their products in the countries of the European Community while produce by the same technology and equipment with the international food industry businesses.

Keywords: *certification, food industry, certification standards, food safety*

JEL Classification: *L66, D4*

1. Introduction

In the food business often talk about certification because it is considered as an important gateway to success for any enterprise that aims to standardize products and consolidate in the commerce. In a market increasingly globalized in constant evolution where consumers are increasingly more informed thanks to social media and the Internet spread. Consumers are more conscious of product choices. Businesses must necessarily respond to requirements for safe and quality products. Quality certification is recognition of products from authorized organizations (third parties) to confirm that the commenced product conforms to a predetermined regulation of production and the predetermined quality standards. The certified products must respect the same standards like all other products placed on the commerce. Quality certificate guarantees the consumer that there is no cheated in food. However this assurance is not absolute, especially in our country where we have many cases of falsification and fraud on certification of products

¹ Personal Banker - First Investment Bank

² Retail Sales Finance- Raiffeisen Bank

traded. This comes as a result of not functioning correctly control authorities. Certification has advantages not only for the producer who separate in the commerce through certification but also for consumers because a controlled product means: safety, nutritional value and organoleptic qualities. The objective of this study is to identify the main certifications, the role they have in certain products. With the results collected from questionnaires is given a detailed explanation of the information who own Albanian costumers over the food certification and the importance of certified products.

2. Why certification should?

To understand why it is important certification is required to specify the quality term .A very used term but variable meaning. With time meaning of quality has experienced some changes, which range from "quality is the ability to have a particular product to satisfy the requirements of a specific customer" to "quality means compliance with the requirements" but despite definitions that attribute for this word standard UNI EN ISO 22000 legally defines the concept of quality as "grouped features of a product and the system for compliance of customer requirements or other interested groups". The same rule also defines the meaning of the request, and cites it as a "need" or expressed or implied expectation. Certification is a guarantee of quality for consumers to use a product or service. Certification means to increase transparency to offer consumer security so that there is no doubt. Companies that successfully pass the certification procedure and receive a certificate used as a symbol of quality in the commerce to reduce customer insecurity, thus reducing the transactions costs. There are various certifications for quality management, environmental management organizations, food safety, certification of cosmetic & pharmaceuticals' products etc. The certification bodies are responsible for the verification and correct application of the rules. Businesses use product certification as a method to suit the commerce norms, to enhance the image in the commerce, quality guarantee through certification, to differentiate from competitors, to reduce customer insecurity over products.

3. Distribution of certification systems

In the contemporary scenario of food industry there are different types of certification often with the same goals but with different requirements. The high number of certification schemes may cause confusion at consumer; therefore it produces the opposite effect. The European Commission has compiled a list of certificates recognized at European level and international. Depending on the requirement that the business organization has done for product made the selection for certification type. The quality of food products management today represents a concrete development for businesses operating in the agro food sector; because it connects in direct way protection and safety of life through the controlled products. Constantly repeat for national and international episodes about food scandals has made consumers but also producers to be more careful in quality control, food safety and choice of suppliers. Quality guaranteeing and food safety from the moment of production until the distribution is necessary for firms in order to survive in the commerce. Possession of a rigorous and effective in management of quality and products control, in response to concerns that consumer's raises, carefully

communication with customers and information are effective instruments to gain credibility. The product quality management systems are very specialized. Normative standards of reference are:

- HACCAP certification (Hazard Analysis and Critical Control Point) is a procedure of risk assessment and the risk of hygienic safety of products and processes to stabilize an appropriate control measures. This procedure provides that the responsible person of agro food or food company can give guarantee that has realized in hygienic way the preparation, transformation, manufacture, packaging, storage, transportation, sale or supply of products trades. The initial concept of certification HACCAP was born in 1959 in a NASA study for "the fabrication of a safe food for astronaut diet during missions (zero defects program). Case publication of FAO (Food and Agriculture Organization) and WHO (World Health Organization) has influenced the European food industry practices and the development of legislation food safety. HACCAP rate today presents one of the best systems of food safety management. This method is not an optional norm but set by law, which allows the organization that implements communicate to external parties its commitment to management and hygiene conditions required.
- IFS certification (International Food Standard), this type of certification is support and developed by the Federal Union of German Trade Organization and a representative body of the French resellers. Is equivalent of BRC standard for counties are in the middle of Europe (Austria, Switzerland, Germany and France). The standard management system ISF derives from planning and methodology of HACCP system.
- ISO Certification 22000-2005: There are incalculable economic losses resulting from waste or residues that fail from daily production, defects in food storage, damages and accidents along the food production chain and each subsequent negative effect could introduce a risk of life. The standard EN ISO 22000 identifies the requirements of a proper system of food safety management system (FSMS Food Safety Management System), enabling organizations to identify the risks in their business management and control to guarantee food safety and customer satisfaction. ISO 22000 is a standard known worldwide for certification and food safety management. Implementing a certification system such as ISO 22000 businesses improve the performance in the field of food safety.

4. "Bio" certified products and the impact on the commerce

BIO certified products are foods produced according to the standards set by the CE (symbol of the European Council brand) and controlled by official bodies authorized in each country. In Albania the control of BIO products is made by the State Commission for Organic Production (SCOP), which approves and monitors the activities of certification bodies. These bodies have a duty to control the produce process at every stage of the production and carefully verify of the produced companies that from the other hand should guarantee quality products and consistent in accordance with legislation. Certification is the only real guarantee that a firm which operates in the biological sector can provide the products by following protocols and strict norms above the production of raw materials as well as the transformation into the final product. There are many brands that operate in the labeling of bio products is one of them Demeter label that guarantees

that food products labeled Demeter come from biological farms. Mark operates on all continents, control and certifies all range of biological products. Albanian legislation based on European code has set some rules on products labeled BIO. The label stuck on "Bio products" should present the true nature of the product. It is written in Albanian language, without excluding the use of other languages. Also, as obligated request, the label contains organic production indicators and built according to the following requirements:

- the term "Bio" as an obligatory index that refers to organic production, should be used in products and accompanying documents.
- labeling in compliance can only be used for products produced in accordance with the established rules - indicator that includes the name of the certifying organization that has performed the last inspection; - indicators that imported products are covered by the inspection scheme by countries come - products advertisement should be in accordance with the labeling.

5. The control system of products in Albania

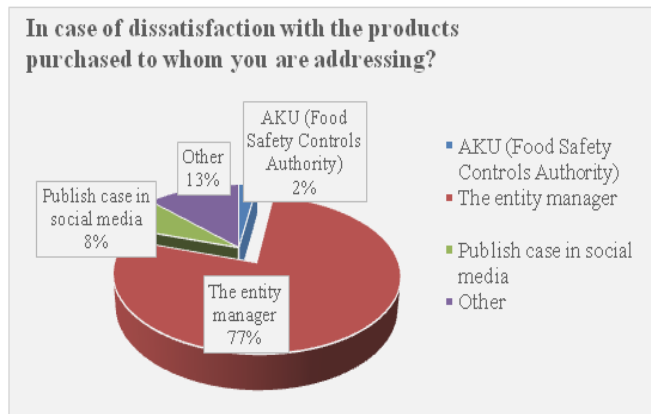
Government in the context of European integration considers relevant politics over the food safety. These politics are under the responsibility of MBRZHAU (Ministry of Agriculture, Rural Development and Water Administration) which is responsible for creating the legal framework and coordination of legislation with EU regulations. Department of Food Safety Policy and Consumer Protection (GDFSCP) established in 2005 and later been restructured in 2010, it is responsible for drafting food security politics and strategies as well as in the preparation of legislation. Currently the competent authorities involved in the political management of food security in Albania and implementation of legislation in this area are:

- MBRZHAU and dependent institutions, namely: National Food Authority, Institute of Food Safety and Veterinary, Regional Directorates of Agriculture, Ministry of Health, local government.

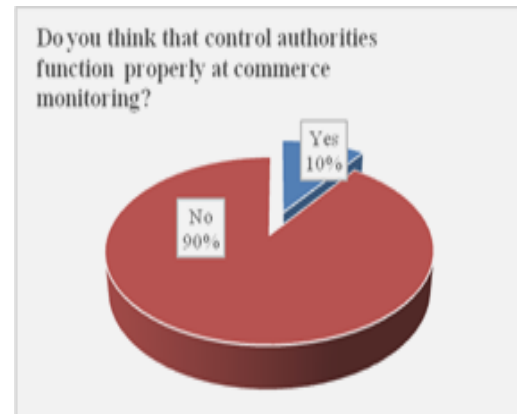
In the area of food security operates DPSUMK in MBRZHAU and is organized in three sectors:

- Quality Division, Food Safety and Consumer Protection
- Sector of plant protection
- Water sector products

Though of how legislation and control bodies Albania has as well as other countries, the Albanian consumers are skeptical about the way they perform, some customers expressed or that are no longer functioning organs or function and heard in the interim period in cases where has publications for irregularities or deficiency control. According to collected data also note that consumers do not address the competent authorities, but they prefer to make the public case on social networks or to looking for their right at the subject where they buy product, it is observed from the chart below. Where do consumers address to the AKU about problems that have account for only 8% of respondents. One part of them comment the fact that is more effective publishing in social networks than complaints to the competent authorities, this initiate by the importance that individuals pay to social networks today Once the consumers think that the control authorities are no longer functioning as it should and this is reflected in the chart below. Where 90% of those interviewed think that the control authorities do not function according to the procedure they do temporary controls or campaigns and are not systematic monitoring and control products.



Graphic 1

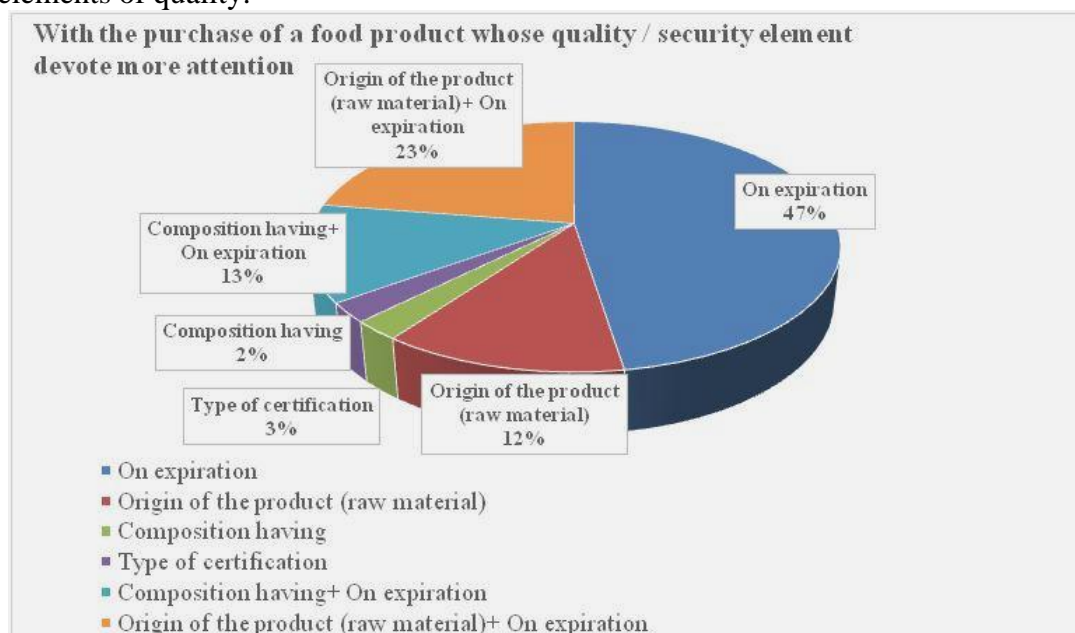


Graphic 2

5.1. Food quality

Product Certification is born as a market need for positioning rate and distinguish the product and informing consumers and large distributor for some features and characteristics that distinguish the product from other products of the same category. The advantages of certification are: evaluation of product characteristics, the certification directly to product communication, promoting the company, increased guarantee and food safety, and evidence certification of organoleptic and nutritional characteristics of origin of the product and his features, consumers through certification control sanitary conditions of production of all these elements increase the value and nutritional qualities of the product.

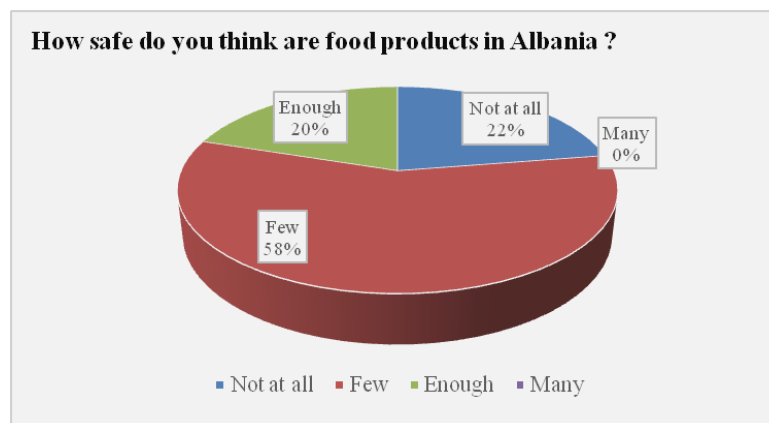
In our country, according to information collected consumers group is informed about labeling or quality of products is low most of them consider the primary element date of expiration, as shown from the chart, 47% of the respondents cost importance expiration and non-nutritional or other elements of quality.



Graphic 3

5.2. Food safety elements

Food security is understood in wider sense than the ability to provide a continuous water and food to complete basic biological needs. The definition of internationally accepted is designed by the World Food Summit (world Food Summit) in 1996, according to this is described a situation in which all people at all times have physical, social and economic access in sufficient food, safe, nutritional value, guaranteeing their needs and food preferences for an active and healthy life. With regard to food safety have different views according to medical one food safety understands completes of sanitary conditions and food products. From economic and social point where a part of the population is characterized by high malnutrition, with food safety it means measures that guarantee coverage of the population needs from the harvest and a reserve level of negative phenomena. In countries where the security risk is generalized low food security issues are mostly qualitative (hygiene and quality). The concept of food security is linked to food sovereignty. Despite that food security is one of the standards to get closer to the EU. In our country food security continues to be a problem, consumers complain about circumstantial edge commerce improvised on street pavements, where products are kept under the direct influence of the atmospheric conditions. As regards to food safety interviewees comment the fact that security is linked so directly with the control system so that is why we have so many products not controlled. As it is seen from the graph below 58% of respondents think that the products are poorly secured and controlled.

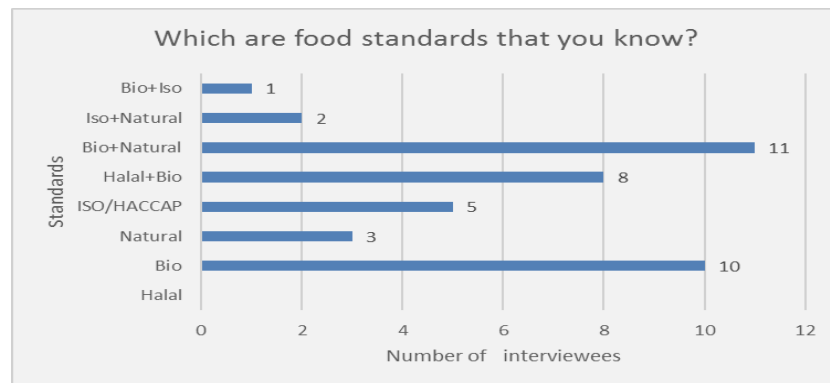


Graphic 4

5.3. Consummator information for food product and certifications

The rapid globalization of food production and trade has significantly increased the possibility of international accidents dealing with food contamination. National authorities across the world have become aware that food safety should be high not only in national level but also through cooperation between national authorities in a national level. This process is important for the exchange of information on food safety issues. Consummator can obtain information by tools and different forms, but today an important source of information is the electronic one. Customers can obtain information on prices and products but about the rights they have in case of dissatisfaction against product. Although today consumers have access to be informed through various channels in our country the number of consumers who know their rights is very low, cases that have resulted in judicial proceedings because of dissatisfaction products are very low.

If we compare with other European countries the difference is too high, European consumers make the strangest complains, they open law processes against companies for different dissatisfactions. In our country, the opposite happens and the fact that consumers do not trust the competent authorities. Regarding certifications consumers who know the BIO certification referred to BIO products they buy to small farmers although with BIO is understood products produced according to CE (European Community standards). Whatever the degree of education that have customers their knowledge of certification of products are very low.



Graphic 5

6. Conclusions and Recommendations

Relevant authorities should inform consumers on politics, certification and product safety, but in our country the number of customers informed is very low and despite the education that have. From respondents 42% of them have finished university but 63% of them say that they have no information on certification and food safety and the part that are informed represent 37% of respondents said they do not trust the AKU or the competent authorities the information they possess is obtained through the written media or the electronic information. Their dissatisfaction to the competent authorities to monitor and check the quality of products is very pronounced with 90% of them express that AKU does not operate according to commerce monitoring. That what we recommend seeing the interviewing results is that firstly offices for consumer protection should make information on the rights that consumers have especially on basic rights such as: The right to health protection, environment and safety of life, the right to protection of economic interests, the right of appeal and compensation where in our country is very low, the complains of not made by the competent institutions but through investigative emissions. An important stage on the information process is consummators education that we recommend to begin at school and so children as future consumers are informed.

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5. Data collected from interviews with 50 consumers.

QUESTIONNAIRE

(This questionnaire serves a study on the quality and certification of food products in Albania. The data obtained from this questionnaire will be treated only and exclusively for the study purposes. Thank you for cooperation.)

1. Which age group you belong to:

<input type="checkbox"/> 20-30 years old	<input type="checkbox"/> 51-60 years old
<input type="checkbox"/> 31-40 years old	<input type="checkbox"/> Other _____
<input type="checkbox"/> 41-50 years old	
2. Education:

<input type="checkbox"/> Eighth year	<input type="checkbox"/> Secondary	<input type="checkbox"/> University	<input type="checkbox"/> Other _____
--------------------------------------	------------------------------------	-------------------------------------	--------------------------------------
3. You care to purchase food products at home. (Yes ☐ No ☐
(If NO question 2, if YES question 3).
4. Do you have information for the purchase of food products? (Yes ☐ No ☐
(If No, the questionnaire close, if Yes question 5)
5. Do you have information for certification of food products? (Yes ☐ No No | ☐ On expiration | ☐ Type of certification |
| ☐ Origin of the product (raw material) | ☐ Others _____ |
| ☐ Composition having | |
10. I pay more attention:

<input type="checkbox"/> Quality	<input type="checkbox"/> Prize	<input type="checkbox"/> both together
----------------------------------	--------------------------------	--
11. Did you pay attention certification product that they have? (Yes ☐ No | ☐ Halal | ☐ Iso/Haccap |
| ☐ Bio | ☐ Other |
| ☐ Natural | |
13. Which products think they are safe:

<input type="checkbox"/> Products manufactured in Albania
<input type="checkbox"/> Products manufactured in the EU
<input type="checkbox"/> Products manufactured in the region (Montenegro, Kosovo, Macedonia, Serbia, etc.)
<input type="checkbox"/> Other places
14. How safe do you think are food products in Albania?

<input type="checkbox"/> Not at all	<input type="checkbox"/> Few	<input type="checkbox"/> Enough	<input type="checkbox"/> Many
-------------------------------------	------------------------------	---------------------------------	-------------------------------
15. Do you think that control authorities function properly at commerce monitoring? (Yes ☐ No | ☐ AKU (Food Safety Controls Authority) |
| ☐ The entity manager |
| ☐ publish case in social media |
| ☐ other _____ |

INCLUSIVE INSTITUTIONS AND ENTREPRENEURSHIP

Prof. Dr. Miomir Jakšić¹

Dr. Milica Jakšić²

ABSTRACT

Good institutions are characterized with three attributes: 1. they establish and protect property rights; second, they restrict social elites which strive to expropriate income and property of others members of society; third, they provide equal chances for employment, social security and civil rights to all individuals. Good institutions contribute to political stability, successful macroeconomic policy and enhance initiatives. Key role of institutions is in securing stability and continuity.

Extractive institutions in two ways can negatively affect entrepreneurship and whole economic development:

- a) Increasing the opportunity cost, resulting in upward movement of Opportunity cost curve.
- b) Affecting Return to entrepreneurship resulting in leftward movement of Return to entrepreneurship curve.

Keywords: *institutionalism, inclusive institutions, political macroeconomy*

JEL Classification: *B22, P16, P48*

1. Growth and inclusive institutions

In recent two decades, due to contributions of Political macro economy, focus of macro economy turned away from narrow perspective based on market and privatisation (market fundamentalism) towards broader perspective based on institutions and values (institutionalism). "Human and physical capital are proximate causes of economic growth. Why do some countries have better technologies and more human capital?"³

Main thesis of one of leading proponents of Political macro economy, D. Acemoglu, is: "growth is much more likely under inclusive (economic and political) institutions than extractive institutions. Inclusive economic institutions: Secure property rights, law and order, markets and state support (public services and regulation) for markets; open to relatively free entry of new businesses; uphold contracts; access to education and opportunity for the great majority of citizens, i.e., create incentives for investment and innovation and a level playing But most societies throughout history and today ruled by Extractive economic institutions: they are designed by the politically powerful elites to extract resources from the rest of society."⁴

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³ Acemoglu, D., Political regimes, institutions and growth, June 2005, Tüsiad-koç university economic research forum.

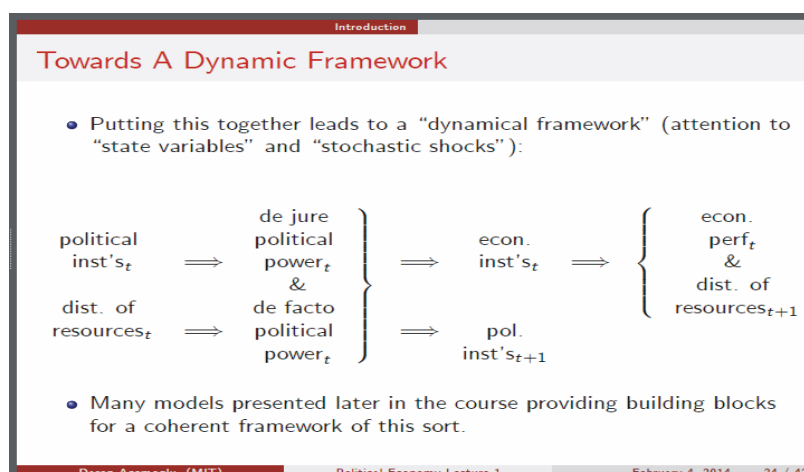
⁴ Acemoglu, D., State Building: A Political Economy Perspective, Nemmers Lecture. Acemoglu, D., Robinson, J., Why Nations Fail, FBBVA Lecture, May 21, 2012.

Importance of institutions, culture and values lies in the fact that, contrary to previously dominant market fundamentalism, there exist correlation between GDP and democracy, but not oneway unilinear causation, either from side of GDP or democracy. "If institutions matter (so much) for economic performance, why do societies choose or end up with institutions that do not maximize economic growth or aggregate economic welfare."⁵

D. *Acemoglu* writes: "Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction. Institutions are humanly devised, set constraints, and shape incentives."⁶

These ideas can be presented schematically:

Figure 1



Source: Acemoglu, D., "14.773, Political economy of institutions and development, Lecture 1: Introduction and overview", pdf 9522, MIT, Feb. 4, 2014. <http://economics.mit.edu/faculty/acemoglu/courses>.

D. *Acemoglu* writes: "It may also be tempting to follow political scientists and sociologists and classify institutions into two groups (with the implicit understanding that most real world institutions will fall somewhere in between):

- Predatory ("bad") institutions: as institutions that do not encourage investment and economic development.
- Developmental ("good") institutions: as institutions that permit or encourage investment and growth.⁷

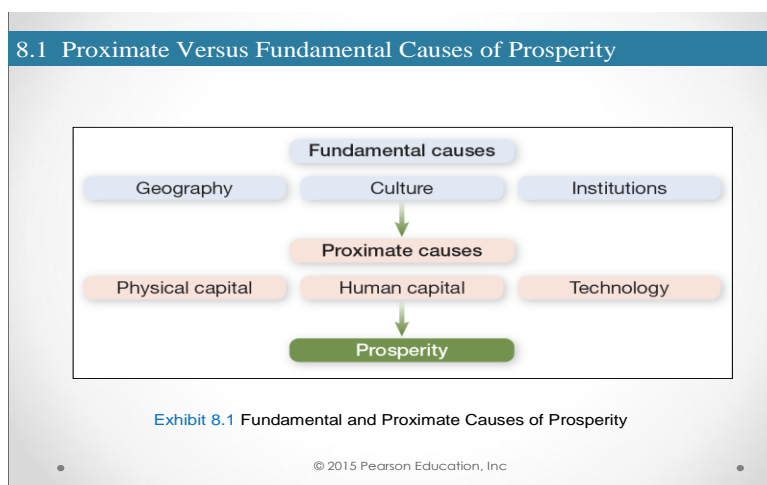
Distinction between bad and good institutions evolved in distinction between **extractive institutions** (bad institutions) and **inclusive institutions** (good institutions).

⁵ Acemoglu, D., Modeling Inefficient Institutions, *Ekonomske ideje i praksa*, no. 12, march 2014., thematic issues Political macroeconomy and contribution of Daron Acemoglu.

⁶ Acemoglu, D., "14.773, Political economy of institutions and development, Lecture 1: Introduction and overview", pdf 9522, MIT, February 4, 2014. <http://economics.mit.edu/faculty/acemoglu/courses>.

⁷ Acemoglu, D., "Political Economy Lecture Notes", PE9524.pdf & <http://economics.mit.edu/faculty/acemoglu/courses>, p. 14.

Figure 2



Source: Acemoglu, Liabson, List Macroeconomics, Chapter 8, "Why Isn't the Whole World Developed?," Pearson, 2015, www.pearsonhighered.com, Instructor resources.

2. Three growth hypothesis

Different destinies of particular countries and non-existence of warranted economic and social prosperity are explained by three hypotheses:

1. Geography hypothesis,
2. Culture hypothesis, and
3. Institutions hypothesis.

1. **Geography hypothesis** insists upon significance of physical geography, climate, and ecology. Geographical factors have significant role in determining the location and level of interactions of those ancient agricultural civilisations.⁸ L. Putterman writes: "What and how big is the role of historical factors in explaining great differences on the level economic development between different countries and regions in the world today? The level of economic development and the growth rate since the end of the European colonial era has greatly depended on the average level of technology and political position of the area where the ancestors of today's inhabitants lived long before or immediately before the colonial era. The interplay between geography and human capital, broadly viewed as culture, norms and institutional capacities have a central role in explaining those differences."⁹

2. **Cultural hypothesis** point towards significance of cultural heritage, values and tradition. Guiso, Sapienza, and Zingales defined culture as "those customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to

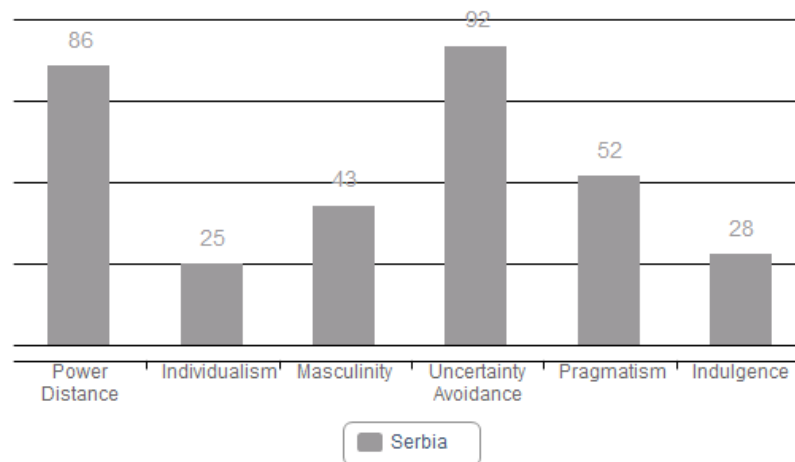
⁸ Jakšić, M., "Geographical Deviation and historical development", *Ekonomске teme*, Niš, vol 53(3), 2015, pp.319-334.

⁹ Putterman, Louis. "History and comparative development." *The New Palgrave Dictionary of Economics*. Online Edition. Eds. Steven N. Durlauf and Lawrence E. Blume. Palgrave Macmillan, 2014. The New Palgrave Dictionary of Economics Online. Palgrave Macmillan. 22 May 2014
http://www.dictionaryofeconomics.com/article?id=pde2014_G000223.

generation.”¹⁰ Alesina, A., Giuliano, P. explains significance of culture as follows: "Recent research demonstrates that cultural variables determine many economic choices they even affect the speed of development and the wealth of nations. Culture and institutions are endogenous variables, determined, possibly, by geography, technology, epidemics, wars, and other historical shocks."¹¹

For Cultural hypothesis we give example of Serbia. Power distance and Uncertainty avoidance are significantly high; Pragmatism and Masculinity rather high, while Individualism and Indulgence are low. This leads toward conclusion that Serbian society is highly influenced by traditional values and culture.¹²

Graphic 2



Source: <http://geert-hofstede.com/dimensions.html>, accessed 4.1.2015

3. **Institutional hypothesis** attributes the central role to institutions, which promote investment in human, physical capital and technology. Institutional hypothesis can be illustrated with significance of institutions for economic development via promoting or inhibiting entrepreneurship. "The institutions hypothesis claims that differences in institutions — how societies have organized themselves and shaped the incentives of individuals and businesses — are at the root of the differences in prosperity across the world. In other words, the institutions hypothesis is based on the notion that it is the way that humans themselves decide to organize their societies that determines whether or not they prosper."¹³

Next diagrams explain fundamental significance of institutional hypothesis for economic development.¹⁴ Good (inclusive) institutions **positively** affect either Return to entrepreneurship or Opportunity cost, or both, whilst Bad (extractive) institutions **negatively** affect them.

¹⁰ Guiso, L., Sapienza, P., and L. Zingales, 2006, "Does Culture Affect Economic Outcomes?", *Journal of Economic Perspectives*, 20(2): 23–48, according to Alesina, A., Giuliano, P. "Culture and Institutions", 1. September, 2014.

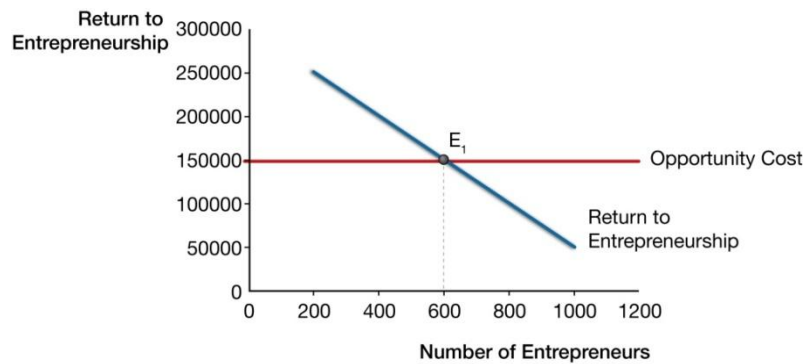
¹¹ Alesina, A., Giuliano, P. "Culture and Institutions", 1. September 2014. accessed 23.12.2014.

¹² Jaksic, M., Jaksic, M., "Proximate and Fundamental Factors of Growth: Culture and Institutions", *Economics and Economy*, vol. 1, no. 4, dec. 2014, pp. 7-22.

¹³ Acemoglu, Liabson, List, *Macroeconomics*, Chapter 8, "Why Isn't the Whole World Developed?" Pearson, 2015., www.pearsonhighered.com, Instructor resources.

¹⁴ Acemoglu, Liabson, List, *Macroeconomics*, Chapter 8, "Why Isn't the Whole World Developed?" Pearson, 2015., www.pearsonhighered.com, Instructor resources.

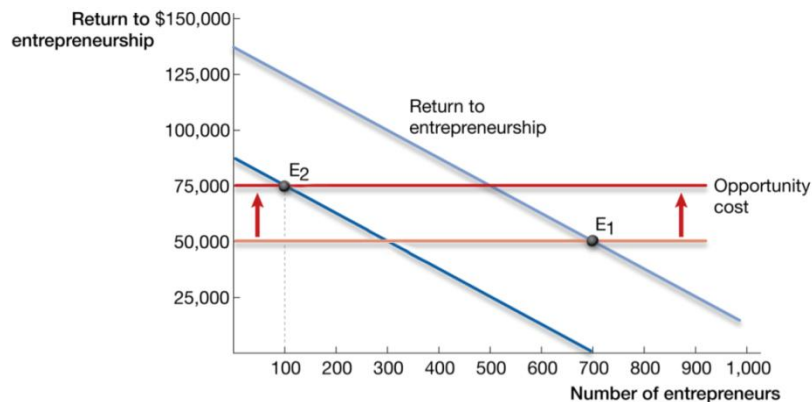
Graphic 3



Source: Acemoglu, Liabson, List, Macroeconomics, Chapter 8, "Why Isn't the Whole World Developed?" Pearson, 2015., www.pearsonhighered.com, Instructor resources.

Extractive institutions in two ways can negatively affect entrepreneurship and whole economic development:

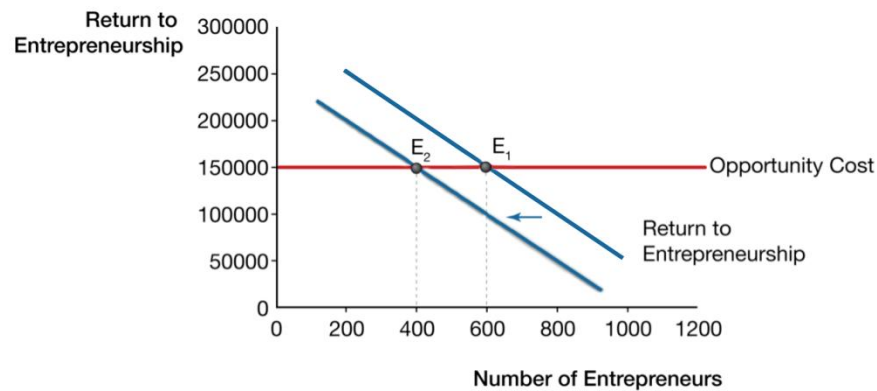
- Increasing the opportunity cost (e.g. licensing, administrative barriers) resulting in **upward movement** of Opportunity cost curve.



Source: Acemoglu, Liabson, List, Macroeconomics, Chapter 8, "Why Isn't the Whole World Developed?" Pearson, 2015., www.pearsonhighered.com, Instructor resources.

- Affecting Return to entrepreneurship (e.g. barriers to entry, rent-seeking, insecure legal position) resulting in **leftward** movement of Return to entrepreneurship curve.

Graphic 4

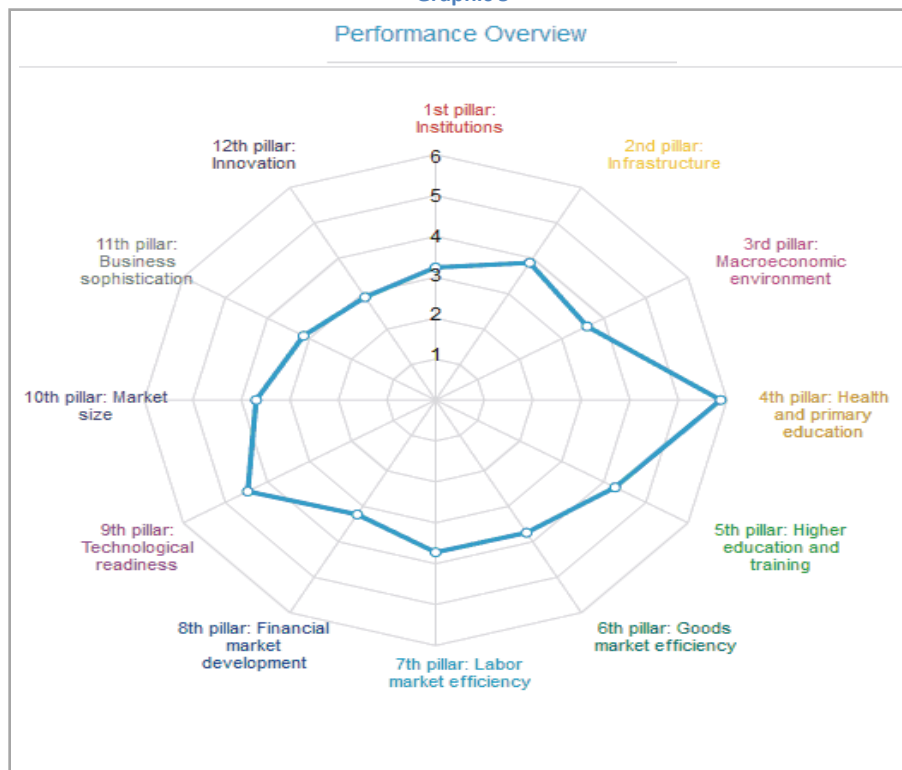


Source: Acemoglu, Liabson, List, Macroeconomics, Chapter 8, "Why Isn't the Whole World Developed?" Pearson, 2015., www.pearsonhighered.com, Instructor resources.

3. Conclusion

World indicators, in the first place *World competitiveness index* and *Doing business list*, reflect rising significance of institutional infrastructure, more broadly than narrow focus on privatisation which for long time was in the core of Washington consensus. Here is the example for Serbia.

Graphic 5



Source: <http://reports.weforum.org/global-competitiveness-report-2015-2016/economies/#economy=SRB>.

Importance of institutions, culture and values lies in the fact that contrary to previously dominant market fundamentalism there exist correlation between GDP and democracy, but not oneway unilinear causation, either from side of GDP or democracy. Fundamental factors of growth (culture and governance) are of much more importance for economic growth and were greatly neglected during social and economic development of post-socialist countries.

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SMES DEVELOPMENT IN ALBANIA- THE IMPACT OF TAX POLICIES ON SUSTAINABLE SECTOR GROWTH

Almarin Frakulli¹

ABSTRACT

Currently Albania is facing enormous financial problems due to extremely low rates of employment, high levels of undeclared work, low financial discipline and a lack of equity and efficiency in tax matters. It is a fact that in Albania referred to the structure of active enterprises in 2012 it was concluded that SMEs mostly dominated by micro-enterprises with 1 to 9 employees, who make up about 95.3% of the total number of active enterprises. On the other hand if we do an analysis of economic growth in the last decade we will see a decline in growth rate of GDP. Recently the government has taken a series of tax policies that tend to increase the safety and competitiveness of businesses but these efforts have not been sufficient. Based on the data from the National Business Center regarding the business situation will notice that the number of new businesses has decreased in recent years and meanwhile there is an increasing number of businesses that are closed or have suspended their activity. Since the major share of active enterprises occupied precisely SMEs consequently the greatest numbers of enterprises that have closed or suspended their activity are SMEs.

Referred to above in the current economic development of Albania in the short run up to the stage of consolidation of big business and corporate, strengthening SMEs is the proper way for a sustainable economic and social development.

Keywords: *Fiscal system, tax policy, micro-enterprises, economic growth, SME, taxes*

JEL classification: *E62, F43, P42*

1. Introduction

Starting a business in today's environment brings opportunities and challenges. New lifestyles demand greater choice of products and services. New technologies and greater access to global markets have provided increased business opportunities. At the same time increased competition, insistence on quality and unremitting pressure for lower costs, just to mention some issues, represent major challenges for business. As a result of cyclical economic changes, the transition countries and their enterprises face major challenges for strengthening their human and institutional capacities to take advantage of trade and investment opportunities. For Small and Medium-sized Enterprises (SMEs) the challenge is greater. They lack scale, resources and the capacity to handle complex business management. While governments make policies in trade and investment areas, it is enterprises that trade and invest. Therefore, supply-side obstacles in the trade and investment areas and how governments, development partners and the private sector itself address these constraints have direct implications on the economic growth potential of transition countries. In almost all countries, SMEs play a key role. Private investment by Small

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and Medium-sized Enterprises (SMEs) is a key generator of economic growth and social change for a certain country economy. These enterprises typically account for more than 90% of all firms outside the agricultural sector, constitute a major source of employment and generate significant domestic and export earnings. It is now widely accepted that the contribution of SMEs to new jobs, exports, innovation and regional development is vital to national development. As such, SMEs development emerges as a key instrument in poverty reduction efforts. SMEs, due to their size, are particularly constrained by non-competitive real exchange rates, limited access to finance, cumbersome bureaucratic procedures in setting up, operating and growing a business, poor state of infrastructure and lack of effective institutional structures. The removal of these constraints is a daunting task calling for holistic SME support, i.e. an enabling environment for SME development consisting of functioning macro, meso and micro level institutions. The main aim of the study is to discuss the importance of SMEs sector for developing and sustaining business competitive advantages the economic activity of Albania. The taxation of SMEs is an important issue given their importance to the economies of countries. Careful design of government program for SMEs, including special tax rules, can address market failures and the disproportionately high compliance burdens faced by SMEs. Consideration of the heterogeneity of the SME sector and the different challenges faced by SMEs and their owners need to be considered in the design of the taxation rules as governments endeavor to promote the creation, innovation and growth of SMEs.

The statistical definition of an SME usually varies from one country to another. However the choice to classify a company as SMEs is always based on the number of employees, value of assets or the value of sales. SMEs in Albania are classified according to the number of their employees and turnover and/or balance sheet in compliance with the law nr. 1042 (22/12/2008) on small and medium-sized enterprises,

For statistical purposes enterprises will be classified into:

1. Micro: 1 to 4 persons;
2. Small Enterprises: 5 to 9 ;
3. Medium enterprise: 10 to 49 ;
4. Large enterprise: 50 +

Table 1 - Active SME 2005-2012

Year	2005	2006	2007	2008	2009	2010	2011	2012
1-4 employed	55,976	66,368	71,049	85,380	84,474	91,566	96,429	94,025
5-9 employed	2,406	2,861	3,694	3,655	4,357	4,778	4,952	5,396
10-49 employed	1,722	2,093	2,797	2,762	3,165	3,500	4,164	3,898
50+ employed	547	701	757	725	781	843	958	956
Total	60,651	72,023	78,297	92,522	92,777	100,687	106,503	104,275

Source: INSTAT

The small business sector is well represented in Albania and has a similar structure with the European Union. Small businesses in Albania provide the majority of jobs. The size of the average Albanian firm is smaller than in the EU, with 3.7 employees compared with an average of 4.3 for the EU. The most important sector (55% of all enterprises, 45% of employment) is the

wholesale and retail trade. Estimated data for 2009-2011 show positive trends, so a growing number of enterprises and jobs offered by them.

According to the structure of active enterprises in 2012 it is noticed that SMEs mostly dominated by micro-enterprises with 1 to 9 employees, who constitute about 95.3% of the total number of active enterprises. Distribution of active enterprises by economic sectors for 2012: 43.4% trade, hotels & restaurants 16.2%, transport & communications 9.9%, industry 9.6%, construction 4.3%, agriculture and fishing 1.7% while other services occupied 14.9%.

Figure 2- SMEs by size

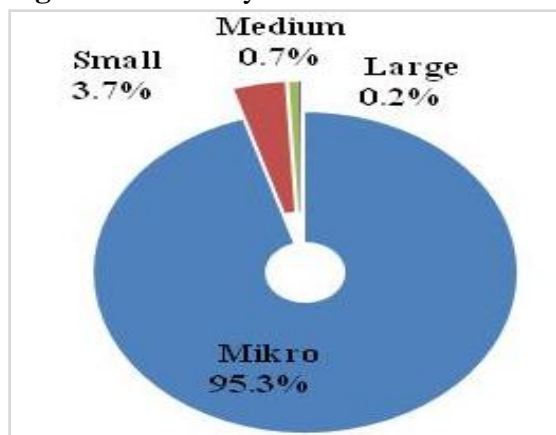
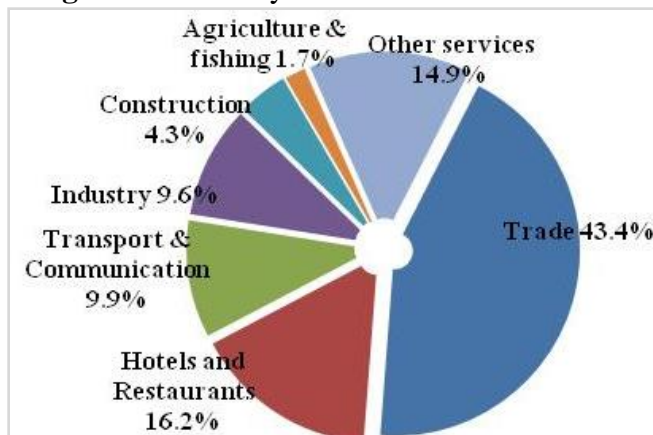


Figure 3- SMEs by sector



Source: Register of Enterprises INSTAT 2012

2. The impact of tax policies in SMEs developing

In our country recently have become aware that small and medium-sized enterprises (SMEs) are not only necessary and good partner for large corporations, but the real backbone of any economy. Development and their welfare is often indicative of the level of economic development of a country and the investment climate. In most countries of the region with the necessary legal tools have encouraged the creation and development of SMEs through appropriate tax regimes; promote investment and innovation and the creation of new jobs. Albania is also making efforts in this direction, which unfortunately are insufficient. In recent years, in Albania are undertaken many legislative and institutional reforms in support of SME development. Some of the reforms that have improved the business climate and the development of SMEs: business registration, permits and licenses, regulatory impact assessment / RIA, e-government, support for ICT, provision of financial instruments, training, growth of electronic communications, the free trade agreement, CEFTA, etc., all these reforms brought tangible results in improving the business climate. Albania embraced all principles of the Small Business Act (SBA). Implementation of principles of this act is one of the most important agreements of the European Commission's agenda for the development of SMEs, not only for the EU Member States, but also for the Western Balkan countries.

The Albanian government has a fundamental role to play in providing a favorable framework and environment for private sector development. The economic conditions in Albania, where private investment levels lag behind those of developed countries, the necessity to create an enabling environment for SMEs and private investment is more urgent. Reform of the business

and investment environment leading to the creation of a dynamic entrepreneurial culture is crucial to drive the process of change in industrial structures and the transition to market economy structures.

As a country which has the support of different international organizations, Albania has undertaken a series of Enterprise Policy Performance Assessments in order to monitor the development of policies and infrastructures to support the SME sector. Substantial emphasis has been placed in eliciting the views of private SMEs on their past experience and perception of the key barriers to business and new investment, and their assessment of progress in implementing policies to encourage the development of SMEs. Generally are identified six broad dimensions of the framework and environment supporting SME growth and development, which are particularly important for governments to get right:

- Institutional framework for SME policy;
- Rule of law and the regulatory environment;
- Tax policy for small businesses;
- Financial instruments for fostering small businesses;
- Advisory services supplied to new and small businesses;
- Implementation of business incubators;

The sufficient tax revenues are necessary to guarantee democracy, public order and the legal system. Modern taxation should be more than just a source of income for the operation of the state; the tax must also ensure that public authorities contribute actively to pursue the objectives of economic, social and environmental policies.

This part of the work “Tax policies in SMEs developing” examines the influence of tax systems on a range of challenges faced by SME, including decisions relating to their creation, form and growth. SMEs make up the vast majority of business entities and contribute strongly to employment and economic growth, spanning the full breath of industries and sectors and differing in their propensity to innovate and grow. At the same time SMEs face particular challenges on relation to their access to finance. The tax system plays a dual role at times as a tool to assist in overcoming these challenges and at others as an obstacle. Tax policy and its administrative structures is considered by many entrepreneurs to inhibit, rather than encourage the development and expansion of new enterprises. Despite recent reductions in the tax burden and a recognition that the tax system is improving and becoming more sophisticated, the private sector is very critical of the tax administration system, not least of the poor collection rates and the levels of tax evasion. Entrepreneurs feel that this results in unfair competition and puts a higher burden on compliant taxpayers. Understating the role of the tax system in the decisions of SME owners and managers is therefore critical in providing policy solutions to support their success. This study provides insights into the influence of tax system on SME in Albania.

As a taxation issue, income tax is considered as a good opportunity for the government to give breath to small enterprises. And in fact more than 80 per cent of businesses are small and medium enterprises in our country. The working group of the new fiscal package, recognizes that tax profit will be at two levels, 15 percent of the business that has more than 5 million ALL turnover per year and 7.5 percent for small businesses with a turnover 2-5 million ALL. This sector is expected to be the first positive impact of taxation, but if informality remains at these levels and other taxes will be imposed without discussion carefully, small businesses will not be able to benefit from this kind of taxation.

So, it turns out that the group of SMEs includes a wide spectrum of business, and their fiscal treatment varies depending on the category they belong to. Albanian governments have had as a

priority the development of SMEs and time after time this has been observed also in the reduction of fiscal burdens on SMEs. Regarding the most recent tax reforms, the Government approved fiscal package by Law 179/2013, which main objective is to preserve macroeconomic stability and continuation of structural reforms to create the conditions necessary for the economy in the context of potential growth. This fiscal policy is oriented towards the recovery of economic growth in its potential. Tax procedures have been also simplified. The drafting of fiscal policy has consulted closely with the International Monetary Fund (IMF) and World Bank (WB). Every exemptions or tax incentive is granted only by law. The tax incentives comprise different forms applied by law:

- Low tax rates (15%) with no preconditions,
- Reduced tax rates (special scheme for farmers),
- Tax exemptions sectors (research and drilling of hydrocarbons),
- Contributions made by the employer to ensure the health and lives of employees are non taxable,
- Investment tax credits (investments of all kinds),
- Tax loss carry forward,
- Accelerated depreciation rates.

If the tax rate on income taxes can be compared with the neighbor countries with Albania, it can be noticed that the income tax rates are competitive and attractive ones. The tax rate on income and profit is applied on equal basis to all taxpayers regardless of the region, the branch they perform their economic activity from or the type of activity.

Also these reforms of the government have aimed promoting a friendly business climate, and to provide assistance and incentives for SMEs. Strategies for the business development are based on European Union directives, and are some of the priority obligations that Albania has to fulfill towards European integration.

Conclusion

In Albania, over 80 % of all employment is in SMEs, compared to the EU average of around 67 %. Albanian SMEs provide about 68 % of the country's total value added, while the average in the EU is about 58 %. In 2013, value added dropped by 3.6 % compared to 2012. In parallel, employment increased by close to 10 %, and the number of businesses grew by 1.7 %. Real GDP is expected to grow by 3.3 % in 2015 and by 4.2 % in 2016. The growth is almost solely driven by internal demand. Forecasts also point to falling unemployment rates. Due to the fact that the Albanian economy is led by SMEs, it is expected that the projected economic upswing will result in increased SME employment and output growth.

Overall the development of tax policy regarding tax rates can be assessed as positive as far as predictability and in recent years a steady tendency to reduce the tax burden, especially on direct taxes. The introduction of more economic stimulus tax rates, however, should be accompanied by a change in tax philosophy in determining the taxable basis - taxation be subject only real remaining income taxpayers, after deducting the actual operating expenses. This would increase consumption and hence to an increase in turnover and revenues from VAT, which will not only offset the reduction in income from direct taxes, but will result in additional revenue for the budget in the amount of 5-10%.

The Ministry of Finance and the Ministry of Economy, in co-operation with ASME, should work together to ensure that:

- Greater simplicity, stability and clarity are achieved in tax policy.
- The fiscal administration is made much more sensitive to the needs of the SME sector.
- Tax laws and regulations are consistently and fairly enforced.
- The integration of the tax system is continued.
- Consultation with SMEs or their nominated representatives on tax issues is carried out regularly.
- SMEs are able to obtain regular, simple and up-to-date information explaining the tax system.

VAT

- Design the VAT refund period to facilitate cash flow, using the international standard of one month.

Grey Economy

- Strengthen efforts to collect arrears, regardless of firm size.
- Improve administration and collection rates to widen the tax base.

Consultation

- Use regional forums and seminars to ensure that the SME sector is consulted on the implementation details of forthcoming taxation developments, and is well informed / trained in advance of new tax rules coming into effect.

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THE ROLE OF SMES IN ECONOMIC DEVELOPMENT – AN EMPIRICAL STUDY OF ALBANIA

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ABSTRACT

The role of SME-s considered as the most efficient and developer tool that generates sustainable economic growth, employment and poverty decrease. They are a source of employment, competition, economic dynamism and innovation. Also, stimulate the entrepreneurial spirit. SMEs gets broader geographical presence than large companies, so they contribute to a better distribution of incomes. In fact, the Albanian economy has gone through a long process of transition. Therefore, in this direction should to pay attention policies, opportunities for the development of SMEs in order to increases competition in business and progress of these companies. Creating a business environment like this, is a prerequisite for economic development. The main goal of this research consists in the role of SMEs in the economic development of Albania. Moreover, the main purpose of the research will be the evaluation of barriers and the impact of SMEs in creating a positive climate for business development. The methodology is based on primary and secondary sources. More specifically, we refer to previous research by other authors and other studies made by government and private agencies. The main goal is to provide data through interviews of business representatives. The main findings consisted about impact and effectiveness that plays SME-s in the capital of a country, the improvement of the economic climate, social, etc.

Keywords: *SME, Albania economy, entrepreneurship, business climate*

JEL Classification: *M21, O41, O44*

1. Introduction

SMEs are considered as the most efficient tool that generating sustainable economic growth, employment and poverty alleviation. In the developed and developing economies, SMEs are focused on profit and create added value to the enterprise by contributing to economic growth. In Albania, it plays a role in development after having known a constant growth across all years. The creation of a positive climate for business development helps the growth and strengthening of SMEs in order to increase their competitiveness in regional and global market. So, in Albania SMEs are dynamic element and contributor to the improvement of the economy, as in other countries. In this context, they have an essential role in the world economy. By the study was

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found that SMEs contribute over 50% to GDP and over 65% of total employment in developed countries. In the European Union, SMEs constitute about 99% of all businesses by employing over 55% of total jobs in the private sector. In Albania, 80% of the employees are employed by SMEs, where the trade and services sector have the highest number of employees. On the other hand, over 65% of the investment carried out by these enterprises. Almost at the same level adds value to the economy. Based on this discussion, the main purpose of the research will be the evaluation of barriers and the impact of SMEs in creating a positive climate for business development.

2. Literature Review

The literature review will focus on three ways. At first, we will define the concept of SMEs and their classification. Then, we will focus the discussion about the importance of SMEs in the economy of a country and especially in Albania. The discussion of this issue will end about factors that affecting the development of SMEs.

2.1 The concept of SME

Entrepreneurship is a creative process of organization, enterprise management and assuming the risk involved in venture (Rebecca and Benjamin 2009), where a person discovers, evaluates, and exploits opportunities (Darren and Conrad, 2009). In really, definition of the SME concept is difficult because different countries have different criteria. Baumbach (1983) defined SMEs in terms of employment, asset values and sales. In general, SMEs can be defined as an economic enterprise that requires less capital, has the quality to make a quick decision, working in manual labor and a low level of expenses for its management and production to lower-cost products. The small enterprises, at the same time, are companies that are dynamical, innovative assessing opportunities at the right time (Erken, 1990).

The SME sector is categorized into three enterprises: micro, small and medium. There is much discussion about the size and definition of the SMEs criteria. In terms of economic definitions, the small firms are those that have a small market share; are managed by the owners or partners in a personalized way, and not through formalized management structure; and they are independent in the sense that do not participate in a large enterprise (UNECE, 2013). In 1996, the European Commission establishes a new definition of small and medium enterprises based on four quantitative criteria: (a) the total number of employees in the enterprise; (b) The annual volume of the turnover; (c) the total of the assets in the enterprise balance; (d) the degree of independence of the enterprise or the ownership over it. As the result of problems in the practical application to economic definitions, except from difficulties in the definition of small firms, the most widespread measure of SMEs is related to levels of employment. According to the World Bank, micro enterprises have fewer than 50 employees, small enterprises have 50 employees and medium-sized enterprises have between 50-200 employees.

Tab. 1. SME classification in European Community

Company category	Employees	Turnover	Balance sheet total
Medium-sized	< 250	≤ € 50 m	≤ € 43 m
Small	< 50	≤ € 10 m	≤ € 10 m
Micro	< 10	≤ € 2 m	≤ € 2 m

Source: European Community (2015)

The classification of enterprises in Albania was adopted by the European Community, which is classified as follows:

- 1–9 employees (micro),
- 10–49 employees (small), and
- 50–249 employees (medium).

Also, the classification of enterprises in Albania was based at turnover. Micro, small and medium enterprises includes those entities which employ fewer than 250 employees and have an annual turnover that does not exceed 8 million Albanian Leks.

Tab. 2. SME classification in Albania

Company category	Employees	Turnover
Medium-sized	< 250	≤ ALL 8 m
Small	< 50	≤ ALL 5 m
Micro	< 10	≤ ALL 1 m

Source: Albanian Law (no.8957, date 17.10.2002, changed)

2.2 *The importance of SMEs*

With the globalization of markets, intensive competition, and complex environment with a relatively high degree of variability, forecasting the future and providing a satisfactory profit, is often dubious and the bankruptcy risk that accompanies every step. In strategic terms in an economy, SMEs contribute to:

- Reducing unemployment. Employment is one of the factors that has a great impact on the process of economic development and it has the greatest impact on the realization to the general objectives of SMEs. In Albania, these enterprises employ about 65% of total employment.
- The growth of the GDP. Today, SMEs contribute about 60% in GDP. In this sense, the cause of macroeconomic indicators make it possible to have economic growth.
- The developing large businesses. The main factors of this situation is the economy relies heavily on small and medium business that are more resistant to the crisis than large businesses. The SMEs are more flexible compare with the large companies and as a result, have lower capital costs associated with the creation of jobs. Consequently, SMEs play an important role in economic development.
- The promotion and development across sectors and markets. SMEs have an impact on the improvement and efficiency of domestic markets because they use better the financial and human resources. In the global competitiveness index 2016-2017, Albania is ranked 80th from 93rd place to a previous year (World Economic Forum, 2017), by leaving below in ordering some of the Balkan countries such as Greece, Macedonia and Serbia.

This crossing is an indication of its economic development and achieving the overall economy to a higher level.

2.3 The SMEs factors

The development of SMEs depends on a number of factors. In general they can be:

- Business environment. The cost of entry, starting with the registration costs, payment of licenses and processing time, is very important for their development. These costs can not be covered during business operations, because required as initial capital. The enforcement of contracts and protection of property rights with low-cost are a very important element to start and survive a business. If the costs of enforcing contracts are too high, business may prefer to operate in the informal economy rather than engages in economic activities by law. Another factor that contributes to the development of SMEs is the level of the regulatory environment because it provides certainty for businesses operating in their respective industries. In particular, labor market regulations play an important role in the cost structure.
- Macroeconomic factors. The government expenditures are among the key macroeconomic factors that contribute to the growth of SMEs. Procurements help of registered businesses and discourage illegal businesses. Monetary policy plays a crucial role in the development and organizing the SMEs because a low inflation would reduce the informal economy. Additionally, a stable exchange rate is very important for SMEs because the business may be exposed to danger and can go up to bankruptcy.
- Growth opportunities. The SMEs in the early stages of activity are subject to bankruptcy risk. The survival rates of SMEs are not high, especially after the first year. Therefore, a well-functioning infrastructure in terms of services delivery such as police, energy, contribute to the growth of SMEs. They can not provide basic services privately different from the large enterprises, because they would be too expensive. On the other hand, political stability is essential for entrepreneurs. Also, fees and high rates of taxation may discourage the growth of SMEs and enhance the informal economy.
- Historical determinants. Businesses that are historically located in favorable geographical locations tend to survive and grow. Demography is also a determining factor. Businesses located in favorable environments, where mortality rates are lower tend to grow.

3. Methodology

The main purpose of the research will be the evaluation of barriers and the impact of SMEs in creating a positive climate for business development. This paper is mainly based on the study and review of several papers by national and international authors. As secondary sources were used earlier studies by different authors, periodic reports from government agencies and consulting corporation. Meanwhile primary data was collected through interviews with business representatives. To assess the problems and to observe the impact of SMEs in the economy, we conducted a desk research and held direct meetings with representatives of selected business. After that, we used qualitative analysis for generating results from findings.

4. Analysis of findings

Through primary and secondary data will be discussed in two directions. Firstly, we will focus on the peculiarities and distinctive features for SME development in Albania. Secondly, the analysis will be deeper about the possibilities of developing SMEs.

4.1 The features of SMEs in Albania

The importance of a good climate for investment is a stable basis for economic growth and improvement in living standards. To achieve this, SMEs are a key element. Albania, after it came out from socialist system and during the transition period have been numerous variations in terms of the economy and not only. In the first steps in the democratic system and the country's economy was in shambles, destruction of public property and massive emigration/migration. Initially, construction of market economy institutions was a good omen. Many entrepreneurs started their business activity without proper education or experience required. Regardless of this, they have been successful. In many cases, success has been somewhat temporary and level of bankruptcy in this category businessmen has been much higher than individuals with background and professional training.

The main feature of SME development in Albania is their concentration in the main cities of the country. Lack of effective policies for distribution all over the country, it has led to the concentration of these businesses in about 20%-25% of the territory, mainly in the triangle Lezha-Tirana-Vlora, and a tiny distribution in the rest of the territory. More than 50% of these enterprises are concentrated in Tirana and Durres region, about 32% stretch in the cities of Fier, Korca, Vlora, Elbasan, and a share of about 14% is positioned in other cities as Berat, Dibra, Gjirokastra, Lezha, Shkodra. The new businesses are oriented in the main branches of the economy such as services, transport and commerce. In the structure of enterprises by economic activity continues to be the dominant trades and services sectors, which cover about 85% of registered enterprises. The development of the SME sector has its beginnings in the sphere of trades and services. This is a phenomenon known to all countries that are emerging economies. The SMEs will be attracted to invest in this sector because it is: a small initial investment, the rapid movement of capital, realization of higher profits, etc. Recently, there has been a trend of increasing investment in manufacturing field. SMEs that operating in the production field are still at an early stage of development. Even though, they occupy a small weight, the manufacturing sector possesses a great potential for development in the future. Investment in production field are those for processing of agricultural raw materials, wood processing, for the production of building materials, for the manufacture of clothing, etc. The possibility of investment in the manufacturing sector is a consequence of the initial capital accumulation in the trades and services sphere, the growing demand for building materials as a result of the impetuous development of the sector, creation of sustainable relationships with suppliers at home and abroad for the provision of raw materials, etc.

4.2 Opportunities for SME development

The strengthening of financial sector is one of the key elements to enable the performance of small and medium businesses in Albania. One of the priorities to be taken into consideration for their contribution is to minimize barriers to their lending. Also, the adoption of new financial mechanisms. Although, Albania's financial sector is dominated by banks, again has helped to develop this sector. Likewise, a contribution was given by other financial institutions, as well as donors, who have encouraged investment and credits in the country. However, the SMEs funding

levels have been growing. Despite this, it considered insufficient to induce a rapid development of the sector. To improve the climate of SME financing in recent years they have been taken several actions related mainly to the introduction of credit guarantee schemes for SMEs. The guarantee funds in Albania are applied through some specific projects. The guarantee funds have been limited only to support with funding areas and certain categories of SMEs, by leaving out most of the sector. Especially new SMEs have great difficulties to obtain loans from the banking sector and credit costs are relatively high. The conditions required by banks are not favorable to businesses, and more concretely collateral is required in levels of 120% to 150% and credit interest rates are high, even when a loan for investment in plant and equipment for a medium period of time. The reallocation of resources in the economy is oriented towards productive sectors, to services, trades, hotels and restaurants. While the contribution of creative businesses is very small and is not clearly identified. The creative industry is based on talent and workmanship individual, able to produce, employing people, and is an integral part of intellectual property. The last few years in Albania, are born and are developing some new sectors of the creative industries as: advertising production, graphic studios, computer services, music and musical shows, architecture studios, design, etc. To increase the competitiveness of Albanian SMEs should be taken a few steps at the same time, to further improve the legal framework, improving the efficiency of institutions, facilities in credit management, both in cost and collateral.

Conclusions

The SMEs are the main contributors to the economy, because they alleviate poverty, increasing opportunities for employment and allocate resources in a more fair distribution. In Albania are about 80% of employees by SMEs. Among the sectors that have the highest weight in employment are trade and services sectors. Also, over 65% of the investment was realized by these ventures. This study has the main purpose: the evaluation of barriers and the impact of SMEs in creating a positive climate for business development. About 25% of SMEs are in the triangle Lezha-Tirana-Vlore, where more than 50% of them are in Tirana-Durres region. This distribution is due to the lack of adequate policies and the migration of many population movements in these areas. Minimizing lending barriers would yield more development opportunities. The cost of credit is too high, and collateral is required in levels of 120% to 150%. In recent years, are developing creative businesses by enhancing the contribution and importance of SMEs. As for those sectors that were young and others, must be taken several measures simultaneously, to further improve the legal framework, improving the efficiency of institutions, facilities in credit management, both in cost and in collateral.

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SPECIAL ECONOMIC AREAS, BEST PRACTICES FOR ATTRACTING INVESTMENT AND FLEXIBLE FORMS OF EMPLOYMENT. ECONOMIC IMPACT IN ALBANIA.

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ABSTRACT

Reasoning on the attractiveness of a country means to study the conditions for it to grow. The virtuous cycle triggered by foreign investment also promotes local economic actors, bringing valuable resources to domestic companies: a challenge for Europe but also for Albania.

The concept is simple: create particularly attractive areas for business, with strong tax incentives but not only; reduced and efficient bureaucracy, infrastructure resources, logistics, high specialization in key areas, by 'automotive to food, the skins, the new technologies. port areas, such as Tangier, nearby airports, such as Shannon, customs zones, urban tax-free zones: how many depends on the industry model you want to attract; create legal economic conditions favorable for the attraction of foreign investments in Albania.

As a result of the particular activities that are carried out in a special economic zone, they are well suited to the atypical case administration work: which, however, appear to be easily integrated with other forms undertaken by the workers.

They, on the one hand, cannot but contribute to improving the employment rate; and, on the other hand, are to encourage -to the effect- welfare and the consequent economic development.

Keywords: *Investment attraction, development, free trade zone, regional income, unemployment*

JEL Classification: *F10, F21, O10*

1. Introduction

Relying on the attraction of a country means studying the conditions for it to grow. The virtuous circle triggered by foreign investment also promotes local economic actors, bringing valuable resources to national businesses: a challenge for all of Europe, but above all for Albania. The concept is simple: to create particularly attractive areas for businesses, with strong tax incentives but not only; Reduced and efficient bureaucracy, infrastructure, logistics, high specialization in key areas, from automobiles to food, to skins, to new technologies. Port areas such as Tangiers,

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airport areas such as Shannon, customs zones, urban free zones, many modes depending on the industrial model that you want to attract. As a result of the special activities that are carried out in special economic zones, they are well suited to administering atypical work situations, which are, however, easily integrated with other forms of work: they can, on the one hand, improve the employment rate; and, on the other hand, they should favor - the effect - the welfare and the consequent economic development.

2. General Economic Framework: premise

After the failure of systems governed by planned economies, to take advantage of this moment we must recognize the new dynamics that influence the development of society. The growth of emerging countries, the interconnection of markets, demographic forces and, above all, the need for infrastructure will be the factors that will most effect on future economic growth. For infrastructure alone, investments over the next eight years are expected between \$ 10,000 and \$ 15,000 billion. The figures for some geographic areas in particular are colossal: in the Middle East (\$ 1.1 trillion in China and \$ 700 billion in Saudi Arabia by 2020) but also in Eastern European countries (a total of \$ 133 billion by 2013 for new EU members) in Latin America and Africa. Another factor in the game is the enormous availability of liquidity of "sovereign" funds, worth over \$ 3 billion, with which countries so far exclusively active in the commodity sector will gain more influence on international markets. Businesses that want to be world-wide and operating on a multinational scale have changed their investment logic: it is no longer only important if an investment is convenient in the references of a single market, but it is crucial to assess whether this is better or less risky Compared to the many global options. The business-to-business alternative is no longer only between Business to Business or Business to Consumer, but today the big business also has the "Business to Country" model, with 360 degree benefits To be positioned in a territory rather than in another to offer products and services for which the development areas have planned very high budgets. In fact, globalization also means competition between territorial systems: a world-wide competition in which the countries that do best acquire for growing. Each country is faced with unprecedented strategic challenges that first require deciding who to become and when, and the translation of that decision into concrete actions. Whoever is responsible for a country's economic strategy is in the situation of having to answer a few questions, such as: why should an enterprise take over and why should one already exist? Why a taxpayer, a family should decide to contribute here? Why should a talent decide to work here or a student should decide to study here? Relying on a country's attractiveness means therefore to think about the optimum, practical and cultural conditions to make it grow. This is a challenge for Europe, but above all for Albania. Attracting foreign investment is important: because they favor local economic actors, bringing valuable resources that automatically increase the virtuous cycle of domestic businesses. In addition to contributing to a major part of a country's turnover as a "global leader", multinationals are an important source of "best practices" that gradually move to the entire production system; It is enough to think that on average, in Albania, labor productivity is 50% higher in foreign-owned enterprises than in domestic companies. But, above all, the presence of foreign companies on the ground strengthens the development of local skills projecting them on the global market ("Global Supply Chain"). The New Pignone case in Italy is exemplary in this regard: bought by Ge in 1994, it billed about a billion dollars: today, the turnover of what has become the headquarters of the entire Oil & Gas

business group exceeds 6 billion and, thanks to Ge, an industry that was extremely localized, today exports 95% of turnover, and is the protagonist of success in further international acquisitions. What are the conditions that can allow us to replicate case history, creating situations where the country is not simply a market, but becomes a place where new technologies are developed, new technologies are developed, and attracting and growing talents? The concept is simple: create particularly attractive areas for business, with strong tax incentives but not limited to; reduced and efficient bureaucracy, infrastructure facilities, logistics, high specialization in key areas, from 'automotive to food, the skins, to new technologies. Port areas, such as Tangier, nearby airports such as Shannon, customs zones, urban zones: a lot of ways, depending on the business model that you want to attract. With a simplified expression, we could say that frank zones are at the crossroads between various European policies: customs policy, economic-social cohesion policy, fiscal policy and competition policy. The data is derived from various elements. Often, free zones are set up and used to contribute to the development of otherwise disadvantaged areas: territorial location, infrastructure or other reasons, geopolitical, climatic, demographic etc. Equally often, these forms of economic aid are far removed from taxation, contributions, subsidies, etc. And all this falls within a customs regime that can be at least twofold. In the case of free customs zones established under the 1992 and 1993 Regulations, now 524/2008, the mechanism chosen is the widely described description of the fictiojuris of placement outside the customs territory of the goods located in the free zone. If, on the other hand, the site is physically located outside the Community customs line then we can talk about real extraterritoriality, as in the case of Livigno, the Italian Champion and a portion of the waters of Lake Lugano. Ireland, Bulgaria Croatia, with a very competitive tax and public services which in some cases do not disfigure at all feel the need to create areas with additional tax benefits, to become even more competitive in a European and international scenario in which the competition is now the highest among states, if they are able to attract businesses, which by the same companies, with the latter you relocate easily going to work where it is most convenient.

3. Free Customs Zone and State Aid in the European Dimension

With a simplified expression, we can say that frank zones are at the crossroads between various European policies: customs policy, economic and social cohesion policy, fiscal policy and competition policy. The data is derived from several elements: Free zones are set up and used often to contribute to the development of otherwise disadvantaged areas: territorial location, infrastructure or other reasons, geopolitical, climatic, demographic etc. Equally often, these types of economic aid are given to these regions: tax aid, contributions, subsidies, etc. And all this falls within a customs regime that can be at least twofold. In the case of free customs zones established under the 1992 and 1993 Regulations, now 524/2008, the mechanism chosen is the widely described description of the fictiojuris of placement outside the customs territory of the goods located in the free zone. If, on the other hand, the area is physically located outside the Community customs line then we can talk about real extraterritoriality, as in the case of Livigno, a sample of Italy and a portion of Lake Lugano's waters. Each of the policies mentioned above, will retain their own facets, having each aspect: customs, economic and social cohesion, competition, a different legal basis. Consequently, it is a misleading simplification to think that a free customs zone and an area of taxation of benefit are coincidental; So it is misleading to think,

for example, that free customs zones and urban free zones are the same. We have described the regime of free customs zones. State aid is, on the other hand, borne by the arts. 107 ss. TFUE. These rules are addressed directly to the Member States, in the face of possible distortions of competition not attributable to market participants but to the political, economic and administrative choices of the States themselves. Therefore, European legislation prohibits so-called "state aid", meaning any advantage granted by the public authorities to help alleviate the burdens normally imposed on the enterprise budget. Insofar as the aid is likely to interfere with trade between Member States by distorting competition, it is incompatible with the common market, subject to the derogations provided for in art. 107, paragraphs 2 and 3. The definition adopted by par. 1 of art. 107 EC is deliberately broad and generic, in order not to incur excessively formal or restrictive interpretations. However, some key elements are readily available at first reading. In order to be able to talk about aid, it must be: 1) public facilities: it does not matter if it is provided directly by public bodies or private bodies, provided that the aid is financed with public resources; (2) aid is a measure facilitating direct access to certain undertakings or certain specific productions, not a general measure applicable to all undertakings; (3) the aid measure must distort or threaten to distort competition; (4) aid must be capable of affecting trade between Member States. In the presence of such requirements, Art. Article 107 EC becomes fully applicable and State aid incompatible with the common market, although not expressly prohibited. Art. 107, par. 2 identifies derogations from the general principle of non-State aid for social benefits granted to consumers if they are granted without discrimination on the basis of products origin (eg aid for the scrapping of vehicles granted to consumers and not to car manufacturers); In case of natural disasters or other exceptional occurrences; For the aid justified by the division of Germany. In these cases, the Commission only checks that the conditions of the rule are actually present. They may then be considered compatible with the common market in the light of Art. 107 para. 3: (a) aid intended to encourage the economic development of the regions where the standard of living is abnormally low or has a serious form of underemployment; (B) those intended to promote the implementation of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State; (C) those intended to facilitate the development of certain activities or of certain economic regions, provided that they do not adversely affect trading conditions to an extent contrary to the common interest; Again: (d) aid intended to promote culture and heritage conservation, without affecting the conditions of trade and competition in the Community to an extent contrary to the common interest; (E) other categories of aid, determined by a Council decision, acting by a qualified majority on a proposal from the Commission. So, well-outlined, the relationship between economic-social cohesion policy and competition policy: the former must not be prejudiced by the second. And the aid is considered to be compatible with the common market only if it actually compensates for a competitive disadvantage that the recipient enterprise accuses as a result of its geographical location. At this point, it is easier to answer a frequently asked question: is there any possible creation of a free customs zone in Albania that could lead to additional forms of taxation of benefit to Albanian workers? In the light of the foregoing, the answer is relatively easy: the establishment of a free customs zone within the meaning of European law does not in itself entail the removal of State aid since the same taxation rule , For taxes such as VAT, which require the territoriality of the economic operation, excludes them from being applicable to goods allegedly placed outside the European customs line. No tax rebate therefore, the tax simply does not apply. However, keep in mind that the EU's own revenues are made up of 10.7% by VAT and 11.8% by customs duties

and that, consequently, the Commission does not see good decisions which, however, involve significant Impacts on their own revenue.

4. Europe, differentiated tax and "harmful tax competition"

The prestigious Association of Southern Studies Svimez includes among the most significant disadvantages of SOUTH: "... the impossibility to compete on the level of general taxation with the other depressed areas of the European Union, especially in the East, which offer lasting and decisive fiscal conditions more favorable. The European Union's opposition to the adoption of differentiated taxation within a single country, in a single currency regime in which states and regions are placed on the same plane, no longer has reason to be." Svimez highlights a paradox. In the European single market of 500 million people are subject to very different fiscal taxation, but the tax burden is not available to all: it can be used by a state but not by a region, even if it is in a disadvantaged state. This is confirmed in the 2012 Final Report of the EU Commission on "Effective Levels of Taxation", which describes, in more than two thousand pages of analysis, conclusions and recommendations, a persistent very differentiated situation within the EU. The rate of corporation tax varies from 10% in Bulgaria, 12.5% in Ireland, 15% in the Baltic countries, 31.3% in Italy, 31% in Germany, etc. The actual effective tax rate (the most significant) ranges from Bulgaria's 9% to 25% in Italy and the UK, with a substantial group of countries below 15% or just over 15%. The scissor widenes or shrinks depending on the case, but it always remains very wide. A country's tax system, although not a decisive factor, has a significant impact on the allocation of investment in businesses. A recent survey by the American Chamber of Commerce in Italy concludes that US investors estimate that our country has a "strong competitive disadvantage" (58% of respondents) and a "competitive disadvantage" (30% of respondents) in relation to Other European countries. The same interviewees also give an even worse judgment on the efficiency and competence of public institutions while recognizing a strong innovative capacity of businesses. The deficit is in the public system, the tax is an essential component. Everything intuitively worsens if it narrows the focus to the Mezzogiorno. It should be remembered that Italy is at the bottom of the OECD countries' ranking as regards the ability to attract direct investment. And only US investments abroad amount to 4155 billion dollars, of which 55% in the EU (2011 data). In fact, many market failures and unfair competition come from heavily differentiated tax regimes that insist on the same market. An OECD study of 1998 had detected it on a worldwide scale: harmful tax competition is an emerging global problem. The Council and the Commission have thus promoted time to resolve at least part of the problem, but the various attempts are all wrecked so much that the tax regulation in Europe is now considered an endless saga. More recently, however, the Commission has fallen with little prospect of success on the objective of taxing companies on a Common Consolidated Corporate Tax Base (CCCTB), ie a set of rules that multinational companies operate in more European countries would use to calculate taxes. It would thus be a single taxation system which, however, does not alter the 28 internal tax systems in the EU and expressly states that: "... *Member States would retain full sovereignty in shaping their own rate of corporation tax.*" Additionally, in the long and complex process of building the EU, the Community institutions did not want to / could include effective harmonization of tax systems, as this is one of the most intimately linked to the sovereignty of individual Member States. But this did not preclude the then European Economic Community from immediately

putting the problem on the carpet by launching studies, surveys, timid proposals, often alternating signs. In this slump, the independent expert group commissioned by the European Commission in 1992 and chaired by O. Ruding had ruled out that fiscal competition could actually influence investment location choices. At most, it was said that tax asymmetries could have determined the type and methods of allocating profits within corporate groups (dividends, interests, transfer pricing), generating revenue problems to certain Member States. Nevertheless, the Ruding Report of 1992 recognized the adverse effects on the tax distortion market and, without proposing impossible or even desirable harmonization, recommended: (a) the elimination of discrimination and distortions that hinder investments and shareholdings in several countries; (B) a minimum level of corporate tax rate for all Member States (30% recommended) and common rules for the establishment of the minimum tax base; C) full transparency on incentives. And in 2001, the European Commission came back on the issue, highlighting the aim of "fighting harmful tax competition". It noted that only small progress had been made in the implementation of the Ruding Report and that the evolution in progress (single market, euro, inclusion of many new countries in the Union) made investments tendentially more sensitive to fiscal rules. The Commission report therefore concluded that *"... there are significant potential benefits ... in providing companies with a common consolidated tax base for their activities in the EU."* It shall therefore recommended the implementation warning that *"... the domestic tax rate is an important factor in determining the effective taxation and it is clear that (determination) of a common tax base without further intervention, automatically accentuate in practice."* To say, reform has become even more decisive for the sovereign taxation rate of individual states. In short, the issue of tax competition, inherent in the process of aggregating multiple national sovereigntys in the EU, remains unresolved and, in truth, it has not been univocally treated either by economic theory. If, in fact, some states, by reducing the tax on production factors (especially those with more mobility), can attract investment to the detriment of states with higher tax burdens, it is also true that the latter, in response to the outflow of Production, tend to be also encouraged to lower their rates, thus triggering a downward trend in tax rates. This, according to some, would result in an inefficient long-term equilibrium, as the tax burden would fall too high. According to others, as already mentioned, the balance could produce efficient results as it would push governments to pursue collective well-being with the least waste of public resources. The fact is that some states that, with less territorial and demographic dimensions, can contain more public spending, do not benefit from tax coordination and remain free riders unless they find compensation mechanisms. In addition, many states are reluctant to harmonize fiscal legislation or devolve tax sovereignty at a higher government level. But in the absence of central coordination, it is almost impossible to counteract the phenomenon of harmful tax competition. This also explains the presence of so-called tax havens. The European Court of Justice has also intervened, stating that the tax system is a legitimate parameter, like the others, in the choice of location of an enterprise. It is therefore very realistic to imagine that there will be no follow-up in the future, even in the future, of the Ruding Report's recommendation that it has set a minimum tax rate for companies in all EU countries. It is not by chance that Ireland has not adhered to the Troika's request to change its corporate taxation upward. The problem is that, despite some recent correction by the Court of Justice, it is even risky to be exaggerated by the European rules on state aid. In fact, at a very differentiated level of taxation rules, even more detrimental appears to be the orientation to consider as unlawful aid any possible tax-benefit measures adopted on a territorial basis. As a selective aid, and therefore as incompatible with the Treaties, the EU considers the tax cut on a

regional basis. The Sardinian and the Lombard companies must therefore have the same tax treatment as punitive penalties for the Commission. For the EU, there is no alteration of the market for the comparison of taxable weapons of an Italian company and of an Irish or Bulgarian company on the same market. This is a situation of clearly asymmetrical tax asymmetry and to overcome. For this reason, the D'Alema Government attempted to introduce regional tax flexibility on the Lisbon European Council of March 2000 defining the European growth strategy. "... It is not reasonable (the Premier said) that Community rules impose fiscal and contributory policies Identical in regions with so different unemployment rates as between the North and the South of Italy. " At the end of such statements, the Italian government gained some principle recognition but no concrete outcomes. Today, the Court of Justice has allowed a legal space for tax decisions on a regional basis to the extent that they respect the criteria of institutional, procedural and economic autonomy. These judgments have been widely appreciated, as they open a large gap in the rigid European Commission wall towards any form of differentiated tax on a regional basis.

5. The case of Ireland

Ireland is a comparable country, by population and size, with areas of the South and with Albania itself. Even the economic and social situation of thirty, forty years ago could be said to be largely comparable, while it was very different - we know the economic performance over the past two decades. Here is the interest and usefulness of the case study in Ireland. In 1989, the per capita domestic product of the Republic of Ireland was 69% of the EU average; In 1997 it reached parity; In 2011 it was about 130%. True, the Celtic tiger has known, in recent years, the crisis and humiliation of the rescue plan. But this does not erase the steady and accelerated progress of the Irish economy in the convergence and overtaking process of the EU average: the opposite of what has been happening in the Mezzogiorno that, after decades of growth and convergence, lies today in full stagnation , Diverging from the EU average. The data is impetuous. Made 100 per capita GDP - with the same purchasing power of the European Union - ,the Mezzogiorno recorded 80 in 1995 and 69 in 2008. In the following years the evolution has further worsened. Irresistibly Irish success is often attributed to miraculous recipes, low tax, france, etc. There is no doubt that the first modern French industrial zone established in Shannon in 1959 and the favorable tax regime have contributed to the takeoff of Ireland, remarkably well-known, as we shall see. But there is also much more. Success is, however, due to policies for effective and long-lasting development, including foreign policy. In a now dated but always instructive report prepared for the Budget Committee of the Italian Chamber of Deputies, a leading European research institute in fact explained the Irish boom in this way: *"the combination of favorable conditions for investments and attraction of capital with education strategies Agreements with the social partners for wage control and the intervention of the European Structural Funds have given rise to a record expansion in the economy and the creation of substantial employment. "* The approach adopted has been characterized by flexibility and pragmatism and the ability to adapt by monitoring the situation and by calibrating the necessary policies. Exhausted development potential as a low-cost manufacturing site, Ireland has become a country capable of training highly specialized engineers and scientific researchers to become a world-renowned innovation center. The objective of attracting foreign direct investment (FDI) was to combine with the promotion of local industry, converging fiscal

policies, infrastructures, training and deregulation, but also distinct tools (incentives, advisory, information) put in Field with effectiveness. Ireland is today, in the world, one of the most intensive foreign direct investment economies, pursued with the choice of courageous and determined development policies, aware of the benefits of participation in European institutions, access to markets And globalization, if you want to be competitive. It has been made by orienting foreign policy also towards economic goals. As a "small" export economy, Ireland has relied on the evolution of the international context towards a global free trade environment and has made consistent choices. It joined the European Community, withdrew from the pound for the European Monetary System (EMS), adopted the euro, concluded major bilateral agreements with the United States. Each of these stages (see access in 1973 to the EEC, accession to the EMU) is marked by a renewed boom in investment. Success did not come by chance but is the result of a long and constant work. The IDA (Industrial Development Authority) government, which has been responsible for the program for attracting foreign investment, has been operating overseas in 1960 in London, Paris, Cologne, New York, San Francisco, and Chicago. Today, IDA has at least 32 foreign missions. Over time, it has closed those who have exhausted their potential and has opened up new ones in the most dynamic areas of the world. A Carthusian job: every two or three investments made, one hundred and more investors were interviewed. Another competitive leverage: the tax credit, accredited as the "unique and essential foundation stone" of the Irish boom. Indeed, the rate of corporation tax is 12.50%. It is a low, transparent, stable taxation. Low because it is among the most modest in the world. IDA performs it as such in institutional marketing for attracting investment. Transparent because nominal taxation does not differ significantly from what actually paid by businesses, discounted other taxes including local ones, ie around 14%. Stable over time as evidenced by just marginal changes over the course of half a century. The importance attached by the Irish Government to the competitive tax has proved to be crucial decisions. When, for example, equal to 12 in 1996 to meet the no longer avoidable EU request, the Government had to decide the end of tax arrangements between territories, it introduced a tax rate for all sectors and for all territories, , 50%. In the Zona Franca Shannon was 10%, as in the International Financial Service Center (IFSC) in Dublin. Having to give more favorable tax rates, Ireland has thereby ensured the continuity of the same up to the satisfaction of all commitments undertaken with investors, local public administration reliability demonstration. More recently, the Government has always refused to increasing the fiscal regime, as requested by the IMF and the EU institutions in the trading of the rescue loan (bailout 2010) of banks and public finance. It chose instead to launch reassuring messages to investors, on the will of the country not to affect that pillar. In conclusion, Ireland access to a market of 500 million citizens, with a tax for companies exceptionally competitive. Identical situation occurs in other EU countries. In this scenario, it is clear that particularly disadvantaged are especially Italian weak areas such as the South, where similar industrial and fiscal policies are missed.

6. The Shannon Free Zone

Shannon is considered the first modern industrial free zone. Tax experiences of existing customs free zones Panamanian, US and Hamburg, an evolution of the duty free regime established in the local airport since 1947 and as part of a recovery program of the airport; hub of the transatlantic traffic beset by structural changes of air transport services in the post-jet, since 1959 is fully

operational. The goal is the attraction of international capital for investment in manufacturing and in services. The brochure sent to potential US investors in 1958, reads: *"For merchants, and manufacturers who seek American base in Europe, Shannon is the perfect place. ... It helps you to jump over the wall taxes, regulations, costs ... and other impediments that make it difficult to do business in Europe, from America."* A very clear message: even before the tax authorities, the emphasis is on bureaucracy and on the ease of doing business. The initial module of just three hectares. Saturated by 1962, it has expanded to 100 acres, more than 40 hectares. Gradually widens to the existing 600 acres, 250 hectares and over the next two decades is expected to expand further. Success is not determined by the initial size, very modest, but the strength of the project and the deputy team to its implementation. The story of the Shannon Free Zone is told in a book by Brian Callanan frequently cited in the literature. It is a book that teaches a lot about the local development policies. Besides customs advantages, Shannon provides an exemption for 25 years, from paying taxes on profits made from exports. The integrated range of business services is constantly enhanced. Industrial relations are clear in imposing respect for the rights and above all prevent conflicts. Relations between the parties involved are very informal and geared to problem solving. The success of the Shannon Free Zone is recognized, indisputable, suffice some data: in 1968 already employs 3,942 workers. Field research announce important spin-off. And a 1985 research records that 28 manufacturing companies among its managers people from a manufacture of hi-tech products located in Shannon. Exports from the Free Zone that is in 1969, 24% of total Irish exports. The surplus of exports over import, is 78 million pounds in the first five years of the sixties to grow up to 962 million pounds in the second five years of the eighties (constant 1990 prices). For every pound spent on infrastructure and incentives, there is a benefit of zero, or even negative in the first five years; gradually the benefit grows at the end of the eighties for every pound the benefit cumulatively spending is about 22 pounds. The benefits are clear and consistent but for them it took time and hard work, done consistently. Currently in Shannon are located more than 100 companies in seven business sectors. In more than fifty years since its foundation, Shannon continues to attract investors and organizes itself for the future. The agency Shannon Development has launched a new Master Plan projected over the next twenty years. The goal is that Shannon remains a "must see" place to be seen and evaluated by those who wish to make an investment in Europe. Two key concepts driving the new Master Plan, competitiveness and sustainability. Doing business in competitive conditions and in a state of the art location in the world for environmental sustainability solutions is obviously appealing. The lesson is clear, to keep up with the times need innovative and complex solutions; not just the IRS, the rest now conformed to that ordinarily force in Ireland. In the following period to join the EU, Dublin has been able to use the spaces of the Treaties to give rise to the International Financial Services Center in Dublin, aimed attraction of international finance capital. It should be said that the reputation of the Center has often been questioned by the most authoritative international financial press, which he classified as a tax haven for capital ambiguous. The development of the offshore financial center has been aided, again, by taxation of favor, 10%. Interestingly, this reduced tax has been classified as State aid by the Commission and has been approved as such. The IFSC was thus born in the legal area of State aid. We reiterate therefore the concept of the EU Treaties provide spaces that Ireland, unlike Italy, has profitably used.

7. The Special Economic Zones (SEZs) in Poland

The current Vice-president of the European Parliament, Gianni Pittella also proposes measures for the growth of the South, the creation of "Special Economic Zones on the Polish model" in major industrial crisis areas. The proposal concerns an instrument in that area central Europe has produced good results. the Association SVIMEZ in the ratio in 2013, advancing a similar request. But what are the Polish SEZs? They are areas that attract investors for the quality of infrastructure, the availability of professionalized workers, and a set of incentives tax in the form of tax exemption on profits and tax exemption on the property within a certain preset limit. Poland decided in 1994 the creation of 14 special economic zones, the first became operational in 1995. Establish originally for a period of twenty years, they have been extended prior to 2020 and recently until 2026. Each of the SEZs are run by sogge cts, or other agencies, specifically dedicated to it. At the end of 2014 the SEZs already employ about 250,000 workers, up by as much 40 thousand units compared to 2008, as saying that over the years the international economic crisis, persists in these areas sustained expansion. In areas, it extended to a total of over 15 thousand hectares and already occupied 60%, for settlement permits to about 1,500 companies that cover the areas of manufacturing and high technologies have been released. The cumulative investment to 2012 are estimated at 23.3 billion dollars. According to KPMG, the Polish SEZs are the most competitive among the Special Economic Zones and Free Zones located in Central Europe. It is the interest of investors constant over time (an average of 100 new permits per year) to have prompted the Polish government to extend for a further six years, the term of the particularly convenient regime of Special Zone. It matters that the prospect of a long period of time the food tax breaks for new investment flows. Is easy to understand the disappointment expressed by SVIMEZ in its latest report, in finding such powerful tools are made available in certain European territories for development policies while the South little Italian programming.

8. Technological areas of economic development in Albania

The technological areas and economic development include any economic activity subject to the laws in force with the exception of activities that damage the environment and in general the country's national wealth: those activities may be carried out by Albanian or foreign citizens (natural or legal persons) , after obtaining the relevant licenses issued by the administration of the economic zone. According to the law n.54 / 2015 "Amendments to the law n.9789 of 19 July 2007 on the establishment and functioning of economic zones" the terms "free zones" or "industrial parks" have been replaced with the term "technological areas and economic development". In fact, the "technological areas and economic development" (ZTSE) are defined as a separate territory, consisting of a defined area of land or building or other type of property, developed on the basis of a general infrastructure and fitted with floor required for production, industrial development, trade, services, forming part of the customs territory of the Republic of Albania but differs from this territory for tax and customs arrangements. The above "Zone Technological and Economic Development" (ZTSE) can be constructed, administered and managed by the State or by any legal entity, including any legal entity in possession of licenses, foreign or domestic law, that constitutes, administers and monitors operation of the technological and economic development of the area, in accordance with the provisions of this law, and the

other acts of law and to the secondary sources for its application ("Manager"). The ZTSE are proclaimed as such by decision of the Council of Ministers, on proposal of the minister responsible for the economy. The selection of the ZTSE manager (in the case of participation of the state) is performed according to the criteria and procedures laid down by Council of Ministers Decision # 64 of 22 July 2015. Within the ZTSE can exercise their economic activities all natural or legal persons concerned ("Operators"), including foreign natural and legal persons, also be considered. Legislation concerning ZTSE is very favorable for investments and offers concrete tangible incentives for businesses:

- > The operator or operators are entitled to deduct 50% from profit, for the first five years of the start of their activities in the area;
- > 20% of annual capital expenditures are recognized to the manager that invests in the area as deductible expenses, within three years from the date of commencement of works or the operator that invests in the area, within three years from the start of the economic activity in the area, regardless of depreciation, for a term of two years;
- > The provision of Albanian origin goods for placement in the area is considered as a supply for export at zero interest rate, in accordance with the law for the value added tax and customs legislation, for the constructions made in this area, according the manager of the project are exempt from the tax on real estate for a period of five years;
- > Managers or operators in the area are exempt from the tax on the transfer of real property title;
- > The amounts paid by the employer to the employee in respect of pay and social security contributions are deducted 150% of their value during the first year of operation, while in subsequent years, additional sums from the first year of operation, paid by the employer to the employee they are deducted 150% of their value, the profit tax purposes. The Albanian government, however, has recently announced its interest in the development of ZTSE Koplik (Malësi e Madhe) and Spitale (Durrës).

9. Employment contracts in ZTSE

As a consequence of the particular occupational activities that are carried out in a free zone, well it fits the administration of atypical case of subordinate work; which, however, it appears to be easily integrated with other forms of work undertaken by the workers. They, on the one hand, can only contribute to the improvement in the employment rate in the country; and, on the other hand, they should be to encourage -to the 'effect- well-being and the subsequent economic development. In this sense, in addition to specialized forms of work, it is easy to think of an increase in the basic work activities thanks to the 'application of the latest dictates with regard to employment policy. Think of three types which, more than others, are based on the concepts of flexibility, such as part-time, work at term and intermittent work. Moreover, Albania is art. 137 of the labor code, through the provision of *codatorialità*, that lends itself to foreshadow the relationship of administration, providing the possibility of making available to the worker at a different employer. Everything is integrated with the reference to the effectiveness of work contracts abroad, in practice and under certain conditions, may continue to have value in Albania (according to art. 3 of the code).

Conclusions

As shown, taking into account the economic, the Albanian tax burden low, the flexibility of labor contracts, could be a viable premise because the investment attraction models, already put into practice by other countries, can promote economic development, technology and culture of the Republic of Albania.

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MARKETING IDEA ON A LIMITED BUDGET, CASE OF ALBANIAN BUSINESS

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ABSTRACT

Development and execution of a marketing business plan requires financial support and not always budget businesses can respond. On the other hand it is fully recognized and acceptable the fact that marketing is the undisputed business key success. This dilemma between marketing strategies and limited financial resources is the research object of this article.

Analysis of the weight that should be given to marketing budget in the total budget for different categories of business and taking into consideration of the entire conditioning factor is the initial of this article.

Further, this paper aims to bring attention to some of the less costly forms and more effective of doing marketing knowing that mainly for small businesses and startups, financial opportunities are small and incomparable with those of big businesses.

The article proposes marketing ideas that can be implemented easily, with low budget and can bring benefits to the company.

The plane of the study is the Albanian business environment.

Keywords: *marketing budget, Albanian businesses, marketing ideas*

JEL Classification: *B1, O4, M11*

1. Introduction

The worldwide statistics speaks for a great importance of the marketing projects in business, knowing the benefits of market development and sustainability. Marketing strategies are part of the work of every kind of business regardless of its size or his purpose. Marketing strategies are subject to constant evolution in line with the rapid technological developments. However, studies indicate that 80-90% of new businesses fail to their marketing projects due to bad marketing management. On the other hand the marketing management of a business requires a substantial budget which occupies a large part in the overall budget. In this way, finding the shape or design and implementation of best marketing strategies taking into consideration the minimization of costs that implicate, it is the key to success for a business.

This article sheds light on marketing mechanisms that result in lower costs which can be adapted for businesses in Albania knowing that 99.9% of businesses operating in our country are small and medium enterprises. On the other hand 77.6% of net sales are accomplished by the small and medium enterprises which are characterized by a limited budget.

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2. The theoretical analysis of the factors in the selection of a marketing strategy

The marketing budget settings are a very important issue which correlated with the success or failure of the business. The size of the marketing budget can be determined in several ways; for example:

- According to the marketing objectives (e.g. what management expect they need to spend to achieve the objectives)
- In line with market and competitor averages (e.g. some as a proportion of revenues)
- Based on the previous year, adjusted for known changes in the marketing program.

Literature recognizes several methods of determining the weight of marketing budget in the overall budget which have proved effective:

Percentage of revenues: Once you have calculated the gross margin as well as you determine the required net profit, what remains after you have deducted all costs and other expenses of the budget allocated to marketing and communication. This method is not very practical, but in practice it is what does most of Albanian companies that look marketing just like expense.

Percentage of sales-according to this method, marketing budget is determined as a fixed percentage (i.e. 5%) of total sales. But the problem with this method appears when the level of sales is declining, which in turn led to the reduction of marketing costs, when in reality there may be needs to increase the marketing costs. This way can be valuable, and relatively easy in use, when you need to define a small budget for a particular product or campaign. In these cases, the marketing budget percent is calculated roughly based on the total sales intended.

Objective and tasks: This means having clear specific objectives and tasks that must be met to achieve the objectives.

The competition rate: Expenses are based on those of the competition during the past or what is coming. So compare with competitive costs. This is a practice followed by all major industries and sectors. This method is often used in competition situations, but also as argument to increase the marketing budget of a corporation. But the marketing budget should be evaluated primarily based upon the strategy to make pursued and efficiency has been.

3. World Statistics of Marketing Budget Weight to the Total Budget

A. Which types of businesses spend more on marketing?

Several studies have attempted to assess marketing businesses use by analyzing the data of the weight of marketing budget over total budget. Below are the latest statistics received from specialized sources for such studies:

Table 1

Table 1. Marketing spending by economic sector	B2B Product	B2B Services	B2C Product	B2C Services
Percent change in marketing budgets in next 12 months	5.4%	6.4%	7.1%	5.8%
Marketing spending as a percentage of firm budget	10.4%	8.7%	14.9%	11.4%
Marketing spending as a percentage of firm revenues	8.1%	5.8%	15.2%	11.0%

Source: CMO Survey³

The above table presents the results of the study which evaluated the use of marketing by three indicators that are: Percent change in marketing budget in next 12 months, Marketing Spending as a percentage of budget and spending marketing firm as a Percentage of Revenues firm. The study takes into account 4 types of businesses as presented in the first line of the table above. From the data we see that B2C-Product companies have the largest marketing budgets (as a percent of budgets and revenues) and the largest expected growth in marketing budgets across the four economic sectors. The expectation are for businesses that provide services to spend more on marketing, but it looks like businesses that offer products to consumers have increased their share of the marketing budget.

B. What are marketers spending on?

Studies indicate that are four main forms of marketing:

- Digital marketing
- Mobile marketing
- The Social media marketing
- Marketing analytics

Statistics show that, digital marketing is expected to grow by 14.7% next year compared to a negative growth rate of 1.1% for traditional advertising (outside of the web). Second, Spend on mobile marketing is Expected to almost triple from 3.2% to 9% of marketing budgets in the next three years. Third, Marketing Spend on social media is expected to Increase 126% over the next five years, from currently 9.9% of marketing budgets to 22.4%. Finally, marketers will spend more on marketing analytics, which currently account for 6.4% of marketing budgets. This is expected to Increase 83% to 11.7% in three years.*

C. The relationship between the size of the company and the marketing budget?

As indicated in the following table, initially the increase of the level of business income is associated with the decline of marketing budget, then there is a rising again. Also notice that the

³ www.cmosurvey.org/results

* According to Strong Economic Outlook Spurs Marketing Spending

small businesses experience a greater change in the percentage of the marketing budget compared to large businesses.

Table 2

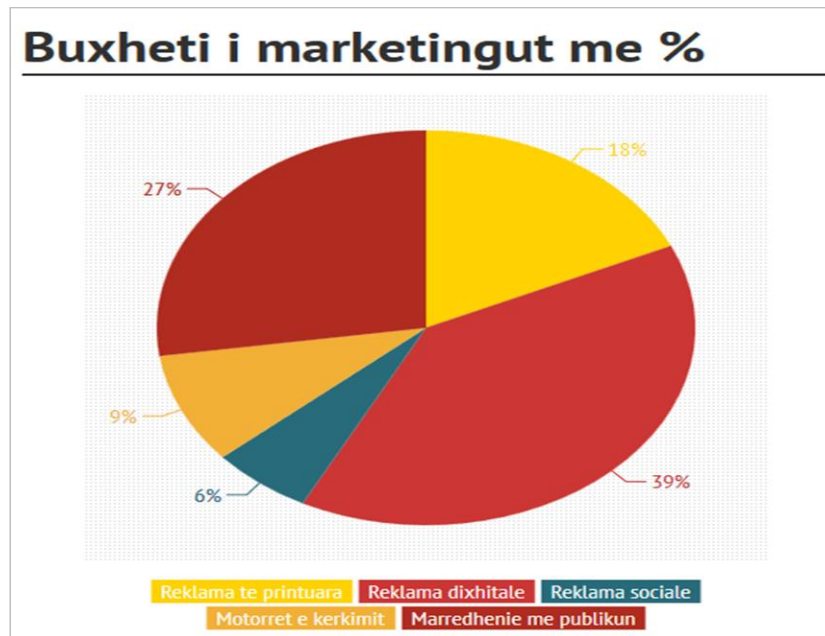
Table 2. Marketing spending by company revenues	<\$25 Million	\$26-99 Million	\$100-499 Million	\$500-999 Million	\$1-9.9 Billion	>\$10 Billion
Percent change in marketing budgets in next 12 months	10.5%	6.5%	5.2%	-2.3%	6.4%	2.3%
Marketing spending as a percentage of firm budget	12.7%	12.6%	6.5%	6.6%	9.7%	7.8%
Marketing spending as a percentage of firm revenues	13.9%	6.1%	5.9%	2.9%	6.7%	5.5%

4. Statistics of the marketing budget by Albanian businesses

Based on various studies conducted by different researchers, Albanian businesses define a limited marketing budget. This is for several reasons such as:

- Lack of funds
- Lack of long-term strategies
- Lack of confidence in marketing format
- Lack of professionalism in the marketing field
- Lack of a marketing department
- -etc.

On the other hand, even when businesses apply marketing, they miss an accompanying strategy of proper marketing. Regarding to the marketing methods used we noticed that less expensive forms are preferable in terms of a limited budget. If we refer to the study (refer to the graph below) conducted by Business Challenge, we glance that the main part of the marketing budget goes to digital marketing and it can be interpreted as a positive sign of progress and a fast adaptation to modern forms of marketing. But at the same time it shows that the Albanian businesses reserve a modest marketing for the main reason is that budget constraints.



Source: <https://www.SfidaBiznesi.com>

5. Conclusions and recommendations

As we know the heart of business success lies in its marketing. So it is very important for Albanian Business to understand and to be aware of the benefits from a very professional marketing.

According to our study, Albanian business must extend their marketing budget and must improve marketing strategies.

Reserving an extended marketing budget by businesses will enable application of intertwined between the traditional and the contemporary marketing. Also having a higher marketing budget would make it possible for businesses to realize advanced marketing research which will show the proper method and suitable for any kind of business. But not always the effectiveness of marketing is attributed to budget size. Marketing effectiveness closely linked with some important issues as follows:

- Having a strategy with realistic objectives.
- Realization of integrated marketing.
- Taking into account the competitors and their marketing budgets.
- An evaluation of the effectiveness of selected forms of marketing.

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IMPULSIVE PURCHASES IN SUPERMARKETS

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ABSTRACT

Impulsive purchases are those kinds of purchases which the consumer makes without any previous planning. In many cases buyers in supermarkets, make impulsive purchases stimulated by many factors. Such factors can be discounts, promoting activities, exposure of products in shelves, testing, reference groups, etc.

The study begins with a general view regarding the development of supermarkets then proceeding with the types of purchases the consumers make and finally with the impulsive purchases.

To obtain better results, the study begins with the gathering of data from interviewing the supermarket buyers through a questionnaire structured in some columns. Processing the data is made using a statistics program SPSS. The study ends with some conclusions and recommendations showing how the purchasing power and impulsive purchase rate has increased affected by numerous promoting activities the supermarkets make.

Keywords: *Impulsive purchase, price strategy, promoting activities, product presentation*

JEL Classification: *M1, M31, M37*

1. Introduction

The impulsive purchase is an unplanned or spontaneous purchase. Items that are bought impulsively might be new products, samples or well-defined products with low prices. Parboteeah (2005, at Piron, 1991: 512) declared that impulsive purchase is not planned and therefore comes as result of being exposed to a stimulus. Impulsive buyers look to buy a certain item or visit the certain shop without having a specific objective. As a result, they are exposed to stimuli that provoke buyers to buy impulsively. When impulsive buyers desire to buy, they make the decision without asking for information or measuring possible alternatives. After the purchase, customers result in a positive or negative assessment influenced by internal and external factors, which cause their impulsive purchase.

2. Impulsive behavior at supermarkets

Such impulsive behavior is an unpredicted or spontaneous purchase. Kacen and Lee (2002) describe typical characteristics of such behavior as unpredicted purchases made by spontaneous

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decisions and a typical attitude to own something immediately. Stern (1962) classifies these attitudes in 4 categories as follows:

1. *Pure impulsive attitude* is a purchase that breaks the typical buyer's model.
2. *Bring-back impulsive purchase attitude* occurs when the buyer sees a product and is reminded an ad or information that this same product at home ran out.
3. *Suggesting impulsive purchase attitude* occurs when the buyer sees the product for the first time and projects it in his mind.
4. *Planned impulsive purchase attitude*, occurs when the buyer plans the purchase based on price, offers and similar. Parbotech considers the impulsive purchase as an unplanned purchase since the buyer is exposed to a stimulus and concludes it with emergency purchase. Ghani Imrar and Ian describe the impulsive purchase as buyers' decisions within the shop without the objective of buying something special. Since the customer looks inside the supermarket in order to buy special products, they are purposely exposed in stimulating beautiful areas so that they provoke the urgent need of the customer to buy something unplanned. Such urgent need for buying is so great so that the customer cannot resist the need to buy unplanned products. These are the internal and external factors that push the customer towards the impulsive purchase. Although such customer attitudes in supermarkets are too obvious, there are very few studies about the argument. Therefore, it is designed that this study helps in bringing some facts to understand this argument. Conclusions of this study are thought to help wholesalers or supermarket managers to encourage customer towards impulsive purchases.

Today's business environment has changed dynamically, by reflecting changes in customer's culture. Considerable increase in a number of supermarkets, malls, caused customers to change their buying habits: from buying in small neighborhood shops to large and cozy supermarkets. Globalization has a tremendous impact by showing and exposing the customers to a modern lifestyle making they shop more comfortably. This implies that modern customers prefer to shop in the supermarket in the same place where shopping and entertainment are combined. Supermarkets are chosen as well by people who work and have less time for shopping. This is because there are many shops in one place and hygienic and relax factors are more present in supermarkets and are highly appreciated by customers. This is why supermarkets substitute the traditional markets.

3. Methodology of the study

Primary and secondary data are used when this study was conducted. Primary data have been collected through a questionnaire – its first section provides mainly demographic information. The other section has been organized based on a Likert scale (Strongly disagree = 5, Disagree = 4, Neither agree nor disagree = 3, Agree = 2 and Strongly agree = 1). Web sites, articles, and books have been used as secondary resources for collecting information. Data have been collected by customers who buy in supermarkets regularly. The size of the sample was 250 persons. SPSS statistical program has been used for data processing.

4. Designing the questionnaire

The questionnaire was structured with few section and questions based on Likert scale. The first section aims to collect some common information regarding demographics such as gender, age, status, family size, education, employment, etc. The second section aims to understand the shopping habits. It tends to show the customers' preferences about neighborhood shops, marketplace, and supermarkets. The third section identifies the factors affecting directly the impulsive attitude of customers. To mention some of them: price reduction, promotions, offers, incomes, product display, etc.

As far as the age of respondents is concerned, 42.2% of them were between 18-25 years old, 28.9% were 26-35 years old, 11.1% were 36-45 years old and 17.8% were over 45 years old. Ages from 18-35 years old were exposed to a variety of products, packaging, colors, music, different supermarket fragrances, etc. Whereas ages from 36-45 years old and over 45 years old, shopped in supermarkets because of limited shopping hours after work or other family obligations.

As far as the education of the respondents, 51.1% of them have University degree and are employed. This fact shows that they have a stable income level and buy with high prices. Whereas 24.4% have high school education, 11.1% had a master degree and 8.9% had attended professional courses.

Such an important question is related to incomes of the respondents. 53.3% were individuals with incomes varying from 46-70 thousand leke. 20% had incomes from 71-95 thousand lekë, 17.8% families with incomes 20-45 thousand leke. The smallest part is taken by families with incomes over than 95 thousand leke with 8.9%. Therefore, the respondents are individuals who belong to families with average incomes. Since the population has no high incomes and their purchases are not too many, it effects on impulsive purchases.

For the shopping preferences at neighborhood shops for groceries, there's a tendency of customers leaving. The majority of them, 48.9%, prefer to shop a little at neighborhood shops. As said above, the time affects why people leave the neighborhood shops because they cannot find everything they need. Some 31.1% prefer to shop at their neighborhood shops. This part mainly has to do with those customers who shop at their neighborhood shops because they live away from supermarkets and is impossible for them to go there. 11.1% of the respondents do not prefer to shop at their neighborhood shops. 6.7% of them do prefer more the neighborhood shops and a small part of 2.2% prefer too much to shop at their neighborhood shops.

35.6% of the respondents say that they prefer a little to shop at the marketplace, whereas 26.7% of them prefer to shop at the marketplace, 24.4% of them prefer very much the marketplace and only 13.3% of them do not prefer to shop at the marketplace.

The question related to shopping at the supermarkets results in a quite equal division, meaning that 33.3% of the customers do shop "a little", 28.9% shop "on average" and 28.9% of them shop "very much". A small part of them, 6.7% are regular customers at supermarkets by shopping there pretty much. Only 2.2% of the respondents do not go at supermarkets. This shows that there is a tendency of shopping at supermarkets away from the monotony of shopping at the neighborhood shops.

How much are we affected by the price reduction of products? The answer to this question is the effect of price reduction on customers. 40% of the customers "strongly agree" that price reduction makes them shop unplanned which is well, influenced by the economic conditions, thus, the price reduction is a good opportunity for shopping conveniently. 35.6% of them "agree"

that price reduction makes them buy unplanned. This is considered as an opportunity to add more products to the basket with the same amount of money. A part of them of 15.6% "neither agree nor disagree" that they are affected by price reduction in order to buy impulsively. These customers are willing to buy a product at a certain price when they need it and appreciate sales when they do not need a certain product. Only 6.78% agree on a little that price reduction makes them shop impulsively and 2.2% do not agree that such strategy affects their purchase behavior. These customers do not shop impulsively being affected by prices.

Considering the effect of different promotional schemes (buy one, get one free) we see that 40% of the respondents "agree" that they are affected by these schemes. 24.4% "strongly agree" that they are affected by the promotional schemes. 22.2% of them are affected "on average" and those who "strongly disagree" that are affected estimate 13.3%. Therefore, we notice that the customers are affected by promotional schemes because their incomes are not sufficient for buying all those products with the respective prices. A few are affected by promotional schemes. They simply are willing to shop with the respective prices.

35.6% of customers were motivated by the promotional schemes, although not for all the products. 31.1% of them are not motivated by the promotional schemes in order to purchase the products involved in them. Customers who "agree" and "strongly agree" that they are affected by different promotional schemes take a considerable part of 28.9% of the respondent. So, we understand that these types of customers are affected by prices and look for opportunities for promotions in order to purchase. We have a very small percentage of customers about 4.4% who are not affected at all by these promotional schemes.

Are the customers affected by supermarkets offers when they make their impulsive purchases? We see that generally there is a strong influence from the supermarkets' offers. Respectively, 50.1% are the ones who "agree" and "strongly agree", whereas 31.1% "neither agree nor disagree" to be affected by offers. Again, there is a strong price-orientation to products, therefore, the evaluation of offers is considerable. 17.7% of the respondents "disagree" and "strongly disagree" that they are affected by supermarket offers. These customers are irregular buyers at supermarkets and are not too interested in offers.

Does the product display attract the customer's attention? Of course, it does, as shown in the study where 86.7% strongly agree, agree and neither agree nor disagree that the product display attracts their attention. Only 8.9% disagree of which 2.2% strongly disagree that are affected by the product display. Product packaging is expensive and requires special attention. The color, the form and the material influence the customer's perceptions. 10% of the product's price sold to the end customers belongs to packaging. Mistakes in packaging could be too expensive therefore companies plan a lot of projects in order to decide on the packaging.

How much are customers affected by reference groups' comments in order to buy impulsively? 37.8% of them are more or less affected, which means that there is an influence to these people as far as their purchasing behavior is concerned. 40% agree and strongly agree that are affected by the reference group. We notice here that friends play an important role for us as customers and the information we get from them not only helps us to make choices but encourages us to buy. In short, we are sure about the action we are taking. The part which is "less" affected by the reference group estimates 17.8% and not affected by all estimates 4.4%. These are customers who are not influenced by others but they make their own purchase decisions.

Customer preferences are endless. An important factor affecting these preferences is their incomes. The study shows that 28.9% agree that their incomes affect their impulsive purchase. If customers' incomes would be higher than impulsive purchases would grow. 17.8% of the

respondents again agree that incomes do affect them. Some 24.4% neither agree nor disagree that incomes affect unplanned purchases. This means that for certain purchases their incomes affect them, and for others no. These are the necessary products for customers. 22.2% and 6.7% disagree and strongly disagree that their incomes affect them. Here are included those customers who have higher than average incomes and may purchase impulsively without being affected by their incomes. Generally, it is noticed that incomes play an important role for the customers.

5. Conclusions

This survey shows an internal analysis of issues that push the customers toward impulsive purchases. It analyses how customers adopt different shopping strategies and how they respond to incentives within shops by purchasing impulsively.

The study analyzed what factors affect the impulsive purchases of people in supermarkets, identifying such variables as positive emotional conditions, searching inside the shop, presence of reference group, different incentives used by supermarkets, etc.

Supermarket managers can use young customers so that they can purchase impulsively and therefore increase sales and volume profits. The study highlights the primary role of searching inside the shops as a stronger factor in impulsive attitude. Marketing experts should work more to encourage the customer visit parts of the markets they had no plan to. Such way of thinking encourages the customers to take family members and friend with them in order to visit the shop in and increase thus the level of encouragement. As shown by previous studies, customers tend to attend those shops where the place smells good and fresh, puts on relaxing music, ventilates the air and use smooth colors. Perhaps customers cannot perceive all these at once, but they do realize when the smell in a shop is strong or unpleasant, or if there's ventilation or it smells like a forest if the temperature is too high or the music is unknown or nice, etc. The latter is mostly used to lessen the customers' stress after a crazy traffic in town in order to reach the supermarket. Supermarkets should be kept clean so that the sense of hygiene grows stronger; it is common that customers do not go back to shops that are dishelved and messy. All these elements within a shop are used to keep customers good-humored and relaxed only to make them come back again: they need to stay as long as possible inside the shopping area. Furthermore, the merchants should be attentive at customers' emotions since they are the ones that make them stay longer, and want to purchase by impulse. Shop managers can decide on designs that provoke the customers' curiosity as shopping incentives. They could decide to make shortcuts in different sections so that it is easier to walk inside the supermarket or establishing signs that not only show directions but also attract customers' attention and make them curious. In other words, the customer is more likely to go in other areas inside the supermarket simply for exploring. The ability of offers for products in a wider level satisfies the customers that look for and chooses the best making a habit out of it, and provoking also additional preference to buy impulsively. Moreover, the supermarket managers should be careful what shelves to put certain products. Additional products could be arranged next to basic products because they require the attention of the customers who have special requirements. Such kind of arrangement sparks the customers' curiosity that has special requirements within a certain section and affects those who have common requirements. For as long as the customers are comfortable and satisfied in a wholesale environment, they are likely to spend more time walking inside the shop for advantage purposes. Customers who spend more time are more likely to compare prices and ask for sales or offers.

Such attitudes are translated by managers as promotional activities such as coupons: "buy one, get one free", or sales so that to satisfy this kind of customers. Different promotional activities in supermarkets encourage the sense of curiosity and persuade the customers to go in different areas of the supermarkets so that they are faced with the offer and thus with the opportunity of purchasing by impulse. Through "buy one, get one free" the managers regenerate the wholesales for these customers. The customers pretend to be more satisfied while shopping when the supermarket employees are friendly with them. For this reason, sellers in shops are trained to be able to find out the emotional state of their customers, the attitudes, and expectations and guide and assist them the way they want to. Rude answers irritate the customers and make them abandon shopping or worse, never come back to the same supermarket because of the employee's behavior. It requires more efforts to hold the products and take them home and is more probable to take friends, family members in the same place, whose recommendation could result in an impulsive purchase.

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DETERMINATION OF THE EFFECTIVENESS AND PROFITABILITY METRIC MARKETING AND SALES FORCES

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ABSTRACT

This scientific research strength handles sales metric. It lists and defines the most common measures to determine whether the sales force and geographic coverage are eligible. Also discussed "channel analysis" (monitoring of the success of sales representatives by understanding the degree of success during the various stages of the sales process). This analysis is used to predict the sales force and the allocation of the sales force efforts in various stages of the sales process. The purpose of this research is to describe how traders measure the efficiency and effectiveness of systems that offer customers the reasons and opportunities to buy their products.

Keywords: *Territories, sales force, channel analysis, marketing metric*

JEL Classification: *L81, M31*

1. Introduction

In this scientific paper treated metrics of the sales force. It lists and defines the most common measures to determine whether the strength of sales and geographic coverage are adequate. Also discussed "channel analysis" (monitoring of sales representatives to understand the success rate of success during the various stages of the sales process). This analysis is used to predict the strength of sales and allocation of the sales force efforts at various stages of the sales process. The sales force territories are consumer groups or geographic regions for which they are responsible groups or individual sales. Territories can be defined based on geography, sales potential, history, or a combination of these factors. Companies try to balance their territories because it can reduce costs and increase sales.

There are different ways that can be used to analyze territories. Mostly, territories compared according to their potential or size. If you have multiple territories or difference arising out of balance, the sales staff may be given more work than necessary or less than they should. This can lead to over or under customer service.

Unbalanced territories raise the problem of unfair distribution of potential sales among members of the sales force. This can result in compensation for unfair and could deter talented salesman from the company who will be looking for balance and better compensation from another provider.

Achieving a good balance between territories is an important factor in maintaining customer satisfaction, sales force and the company.

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In defining and redefining territories, companies try to:

- Balance workload
- Balance of sales potential
- Develop compact territories
- Minimize disruption during the redesign

Prior to design new territories, the sales force manager must assess the workload of all members of the sales team.

The purchasing power based on factors such as the average income level, the number of businesses in an area, the average sales of these businesses and the demographics of the population. Indicators of purchasing power are specific to particular industries. In addition to the workload and sales potential need another metric to compare territories. This is the size or better travel time. In this context, the travel time is more than adequate size and determines the time needed to reach customers and potential customers. The combination between sales potential and the travel time can be used to compare territories.

2. Channel Analysis

Channel analysis is used to track the efforts of the sales force in relation to all current and potential customers to predict short-term sales and to evaluate the workload of the sales force. A convenient way to predict sales in the near term and to show care sales force is to create a sales channel. Although this concept can be represented graphically, data can be stored electronically in a database.

The concept of channel sales originates from a well known dynamic: if a sales force reaches a large number of potential customers, only one of them will make the purchase. Although sales force carries out several stages of interaction with the customer, some of them will escape. At the end of each stage only a few potential customers will remain. By maintaining the potential number of customers at every stage of the process, the sales force manager can balance the workload within the team and to achieve accurate predictions on sales. While the hierarchy of effects focuses on the impact of advertising or mass media, the sales channel used to track individual customers (often by name) as well as the efforts of the sales force.

Creating interest: This includes creating awareness about a product through activities such as fairs, direct mail and advertising. In the way of creating interest, retailers can generate leaders. The two main classifications of stakeholders include: cold and warm stakeholders concerned.

The cold Concern: An interested who has not expressed specific interest. These can be identified through the list of mail-outs, phone book, business lists, etc.

The warm Concern: An interested expected to be accountable. These potential clients can be registered via the Web or can be requested information on the product.

Pre-purchase: This stage involves identifying the perspectives of the whole of the cold and warm stakeholders. Vendors make this distinction during the initial meetings with interested parties, in which they explain the features and benefits of the product as well as cooperate in

solving problems with the customer. The desired result of this early meeting is not a sale but the identification of perspectives and leaving future meetings.

Perspective: A potential customer who is identified as a potential buyer and that possesses the ability and desire to buy.

Purchase: Once prospects have been identified and are making some phone calls with them, vendors included in the second and third meetings with them. It is at this stage going on "buying" traditional. Sellers fail to persuade, negotiate or give offerings. If agreed to a purchase, the seller can close the deal via a written proposal, contract or order.

After-purchase: Once the customer has made a purchase, there is still work to be done. This includes delivering the product or service, installation (if required), payment collection or potential training. After that hides a commitment to customer service.

Once vendors have visualized different stages of a sales channel, they can better track client and contracts. They can achieve this through a database. A manager can use the information stored on such a channel to prepare for sale in the near future. This is a form of channel analysis.

3. Numerical Distribution

Distribution metrics quantify the availability of the products sold by retailers, usually as a percentage of all potential traders. Often, traders are weighted by the share of that category sales or sales "of all goods". For manufacturers who sell through resellers, distribution metrics reveal the percentage of access to the brand in the market. Balancing the firm's efforts to "postpone" (creating and maintaining the support of resellers and distributors) and "pull" (generation of consumer demand) is a strategic issue for traders.

In general terms, marketing can be divided into two main challenges:

The first and most appreciated, is to ensure that the consumer or end user to want a product of the firm. This is known as an attractive marketing.

The second challenge less known but is often just as important. Marketing impeller ensures that customers be given the opportunity to buy.

Traders have developed different metrics by which to judge the effectiveness of the distribution system which creates opportunities to buy. The most important of these measurements are the availability of the product.

Availability metrics used to determine the number of merchants that achieved by a product fraction of important markets served by these retailer and percentage of total volume sales in all categories filled by the retailer to have that product.

Conclusions

Determining whether sales force and geographic coverage are adequate.

Strength forecast that sales and allocation of the sales force efforts at various stages of the sales process. Unbalanced territories raise the problem of unfair distribution of potential sales among members of the sales force.

Channel analysis is used to track the efforts of the sales force in relation to all current and potential customers to predict short-term sales and to evaluate the workload of the sales force.

Distribution metrics quantify the availability of the products sold by retailers, usually as a percentage of all potential traders.

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THE INCREASE TREND OF DIVORCE IN COMMUNITY OF FAMILIES LIVING IN TIRANA-DURRES CORRIDOR

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ABSTRACT

The survey was conducted from 2012 to 2014 in family's community of Tirana-Durres corridor aiming to evaluate the divorce situation. The random selection of family members are interviewed for divorce and problems related to it. The respondents are selected respecting the uniform distribution of by age, sex and administrative division of study areas. Of 595 people interviewed, 56% of the respondents were males and 44% female with an average age of about 43.5. Even the selection of the residents surveyed was administered on the basis of age groups where there was a uniform distribution with average of 20% of residents in each age group. The data collected also serve to depict divorce as a huge social problem which on the basis of the data averaged at 4% of the population surveyed. On account of the socio-economic changes happening in these areas and given the problems that migrant families are faced with there has been a slight increase in the number of divorces. The incidence of divorce according to answers of migrant residents is 2, 2%. From different divorce causes the economic problems were among factors impacting marital dissolution.

Keywords: *trend, divorce, community, corridor, Tirana-Durres*

JEL Classification: *J1, C2, I31*

1. Introduction

Social scientists study the causes of divorce in terms of underlying factors that may possibly motivate divorce. Divorce as common social phenomenon is associated psychological problems in children and adult offspring of divorced parents, including unhappiness, less satisfaction with life, less personal control, anxiety, depression, and more mental health services (Amato & Sobolewski, 2001; Kunz, 2011). Some studies indicate that there is a causal effect between divorce and these outcomes. Mainly are two key factors that divorce more likely to happened. First, inherited biological tendencies or genetic conditions may predispose a child to divorce as well as the "model of marriage" presented by the child's parents (Thomas, 2011; Maaik 2013). As is reported by INSTA in 2014 divorces had a significant increase in 2001 with 9.6 divorces per 100 marriages and 17.8 divorces per 100 marriages in 2014. The highest number of divorces is reported in 2014 (4,240), while the highest value of divorces is recorded in 2006 (19.1 divorces per 100 marriages). The economy of Tirana-Durres corridor in 25 years of transition is

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accompanied by positive changes and some social problems. During this time, there was a significant improvement in terms of employment growth along this corridor. In this period immigration is considered as an opportunity for employment. The majority of youth, has immigrated having as positive impact to the economy of these families, but also has its negative side on the relationship between partners in a couple. On this contexts divided partners created problems in this relationship (Dennison & Koerner, 2006). Because of the high level of emigration, the number of divorces in families living in Tirana-Durres corridor is increased. Low incomes in these families brought a host of social problems including divorce. These problems lead to an increase in the number of divorces. This study was carried out in the region of Tirana-Durres corridor. The data were taken from interviews conducted with partners that have made themselves a request for divorce.

2. Study methods

Based on a population of four administrative units (Kashar, Vore, Mane and Sukth) calculated to be 85,859 inhabitants are interviewed 595 people. In the study areas which covers the commune of and the municipalities of Vora, Manëz and Sukth respectively, there have been efforts towards specifying the number of persons to be included in the survey in order to wind up with a good level of representation. Although the sample size resulted in as many as 398 individuals in order to increase the scope of the study we decided to increase it to 595 individuals, distributed across four areas in the study, in order to compensate any potential invalidities. Respondents in the study were selected above 17 years of age. The questionnaires were designed by the so-called task oriented research. They are structured in five parts which contain specific questions self-based on the selected hypotheses in our study. Below we present a schematic presentation of the survey technique in which the study was conducted. In the questionnaire are formulated specific questions related to civil status in order to collect the information about divorce and other forms of civil status of interviewed people.

3. Results and discussion

Table 1: *Civil status of interviewers in communities of Kashar, Vora, Manez and Sukth from 2012 to 2014*

Civil status of interviewers in the Tirana-Durres corridor from 2012 to 2014						
Commune/ municipality	No. of interviewers	single	Co-living in couple	married	divorced	widow
Kashar	157	44.6%	2%	46.5%	4.5%	2.5%
Vora	160	57%	2.5%	35.6%	3.7%	1.2%
Manëz	130	52%	1.5%	40.8%	3%	2.3%
Sukth	148	44.5%	2.7%	44%	4.7%	4%
Total	595	49.6%	2.2%	41.7%	4%	15 2.5%

The survey was conducted aiming at a far more uniform distribution of respondents by age, sex and administrative division of areas. Of 595 people interviewed, 56% of the respondents were

males and 44% female with an average age of about 43.5. Even the selection of the residents surveyed was administered on the basis of age groups where there was a uniform distribution with average of 20% of residents in each age group. The data collected also serve to depict divorce as a huge social problem which on the basis of the data averaged at 4% of the population surveyed. On account of the socio-economic changes happening in these areas and given the problems that migrant families are faced with there has been a slight increase in the number of divorces. 2, 2% of the respondents have reported a live-in existence. 37% of married couples have declared they have offspring, while 10.4% did not have children. Due to the increased cost of living, but also in the face of the social problems the number of childless couples has been on the rise (Zartle et al., 2015). The trend in the number of children per family goes from 1 or 2 children and there has been a decrease in the number of families with 3, 4 or more than 4 children. The heights rates of divorce are confirm in the commune of Kashar and municipality of Sukth with respective values 4.5% and 4, 7%. Some other studies in developed countries reported that the socio-economic transformations of sub-urban zones are associated with the increase rate of divorce in communities living in these areas (Strong et al., 2011).

4. Conclusions

The study concluded that divorce is reaming social problem in the community of the Tirana-Durres corridor. Because of the socio-economic changes in these areas that migrant families are affected by this phenomenon. According to the socio-economic data analyzed is confirmed a slight increase of divorce incidence. Further sociological survey should be undertaken to evaluate the situation of the divorce in community living along this corridor being under the effect of socio-economic transformation.

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SOCIAL MEDIA AND POLITICAL PARTICIPATION IN ALBANIA

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ABSTRACT

This paper investigates the possible impact of social media on political participation, during Election Day. Although voters' choice is assumed to be influenced by disposition and rationality rather than political marketing activities, the increasing role of social media is considered as an important tool during election time. Do social media have the potential to influence the political process? The use of technology has changed the way politicians approach their electorate and conduct the electoral campaigns. The development of modern technologies also enables citizens to use social media to participate in the political process. This paper analyzes the potential influence in Albanian electoral context. The focus of this paper will be on whether or not the Social Media is facilitating and increased engagement of citizens in the political process. In this paper we argue that Facebook creates new opportunities for political engagement, discursive participation, and citizen mobilization. This paper gives examples of how social media has been used by political actors in Albania in an attempt to shed light on the role of social media in recent political developments. It also discusses the idea that voting behavior can be influenced by the use of social media. Findings on a sample of $n = 253$ suggested that young voters, who consume political news from social media increases notably their likelihood to participate on election days.

Keywords: *social media, political participation, democracy, election*

JEL Classification: *M310, O350*

1. Introduction

The use of technology has changed the way politicians approach their electorate and conduct the electoral campaigns. The influence of new technologies over the characteristics of political participation has its own characteristics: interactive communication, open and access of all citizens. The web is at the same time source of information, communication tool and part of public sphere. The crisis of traditional forms of political participation has led to new opportunities and ways of participation. The social media have enabled direct connection between citizens and politicians and a place where citizens could be again protagonist of public sphere. Today, most of the political candidates communicate with people using social media such as Facebook and Twitter. Political advertising is an important feature of the pre-election campaigns and social media is considered as an effective tool for the purpose of political

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advertisement and political communication. Facebook groups and pages, tweets and stories are used to evaluate the number of expected voters and followers of any political candidate. These media may influence choices of voters in favor of one political candidate or another.

Social media is a quite new information network in Albania, which uses a form of interactive communication and interpersonal relationships are created and maintained. Social media has changed the way people search and consume information. Based on a search carried out inside the platform itself (on the section “Advertise on Facebook”) the number of Facebook users in Albania at the beginning of 2016 reached around 1,340,000. The same source provides data related to the users’ age. The biggest number of users, around 980,000, falls in the 18-34 years old age group. This age group occupies 74% of the total number of Facebook users in Albania indicating a high level of social media users among young and older population. Facebook is considered by the young users as a social utility that connects people, get information, share links and videos and exchange opinions. This explains the fact that the Facebook website is the most visited site in Albania according to Alexa index. Among the most followed pages on the “society category” of Facebook users are headed by the pages of well-known politicians like Sali Berisha, Edi Rama, and Lulzim Basha.⁴

Politicians now face new challenges from this way of communication. Politicians have a large social media network and they can reach a large number of people through their posts over popular networks such as Facebook. Political analysts and other types of key influencers contribute to the political discourse through social media. Friends who share the news, who comment could influence the voters too. Social media thus offers a hitherto unprecedented possibility to interact and connect with key audiences without many of the limitations of traditional mass media (Svensson et al., 2015, p. 28). This paper gives examples of how social media has been used by youth to consume information and be active on Facebook pages of political parties and political actors in an attempt to shed light on the role of social media in recent political developments and how political actors have utilized social media during election campaigns and the political debate. It also discusses several important questions for future studies on social media and politics in Albania, including the need of more empirical studies, the changing nature of social media use, and the debate on stakeholder’s use of online opportunities.

2. Defining participatory politics

Social media creates potentials for exchange, interaction and collaboration between politicians and citizens. Social media is software that enables the publication of user-generated content online and the direct, unfiltered communication between individuals and organizations (Winter, Mosena, & Roberts, 2011). Social media are used for different purposes from self-presentation and individual articulation of thought to business, marketing and social purpose. They are used for relationship management and information management (Schmidt 2008, p. 24).

Social media can serve as a public space for virtual political debate and can facilitate opinion shaping processes, where citizens may access information in real time, and express their thoughts and opinions freely. Scholars are still in debate about the impact of this process on societies, process that has been described as the new “structural transformation of the public sphere”

⁴ <http://www.socialbakers.com/statistics/facebook/pages/total/albania/>

(Imhof, 2006, p. 5), reinforcing the Habermas concept of the public sphere. Depending on the purpose of use and the development of social responsibility social media can create new possibilities for political participation (at least digital participation). The greatest potential in the use of social media in politics lies in the power of two-way communication between politicians and citizens who can reach out to the citizens and communicate directly with them.

Some scholars suggest that communication through social media is ineffective at engaging the electorate on Election Day (Ashworth and Clinton 2007; Krasno and Green 2008), and that it has only extremely short-lived effects on individuals' opinions (Gerber et al. 2011). Others think that messages may further the democratic process by providing citizens with potentially valuable information about candidates and their competitors (Bernays 1928; Downs 1957). Thus election campaigns are the strong symbolic moment which is able to convey and reinforce the political offer, the results: obtaining people's consent. John Stuart Mill stated that "Democracy only works when you have an informed citizenry at its core" - but the key question is whether social media informs or manipulates citizens? Political communication and advertising through social media in its various forms is often cause for concern, it is considered inappropriate; because it uses persuasion on voters' emotional level, which influences the citizen/voter behavior that instead - according to an ideal vision of democracy - should operate in a rational manner, though ongoing information.

Citizen's involvement in the policy cycle and governance processes could increase the legitimacy and acceptance of their actions. Social media can also be used to increase transparency and enable citizens to better understand and control government actions by making sharing easy and fast. Under the given flexible conditions of access to content that is of relevance to the public, this can increase people's willingness to participate in politics (Bennett et al., 2012; Weinstein, 2014) not least by overcoming the "freeloader effect" that is typical of collective action (Bimber et al., 2005). "Informedness" refers to the self-assessed state of being informed about political matters (Morales, 2009); "political efficacy" is about the citizens' feelings "that they have some power to influence the actions of their government" (Wright, 1981, p. 69).

Citizen participation, social media use, the shift in political trust and democracy are overall measures which are "relatively autonomous" from each other (Inglehart, et al, 2005), with the latter more referring to approval of democratic political institutions and their work than to support of democracy as an idea. That means, for example, that people who are disappointed about the way democracy works are not necessarily against democracy in principle, but wish that it worked better in their country (Schaefer, 2013).

There are two alternative views on the role that media plays in the democratic process (Strömberg, 2015). A prevalent opinion is that media matters because it provides valuable information to voters, a process which improves political selection and political accountability. An improved political accountability brings with it an overall better quality of policies and welfare. This in turn implies that information communication through media plays a vital role as citizens need access to information to make political decisions. Research has also shown that media exposure on voter turnout and that it may have a positive long-term effect on political interest (Gentzkow, 2006; Gerber et al., 2009). There is empirical evidence supporting the argument that media access brings with it better policies (e.g. Strömberg, 2004; Besley and Burgess, 2002). Media coverage can promote issues that in turn change the standards that citizens use as reference points when evaluating politicians (Iyengar and Kinder, 1987, p. 57). A common theme in these theories is that political actors use media to influence people during the

political decision process. Naturally, we cannot assume that this use of media in politics automatically results in an overall increase in the quality of policies.

3. Social media and political communication in Albania

In order to upgrade the political communication, part of the Albanian politicians have become active in different social media networks. The Albanian politicians are using the web as a new channel of sending out the information and the messages, as a tool to communicate with their supporters to promote new ideas and projects, to reply to the accusations of the opponents or less favorable comments and also to call upon their supporters to attend different political campaigns. Internet also is assisting the politics to penetrate certain layers of the society considered as difficult to reach out, for example the youth. Directly or indirectly the political message is penetrating on line youth networks as well, especially in Facebook. At the same time the internet is expanding in encompassing in the political debate other layers of the society, contributing in this way to the process of democratization of the politics. In Albanian political communication, social networks are widely used and are being considered as an alternative way to communicate the daily message or to enlarge the ranks of supporters. According to the statistics Facebook is the most visited social media with 97.42% of users, that's why this paper focuses on Facebook use.⁵



Table 1. Social Media Statistics, StatCounter

It has been argued that the 2013 Albanian national election represented a turning point in the use of social media by Albanian politicians. Facebook and Twitter were used by candidates, parties, supporters, and the electorate. By recognizing the capabilities of the online communities, the two major parties, Democratic Party and Socialist Party have created their own profiles in Facebook. In Democratic Party Facebook page (until March 30, 2017) 322,202 fans are following the page; while in Socialist Party Facebook page on the same date there are some 184,099 fans. Even though the two main political parties have a considerable number of fans in Facebook, still this number is smaller compared to the number of fans the two party leaders have. The former leader of Democratic Party has in his Facebook profile more than 1,059,724 fans, while the leader of Socialist Party has 1,055,312 fans, and the current leader of the Democratic Party, Lulzim Basha has 559,314 fans.⁶ Even the large number of followers, citizen participation on election has decreased during the last elections. Politicians need to speak and engage with citizens where they are. Social media is a place where politicians could meet their voters and the voters could connect virtually with policy makers in a public debate.

⁵ <http://gs.statcounter.com/social-media-stats/all/albania/2016>

⁶ <http://www.institutemedia.org/Documents/PDF/media%20sociale%202015%20-%20anglisht%20per%20print.pdf>

4. Targeting Millennials to enable political engagement

The growing use of different types of social media has important implications for the political process in Albania. Democracy as a political system is characterized by the notion of the people exercising sovereignty through an indirect form of governance (Gainous and Wagner, 2014, p. 1). Information plays a vital role in this process, as citizens need access to information to make decisions. People who are interested in policy issues are going to get involved, and the social media is an easy way for both the voter and the candidate to communicate and potentially engage in the political process. We do not believe that being online and becoming “friends” on Facebook with the candidate does not translate to participation on offline political activities and the main offline activity that this paper tends to study participation of young people through voting. Over two million people are involved on following candidates online, but this involvement could create a sense of false efficacy. Our attempt on this study is to present that voter participation on Election Day can be influenced by online participation. Two main hypotheses here would be: H1: Social media has a positive effect on online participation of young voters and H2: Social media has a positive effect on offline participation of young voters.

Young voters nowadays could be engaged in politics in different ways than other previous generations. Social media users tend to read the news that their online ‘friends’ has shared. Younger voters can now use virtual spaces for public debate, which were more difficult to access in traditional ways. As a means of tracking what we believe is an important dimension of political activity among young people, we included seven statements to measure if online political mobilization works. These statements induce online and offline political self-expression, and also induce information gathering and expected voter turnout (shown on table 2).

	Statements	Strongly Agree (%)	Neutral (%)	Disagree (%)	Total (%)
1	Facebook keeps me up to date about political parties program	45	27	28	100
2	Social media platforms are making the political debate more inclusive.	64	15	21	100
3	Social media platforms are giving a voice to young people who would not take part in offline political debate.	70	18	12	100
4	Facebook is a good source of information to get news from candidates.	79	10	11	100
5	I have participated in some kind of political discussion as commenting on a status, sharing a status or video from the page of a candidate.	74	17	9	100
6	I have participated on offline activities on election campaigns as voting, followed by encouraging someone to vote, participating in demonstration or protests, attending a political meeting or signing a petition.	66	15	19	100
7	Facebook has increased my participation on politics.	58	25	17	100

Table 2. Online and offline participatory politics

These statements were used to measure young voters attitudes towards online and offline political participation on a 1 – 3 point scale where 3 is “strongly agree” and 1 is “disagree”. Basic size 253 from which only 192 were valid.⁷ The sample size is represented in equal measures by men (50%) and women (50%), aged 22-27 (50%) and 27-32 (50%). Only young adults that have voted at least once were considered on this study, in order to measure their participatory politics on the last elections. The interviewees were mostly regular users of social media, spending 2-3 hours per day on various social media platforms, mostly on Facebook.

Respondents attitude toward the statement; if they had participate in some kind of political discussion or activity online, during the past or actual national election campaigns, the majority of respondents, 74 percent, was liking a political candidate’s Facebook page (89 %), liking a campaign-related Facebook post (80 %), commenting on a campaign-related Facebook post (52 %) and posting/sharing a link, a photo or an advertisement on Facebook (33%). These same individuals were much more likely to participate on Election Day than those who weren’t engaged on these online activities. According to this study, social media has a great importance on young people engagement on political discussion even that they feel that the quality of political debate has decreased. 64 percent of the respondents totally agree that social media platforms are making the political debate more inclusive and 70 percent of them state social media are giving a voice to young people who would not take part otherwise in offline political debate.

The majority of them are social media ‘friends’ with, a wide range of political parties, individual politicians, political analysts, newspapers and other online news sources, journalists, and campaign groups. 79 percent of them believe that social media are generally useful tools for political communication and engagement, particularly with the candidates. On the other hand only 45 percent of them follow political parties to get informed. This percentage decrease is not surprising taking into account the importance role of the party leader on Albanian political culture.

Even that many effects of online exposition and their impact on political participation still depend on personal factor; these findings suggest that young voters that are being exposed to information, even for persons that are not seeking it, can increase political participation, at least online. Academic research suggests that people who consume more media news have a greater probability of being engaged on offline civically and politically actions as well. Their offline participatory activities on election campaigns was on the 66 percent and the main activities were, voting (82%), followed by encouraging someone to vote (47%), participating in demonstration or protests (12%), attending a political meeting (9%), or signing a petition (2%). Confirming the hypotheses of this study, social media users stated that Facebook had increased their participation in politics. Since the last elections, around 27 percent of young voters report that their use of social media to discuss political issues has increased even further. When asked if social media might influence their participation in the upcoming elections, 58 percent of the respondents, agreed to this statement. These suggest that the level of engagement with participatory politics varies depending on the act of involvement and people, who consume political news and are updated from social media, increases their likelihood to participate on Election Day. This means that the more the young voters’ like, share or commented on Facebook political updates, the more active they will be in traditional online and offline forms of participation.

92 % of invalid questionnaire were the audience that did not use social media.

Conclusions

Social media drives action mostly among young voters. Whether the goal is to influence policy, influence legislators, or confront or support a candidate, a targeted online program enables campaigns to be more effective by serving specific messages, to specific voters, on the devices and social networks best suited for them. Ultimately, this boosts civic engagement, and that is a win for everyone. Political participation through social media could be better considered as an addition to an individual's engagement than as an alternative to other political activities. While self-expression through political participation on social media does not guarantee that one will vote on Election Day, news reports are filled with examples of how social media have influenced policy debates. The study hypothesized positive relationships between social media use on political discussion and online/offline forms of participation among young voters, within the Albanian electoral context.

Political participation through social media is a significant dimension of the political life of young people. If parties and politicians, will pay attention to the positive effects social media may provide valuable opportunities to engage young people in the political sphere and give them a voice and a potential influence over issues of their interest. More quantitative studies are thus needed for us to better understand how social media is truly used and the effects on the political process and how this communication channel could be utilized to foster young generation political participation. Election Day is less than two months away, and this study will follow up the respondents to measure their voting participation on the upcoming elections and despite the paper's limitations, the results bring a contribution to a new field of research in political communication.

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HOW SOCIAL MARKETING INFLUENCES BEHAVIORAL CHANGE

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ABSTRACT

In this paper we attempt to explore and describe some of the ways social marketing practices and instruments have been used to influence behavioral change. Social marketing is being observed as an approach that is increasingly being used to achieve positive impacts on the behavior of individuals and groups, and to help sustain these over time. As social marketing is being increasingly scrutinized by researchers, communities, businesses and institutions in fields such as policy-making and social change to aid them attain behavioral changes, our main purpose in this article is to present some of the aforementioned evidence brought up by previous researchers trying to establish effective practices social marketing approaches should implement in order to achieve desirable behavioral results. This paper is explorative in nature and focuses on the important role social marketing principles and practices play in fueling behavioral change and achieving behavioral goals. We also discuss some of the barriers social marketing models face as well as recently developed social marketing frameworks such as strategic social marketing and community-based social marketing. Throughout our exploration we are reminded social marketing's main goal is to introduce and absorb financial marketing's principles, tools, instruments and techniques in order to influence a target group's behavior in a wide range of areas such as health care, environment and education with the aim of benefiting society as a whole.

Keywords: *social marketing, behavioral change, education, healthcare, environment*

JEL Classification: *M31, I15, P46*

1. Introduction

Social marketing is a relatively recently developed "technique" aimed at introducing ideas and tools mostly applied for commercial purposes, generally by business sector agents, to advance social achievement that benefits individuals and communities alike (Sargeant, 1999). The main impetus fueling the development of social marketing frameworks and instruments in various sectors for reasons other than financial gain is driven by the philosophy that properly addressing "social needs" and "social empowerment" may and should involve the use of business or financial marketing tools to raise such issues and channel the necessary attention, funding, practices and instruments that offer alternative solutions to them. However, this may also

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represent the main problem (Sargeant, 1999): Do social needs attract the same amount of attention as for-profit products do?

This issue has been raised as early as 1952 by G. D. Wiebe (Kotler&Zaltman, 1971). He brought up the issue by asking a simple comparative question: “Why can’t you sell brotherhood like you sell soap?” The comparison intended to highlight the differences in success rates and effectiveness achieved by commodities’s sellers compared to advocates of “social change”. The former are generally more successful at achieving their objectives compared to the latter. Wiebe further advanced his idea suggesting that, the more the social campaign resembled financial marketing campaigns, the more its chances of success rise (Kotler&Zaltman, 1971). He concludes that the reason standing behind the “failure” of social agents in delivering the desired outcomes for their agendas is the improper or total lack of implementation of business and marketing tools in such causes (Kotler&Zaltman, 1971).

Nevertheless, the concept has expanded. Marketing is no longer a for-profit financial tool exclusively used for making businesses more profitable and raising shareholders’s revenues. Even though social marketing has “survived” the original critique and scepticism associated with the drift of marketing practices and tools in fields other than business and services, it still faces a multitude of challenges. As Andreasen (1994) has stated, nowadays, many practitioners and scholars view social marketing as a viable and productive subject for investing further research efforts, teaching and practice. He also mentions the importance that concept has gained in several social areas such as “education marketing” or “healthcare promotion”. He further states that many authors believe social marketing can have a major impact on society’s vast range of social issues and problems (Andreasen, 1994). However, this impact will be seriously compromised if the technology isn’t applied correctly or if the areas it is implemented are not suitable for these practices. Andreasen further agrees that it is reasonable to precisely define the areas social marketing ideas, concepts and practices should be held accountable for in order to evaluate its legitimacy.

Other authors have tried to emphasize ethical issues raised in social marketing practices (Eagle, 2004). Her research is particularly focused in the British National Healthcare sector and she has identified a great range of issues concerning social marketing techniques and campaigns in this specific sector with implications beyond as well. The author states that among the most influential issues in social marketing are those that raise ethical issues which especially relate to targeting. This means that a particular segment within a targeted population risks being excluded or underserved for various reasons, including: marginalization, because they are difficult to cooperate with or costly to reach. Exclusion of groups due to targeting may also be challenged when public services are required to provide universal and equal access (Kotler&Zaltman, 1971). However, even when services are designed to be universal, as is the case with the British National Healthcare Service, there are issues with target populations, especially problems with package or service coverage of target-groups, or regional differences in quality of services provided. Among the ethical issues in targeting identified are: literacy issues, children, non-indigenous populations and migrants, methods, partnerships, fear, humour, incentives and penalties as well as the role of culture in establishing ethical standards (Eagle, 2004).

2. Ethics in social marketing

As social marketing's "success rate", is defined by the advancement of the general social good, and is delivered or may be delivered by policy-makers, leaders or service providers, the concept and the theory standing behind it are inevitably linked to the presence of specific ethical issues involving their efficiency. French, (2010) argue that the main purpose behind social marketers' activity, their *raison d'être*, is to contribute towards the general social good. According to the authors, the government's intervention to secure its citizens' welfare and the attempt to remove barriers faced by individuals and groups so that they can maximize their chances of fulfilling their potential, are simultaneously seen positively or with scepticism. Either assumption can be viewed as ethical or even noble in the face of it; however, at the same time, both can face accusations of moderate to severe forms of government intervention and market restrictions.

In a study into the ethics of social marketing are identified three main areas of concern (Laczniak et al, 1979). Those include:

- 1- Social marketing is a two-edged sword that is perceived to have major beneficial elements and effects, but it contains the potential to cause considerable ethical controversies as well.
- 2- The accountability of social marketers will be a major societal concern, but the initiation of professional licensing or governmental review of such activity would be undesirable or immature.
- 3- Judging social marketing from an ethical standpoint appears to be difficult because of the difficulty in separating the ethics of applying marketing techniques to social ideas and programmes from the ethics of the ideas themselves.

Other researchers Donovan & Henley (2003) focus on a consequentialist versus non-consequentialist philosophy of ethics. The advocates of the consequentialist theory follow a utilitarian approach in which the ethical choices should be weighed in favor of the production of the greatest good for the largest amount of people. On the other hand, non-consequentialist ideologies avoid quantifying results to generate the definition of the "productive", "beneficial" and "good". They support the idea that some actions are intrinsically socially profitable and good.

In conclusion, many ethical questions have been raised regarding social marketing. The ethical dimension is one of the principal major issues concerning social marketing, mainly because of its sensitive social nature. As social marketing theory and practice deals with choices in social settings and is mostly concerned in delivering socially beneficial outcomes, ethical issues can not be avoided as they naturally evolve when practitioners and professionals are faced with multiple choices carrying various risks, especially when individuals' or group's interests within target sections are reorganized or subordinated.

3. Social Marketing in healthcare

When discussing social marketing's role in the healthcare sector, most scholars argue that its main objective is to introduce marketing strategies promoting public health. Marketing "social goals, benefits and objectives" is essential in the healthcare sector because of the positive effects such techniques can generate when applied properly or the devastating effects brought by their

absence or improper exploitation. Campaigns promoting a healthy living, warnings and education against risky behaviors (such as smoking, abusing with stimulant and addictive substances, unprotected sexual intercourse, etc.), brochures about flu symptoms, etc., are all examples of “marketing” instruments used in the healthcare sector. Education and mass public sensibilization have been major channels for the transmission of messages and the advancement of social marketing goals in the healthcare sector. Even though their effectiveness has been thoroughly scrutinized with contradictory results, there is a general tendency to focus on education and massive health promotion (mostly through the media) as the most effective social marketing instruments in this field.

Evans (2006) has focused his attention in addressing how social marketing techniques work and how they are applied to health. According to him, social marketing is widely used to influence health behavior. Social marketers, now, generally use a wide-range of health communication strategies and channels, including: mass media, mediated, interpersonal and other modes of communication as well as marketing techniques and methods such as: message placements in hospitals and clinics, dissemination, promotion and community-level outreach. He also describes how communication channels of health information have changed in recent years and decades, from a single trajectory flow (one-way dissemination) of information to a multimodal transactional model of communication. He illustrates this theory by stating that: “Social marketers face challenges such as increased numbers and types of health issues competing for the public’s attention; limitations on people’s time; and increased numbers and types of communication channels, including the internet. A multimodal approach is the most effective way to reach audiences about health issues.”

The main target of social marketing campaigns in the healthcare sector is changing people’s behaviors, risky habits and unhealthy practices, mostly by educating them about the harms they are facing if such behaviors are repeated continuously or if the necessary measures are neglected. In conclusion, social marketing in the healthcare sector uses commercial marketing strategies such as audience segmentation and branding to change health behavior. It is an effective way to change health behavior in many areas of health risk (Evans & McCormack, 2008). An important role is attributed to doctors, who are responsible for reinforcing social marketing messages during their direct and indirect contact with patients.

4. Social marketing’s main tool: education

The importance of learning and education has evolved along with the market’s needs for skills, jobs and professions, as well as technical and technological proficiency. Focusing on social marketing’s role on the education sector would not be exclusively reliable, as the concept of social marketing per se stresses the importance of educating and advising “consumers” of public programmes in the choices they make. Therefore, education has been conceived by many authors as a principal tool used by social marketing professional and practitioners. MacFadyen et al. (1999) focusing on the functional definition of social marketing have stated that: “a social marketing campaign or programme contains the following elements: I) a consumer orientation, II) an exchange and III) a long-term planning outlook.

According to them as social marketing applies financial marketing’s principles, it cannot occur unless there are two or more parties, each with something to exchange provided both are able to carry out distribution and communication. As such an exchange takes place and behavioral

change remains the main objective of the social marketing “expert”, he/she would be required to deliver resonating messages to the other part. However, other authors Montazeri, (1997) refrain from praising social marketing as the solution of problems in various sectors. Focusing in the healthcare field, he argues that at best, social marketing should be viewed as a tool rather than a solution for health education and health promotion’s problems.

5. Social marketing and behavioral change

The main driving force behind the use of social marketing instruments is guiding behavioral change Hayworth-Perman and MailaKuehave identified eight strategies used to motivate behavior change, including:

1) Showing the consequences of risky behavior, 2) Showing consequences of risky behavior on others, 3) Using publicly celebrated figures and people with consolidated reputation, 4) Empowering people to take personal responsibility, 5) Appealing to an intervener to affect the situation, 6) Casting kids to get more attention, 7) Using guerrilla marketing tactics, and 8) Engaging partners, stakeholders and the main beneficiaries and target-groups of social programs in the conversation.

Most scholars believe social change, however, cannot be delivered as fast as a simple marketing message targeting mostly audiences’s visual and other perceptual senses. Social change campaigns require other elements to induce reflection, influencing behavioral change, in order to be considered successful. Robinson (2009) emphasizes how terms like “social marketing” and “community-based social marketing” have become highlights and are treated with magical reverence in the fields of health and sustainability promotion, as they were the long-awaited solutions to complex environmental, social and health problems.

The author further argues that marketing change is not the same as marketing brands as it is about convincing people do things they are uncomfortable with, don’t want or cannot do. According to him; problematic social, health and environmental behaviors are firmly fixed in place by a powerful matrix of institutional, technological and social factors. He favors the idea that many behaviors are simply not “modifiable” by voluntary change. Therefore, following this logic, effective laws and regulations, strong social norms and financial incentives or penalties, would leave very little room for personal factors to affect behavior decisions.

“Information-intensive campaigns are usually based on one of two perspectives on behavior change. With the first, program planners assume that by enhancing knowledge of an issue, such as global warming, and encouraging the development of attitudes that are supportive of an activity, such as using mass transit, behavior will change. Unfortunately, a variety of studies have established that enhancing knowledge and creating supportive attitudes often has little or no impact upon behavior” (McKenzie-Mohr, 2013).

6. Conclusions

Social marketing applies commercial marketing strategies, techniques and instruments to promote social good and augment social change as a reflection of the accomplishment of the desired and expected social good. Smith & Strand (2009) claim: “Social marketing represents a unique system for understanding who people are, what they desire and then organizing the

creation, delivery and communication of products, services and messages to meet their desires while at the same time meeting the needs of society and solve serious social problems.”

Social marketing has been mainly applied in fields such as education, environment, addressing social problems and special needs, and especially healthcare. No consensus is shared by the academic community regarding the effectiveness of social marketing in attaining its thought-influencing and behavioral change goals. Despite some successes in various health campaigns, it is worth noting that several other crucial factors such as financing, political support, target-community characteristics and educational levels, play a pivotal role in preventing or fueling social marketing's effectiveness in most areas.

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MANAGEMENT OF COASTAL AREAS AND THE SEA, YET A CHALLENGE TO SUSTAINABLE TOURISM IN ALBANIA. AN ENVIRONMENTAL PERSPECTIVE - CASE STUDY ON DURRES AS TOURIST DESTINATION.

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ABSTRACT

The issue of coastal area and sea management are seen as key factors for coastal and marine tourism development in Albania. Development of sustainable tourism have become major priorities for national public policy makers. Nowadays, there is a need for managing sustainable tourism development, but this couldn't be done without taking into consideration environmental issues. This paper aims to examine through environmental indicators state of natural resources (coastal area and sea) of Durres as main destination of "sun, sand and sea" of Albania. The state is assessed by analysis of the data monitoring conducted over years by Ministry of Environment. Meanwhile tourism itself pose threatens to environment consuming its natural resources. Achieving goals of sustainable tourism and maintain high level of tourist satisfaction requires a continuous process of impacts monitoring and implementation of administrative and legal regulatory measures. The findings of this study may be helpful for decision makers in the area of managing sustainable tourism development.

Keywords: *sustainable development, environmental indicators, development*
JEL Classification: *Q56, Q51, Q53*

1. Introduction

Tourism is consider an engine of development for national economy, the direct contribution to GDP was ALL82.3bn (5.9% of total GDP) in 2014, and has directly supported 50,500 jobs (5.3% of total employment) for year 2014(WTO statistic data, 2014). The competitiveness of the tourism sector in regional market depends on the quality of tourist destinations, including the quality of environment, and not only. Based in good planning and management, tourism can be a positive force, bringing wider benefits to all in destinations, but if poorly planned and managed, it caused degradation. In focus of tourism sector and in the interest of the communities is to maintain and sustain the basis for the prosperity and the sustainable development of destination itself.

Years passed by, vacationer numbers that are in motion are increased than previous year, frequenting different type of destinations round the country. Thousands of tourists spend their

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holidays or weekends at beautiful beaches and especially in Durrës, as main national destination known otherwise like “sand, sea and sun destination”, a preferred destination for vacationer and tourists. Usually the summer vacation is synonymous with swimming in the sea, so it is natural that water quality is an important factor in choosing a destination. The issue of coastal area and sea management are seen as key factors for coastal and marine tourism development in Albania. Development of sustainable tourism has become major priorities for national public policy makers. Nowadays, there is a need for managing sustainable development for tourism, but this couldn't be done without taking into consideration environmental issues.

Sustainable development was defined by the World Commission on Environment and Development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987). Sustainable development as a multidimensional concept is related to the environment and resources, as well as to the population and economic production and a long term development is based on behavior of consumption. (Lazar, 2008). Achieving aims to sustainable development requires a balance between economic progress and the boundaries of nature, particularly between the quantity and the regeneration time of natural sources, human-made activities, and the neutralization capabilities of nature. (Pozeb, 2007). Considering the tourism industry, the need to adopt a 'sustainable' approach is exacerbated by its fragility and sensitivity to change, its multi-sectors nature and its marked dependence on the quality of the host environment and communities; "tourism which degrades any elements of host communities and nations threatens its own future" (Manning, 1999). The concept of sustainable tourism emerged by the end of 1980, by connecting sustainable development principles with tourism.

Defining sustainable tourism, WTO (1996) states that sustainable tourism development meets the needs of the present tourists and host regions while protecting and enhancing the opportunity for the future. It is envisaged as leading to management of all resources in such a way that economic, social and aesthetic needs can be fulfilled, while maintaining cultural integrity essential ecological processes, biological diversity and life support systems. So, achieving sustainable tourism is a continuous process and it requires constant monitoring of impacts, introducing the necessary preventive and corrective measures whenever necessary. To many individuals sustainability is about the environment, primarily the natural, physical environment and its protection, but would be better if everybody think in terms of ecosystem than the environment, and recognize that man is an important and valid element within the ecosystem (Starwbrooke, 2002). An important characteristic of the interaction between tourism and the environment is the existence of strong feedback mechanisms: tourism often has adverse effects on the quantity and the quality of natural and cultural resources, but it is also affected by the decline in quality and quantity of such resources (Coccossis, 1996).

Combining the term 'sustainable' with tourism, the latter must take-on the environmental, economic and social considerations and principles that are inherent within the former (White et al, 2006). To achieve sustainable development is necessary to identify the main causes of environmental degradation, to assess the damage scale, trying to find reasonable solutions to reduce its negative impacts on economic and social life of communities.

Since 1992, the World Tourism Organization (WTO) undertook the effort to develop and implement indicators which can help in the sustainable development of tourism at destinations and in 2004 was designed the Guide of Sustainable Tourism Indicators for Tourism Destination. Meanwhile, Agenda 21, United Nation Conference on Environment and Development (1992), highlighted the importance of monitoring progress and makes explicit reference (in chapter 40)

to the use of indicators for sustainable development as a better way for decision making at all levels.

Recent decades have marked important changes in our legislation creating institutional framework for sustainable development mainly based to the EU recommendations. First National Law on Environment Protection was approved in 1993, right after Rio De Janeiro Conference. Determination of basic national indicators for assessing the impact on the environment compiled by specialized institutions in collaboration both of local and central levels helps to identify and determine the potential risks and enable measurements for possible action, the continuous monitoring helps in better decision making to improvement and better solutions towards sustainable development.

2. Durres coastal area

Durres coastal area has a surface approximately of 500 km², with a total length of 18 km and a maximum width of 7.2 km. In the northern part of the bay lies Durres port area and the city of Durres itself. At the northern part of the Durres bay lies a very romantic part of Currila beach, while in the south is situated the largest national beach. All this space its'among the valuable economic sources, touristic and ecological as well of the city, but not the only. During the summer season the number of visitors and holidaymakers which attend this space for recreational purposes is estimated about 800 000 individuals annually.

Tourists seek the coastal zone for several types of activities including: beach activities - swimming, sunbathing and different sports; viewing and photography of landscapes, fishing and coastal flora; touring - by motor vehicle, bicycle, etc. Besides that, the coastal area of Durres face the issues of shore use and building, shores filling with inert construction released by individuals or companies, which have led not only to the modeling of coastline in this area, but furthestmost pollution of sea water with suspended material, sea water quality, crowded of some specific localities in peak beach season, shore erosion, removal of solid waste, identification and protection of fragile habitats or species, and seasonality of use.

Since 1992 the beach territory is covered by boom in construction representing thus a damaged coastal environment. Illegal construction in North and South part of the coastal area consist respectively 58 to 796 different objects³. With the uncontrolled growth of house units and different public service, carrying capacity of urban space in this area has exceeded touristic criteria, turning over an urban residential neighborhood physiognomy. Most of these buildings do not have sewage network, and discharge effluents directly or indirectly into the sea.

A present phenomenon noted recently is the tendency of creating differentiated zones within the water body near to the coast based on the specific characteristic of shallow shore using reinforced concrete blocks, with the aim to benefit added surfaces of sand. This method is used to inhibit the natural activity of the sea waves to the shore, since a significant numbers of the buildings constructed is remotely close.

The vegetation in this area, particularly the pine forest is severely damaged by building construction made, reducing seriously the green space, featuring the chaotic image of development. Before 1990 there were 400 m² attractive area for residents, a 3 hectare forested area of poplar wood, two amusement parks for children with an area of 1 hectare. Currently green surface areaper capita varies from 2 up to 2.5 m².

³ Selfo, L., Hajderi, E.,(2003) "A diagnostic analysis of environmental situation on coastal area", Study, pp.8

Environment is burdened more by the presence of aggregate materials of objects that are still building or demolished as not legitimate, as well as by organic urban waste. The concern becomes more evident over the weekend when the number of vacationers and tourists increased significantly. This condition has a negative impact on the vacationers' psychology.

Sea water is polluted even more significantly if we consider that only during weekends the number of holidaymakers goes around 50,000 individuals, due to lack of appropriate utility services (toilets) infrastructure.

Over used space capacity of sand area taken in use by different private entities has brought a densification of holidaymakers per unit area. Discharge of sewage into the Currilave beach area, discharged from the pumping station in Porto - Romano and discharged channel into Plepa station, also illegal sewage discharges of private entities directly into sea water, caused significant pollution of sea water with pathogenic micro-organisms. The origin of these pathogenic microorganisms based on the ratio of the value indexes FC and FS refers to human composition.^{4*} Exposure to such consignment waters did not exclude the possibility of holidaymakers contamination.

Another source of pollution of the coastal zone are illegal discharges of ships in port or in its vicinity. Port of Durres is the biggest in Albania and its activity is increased progressively. After the reconstruction it has a processor capacity of 1800 ships per year with a maximum capacity of 25 000 tonnes.

Chemical analyzes made by ARM, identified presence of high levels of Cd and Pb in sea water samples within the port area. Due to bad management within piers that serve as landfill outdoor mineral which are stored there not packed. Sea water basin of the Port and the area around it are contaminated by illegal shipping emissions, mainly of organic origin and fuel oils. Another danger for pollution of sea water is the presence of oil deposits inside the new port in Porto Romano. The location of these deposits except persistently exposed to risk of sea water pollution pose another added risk that of air pollution inhabited area in case of fire.

3. Aim of the study

This paper aims to examine through environmental indicators state of natural resources (coastal area and sea) of Durres as main touristic destination of "sun, sand and sea" of Albania.

4. Data and methods

To fulfill the aim of the study, regarded to the pointed issues: 1. Damage to the natural environment of the coastal zone, the suggested indicator to evaluate sustainable development for tourism is used: % of coastal area in degraded condition;

2. Sea water quality – the suggested indicator: number of days per year (month) when beach or shoreline is closed due to contamination (based on measurement of key contaminants such as fecal coli forms).

⁴ Muka.M, Këllici.I, (2012), "Bacteriological data on water quality in Durres beach area", Proceeding book. 1-st International Conference Mar Coast 2012. Tirana, Albania, p.3.

Since no information is available regarding the restrictive closure measures of the various beach stations due to high level of contaminants concentration in sea water frequented for bathing purpose during years, we referred to chemical and bacteriological rate concentration compared to national and EU allowed norms. Environmental state of coastal zone and the sea were assessed by analysis of the data monitoring conducted over years on behalf of Ministry of Environment. Comparative data were collected over a five year period (2009-2010-2011-2012-2015).

Based on the baseline Indicators assessment of the quality of urban waste waters near the pumping station and other waste water discharged points, (rural channel Plepa, and near Currilave beach area) were based on Albanian legislation set out in Decision 177 dating on 31.03.2005 for urban sewage treatment plant, which are the same as those of the European Community Directive referred presence of polluting substances COD, BOD, suspended matter and Phosphorus into marine aquatic environment.

Assessment of bacterial concentration in bathing coastal waters for 21 sampling points along Durres coastal area in which are situated the most frequented beaches by vacationers and tourists from Porto Romano in Kavaja Rock station, is conducted by PHI. Quality assessment of marine bathing waters (bacterial concentration rate) is carried out by measuring two pollution indexes: Fecal Coliform (FC) and Intestinal Enterococci (IE). Quality assessment refers to the recommendations of the World Health Organization (WHO) and EU regulations, based on the assessment of the 95% percentile.

5. Discussion and Results

The National Environment Agency in the implementation of the National Monitoring Program conducts annual monitoring of the impact of urban discharges on the quality of surface waters. According to the monitoring scheme of urban discharges is assessed quality of water discharges at the discharge point (collectors or pumping stations) and their impact on the quality of the receiving environment water, in this case Plepa station (Dr-4) and Porto Romano pumping station, (DR-1). To compare quality waters, reference rates are taken of urban liquid discharges defined in the Albanian legislation (DCM 177, dt.31.03.2005 "The permitted discharges liquid and criteria for zoning the receiving water bodies ") that correspond to the norms establishing by European Union Directive on the discharge of waste water⁵.

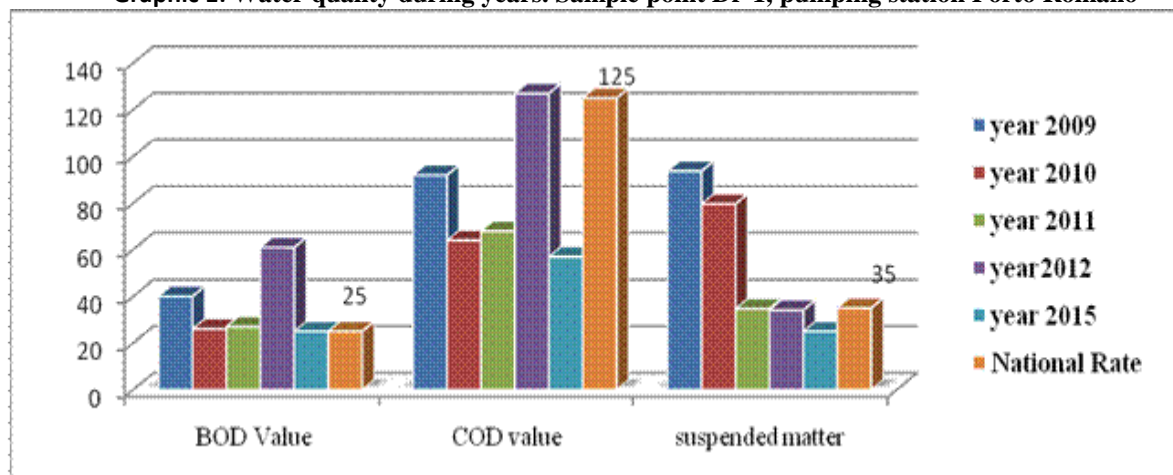
Table 1: *The Urban liquid discharge rate by DCM Nr.177 831.03.2005)*

National Rate	Concretation
BOD (Biologic Oxygen Demand)	25 mg/l O ₂
NKO (Chemical Oxygen Demand)	125 mg/l O ₂
Suspended matter	35 mg/l
Phosphorus	1 mg/l

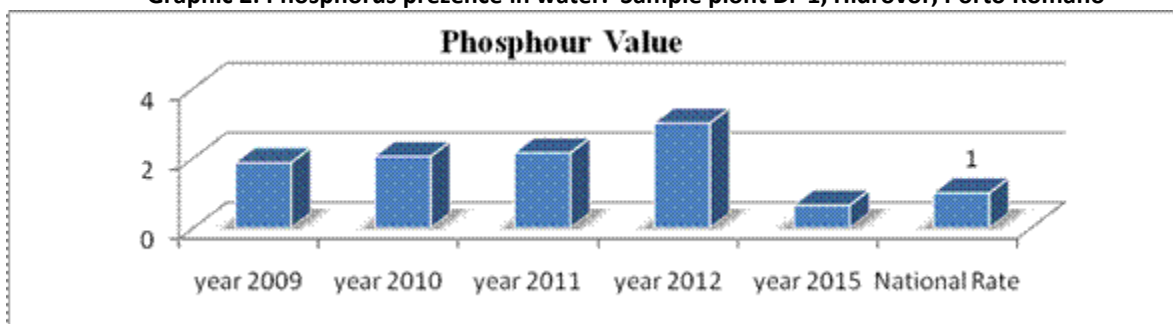
Source: Environment Ministry, Raport on environment 2012.

Urban waste water in Durres city, are discharged untreated directly into the sea near rural channel Plepa and Currila beach and in partial way in pumping station in Porto Romano.

⁵ Ministry of Environment,(2012) "Report on the environmental situation 2011", Tiranë , Anex,p.146

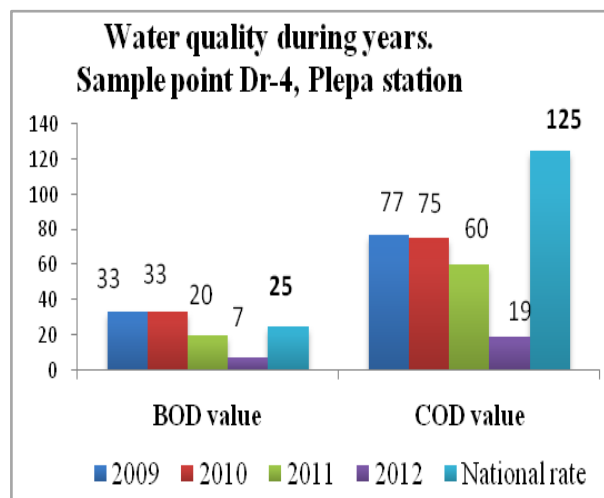
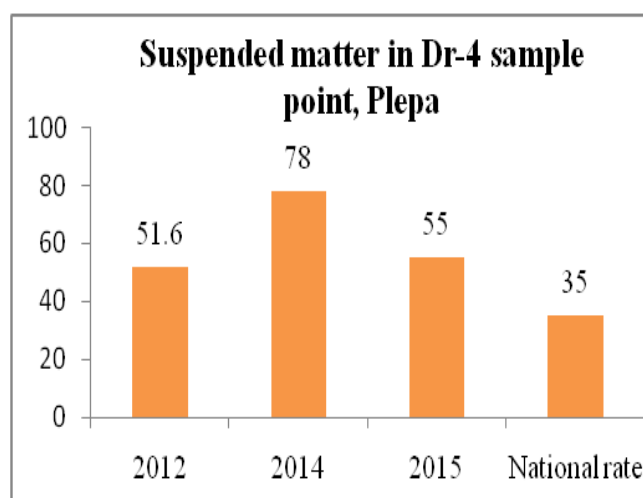
Graphic 1: Water quality during years. Sample point Dr-1, pumping station Porto Romano

Source: Environment Ministry, Data Raport on environment year 2009, 2010, 2011, 2012, 2015.

Graphic 2: Phosphorus prezenze in water. Sample piont Dr-1, Hidrovor, Porto Romano

Source: Environment Ministry, Data Raport on environment year 2009, 2010, 2011, 2012, 2015.

Urban waters discharged from the pumping station in Porto Romano, according analysis conducted by NEA from the average indicators values measured resulted high content of organic substances BOD exceed values and limit rate for the years 2009-2012. The same state reflects rate concentration of Chemical Oxygen Demand (COD), above the allowed rate. Significantly high concern remains values of phosphorus content in water discharged from the pumping station of Durres. The content of total phosphorus is higher than the allowed rate to the same period. The high value of phosphorus concentration in urban waters is attributed to the use of detergents with phosphorus content by resident population. Also, suspended matters index appears above the allowed rate. It is noted significant reduction of the presence of these contaminants during the year 2015, which coincides with partially functions of the treatment plant. This trend is followed in part by the water quality in the sampling Plepa station. Reduction values in 2012 coincides with the implementation of a cleaning system of water pouring in.

**Graphic 3: Water quality during years.****Graphic 4: Suspended matter in Dr-4 sample point⁶**

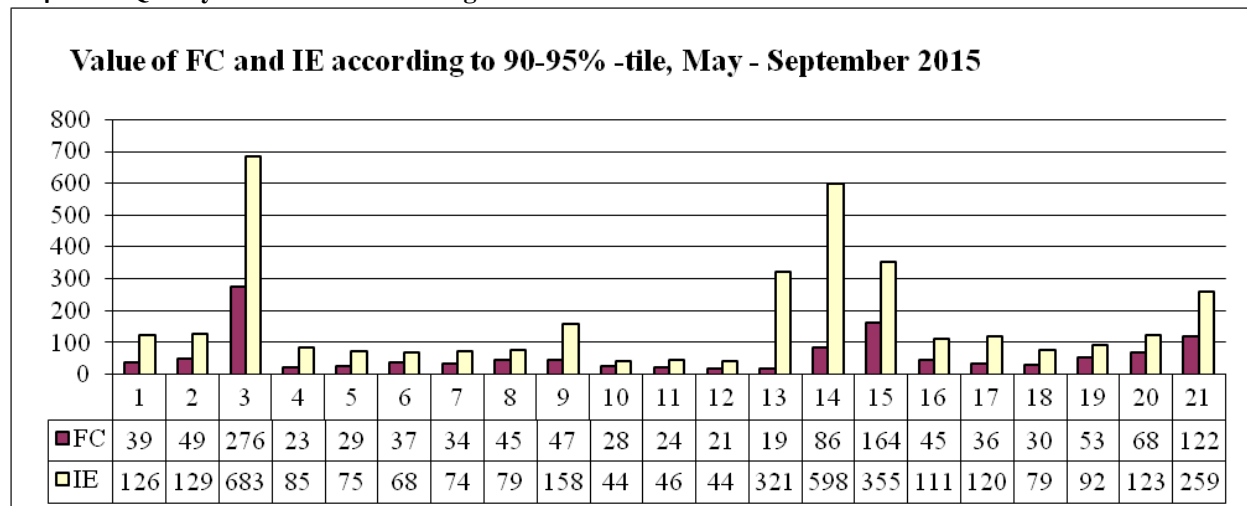
Source: Environment Ministry, Data Report on environment year 2009, 2010, 2011, 2012, 2015.

What states is, that the system of surface and sea waters is significantly polluted with total phosphorus, COD, BOD and suspended matters. As mentioned, the main source of pollution is sewage waste water discharged. The presence of chemical substances causes the phenomenon of eutrophication, hiper production of algae, phytoplankton, etc., consequently causing the reduction of oxygen in surface waters and sea. Consequently ammonia is formed and waters deoxygenated causing seriously damaged in aquatic life creatures. The conversion of ammonium ions in ammonia has serious consequences for the fish because it is highly toxic to*. Although marine ecosystem damaged by the uncontrolled discharge of sewage urban waste water activities, is still generally in unreasonable conditions and its ecological and economic importance is considerable.

The quality of surface waters and coastal areas results in bacteriological concentration and organic and chemical pollutants, due to the discharge of urban wastewater without prior treatment. The situation remains problematic especially in areas frequented by holidaymakers near the resort segments Tropical – Kavaja Rock, Currila and Porto Romano, near the Pumping Station. The presence of contaminants is highly appeared in DR-4 discharged station, regardless setting treatment plant in. The impact of sea water polluted by waste water discharged is considered a permanent danger present for many tourists during the summer season which choose to spend their vacations at these beaches.

To determine microbiological contamination of sea water were analyzed water samples taken at different sampling points placed at different beach stations during summer season. Tests conducted by PHI aimed to determine the sanitary quality of bathing waters, based on concentration value of IE and FC indicators.

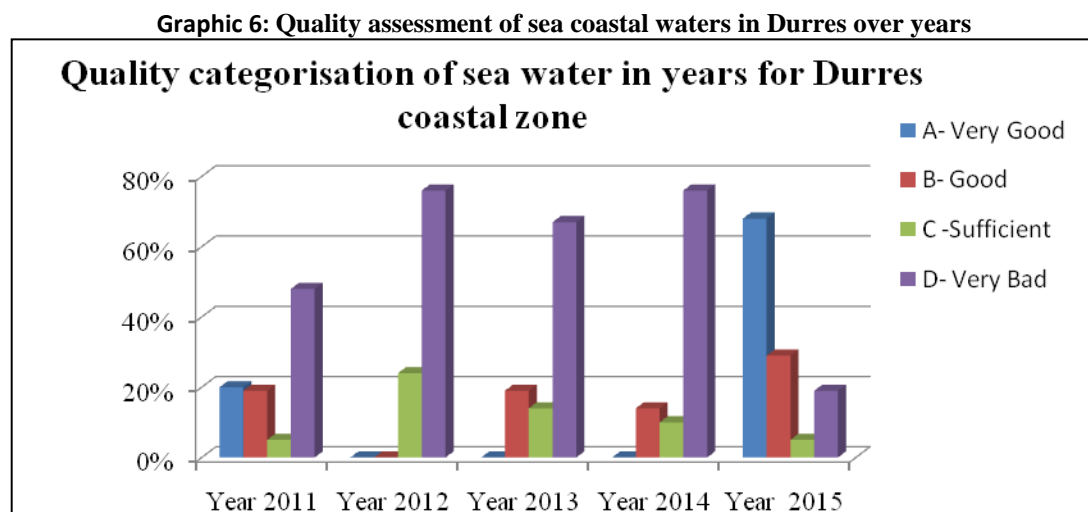
⁶ Selfo.L., Hajderi, E., (2003), "A diagnostic analysis of environmental situation on coastal area" Study, p. 25.

Graphic 5: Quality of sea water according to value of FC and IE indicators.

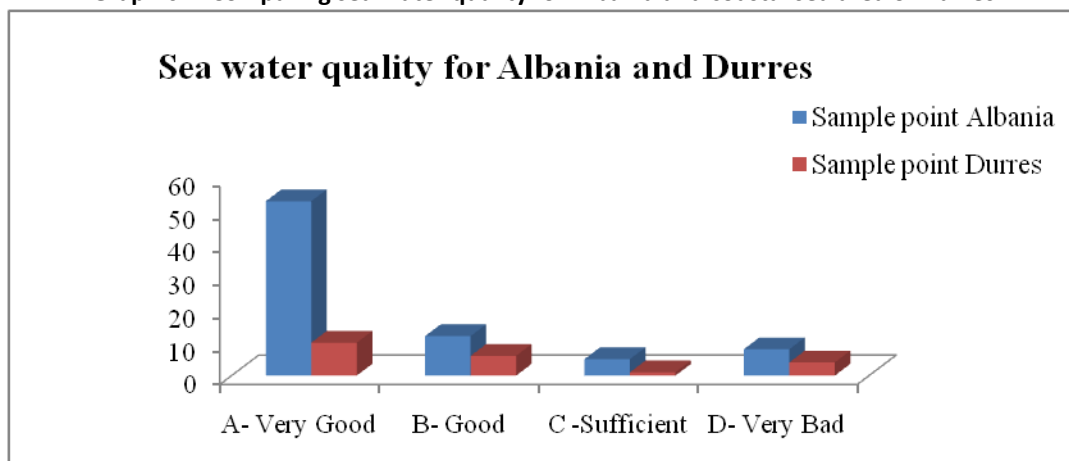
Source: Environment Ministry, Data Report on environment year 2015.

According to WHO/UNEP FC-90% - 250 value of rate allowed to 100 ml water sample IE-95% 100 value of rate allowed to 100 ml water sample

According to 2015 environmental condition report, value of IE and FC indicators appeared in higher rate compared with the MoH and standards WHO / UNEP for some sampling stations. Were indicated beaches with high bacteriological concentration rate, Currila beach, Zhiron beach, Torra beach, Plepa beach and beaches station near Restaurant Tirana, Kavaja Rock to the Giardino exceeded the permitted levels, classifying this touristic segment in higher risk for the health of vacationers which exposures to bathing waters.



Source: Environment Ministry, Data Report on environment year 2011, 2012, 2013, 2014, 2015.

Graphic 7: Comparing sea water quality for Albania and coastal sea area of Durres

Source: Environment Ministry, Data Raport on environment year 2015.

Based on the microbiological analysis of sampling points results that:

- The level of water quality for the period 2011-2014 under the relevant categorization maintains a consistency of high values of pollution indicators IE and FC, classified approximately 67% of the stations in the “Bad” quality condition that means taking immediate intervention measures due to the high risk that represents exposure to such waters.
- In 2015 the situation is changing with the positive trend to pollution indexes that appeared in moderated values. 68% of sampled stations were categorised “Very Good” quality and 29% categorised in “Good” quality water. Its seen significant reduction in number of station clasified as “Bad” quality, where only 19% of the sampled points still reflect that quality level. The changed situation is attributed to interventions made during the infrastructure segment Dajlani Bridge – Kavaja Rock, restructuring of secondary channels network enabling their dischargesto the main city collector.
- The higher index presence of pollutants annually in permanent way in the sampling stations, Currila, Zhiron, Tropical, Plepa, is an indication of permanent sources of active pollution due to discharges directly on the sea shore by public entities, bussines services or family apartments⁷. Beaches station Philadelphia, Teuta, Apollonia, Hekurudha, Illyria, are easily spotted, its noted only one pollution index (IE) compared with the limit values.
- Areas near Plepa channel and Vollga discharged point near Zhiron beach station and Porto Romano near pumping station are considered polluted, outside the permitted limits to be used for recreational purposes. It was seen very high pollution index.
- Compared with the general quality of marine sea waters at national beach areas,the quality of sea water at Durres beaches appeared moderated with considerable presence of bacteriological pollutants.

⁷ Data recorded from registers of Regional Directorate of Public Health Durres,years 2009, 2010, 2011, 2012

Conclusion

- Use of the environment and human impact on it during the past three decades, is characterized by incompatible development elements compared to sustainable development principles. The situation reflects high risk exposure level present for residents, visitors and tourists.
- Marine and coastal environment are among the most important sources with economic value to the city. Due to development growth rates not in accordance with the principles of sustainability, due to an inefficient coordination and bad management this environment is consumed and its quality decreased.
- The quality of surface waters and coastal areas results with bacteriological concentration and chemical pollutants, due to the discharge of urban wastewater without prior treatment.
- Informing the public about the quality of bathing water and restrictive measures taking, when necessary at specific bathing stations.
- The treatment plant partial use has improved the situation.
- The generated findings should be used for more detailed analyzes based on cost-benefit will influence the sustainable decision-making for coastal area management, generating positive effects to the regional economy focused on balneary tourism.

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CUSTOMER RELATIONSHIP MANAGEMENT IN THE GOVERNMENT

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ABSTRACT

With the change of information advancement and the force of overall contention, the government has been upgrading from organization-masterminded mode to advantage arranged one. E-government orderly brings itself another face from inside improvement to the outside publics and developments the middle from organization to open organization. With the help of CRM thought, the government may better deal with the all-inclusive community request, improve the relationship amongst government and the overall public, upgrade government capability, and development the social consistent quality and congeniality. At last, a couple of proposals of utilization of CRM in e-government are progressed.

Keywords: *Innovation, Business and Technology Models, Government policy and regulation*

JEL Classification: *O35, M48, O33*

1. Introduction

In today's government's terms, the great administration is controlled by customer satisfaction. Satisfaction is a term most of the time utilized as a part of private divisions, alluding to the estimation of how an item and/or an administration supplied by a firm meets or surpasses clients' desires. It is largely characterized as "the quantity of clients or rate of aggregate clients, whose reported involvement with a firm, its items, or its administration's evaluations surpass determined fulfillment objectives". Considering the vital connection of CRM frameworks in associations, this article stresses the requirement for an applied structure to guide administration in the usage of CRM frameworks.

Above all, administrations over the world are getting themselves obliged like never to get nearer to nationals and make frameworks that meet desires. Nationals are requesting the same advantageous administration in people in general segment that they are, generally, used to getting a charge out of in the private part. Giving palatable administrations decides the way any given government is seen by the natives and whatever is left of the world.

As indicated by today's universal points of view, a dynamic government incorporates its nationals in the way of advancement staying in contact with their necessities and prerequisites and, even more vitally, giving an eager ear to hear their voices. The center of consideration is on improving the part of common society and for fortifying subject interest for good administration. The relationship and the relationship administration with the subjects and occupants – the clients and members of the legislature – along these lines rank high in government work. Governments need to concentrate on conveying superb, the client was driven, and incorporated taxpayer-

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supported organizations with the key empowering influence being resident-driven administration. They have to on a very basic level spot subjects at the heart of government's work and advancing change in the administration business to work in a nationally driven way. All through people in general segment; activities to "reevaluating government" have lifted client administration and fulfillment to new needs

Client relationship management (CRM) is turning into a top need in government business to help officers accomplish their objectives of creating models of administration that are more responsive, more national driven, and more effective.

Customer relationship management (CRM) is a term that refers to practices, strategies, and technologies that companies use to manage and analyze customer interactions and data throughout the customer lifecycle, with the goal of improving business relationships with customers, assisting in customer retention and driving sales growth³.

CRM systems are designed to compile information on customers across different channels or points of contact between the customer and the company -- which could include the company's website, telephone, live chat, direct mail, marketing materials and social media. CRM systems can also give customer-facing staff detailed information on customers' personal information, purchase history, buying preferences and concerns. Sales Analytics, Forecasting, and New Tools Customer data analytics can reap significant financial rewards for the organization's sales, marketing, and customer service departments. With so much data to contend with, companies often struggle with making sense of information from customers, public records, and external databases. Luckily, we evaluate the newest sales and marketing tools making the process easier for IT managers and sales executives.

2. Literature review

"CRM programming solidifies client data and records into a solitary CRM database so business clients can get to and oversee it."(Scott Kostojohn, Brian Paulen, Mathew Johnson, October 13th 2011) The other fundamental elements of this product incorporate recording different client communications (over email, telephone calls, online networking or different stations, contingent upon framework capabilities), automating different work process procedures, for example, errands, logbooks and cautions, and giving directors the capacity to track execution and profitability considering data logged inside the framework⁴.

Basic components of CRM software include:

- **Marketing automation:** CRM apparatuses with promoting mechanization abilities can automate monotonous undertakings to upgrade advertising endeavors to clients at various focuses in the lifecycle. For instance, as deals prospects come into the framework, the framework may consequently send them promoting materials, ordinarily by means of email or online networking, with the objective of transforming a business lead into an undeniable client.

- **Sales force automation:** Also, known as sales force administration, it is intended to anticipate copy endeavors between a sales representative and a client. A CRM framework can accomplish this via consequently following all contact and subsequent meet-ups between both sides.

³ <http://searchcrm.techtarget.com/definition/CRM>

⁴ <http://searchcrm.techtarget.com/definition/CRM>

- **Contact center automation:** Designed to decrease dull parts of a contact focus specialist's employment, contact center automation may incorporate pre-recorded sound that helps with client critical thinking and data dispersal. Different programming instruments that incorporate with the specialist's desktop devices can deal with client demands to chop down the season of calls and rearrange client administration forms.

- **Geolocation technology** or area based administrations: Some CRM frameworks incorporate innovation that can make geographic marketing effort considering clients' physical areas, occasionally coordinating with mainstream area based on GPS applications. Geolocation innovation can likewise be utilized as a systems administration or contact administration instrument with a specific end goal to discover deals prospects in view of the area.

3. Methodology

A legitimate and brilliant usage of CRM will help an association to equip everybody who manages the client. "Companies make a big investment of time and money to build this field so it needs to be utilized in the best possible way." (Francis Buttle, January 1st 2008)

Here are the main 6 reasons that can wreck a CRM framework execution⁵:

- **The big picture is missing.** Organizations regularly have an abundance of client information put away in different data storehouses over the association, from records receivable, producing, pre-deals, deals, client backing, and logistics. Organizations need to consider the whole photo of the client's advanced world (counting organized and unstructured information from online networking systems, e-business cooperation, site visits, email and informing communications), characterize what is most imperative and ensure it can be significant, by bringing it into work processes. Without an abnormal state comprehension of who needs what information, where and when, it's verging on difficult to give clients the noteworthy continuous data they should be gainful. Whether it's one information source or a few, without a major picture perspective of the venture prompts further storehouses and missed opportunities.

- **Not enough user involvement.** The motivation behind a CRM execution is to enhance business execution by upgrading client experience, and by enhancing client and business insight. In numerous CRM executions, it is expected that actualizing the CRM framework with a couple incorporated procedures is all that is needed. While administration ordinarily concentrates on dashboards that give the data they require, as examined over, the association needs a major picture view keeping in mind the end goal to outline applicable business procedures and work processes. Without client association, the task will occasionally satisfy desires since it will be founded on a "best figure" and not the genuine procedures and work processes expected to make clients more effective and to furnish them with a complete perspective of the client.

- **Data is not 'significant'.** While access to exact up-to-date information is unquestionably a necessity for any business; if the data cannot be utilized, controlled and followed up on then you have just given an incomplete arrangement. Significant data is principal to business achievement. On the off chance that individuals can complete genuine work, it builds energy for the framework, opening its effect on enhancing client benefit and expanding profitability.

- **Lack of integration:** While numerous coordination instruments can move, information starting with one place then onto the next, for example, bunch transfers to an information

⁵ <https://www.linkedin.com/pulse/6-reasons-why-crm-projects-fail-david-akka>

stockroom, CRM usage require more than that. An incorporated CRM ought to give a solitary area to actuate business forms from various channels including desktops and mobiles. For instance, by incorporating an endeavor social instrument into your procedures, clients can take after articles and extends, and get programmed notices when these are altered.

- **Mobile has overlooked:** Numerous executions include frameworks that have generally been utilized with desktops and portable PCs, so versatile in some cases turn into a bit of hindsight. Area administrations can enhance your business power. Your work-at-home Help Desk staff can profit by connection-based administrations, particularly if utilizing little cell phones that farthest point the recovery of data. By conveying significant information and procedures to the right individuals when and where they require it and making it noteworthy, your portable CRM application increments operational efficiencies and enhances profitability for clients, accomplices, and representatives

- **Poor return on the investment:** Coordinating CRM information and procedures with different frameworks frequently turns into a substantial and awkward endeavor, making cost invades and taking too ache for administration to see positive results. Embrace a methodology of consistent change, permitting the impacts of little-finished tasks on the business to end up clear so that the lessons can be consolidated in the following project.

Customer Relationship Management (CRM) and Government Customer relationship administration is extensively perceived, generally executed system for dealing with an organization's connections with clients, customers and deals prospects. It includes utilizing innovation to sort out, computerize, and synchronize business forms—primarily deals exercises, additionally those for showcasing, client administration, and specialized backing.

Numerous CRM sellers offer Web-based devices and programming as an administration which is gotten to through a protected Internet association and showed in a Web program. These applications are sold as memberships, with clients not expecting to put resources into the securing and support of IT equipment, and membership charges are a small amount of the expense of acquiring programming altogether.

A standout amongst the most famous CRMs is Salesforce.com. Government offices use Salesforce CRM to fabricate more grounded associations with constituents, clients, merchants, accomplices, and volunteers. Salesforce CRM cloud applications are custom-made to offices' center business procedures to give them an extensive perspective of helpful information. At that point on top of Sales Force CRM, government organizations are adding applications to accelerate procedures, for example, allowing and authorizing. Administrations can utilize CRMs past overseeing data and solicitations from inhabitants:

- **CRM can automate more than service requests** "For instance, the innovation can assume a noteworthy part in dealing with the greater part of an association's exercises, connections and contacts concerning a noteworthy issue, for example, transportation. A CRM framework can oversee key components from key arranging and subsequent choices.

- **CRM helps manage relationships.** During a time of stripped-down spending plans, connections are a standout amongst the most profitable assets to help urban areas and provinces better satisfy their missions. Utilizing CRM, connections between government organizations and those on whom they depend inside and remotely can be more proficient, powerful and auspicious."

- **CRM helps preserve institutional memory.** The genuine force of innovation improved relationship administration lies in its capacity to track the majority of an open area association's contacts, connections, and cooperation. Recognizing what happened, when it happened, and the

issues connected with every occasion or activity figures out what ought to happen next, and the following strides the association ought to take. After some time, CRM innovation and a thorough procedure for utilizing it build up and keep up general society part association's institutional memory, holding a perpetually growing record of the considerable number of communications between the association and any official, other association or individual from people in general."

3.1 Five tips for choosing a CRM system

Following are tips to help nearby government authorities take the disarray out of the developing scope of decisions in evaluating and elements accessible in broad daylight part CRM items.

- **Avoid evaluating extremes** - The cost for open division CRM, including establishment, can change from a couple of hundred dollars for off-the-rack programming to more than \$1 million. The top of the line frameworks may incorporate numerous abilities more qualified to the private area, and the modest frameworks might not have the ability to handle a little open segment association.

- **Look for programming composed particularly for general society segment**- Invest in a product framework to deal with your association's joint effort, contacts and action history that is planned particularly for the general population division. It additionally ought to be bolstered by an organization that comprehends the requirements of open area associations.

- **Look for frameworks that permit representatives to get to data remotely** - The CRM framework data ought to be accessible from any web access point or cell telephone. The data additionally should be secret key secured and ought to be accessible remotely just to see, not to be changed or erased.

- **The CRM and interchanges frameworks ought to cooperate**- A CRM framework ought to make an expert rundown of contacts that channels down to all types of correspondence general society area association employments. That incorporates telephones, email, texting, sites, electronic online networking, and printed copy mail and bulletins. A CRM framework that won't work with the product that handles different interchanges frameworks will require separate records, which means copied exertion and potential exactness blunders.

- **Top supervisors must be included from the earliest starting point of the venture**- people in general division association's must be included in outlining the system for actualizing CRM in their associations and in addition the procedures for utilizing it every day. Top chiefs comprehend their associations' missions, and they are the key wellsprings of the most critical data that will be set into the CRM framework.

4. Results

Manage the cost of governing more proficiently and accomplish more with less by adopting tools that quickly integrate with existing infrastructure, enhance usability, and provide insight into current systems. Microsoft Dynamics CRM can coordinate with legacy innovation, keeping away from expensive IT ventures.

Get up and running rapidly with low start-up costs, shortening time to advantage. Setup time is diminished because of streamlined establishment forms and upgraded analytic and investigating apparatuses, while programmed overhauling devices in Microsoft Dynamics CRM Online can free IT staff from the schedule, tedious redesigning undertakings. Improvement expenses are

diminished, as the essential business capacities are given right out of the crate, yet any tweaking required to meet an office's needs is streamlined through simple, self-administration customization abilities.

Government CRM needs differ from those of businesses in that they must serve the public at large and not just high-paying customers. Government and public sector agencies need to serve everyone, and they don't have the luxury of overlooking disgruntled constituents. Not only that, they must be accountable. Government agencies are also businesses with strict budgets and big bosses. Government agencies must be able to easily interface with other agencies, including local, state, and federal systems.

A CRM tool needs to be able to adequately integrate with existing government systems and enhance them. Government processes such as permitting and licensing benefit from a good CRM tool because approval times are shortened and many steps of the process can be self-service. Government agencies have the extra responsibility of maintaining strong relationships with constituents, partners, recruits, lawmakers, and other government agencies. Local government CRM software must also maintain internal memory and provide public access to data records. This requires extra security, memory, and user-friendly interfaces. Government CRM systems must have a high degree of interoperability to maintain efficiency across agencies.

5. Conclusions

We, in general, know CRM's story along these lines: its underlying insurance, its hits and misses and its wide assignment as cognizance of its part created.

1. Fewer champs, more washouts.

HubSpot is entering the space, LinkedIn is contemplating about it and Microsoft Dynamics CRM is taking CRM outwards into internet organizing. The key to the inevitable destiny of CRM will be the piece of guides and offshoots who can control you through the mass of decisions.

2. The CRM natural framework will develop and grow

Another sign of a fully developed business division is a multi-layered reinforce natural group around it. A large number of dealers, both in the cloud and standalone, have made a business from offering module applications. This example will create the inevitable destiny of CRM, with modules for connection ins—and perhaps modules for them! While you'll perhaps require outside help to plan your CRM's base, it's limitlessly extensible once set up. You just need to ensure that you settle on the right choice toward the starting.

3. An understanding that CRM is more than email engaging

Mechanical quality CRMs like Microsoft Dynamics CRM which scales to countless without the genuinely high costs per-seat of Salesforce. Various customers have used it chiefly for email campaigns yet that is shortly obscuring.

As Sales and Marketing workplaces come closer together, they are both beginning to learn new things. Arrangements are developing their perception of the brand estimation of good trades, while Marketing grasps the definite estimations used by the business bunch. Both gatherings are

using CRM to manage the entire customer relationship, from the first tickle to wander engagement. That is the way the possible destiny of CRM should be.

Summing up, the destiny of CRM fuses:

- a) Broader and more significant business segment understanding of what CRM can do.
- b) An evidently complex true blue environment around data.
- c) A continuation of promoting and arrangements collaborating.

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PENSION FUNDS AND ECONOMIC GROWTH: EVIDENCE FROM OECD

COUNTRIES

Bayar Yilmaz¹

Ozturk, O.F²

ABSTRACT

Raising life expectancy and decreasing fertility rates have caused the public pension systems to become financially unsustainable in many countries as of 1990s. Therefore, many countries have transitioned from unfunded pensions to funded pensions. The private pension plans and occupational pension plans which are generally funded pension plans have become important elements of overall pension systems. Consequently considerable increases in the value of pension funds have been witnessed in the recent years. This study investigates the growing value of the assets by pension funds on the economic growth in 26 OECD (Organisation for Economic Co-operation and Development) countries during the 2001-2015 period employing Dumitrescu and Hurlin (2012) causality test. The findings revealed a bilateral causality between pension funds and economic growth.

Keywords: *funded pensions, banking sector development, economic growth, panel data analysis*

JEL Classification: *C33, G23, J26, O16, O43*

1. Introduction

Population ageing arising from increasing life expectancy and low fertility rates made the financial sustainability of the public pension systems mainly financed by unfunded pay-as-you-go (PAYG) difficult. In this context, it is estimated that the share of persons aged 65 and above will increase from 8% of the total world population in 2015 to almost 18% by 2050, and from 16% to 27% in the OECD (OECD, 2015). Therefore, many countries have begun to transit from unfunded pension systems to funded pension systems and supported the funded pensions with the funded private pensions and the assets of global private pensions have increased considerably in recent years and reached to USD 38 trillion in 2015 (OECD, 2016a).

Pension funds are one of the leading institutional investors which make investments in capital markets.

Financial asset holdings by all pension vehicles reached to USD 36.9 trillion in the 35 OECD countries in 2015 (OECD 2016a). So pension funds have potential to affect the economic growth positively through contributing to the development of financial markets with raising the deepness, liquidity, competitiveness and efficiency (Holzmann, 1997). But however, the studies investigating pension funds-growth nexus have remained limited. In this paper we research the casual interaction between pension funds and economic growth in 26 OECD countries over the

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2001-2015 period. In this context, the literature summary is given in the Section 2. Then data and method is explained in the Section 3. Empirical analysis is implemented and major findings are introduced in Section 4 and the study is concluded with Section 5.

2. Literature Review

Many countries have begun to transit to the funded pensions from public unfunded pensions partially or fully during the last thirty years considering the financial sustainability of the unfunded pensions. Therefore, the assets of the pension funds have rose considerably and in turn become a key institutional investor in the financial markets. The growing value of pension funds has led the researches to investigate the economic implications of the pension funds. In this regard, most of the studies have centered on the impact of pension funds on the development of capital markets and economic growth. The studies on the interaction between pension funds and financial market development have mainly revealed that the pension funds make a positive contribution to the development of capital markets (e.g., see Enache et al., 2015; Bayar, 2016). On the other hand, the studies related to the pension funds-growth nexus have reached mixed findings. However, most the studies revealed that pension funds affected the economic growth positively (e.g., see Holzmann, 1997; Davis and Hu, 2005; Bijlsma et al., 2014; Farayibi, 2016), while relatively few studies discovered that pension funds affected the economic growth negatively (e.g., see Zandberg and Spierdijk, 2010 and 2013).

In one of the early studies, Holzmann (1997) analyzed the impact of transition from unfunded pensions to funded pensions on the economic growth in Chile with a dataset of 1980-1994 and found a positive impact of pension funds on the economic growth through increasing the total factor productivity and capital formation and decreasing the distortions of labor market. In another study, Davis and Hu (2005) researched the impact of pension funds on the economic growth in 38 countries from OECD and emerging markets employing various technique of panel data analysis revealed that pension funds affected the economic growth positively. However, Zandberg and Spierdijk (2010) investigated the same relationship for a sample of 58 countries consisting OECD and other countries over the 2001-2008 period with dynamic regression analysis and revealed no significant relationship between pension funds and economic growth. Furthermore, Zandberg and Spierdijk (2013) conducted a similar analysis for 54 countries from OECD and non-OECD over the 2001-2010 period and revealed no interaction between pension funds and economic growth in the short run, but they reached the mixed findings over the long run, they revealed a positive impact of pension funds on the economic growth in the model with overlapping observations over the long run, but no interaction between two variables in the cross-sectional model.

In another study, Bijlsma et al. (2014) researched the effect of pension funds on the economic growth in 34 OECD countries with regression analysis over the period 2001-2011 and discovered a positive influence of pension funds on the economic growth. Finally, Farayibi (2016) analyzed the impact of funded pension on the economic growth in Nigeria during the period 2005-2014 employing error correction model and regression analysis and found that funded pensions affected the economic growth positively.

3. Data and Econometric Methodology

We researched the causal interaction among economic growth, pension funds and financial sector development in 26 OECD countries during the period 2012-2015 employing Dumitrescu and Hurlin (2012) causality test.

3.1. Data

The annual growth rate of real GDP per capita was used as a proxy for the economic growth. On the other side, pension funds were represented by total pension funds as a percent of GDP, while financial development was substituted by domestic credit to private sector as percent of GDP in the paper. Our study period and sample were determined by the data availability. The variables used in the econometric analysis, their symbols and data sources were presented in Table 1.

Table 1. Data description

Variables	Description	Data Source
GRW	GDP per capita growth (annual %)	World Bank (2016a)
PENS	Pension funds (% of GDP)	OECD (2016b)
DCRD	Domestic credit to private sector (% of GDP)	World Bank (2016b)

The software packages of E-Views 9.0, Stata 14.0, and Gauss 11.0 were used in the econometric analysis of the paper. The descriptive statistics and correlation matrix of the variables in the study are presented in Table 2. The correlation matrix showed that there was positive correlation between financial development and pension funds.

Table 2. Descriptive statistics and the correlation matrix of the variables in the study

Variables	Obs.	Mean	Std. Dev.	Min	Max
GRW	390	1.543142	2.891875	-14.55986	10.92401
PENS	390	35.11444	39.85763	0.132	178.363
DCRD	390	99.34422	49.35036	0.1858704	312.1536
		GRW	PENS	DCRD	
GRW		1.0000			
PENS		-0.0952	1.0000		
DCRD		-0.2538	0.5242	1.0000	

3.2. Econometric Methodology

Cross-sectional dependency and homogeneity of the cointegrating coefficients are determinative for the selection of the further econometric tests used in the empirical analysis such as unit root test and causality test. Therefore, first we tested cross-sectional dependence among the series with LM CD test of Pesaran (2004), since cross-section dimension of the dataset (N=26) is higher than the time dimension (T=15) and tested homogeneity with adjusted delta tilde test of Pesaran and Yamagata (2008). Later, integration levels of the variables were analyzed with CIPS unit root test of Pesaran (2007) that takes notice of cross-sectional dependence. Finally, the causal interaction among economic growth, pension funds, and financial sector development were investigated with the causality test of Dumitrescu and Hurlin (2012).

4. Empirical Analysis

4.1. Cross-sectional dependency and homogeneity tests

The existence of cross-sectional dependence among the variables was tested with LM CD test of Pesaran (2004), because time dimension (T=15) is lower than cross-section dimension (N=26) and the results were displayed in Table 3. The null hypothesis, there is cross-sectional independency, was rejected at 1% significance level, because p value was found to be 0.0000. So we revealed a cross-section dependence among the series. Furthermore, we analyzed homogeneity with adjusted delta tilde test of Pesaran and Yamagata (2008) and our findings revealed that null hypothesis, there is homogeneity, was rejected and the cointegrating coefficients were found to be heterogeneous.

Table 3. Results of cross-sectional dependence and homogeneity tests

Cross-sectional dependency tests		
Test	Statistic	p-value
LM (Breusch and Pagan (1980))	2094	0.0000
LM CD (Pesaran (2004))*	129.5	0.0000
LM adjusted (Pesaran et al. (2008))*	44.03	0.0000
Homogeneity tests		
Test	Statistic	p-value
Delta_tilde	4.271	0.000
Delta_tilde_adj	4.932	0.000

*two-sided test

4.2. Panel Unit Root Tests

The integration levels of the variables were investigated by Pesaran (2007) CIPS (Cross-sectionally augmented IPS (Im-Pesaran-Shin (2003)) unit root test taking notice of cross-sectional dependence and the test results were displayed in Table 4. The test results indicated all the variables were I(1).

Table 4. Results of panel unit root tests

Variables	CIPS panel unit root test	
	Constant	Constant + Trend
GRW	-0.028 (0.489)	3.671(1.000)
d(GRW)	-2.435 (0.007)***	-0.617 (0.000)***
PENS	2.316 (0.990)	2.690 (0.996)***
d(PENS)	-3.784 (0.000)***	-2.365 (0.009)***
DCRD	0.938 (0.826)	-3.178 (0.761)
d(DCRD)	-5.536 (0.000) ***	-3.519 (0.000)***

*** significance at 1% level

Optimal lag length was selected as 1 considering LR, FPE, AIC, SC and HQ

4.3. Dumitrescu and Hurlin (2012) Causality Test

The causal interaction among economic growth, pension funds and financial development was investigated with the causality test of Dumitrescu and Hurlin (2012) and the findings were presented in Table 5. The results of the causality test revealed a one-way causality from financial development to the growth and a two-way causality between pension funds and economic growth. Furthermore, there was one-way causality from financial development to the pension funds.

Table 5. Causality test results

Lags=1			
Null hypothesis	W-Stat.	Zbar-Stat.	Prob.
<i>DDCRD</i> → <i>DGRW</i>	2.12230	2.05439	0.0399
<i>DGRW</i> → <i>DDCRD</i>	0.85107	-0.93954	0.3475
<i>DPENS</i> → <i>DGRW</i>	5.88310	10.9116	0.0000
<i>DGRW</i> → <i>DPENS</i>	2.71385	3.44756	0.0006
<i>DPENS</i> → <i>DDCRD</i>	1.29272	0.10061	0.9199
<i>DDCRD</i> → <i>DPENS</i>	1.16249	-0.20611	0.8367
Lags=2			
Null hypothesis	W-Stat.	Zbar-Stat.	Prob.
<i>DDCRD</i> → <i>DGRW</i>	6.31579	4.19144	3.E-05
<i>DGRW</i> → <i>DDCRD</i>	2.27840	-0.62184	0.5340
<i>DPENS</i> → <i>DGRW</i>	7.75371	5.90569	4.E-09
<i>DGRW</i> → <i>DPENS</i>	3.16537	0.43558	0.6631
<i>DPENS</i> → <i>DDCRD</i>	1.81254	-1.17722	0.2391
<i>DDCRD</i> → <i>DPENS</i>	7.25542	5.31164	1.E-07

5. Conclusions

We researched the impact of growing pension funds on the economic growth 11 CEE countries over the period 2001-2015 employing causality test of Dumitrescu and Hurlin (2012). The findings suggested revealed a one-way causality from financial development to the growth and a two-way causality between pension funds and economic growth. Furthermore, there was one-way causality from financial development to the pension funds.

Our findings supported the findings about finance-growth nexus in the literature and also development level of the financial sector is a significant factor for the pension funds. Furthermore, a bilateral causality between economic growth and pension funds shows that on the one hand, pension funds are important for the economic growth, on the other hand, economic growth is a significant factor for the pension funds. Future studies can be centered on the interaction channels between economic growth and pension funds considering our findings.

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BARRIERS TO ENTER INTO FOREIGN MARKETS: FIRM-LEVEL EVIDENCE FROM WESTERN BALKAN COUNTRIES

Dr. Etis Jorgji¹

ABSTRACT

The theory of international trade is yet developing, and there is no single theory used to fully explain firm's international expansion. International trade has widely been regarded as a core contributor to national economic development and growth. Many empirical studies from developed and developing countries suggest that a small percentage of the most productive firms export and most firms concentrate their activities in the domestic markets. This paper analyses exports by Western Balkan's firms with a particular focus on identifying the determinants influencing the decision to internationalize. International markets present a wide range of opportunities for many firms from developing and transition economies, from market expansion to diversification and cost reductions. The purpose of this paper is to understand the facilitating factors and barriers faced by Western Balkans enterprises in their path to internationalization. Using firm-level data from Business Environment and Enterprise Performance Survey 2013, the paper concludes that the determinants of the export behavior of our region enterprises are internal and external. The empirical results show that a wide range of external and internal factors include firms size, export experience, educated workforce, availability of external finance, low tax rates, and market share. The firm-level evidence on export performance from Western Balkans enterprises is still rather scarce; this paper tries to fill the gap on theoretical and empirical evidence regarding internationalization of these firms. Paper findings may be important for firms managers and policy makers, in order to create strategies for enhancing the competitiveness of Western Balkan's firms and strengthen this important sector.

Keywords: *Western Balkans, internationalization, barriers, facilitating factors, firm-level analysis*

JEL Classification: *F13, F15, F2*

1. Introduction

Internationalization is a major dimension of the growth of a firm (Peng & Delios, 2006). Market liberalization and digitization are encouraging large corporations and the SMEs to operate beyond their national borders and compete with each other in foreign countries and new regions (Barkema, Baum&Mannix, 2002). This paper addresses the issue of foreign trade of Western Balkan Economies, focusing in their internationalization. Globalization and trade liberalization have increased the competition faced by firms in the region. The relatively small domestic markets mean that wider opportunities offered by internationalization may be crucial for enterprises growth and progress. International trade is crucially related to the development of the region, which is why it is important to center our attention on the variables that affect and promote the integration of Western Balkan's firms, especially small and medium-sized firms in

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the global trade. Much emphasis has been put on this topic by individual countries, while not too much empirical work has been done to examine the pattern of trade and determinants on firm-level. Most of the work has been focused on the description of trade figures, individual countries advantages, but not on the variables influencing it, which is why this paper will be focused mainly on the variables that affect trade in the Western Balkan region based on individual firms data.

In general, the expansion of a nation's exports has positive effects on the growth of the economy as a whole as well as on individual firms (Cavusgil&Nevin, 1981). Exporting is of vital economic importance to trading nations and their firms. Exports boost profitability, improve capacity utilization, provide employment, and improve trade balances (Barker&Kaynak, 1992). One of the most important research questions in international business is why some firms export and others do not? (Sharkey, Lim&Kim, 1989).

The paper is structured as following: the second section will provide a closer look at the theory of internationalization process. The third section offer a general overview of the enterprise sector and its features in Western Balkan countries. The fourth section provides the information about the internationalization of individual firms in Western Balkans. The last section will be focused on the general conclusions; summary of the previous sections will be produced. Some policy implications and future research topics are as well raised in this last section.

2. Review of Theories on Internationalization of the Firms

Traditional theories of international trade focus on country differences in endowments and productivity and the importance of comparative advantage to explain why countries trade with one another. New models developed in the 1980s, notably by Helpman & Krugman (1985), show how consumers' love for variety and economies of scale can explain the observed levels of intra-industry trade and the large trade flows between countries that have similar characteristics. In the 1990s, detailed firm-level data became available which revealed a number of observations that had remained unexplained by previous theories. Internationalization theories seek to explain how and why firms engage in overseas activities and more specifically how the dynamic nature of such behavior can be conceptualized (Morgan & Katsikeas, 1997).

From the perspective of the economy of a country, internationalization helps in creating new jobs, serves as a source of foreign exchange, helps in technological advancement, improves both the economy and standard of living in the host country (Leonidou *et al.*, 2007; Arteaga-Ortiz *et al.*, 2010).

The firm-level internationalization is explained as the expansion of business operations in geographic locations that are new to the organization (Matanda, 2012:510). Internationalization strategy of firms requires different theories to explain internationalization of firm's behavior in different situations.

The two main streams of theories in internationalization process are based on the economic school and the behavioral school (Coviello&McAuley 1999; Andersson, 2004). From the economic school, *the eclectic theory* is the dominant theory, which combines economic theories of monopolistic competition, location, and transaction costs (Johanson&Vahlne, 1990:11). According to the eclectic paradigm, the main determinants of FDI are ownership advantages, location advantages, and internalization advantages (OLI) (Dunning, 1980). *The behavioral school* consisted of Aharoni's foreign investment decision processes in multinational

firms, incremental stage models (e.g. Uppsala's model) of internationalization, and innovation related models (Bilkey&Tesar, 1977; Johanson&Vahlne, 1977; Reid, 1981). *The gradualist approach* to the internationalization phenomenon, particularly appropriate for studying SMEs, conceptualizes the internationalization of the firm as a learning process based on the accumulation of experimental foreign knowledge. Both the Uppsala internationalisation model (U-model)(Johanson &Vahlne, 1977) and the Innovation-related models (I-models) (Cavusgil, 1980; Czinkota, 1982; Reid, 1981) posit that internationalisation is an incremental process based on various stages that determine changes in the behaviour and commitment of the managers which are ultimately reflected on the international orientation of the firm.

The network theory assumes that interaction of various actors, activities, and resources influences the firm's expansion in a foreign market. On the other hand, it is common to develop networks among firms with the same technological, market and production characteristics. The research carried out in emerging markets conclude that the firms affiliated with the networks could gain a critical source of knowledge for internationalization from current international activities taking place in the networks. Meanwhile, access to such knowledge will facilitate the acquisitions of business and institutional knowledge compatible with the firms' internal resources and competencies (Ellango&Pattnaik, 2007). Using the network approach, internationalization can be defined as a cumulative process in which, an international firm's objective is achieved, international relationships between firms are continuously established, maintained, developed, broken and dissolved (Ruzzier, Hisrich&Antoncic, 2006).

More recently, *international entrepreneurship theory* is increasingly utilized to explain the behavior of firms that internationalize their business not incrementally but within a short time period from inception (usually within three years) and proceed to utilize higher commitment entry modes from the outset (Oviat&McDougal, 1994). The International Entrepreneurship model (IE) focuses on the role of the entrepreneur as the key factor in the internationalization of SMEs (Wach&Wehrmann, 2014) thus emphasizing that the human factor plays a major role instead of the planning factor. IE defines internationalization as a combination of innovative, proactive and risk-taking behavior that crosses the national boundaries of the host country with the intention of adding value to the organization (Oviatt&McDougall, 2000; Wach&Wehrmann, 2014).

Leonidou&Katsikeas (1995) argue that despite considerable research on export behavior, there is no comprehensive or widely accepted theory. In a contemporary research, different approaches toward internationalization are seen as complimentary views where a combination of views is preferred "since it is difficult to investigate internationalization using only one approach" (Jansson&Sandberg, 2008).

3. Enterprise Sector in the Western Balkans: A general overview

The productive structure of Western Balkan economies is predominately composed of small and medium-sized enterprises. This sector contributes to 75% of total employment and over 60% of total private sector value-added.

SMEs are highly important for the Albanian 'non-financial business economy'. Over two-thirds of value added and 80% of employment is generated by SMEs. Micro firms are the backbone of the Albanian economy, providing 40% of employment. Almost half of all SMEs

operate in the wholesale and retail sector (47%), followed by accommodation and food services (18%) and manufacturing (10%).

SMEs in the former Yugoslav Republic of Macedonia account for almost two-thirds of total value added and nearly three-quarters of all jobs. The *wholesale and retail trade* sector contributes the largest share of SME value added, at almost one third, along with a similarly high share of employment. Most SMEs operate in the wholesale and retail sector (44%), followed by manufacturing sector (13%).

Three-quarters of value added and more than 82% of national employment is generated by SMEs. SMEs are the main growth driver in Montenegro. Micro firms are the backbone of the country's economy, providing more than one-third of value added and almost half of employment. More than half of SME (55%) operate in the wholesale and retail sector, followed by construction (16%) and manufacturing (13%).

SMEs in Serbia contribute a share of roughly 60% of employment and less than 50% of value added, compared with the respective EU averages of 67% and 57%. Micro-firms make a particularly small contribution, providing only 10% of value added, 11 percentage points lower than in the EU. Compared to its regional peers, SMEs in Serbia are less concentrated in the wholesale and retail sector (34%) and 18% are in the manufacturing sector.

In 2013, SMEs represented 99,78% of all registered enterprises in Kosovo. In the period 2010-2013, the number of SMEs increased by 27%, while this sector contributed to 74,5% of total employment. Almost 50% of all SMEs operate in the wholesale and retail trade sector.

SMEs made up 99,3% of the total business population in Bosnia and Herzegovina; their share in total employment amounted to 68,4%. The largest sector for SMEs is wholesale and retail with 43%, followed by manufacturing sector with 19%.

There is an average of 39 SMEs per 1,000 inhabitants across the region, just below the EU average. The frequency varies from a low of 25.5 enterprises per 1,000 inhabitants in Kosovo to a high of 48.7 in Bosnia and Herzegovina. One factor that could at least partly explain the gap between SME density in the Western Balkans and the EU is the high unemployment rate (averaging 25% in the six countries), particularly the unemployment rate among young people (averaging 47%). The unwillingness or inability of the unemployed to start a business is an important constraint to economic development in the region.

The contribution of SMEs to employment, turnover, and value added is, in most cases, higher than the EU average and is especially high in Montenegro and Macedonia. The most common economic sectors in which SMEs can be found are trade and services; there are very few in the agriculture sector based on official statistics, since many small farms are unregistered. The trading sector represents from roughly 30% to 50% of all SMEs in the region, above the average of 28% for SMEs in the EU. Although manufacturing only accounts for 9% to 16% of SMEs, several of the countries analyzed exceed the EU average of 9%, with Serbia and Bosnia and Herzegovina having the highest percentages.

The business environment, including the regulatory framework, is generally improving gradually over time; Macedonia, Montenegro, and Serbia tend to be rated the highest among the six countries. On average across the region, practices of the informal sector, tax rates, access to finance, and political instability are rated as the biggest constraints, although there is a great variety from country to country.

4. Internationalization of Western Balkan Firms

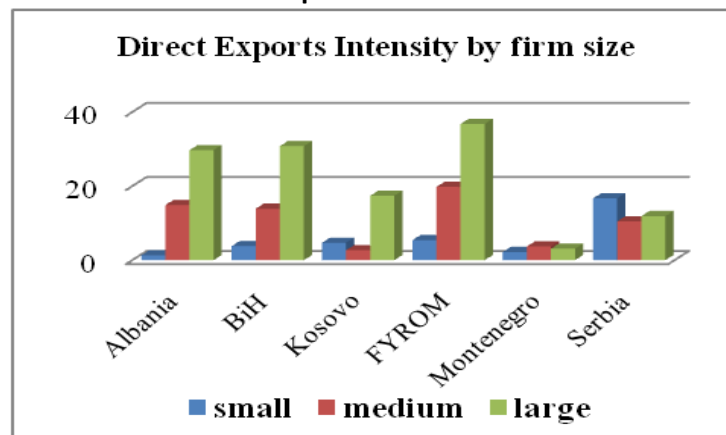
Open markets allow firms to expand, raise standards for efficiency on exporters, and enable firms to import low-cost supplies. Given the relatively weak participation of SMEs in trade despite the emergence of new opportunities and the benefits that can be expected from the connection of SMEs to world markets, the question of the determinants of their internationalization arises.

A substantial body of empirical work has identified factors in domestic and foreign markets that promote or hinder export activities at the micro- and macro-level. Literature reveals different sources of barriers and problems affect firms' export performance (Morgan, 1997; Leonidou, 1995).

The drivers and barriers to SME internationalization can be divided into two categories: *internal* factors and *external* factors. Internal factors are those that are associated with the corporate environment of the firm, and external factors are associated with macro environmental factors affecting the firm (European Commission, 2014).

Firm size and productivity are one of the main determinants of foreign activities of a firm. Studies highlight the effect of firm size on the export activity of a firm and show that firm size is an important factor in shaping exporters perceptions of trade problems and barriers (Fillion, 1990). Large firms with greater resources at their disposal can respond better than their smaller counterparts in dealing with trade problems and are likely to have a competitive advantage in international markets (Beamish *et al.*, 1999). Researchers, drawing on the insights of the resource-based theory, also find that firm size matters in determining export success (Barney, 1991). The first set of indicators provides a measure of the intensity of foreign trade in the private sector, which shows the percentage of firms who export directly or indirectly, i.e. using an intermediary and the percentage of manufacturing firms who use inputs or supplies of foreign origin. Many studies have used the percentage of sales and/or profits from international sources as a better way to measure internationalization. Almost all the literature uses these variables to measure internationalization because it reflects instantaneously a number of export sales and/or profit from export businesses (Sullivan, 1994). The intensity of export varies across the region and is determined by firm size. The largest enterprises export directly or indirectly more than SMEs. The proportion of total exports for large companies is higher in Macedonia with 47,6% of them exporting directly or indirectly, while the Montenegrin large enterprises have the lowest participation in internationalization with only 4,6% of firms.

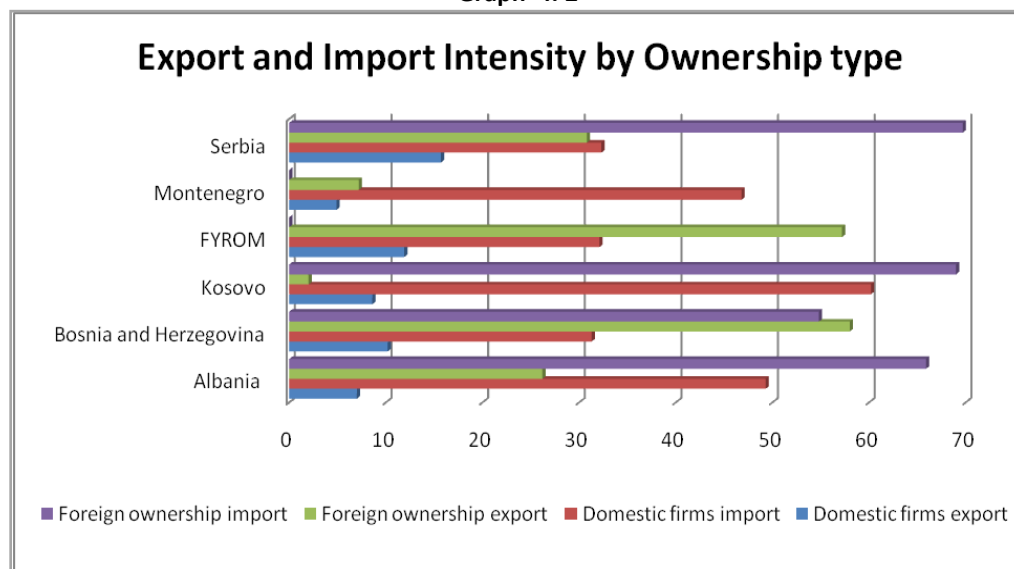
Graph 4.1



Source: BEEPS, 2013

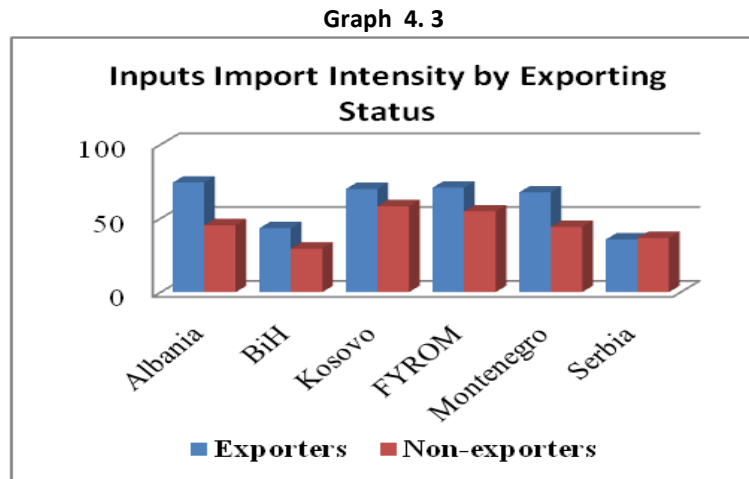
For the small and medium-sized firms, the integration in the global market is lowest for Montenegro with only 11,2%, and highest in Macedonia with a share of 43,9% in total in terms of direct and indirect exports. The more globally integrated economy is Macedonia, whilst the least integrated is Montenegro. Taking into consideration that the mode of internationalization is an essential strategic decision for gaining appropriate resources and market position, the obtained results proved the prevailing assumption in the scientific literature, that firms aim to internationalize through exports, because exporting is the cheapest and quickest way of internationalization. Among SMEs, exporting continues to be the major form of Internationalization (Eusebio *et al.*, 2007). In fact, internationalizing enterprises can enter foreign markets by means of various different entry modes, ranging from exports to foreign direct investments, reflecting varying demands of a commitment to the internationalization process (Werner, 2002). While SMEs can use one or more of these types of internationalization modes, trade, direct or indirect, is often considered to be the first step towards engaging in international markets, operating as a platform for greater future international expansion. Since SMEs tend to experience greater financial, human and management constraints than large companies and are more adversely affected by higher market barriers, it is not surprising that exporting continues to be the most common internationalization form adopted by them (Westhead, 2008). In particular, resource availability for smaller firms is the main reason why lower commitment entry modes may be used in the beginning and higher commitment entry modes may be used later on.

Graph 4.2



Source: BEEPS, 2013

The analysis performed for this study shows that exporting firms have a higher propensity to use foreign inputs over non-exporters. The intensity to import is various across the region; the Serbian firms both exporters and non-exporters have the lowest propensity to import with respectively 35,7% and 36,7 of firms, whilst the Albanian exporters have the highest propensity to import in the region with 74,2%. At the level of the firm, ownership type, firm age, firm size, labor productivity, skill intensity, technology level, foreign contacts, and networking, as well as knowledge and experience have been found to have an impact on the internationalization strategy adopted by SMEs.



Source: BEEPS, 2013

Empirical evidence suggests that family-owned firms are less likely to engage in commitment-intensive internationalization activities because of limited financial resources, willingness to establish relations with new partners and interest in the international expansion (Fernandez & Nieto, 2005). Conversely, the presence of foreign shareholders in SMEs tends to have a positive impact on export propensity. International experience embodies knowledge that enables SMEs to better respond to opportunities and threats present in international markets. From the Graph 4.3 can conclude that the firm with foreign ownership is more likely to export or import. The propensity is diverse among the countries of Western Balkans. The Serbian firms are more likely to import, while the propensity to import is lowest in Bosnia and Herzegovina with respectively 69,7% and 54,8 % of inputs of foreign origin that firms use in average. The highest intensity to import for Serbian firms is explained by the fact that Serbia is the largest final goods producer of the region. Many of other economies in the region export input goods to Serbia for final production. Serbian firms aggregate these inputs and generate the most value added that is exported to the EU markets. For domestic ownership firms, the participation in import is lower. In terms of export intensity, the Bosnian firms have the highest rate of 58%, whilst the Kosovo firms are the integrated with only 2%.

The internet has the capability to generate international market expansion and future growth for the firm and it fosters easy international market penetration and allows development of new international customers. Firms utilizing the internet in the internationalization process, capture international transactions and communication efficiencies. The internet has also improved the firm's ability to interact with customers, suppliers and business partners through multiple inexpensive interactive technologies, (Marilyn, 2006).

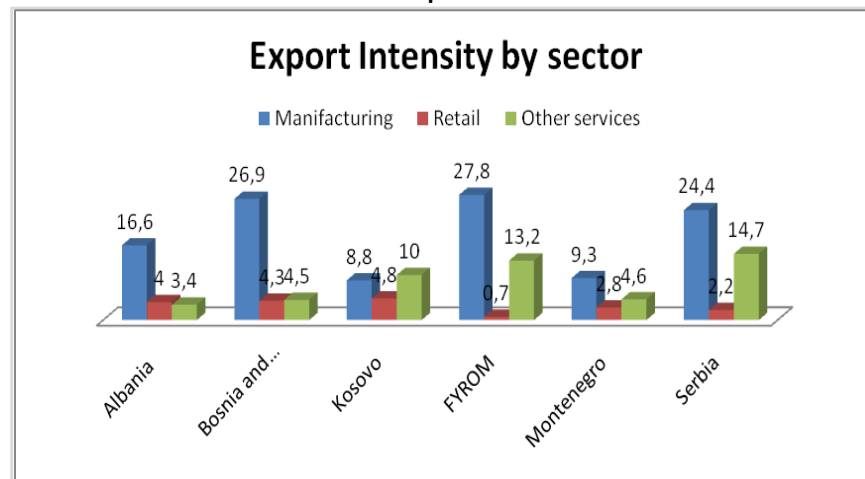
Differences exist in terms of sectoral internationalization also. The firms operating in the manufacturing sector have the highest rate of export intensity in every country of the region. The Macedonian manufacturing firms are the most integrated into foreign trade compared to peers from the other countries. The less integrated with the lowest participation in export activities are the firms operating in the retail sector.

Failure to expand the business and in particular, the international ventures can be linked to an actual lack of money or failure to adequately use the available financial resources.

To cover the costs associated with these activities, exporters are likely to need credit. Lending to SMEs is often inhibited by informational problems and transaction costs, which often translate

into higher interest rates and fees for SMEs than for larger firms. Access to trade finance tends to be the most difficult in developing countries. Part of the problem lies in the fact that local banks may lack the capacity, know-how, regulatory environment, international network and foreign currency to supply import and export-related finance. Banking and country risk can be problems too. Adequate financial resources are needed by SMEs that intent to internationalize to cover costs associated with international market research, developing export markets, international exhibitions, increasing production capacity to meet export demand, shipment costs, insurance and non-payment of delivered goods. Lack of adequate financial resources has been identified as the highest weight factor limiting SME internationalization, (Lopez, 2007; OECD, 2009). The degree of financial support varies across the region.

Graph 4. 4



Source: BEEPS, 2013

Surveys show that poor access to information, costly requirements, burdensome customs procedures and lack of trade finance are major barriers to international trade for SMEs. Non-tariff barriers are particularly burdensome for SMEs because they entail fixed costs independent of the size of the exporter. High tariffs do not only reduce SME participation in trade, they also reduce their volume of exports more than that of large firms. Fourcade (2002) identifies market knowledge, technology capability, competitor knowledge and networking capability as key environmental factors that affects the scope, extent, and speed of the firm's internationalization. To these environmental factors, Cateora (2010) adds regulation and institutional bureaucracy as a factor that impedes internationalization. In general, governments should continue their efforts to reduce the regulatory barriers to trade, namely the number of documents, costs and time needed to import and export. Exporting and importing procedures and costs in all the Western Balkans are far above the EU-28 average, impeding the participation of firms in international chain.

The existence of programs (sponsored by either government or non-government agencies) designed to assist firms' export activities contribute positively to the export performance of the firms (Gençtürk&Kotabe, 2001). Government programs to enhance exports among SMEs are needed to support internationalization, while no economy in the region has a government program to support the integration of SMEs into the global chain (OECD, 2016).

Conclusions

Globalization and trade liberalization have increased the competition faced by firms in the region. The relatively small domestic markets mean that wider opportunities offered by internationalization may be crucial for enterprises growth and progress. International trade is crucially related to the development of the region, which is why it is important to center our attention on the variables that affect and promote the integration of Western Balkan's firms, especially small and medium-sized firms in the global trade.

The purpose of this study is to add further insights to existing findings concerning the internationalization process of the individual firms, especially firms in Western Balkans. The recent studies and the international literature offers recent evidence on the internal and external factors that seem to drive the internationalization of SMEs. This study demonstrates that internationalization and performance have a positive relationship. The findings are consistent with both internationalization process theory and emerging motivations of internationalization. The findings indicate that internationalization can improve performance and motivate firms to continuously capture foreign markets. An export intensity of firms in the region is positively related to firm size, ownership type.

In addition, future researchers may be supplemented by qualitative approach for the detection of factors that may affect exports, which were not investigated in this study, and for a deeper understanding of the problems in export and possible ways of surpassing them based on the examples of successful exporters.

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REMITTANCES AND FINANCIAL DEVELOPMENT IN CENTRAL AND EASTERN EUROPEAN COUNTRIES

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Sezgin, H.F.²

ABSTRACT

Global capital flows have risen considerably during the past three decades. In this regard, Central and Eastern European countries have attracted significant amount of foreign capitals due to institutional and economic transformation and European Union membership and their financial sectors have expanded considerably. This study researches the impact of the remittances on the development of financial sector in Central and Eastern European countries during the 1996-2015 period employing LM bootstrap cointegration test of Westerlund and Edgerton (2007) and causality test of Dumitrescu and Hurlin (2012). The findings suggested that there was cointegrating relationship among remittances, trade openness and financial sector development. Furthermore, there was unidirectional causality from financial development to remittances.

Keywords: *remittances, trade openness, financial development, panel data analysis*

JEL Classification: *C33, F24, G20, O16*

1. Introduction

Globalization and increasing openness have raised the labor mobility together with the considerable expansions in transnational goods, services and capital flows. 3.4% of the global population (about 250 million people) has been working outside their mother countries (World Bank, 2016a). Increasing the number of migrant workers also has caused significant increases in the flows remittances. The flows of global remittances reached \$552.32 billion in 2015 from \$1.93 billion in 1970 and about 70% of the remittances flowed to the developing countries (World Bank, 2016b).

The remarkable expansion in the flows of global remittances has called attention to the researchers and policymakers and in turn a large number of studies researched the economic and social impacts of remittance such as economic growth, investment, financial development, poverty alleviation, inequality, and entrepreneurship (e.g., see Aggarwal et al., 2010; Shen et al., 2010; Bayar, 2015; and Azamet al., 2016). In this paper, we research the interaction between remittances and financial development for Central and Eastern European (CEE) countries for the period of 1996-2015. Remittances are generally money transfers from relatively richer regions to the relatively poorer regions and generally used for finance of basic consumption, education, entrepreneurial activities, and health and in turn have implications for economic growth,

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financial development, poverty, inequality, and entrepreneurship. However, the relationship between remittances and financial sector can exhibit complementarity or substitutability depending on the use of remittances by the recipients (Gupta et al., 2009). Remittances can make a positive contribution to the development of financial sector if transfers of the remittances are made through financial institutions and/or the recipients use the coming funds in terms of financial investments. However, financial development and financial product range have influence on the decisions of the recipients at this point. But remittances also have potential to affect the development of financial sector negatively in case remittances are used as an alternative financing source in the economy against the financial sector (Giuliano and Ruiz-Arranz, 2009). Furthermore, remittances also can influence the development of financial sector negatively, if the transfers of remittances are implemented in informal channels to decrease the costs. Therefore, the net impact of the remittances on the development of financial sector may be varied from country to country.

CEE countries transited to open market economies from closed centrally planned economies as a result of the Communist Bloc's collapse as of late 1980s, and experienced an institutional and economic transformation and integrated with the European Union (EU). Integration with the EU and increasing global openness has encouraged many residents of the CEE countries to go abroad for work. This continuing process has led considerable increases in remittances flows to CEE countries. In this paper we research the interaction between remittances and financial sector development over the 1996-2015 period. In this context, the literature summary on the subject of the paper is given in the next section of the paper. Then data and method is explained in the third section of the paper. Empirical analysis is implemented and major findings are introduced in Section 4 and the study is concluded with Section 5.

2. Literature Review

The growing volume of remittance flows has encouraged the researchers to investigate the effects of considerable expansion in the remittances over the economy in micro and macro-respects. One of the most researched topics in the recent years is the impact of remittances on the development of financial sector considering the positive interaction between financial sector development and economic growth. The studies have generally reached that the remittances have had positive influence on the development of financial sector (e.g., see Gupta et al., 2009; Aggarwal et al., 2011; Demirgüç-Kunt et al., 2011; Kakhkharov, 2014; Shahzad et al., 2014; Kevin, 2016; and Karikari et al., 2016). However, some papers revealed that remittances affected the development of financial sector negatively (e.g., see Kumar, 2013; Brown et al., 2013; Githaiga and Kabiru, 2014).

In one of the early studies Gupta et al. (2009) researched the impact of remittances on the development of financial sector in 44 sub-Saharan African countries over the period 1975-2004 employing panel regression and discovered the remittances as a positive factor for the development of financial sector. On the other side, Aggarwal et al. (2011) researched the effect of remittances on the development of financial sector in 109 developing countries over the period 1975-2007 with regression analysis and revealed a strong positive relationship between remittances and financial sector development. Demirgüç-Kunt et al. (2011) also researched the impact of remittances on the development of banking sector in Mexico in 2000 employing panel regression and revealed a positive relationship between remittances and banking sector development.

In another study, Ajilore and Ikhide (2012) examined the effect of remittances on the

development of financial sector in selected African countries over the short and long term employing ARDL approach and revealed that remittances made a positive contribution to the development of financial sector in Cape Verde, Lesotho, and Senegal except Nigeria. Kumar (2013) also researched the interaction among remittances, trade openness, and financial development in Philippines over the period 1976-2010 with ARDL bounds approach and found that remittances affected the development of financial sector negatively, but trade openness had no significant influence on the development of financial sector. Brown et al. (2013) researched the impact of remittances on the development of financial sector in 138 countries during the period 1970-2005 employing panel regression and revealed a negative relationship between remittances and financial sector development in developing countries. Githaiga and Kabiru (2014) examined the impact of remittances on the development of financial sector during the 1982-2012 period in 31 countries employing dynamic panel regression and found that remittances had negative effect on the development of financial sector. Kakhkharov (2014) also researched the relationship between remittances and development of financial sector in 27 countries from CEE and former Soviet Union over the period 1996-2013 and discovered a positive relationship between remittances and financial sector development.

In another study, Shahzad et al. (2014) investigated the interaction between remittances and development of financial sector in South Asian countries over the period 1989-2011 employing dynamic panel regression and found a positive impact of remittances on the development of financial sector. Ojapinwa and Bashorun (2014) analyzed the impact of remittances on the development of financial sector in 32 countries from Sub-Saharan region during 1996-2010 period employing dynamic panel regression and revealed a complementary relationship between two variables, in other words the remittances fostered the development of financial sector. Kevin (2016) also analyzed the impact of remittances on the development of financial sector in sub-Saharan African countries over the 1970-2014 period employing panel regression and revealed that remittances made a positive contribution to the development of financial sector. Rana and Tasneem (2016) investigated the effect of remittances on financial development in five countries from South Asia employing panel cointegration test and discovered that remittances affected the financial sector positively over the long run. Lastly, Karikari et al. (2016) researched the interaction between remittances and financial sector development in 50 African developing countries employing panel regression and causality analysis and found that remittances affected the development of financial sector positively in the short run, and financial development was a significant factor for the attraction of remittances.

3. Data and Econometric Methodology

We researched the interaction among remittances, trade openness and financial sector development in CEE economies during the period 1996-2015 employing Westerlund and Edgerton (2007) LM bootstrap cointegration test and Dumitrescu and Hurlin (2012) causality test.

3.1. Data

The yearly data of domestic credit to private sector (% of GDP) was used as a proxy for financial sector development. On the other hand, personal remittances inflows and trade openness were employed as explanatory variables in the paper. Our study period and sample were determined by the data availability. The variables used in the econometric analysis, their symbols and data

sources were presented in Table 1.

Table 1. Data description

Variables	Description	Data Source
DCRD	Domestic credit to private sector (% of GDP)	World Bank (2016c)
REM	Personal remittances, received (% of GDP)	World Bank (2016d)
TO	Trade (% of GDP)	World Bank (2016e)

The software packages of E-Views 9.0, Stata 14.0, and Gauss 11.0 were used in the econometric analysis of the paper. The descriptive statistics and correlation matrix of the variables in the study are presented in Table 2. The correlation matrix showed that there was positive correlation between financial development and remittances and between financial development and trade openness.

Table 2. Descriptive statistics and the correlation matrix of the variables in the study

Variables	Obs.	Mean	Std. Dev.	Min	Max
DCRD	220	43.39763	20.76861	0.1858704	101.2876
REM	220	1.922921	1.759085	0.0272946	8.154229
TO	220	109.886	32.71504	46.19455	185.1639
	DCRD		REM		TO
DCRD	1.0000				
REM	0.3706		1.0000		
TO	0.4153		0.0572		1.0000

3.2. Econometric Methodology

Cross-sectional dependency and homogeneity among the variables are determinative for selection of the further econometric tests used in the empirical analysis such as unit root test and cointegration test. Therefore, first we tested cross-sectional independency among the series with LM test of Breusch and Pagan (1980), since cross-section dimension ($N=11$) is lower than time dimension ($T=20$) and tested homogeneity with adjusted delta tilde test of Pesaran and Yamagata (2008). Later, integration levels of the variables were analyzed with CIPS unit root test of Pesaran (2007) that takes notice of cross-sectional dependence. Then, the cointegrating relationship among remittances, trade openness and financial development was analyzed with LM bootstrap cointegration test of Westerlund and Edgerton (2007), because heterogeneity and cross-sectional dependence were found in econometric analysis of dataset. The cointegrating coefficients was estimated by Augmented Mean Group (AMG) estimator (see Eberhardt and Bond (2009), Eberhardt and Teal (2010, 2011)) after the cointegrating relationship among the variables was found. Finally, the causal interaction among remittances, trade openness, and financial sector development were investigated with the causality test of Dumitrescu and Hurlin (2012).

4. Empirical Analysis

4.1. Cross-sectional dependency and homogeneity tests

We tested cross-sectional independence among the series with LM test of Breusch and Pagan (1980) because time dimension ($T=20$) is higher than cross-section dimension ($N=11$) and the results were displayed in Table 3. The null hypothesis, there is cross-sectional independency,

was rejected at 1% significance level, because p value was found to be 0.0000. So we revealed cross-section dependence among the series. Furthermore, we analyzed homogeneity with adjusted delta tilde test of Pesaran and Yamagata (2008) and our findings revealed that null hypothesis, there is homogeneity, was rejected and the cointegrating coefficients were found to be heterogeneous.

Table 3. Results of cross-sectional dependence and homogeneity tests

Cross-sectional dependency tests		
Test	Statistic	p-value
LM (Breusch and Pagan (1980))	242.1	0.000
LM CD (Pesaran (2004))*	12.570	0.000
LM adjusted (Pesaran et al. (2008))*	39.73	0.000
Homogeneity tests		
Test	Statistic	p-value
Delta_tilde	10.849	0.000
Delta_tilde_adj	12.058	0.000

*two-sided test

4.2. Panel Unit Root Tests

We analyzed the integration levels of the variables by Maddala and Wu (1999) panel unit root test and Pesaran (2007) CIPS (Cross-sectionally augmented IPS (Im-Pesaran-Shin (2003)) unit root tests. CIPS panel unit root test considers cross-sectional dependence, while Maddala and Wu (MW) (1999) panel unit root test does not regard cross-sectional dependence. The tests were implemented and the results were given in Table 4. All the variables were found to be I(1) with regard to the results of the test.

Table 4. Results of panel unit root tests

Variables	MW (1999) panel unit root test		CIPS panel unit root test	
	Constant	Constant + Trend	Constant	Constant + Trend
DCRD	18.568 (0.672)	8.055 (0.997)	1.201 (0.885)	2.610 (0.995)
d(DCRD)	42.412 (0.006)***	30.654 (0.103)	-2.998 (0.001)***	-3.505 (0.000)***
REM	14.611 (0.878)	12.486 (0.947)	0.259 (0.602)	0.457 (0.676)
d(REM)	68.624 (0.000)***	43.842 (0.004)***	-1.874 (0.030)**	-1.017 (0.155)
TO	8.659 (0.995)	57.612 (0.000)***	-2.147 (0.016)	1.084 (0.861)
d(TO)	122.054 (0.000)***	80.924 (0.000)***	-4.956 (0.000)***	-3.121 (0.001)***

*** significance at 1% level

Optimal lag length was selected as 1 considering LR, FPE, AIC, SC and HQ

4.3. Westerlund and Edgerton (2007) LM bootstrap cointegration test

The cointegrating relationship among remittances, trade openness and financial sector development was analyzed with LM bootstrap cointegration test of Westerlund and Edgerton (2007) and the results were displayed in Table 5. Furthermore, the critical values were provided with 10.000 simulations and lag and lead values were taken as 1. Table 5 indicated that the null hypothesis (there is cointegrating relationship among the variables) should be accepted considering the bootstrap p-values due to the existence of the cross-sectional dependence among the variables. So we concluded that there was a long run relationship among the variables.

Table 5. Results of Westerlund and Edgerton (2007) LM bootstrap cointegration test

LM_N^+	Constant			Constant and Trend		
	Test statistic	Asymptotic p-value	Bootstrap p-value	Test statistic	Asymptotic p-value	Bootstrap p-value
	2.077	0.019	0.780	6.248	0.000	0.273

The cointegrating coefficients were estimated by AMG estimator which regards heterogeneity and cross-sectional dependency and the findings were displayed in Table 6. The results indicated that both remittances and trade openness had no significant impact on the development of financial sector at the level of overall panel. However, at the country level, remittances had positive impact on the development of financial sector in Estonia, Latvia, and Lithuania over the long run, while remittances had negative impact on financial sector development in Hungary, Poland, and Slovakia over the long run. On the other side, trade openness had positive impact on the development of financial sector in Bulgaria, Croatia, Poland, Romania, and Slovenia over the long run, while trade openness had negative impact on the development of financial sector in Czech Republic, Estonia, and Lithuania over the long run.

Table 6. Long run cointegrating coefficients

Country	REM		TO	
	Coefficient	p-value	Coefficient	p-value
Bulgaria	0.5650007	0.562	0.4703894	0.000
Croatia	3.078825	0.242	0.5125724	0.005
Czech Republic	0.5739605	0.972	-0.3864864	0.082
Estonia	11.4576	0.000	-0.2958606	0.001
Hungary	-3.943598	0.030	0.1028453	0.153
Latvia	7.03639	0.000	-0.0691178	0.634
Lithuania	5.406372	0.000	-0.1821323	0.006
Poland	-9.380014	0.000	0.3707696	0.001
Romania	-0.8045649	0.520	0.1536592	0.060
Slovakia	-17.11702	0.008	0.1572298	0.458
Slovenia	-10.48914	0.197	0.3558171	0.009
Panel	-1.237836	0.626	0.1081533	0.245

4.4. Dumitrescu and Hurlin (2012) Causality Test

The causal interaction among remittances, trade openness and financial sector development was tested with the causality test of Dumitrescu and Hurlin (2012) and the findings were presented in Table 7. The findings indicated that there was unidirectional causal relationship from financial sector development to remittances, because null hypothesis was rejected. So the development of financial sector is an important instrument in attraction of remittances.

Table 7. Causality test results

Lags=1			
Null hypothesis	W-Stat.	Zbar-Stat.	Prob.
$DREM \rightarrow DDCRD$	0.73976	-0.74603	0.4557
$\Delta DDCRD \rightarrow DREM$	1.87488	1.29904	0.1939
$DTO \rightarrow \Delta DDCRD$	1.24362	0.16175	0.8715
$\Delta DDCRD \rightarrow DTO$	1.61681	0.83409	0.4042
$DTO \rightarrow DREM$	0.45957	-1.25083	0.2110

$DREM \rightarrow DTO$	1.13457	-0.03472	0.9723
Lags=2			
Null hypothesis	W-Stat.	Zbar-Stat.	Prob.
$DREM \rightarrow DDCRD$	1.36666	-1.16595	0.2436
$\Delta DDCRD \rightarrow DREM$	3.86769	1.65605	0.0977
$DTO \rightarrow \Delta DDCRD$	1.56527	-0.94185	0.3463
$\Delta DDCRD \rightarrow DTO$	1.90782	-0.55534	0.5787
$DTO \rightarrow DREM$	1.29037	-1.25204	0.2106
$DREM \rightarrow DTO$	1.51392	-0.99980	0.3174

Conclusions

We analyzed the impact of remittances and trade openness on the development of financial sector in 11 CEE countries over the period 1996-2015 employing LM bootstrap cointegration test of Westerlund and Edgerton (2007) and causality test of Dumitrescu and Hurlin (2012). The findings suggested that there was cointegrating relationship among remittances, trade openness and financial sector development. But the long run cointegrating coefficients of the panel showed that both remittances and trade openness had no significant impact on the development of financial sector. However, at the country level remittances had positive impact on financial sector development in Estonia, Latvia, and Lithuania over the long run, while remittances had negative impact on financial sector development in Hungary, Poland, and Slovakia over the long run. On the other side trade openness had positive impact on financial sector development in Bulgaria, Croatia, Poland, Romania and Slovenia over the long run, while trade openness had negative impact on the financial sector development in Czech Republic, Estonia and Lithuania over the long run. Furthermore, there was unidirectional causality from financial development to remittances.

Our findings match up with the theoretical propositions and the empirical findings. Increases in the flows of remittances foster the development of financial sector in Estonia, Latvia, and Lithuania, while the remittances affect the development of financial sector negatively in Hungary, Poland, and Slovakia. However, the development level of financial sector is an important factor for attracting the remittances in the short run. Therefore, we evaluate that remittances begin to make a positive contribution to the development of financial sector after the financial sector has reached a certain threshold of financial development. So policymakers should take measures to achieve this development level of financial sector for attraction of the remittances considering its positive impact on economic growth and financial development.

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SOME PROBLEMS OF THE ALBANIAN RAILWAY RESTRUCTURING

Dr. Alush Kuçi¹

ABSTRACT

Albanian Railways Restructuring as any other railway of a European country has its own peculiarities, which reflect the level of the country development and transport, policies and priorities, opportunities, the moment interests and center. All these together create different strategies and routes to follow. Directive number 440 of 29 April 1991 in this respect constitutes the terminal point where has to achieve the restructuring process. Its mechanical implementation without creating its self-operated body would be considered the only waste of time and loss of confidence in what can be identified as a necessity for the future.

The paper considers problems of the variable costs system or short term decision making as a preliminary way to the transition from a functional management system to that of the direction of the unit. Why should be considered this problem in the Albanian context, when business units own unused cost resources or excess capacity inherited from the previous functional management of the Albanian railway. How can we apply the restructuring process or a decision making of variable costs system when passengers trains are unable to cover their variable costs? Must it be organized the rail transport in relation to integral or sustainable transport policy? All these are considered in the paper as a preliminary route to reach the railway restructuring under the directive in question.

Keywords: *restructuration, management by units, short-term decision-making system*

JEL Classification: *L62, O32, D24*

1. Introduction

About the railway's restructuration is used to hear often in the recent decades, due to several economic and social phenomena, intertwined in some ways not experienced before.

But the very big problem of the rail transport in many European countries (especially in those of the united Europe) was the contradiction between their economic performance with respective states budgets. The continued growth of debt and inability to repay them greatly aggravated their position in relation to the budget of their countries. This situation dictated the creation of Directives with No. 440 dated April 29, 1991. The directions that define the content of this European Community directive were:

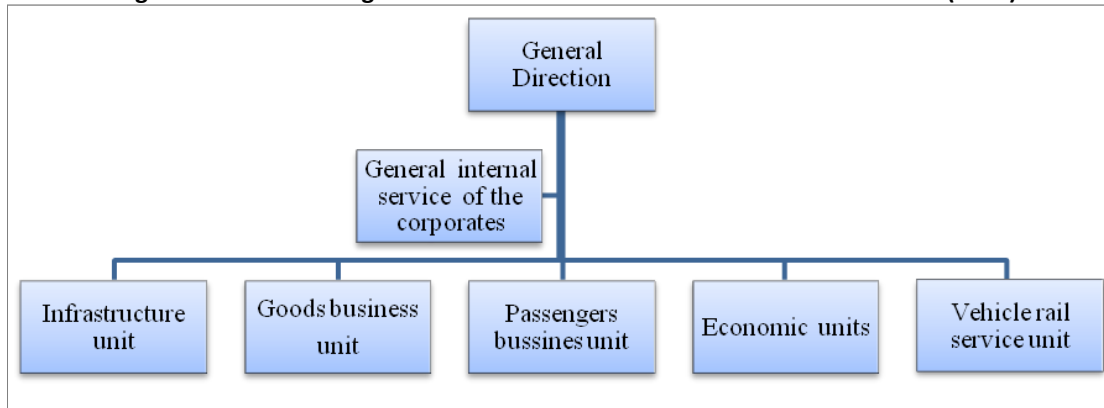
- The independence of the direction of the rail.
- The separation between infrastructure and the transport service direction.
- The improvement of the financial situation of railway enterprises.
- The free access to the private operators to rail services.

This way the railways restructuring became mandatory for EU countries, while for others that aspire to become part of this community in the future was not mandatory, but gradually over the time, this process in these countries was realized under the same directives in question.

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It is really important to say that early on after 1990, the Albanian government policy was not indifferent in this regard. Despite the strong refraction of the railway performance compared to the period before 1990 during to the second half of the twenty century, the strong rail transport tradition stirred up political attention to take some steps to restructure the railways. In the year 2005 was created the railway infrastructure enterprise but within the functional management of the Albanian railway's directory. While restructuring according to directives No. 440 dated 29 April 1991 of the European Community started in 2008 and completed in 2010, with the assistance of a group of foreign specialists.

Figure 3: Restructuring scheme under of the rail unit's direction in Albania (2010)



2. Rail transport performance after restructuring

In general, all indicators reflect the continuous declining trend of the transport volume for the period from 2010 to 2015. There may be many reasons for that, but this paper will concentrate in some of them, that can prove that reconstruction is a much broader and complicated concept than a mechanical application of a scheme offered by the transport committee of the European Community. Each country has a certain level of the development and in accordance with that; the problems to reach the application of the same scheme are different. Mechanical restructuring based simply on an obliged scheme becomes invalid if there are not taken preliminary steps as the technological restructuring of the rail infrastructure (line, vehicles) etc and some decision making to open the way the rail development adapted to the country policy development.

Since 1992 in Albania has consistently evolved the contradiction between rapid deregulation of goods transport on the motorway and the lack of a clear vision to increase the volume of goods transported with railways. The poor condition of roads in the country until late of the last century helped railways to retain considerable volumes of freight transport. This also because (products and raw materials) of state corporations such chromium, fuels and other continued to be transported by rail until to the early years of the twenty-one century. Another part of the raw materials and some considerable materials size for the businesses comes through the port of Durres and with train were transported to the destination, thanks to the competitive tariff provided by railway.

While along with new highways constructed and those existed ones repaired, the transport offer across the country grew, which led inevitably to the reduction of transport tariffs for same goods and products. Gradually along with the deregulation and transformation of the preceding

mentioned state corporate into operations societies, comes the removal of raw materials and products offered by them away from rail (transportation of chrome, fuel and etc.) Despite the shadows and lights about how were directed these processes, such products for their nature should be remained to be transported by rail.

The trend in table 1 show the volume of the rail goods transport from 2010 to 2015.

As it's seen from the data in the table after 2010 is proved a continual decrease in the volume of goods by rail in the years following the restructuring of the Albanian railways.

The causes of this process are numerous and of a different nature.

First: This situation continues in a decreasing trend resulted from the priority created in the highways and roads, both in terms of the investment for building and their restriction, as well as in the diversification of types and the capacities of transport mean to follow transport goods demand. From the table, No 1 is noted that the average transport distance of one ton of goods in the years after the restructuring results over 100 km, this because of the increased weight of the rail traffic through Bajza station border crossing with Montenegro. While willing the country, because of short transport distances, under 100 kilometers, rail freight is going through a difficult period in relation to highways.

Second: Because of the monopoly position owned in the transport market in the common property system over the production means, railways inherited excess capacity or greater resources cost compared with that necessary used today. From this perspective, the tendency to improve economic performance should be focused on a policy of the goods tariffs based on the variable cost system. In the transition from a full cost system related to the transportation of state product corporations to a variable cost system to determine the price (tariff) lies the core concept of decision making, the substitution of the functional or vertical management with the units or parallel management point of view. The direction of the Albanian Railways not even today uses a system of variable costs or short-term decision-making, even though the transport capacity that owns is bigger than necessary. Even in relations outside the border with Montenegro continues the same policy of the tariff system based on the full cost.

3. Passengers transport

The main problem to discuss the passenger's rail transport in Albania is the type of trains composed. All trains, those to passengers and to goods use the same locomotive (CKD 1300 HP) manufactured for handling, formation and attracting the freight trains. This kind of locomotive used in the Albanian railway network from the 70's in the last century continues today to be the only one and unified locomotive for both goods and passenger trains.

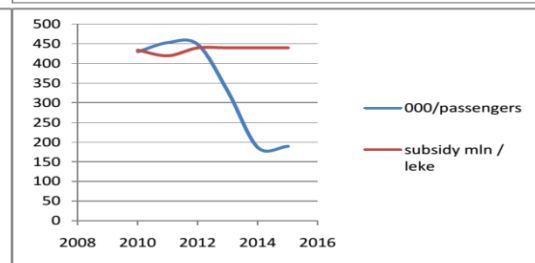
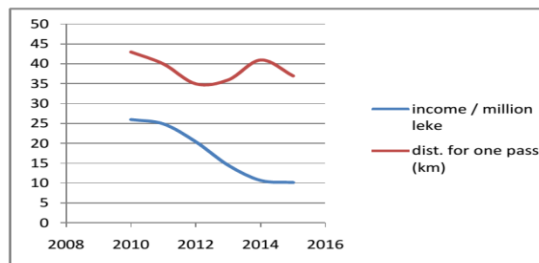
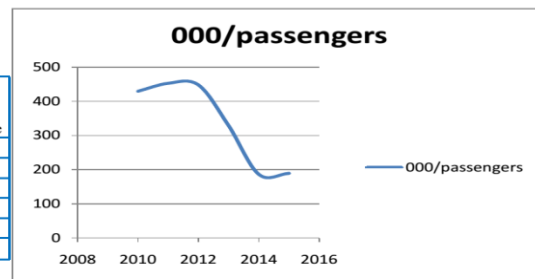
The fact that this locomotive was successfully used for the passenger trains in the previous communist system, refers to the monopoly position that rail had compared to road transport in the whole extension of the railway line and the using of the socialist system pricing policy. As result of monopoly status the passenger trains composed with many carriages, usually more than ten and their capacity used in significant levels, about 60% to 65 %. Today the Albanian railway continued to operate with the same trains, but with a considerable reduction, both in a number of operated trains and the carriages in their composition.

In the previous socialist system operated eight train formations per day, traversing a total of around 2700 km per day, while today operate five train formations, which traverse 764 kilometers per day.

Table No. 2

Passenger transport from 2010 to 2015 (period after restructuring)

Nr	Years	000/passe ngers	000/pass/k m	income / million leke	dist. for one pass (km)	subsidy mln / leke
1	2010	429.8	18659	26	43	434
2	2011	453.1	18230	24.9	40	419.6
3	2012	448.1	15855	20.4	35	440
4	2013	329	11725	14.5	36	440
5	2014	186.6	7714	10.7	41	440
6	2015	189.7	6990	10.2	37	440



Data in the table No 2 show a trend of continuous deterioration of the situation of passenger service. There are many reasons for such a situation, but the most important may be ranged as follows:

- The high level of investment in the country's highways compared with investments in the railway system.
- This factor has affected continuously rail service diminution as a result of the Albanian political strategy to invest in the roads during the last two decades, to bring them to the level of European community standard. Along with the road construction came gradually the improvements in the road vehicles and the process of deregulation of the road transport.
- Higher operating costs and low speed of the passenger trains.

Passenger trains continue to be composed as before with the same type of locomotive (CKD 1300 Hp) and heavy long trips carriages. The only difference reflected is the continuation diminution of the average number of carriages per train as a result of the lower volume of the passengers. These trains in the communist system, in the conditions of monopoly operation position of railways compare to motorways, were financially justified due to a large number of wagons per train (from 10 to 13 cars) and the high coefficient of the utilization of their capacity. While today they have an average of two or three wagons per train and a lower utilization of their capacity ratio. In the terms of today competition, they manifest very high operating costs. According to data of 2011, the first year after the completion of the process of Albanian railway restructuring, following the directive number 441 of the 1991 of the European community, the total income from passenger trains operation were 25 million ALL, while only operation variable fuel costs for these trains resulted in 100 million ALL or about 400% more. So moving the passenger trains produce a loss in a direct correlation with the kilometers performed. As a result of any tendency to reduce the passenger transport services costs in the Albanian railways is associated with the reduction of performed train kilometers or the number of trains operated, reducing together the service volume and costs in general. When one train fails to cover his variable costs, it is not financially justified to operate online. Under this condition, no passenger train in Albanian railways should operate online. Table 2 shows that for the period from 2010 to 2015 the volume of transportation for pass/km is reduced 55.86%, accompanied by a decrease in

revenues approximately 60.77%. To strong tendencies to main transport indicators, decrease responds to a constant amount of the subsidy increase. For 2015 from 450.2 million ALL revenues for passenger service sector only 2.27 % or 10.2 million were provided from passenger service operating the train. The remaining 440 million ALL or 97.73% of the revenues were provided through government subsidy. The situation presented in Table No. 2 shows no real prospects of rail passenger transport. Besides higher operating costs, trains attracted from locomotives CKD began to realize relative lower speeds and higher travel time in comparison with road vehicles that populate the streets and highways. The concept of time as increasing movement demand and a new way of living of the twenty-first century brought finally out of the picture the passenger trains in Albania.

4. Removal of the railway station of the Tirana city in one other position away from its center

Migratory population movements from northern, north- eastern, southern and south-eastern since the 90's of the last century have continued even today bringing uncontrolled population grown up in Tirana - Durres axis. Both cities especially Tirana faced a mechanical uncontrolled growth of the population reaching a density of 8,000 to 10,000 people per square kilometer. In the context of a regulatory urbanization plan of the capital on September 2, 2013, closed the railway station of Tirana, displaced temporarily five km from the city center towards Durres, until the implementation of the adjustment plan. Table 2, shows the difference between the passengers of 2012 (station enclosed) with those of 2014(station closed). It shows that the fall of passengers in relation to all Albanian rail network is 58% or 1227 passengers per day in 2012 to 511 passengers per day in 2014. The causes of such a decline can be explained in several ways:

1. Concentrating of about 50% of the country's population on the Durres – Tirana axis has created a sustainable segment of low-income inhabitants of the area (the elderly, students, small business employees, and others) connected with rail service due to low ticket price travel.
2. The impact of the displacement of the train station a few kilometers away from the center of Tirana, made these travelers facing with additional urban services (interchanges) to pass from the train station to additional urban bus lines, to continue the journey to the final destination and vice – verse.‘ These additional services increased travel tickets price from Durres to Tirana and vice versa on average 30%, which was totally the consequence of the displacement of the railway station from the center of the city.
3. The necessary interchanges to move from rail to urban buses service to complete the trip is a big violation of the travel comfort, whether from the difficulty of interchange, as well as the time spent, lasting the travel time. Such a trip is considered integrated and should be promoted by reducing the price of the travel-integrated ticket.

Functional and units organization.

Restructuring as a process is not simply a duty to every country like Albania, who dreams their future in the European Community. In fact, the transition from the functional to the units organization model constitutes the content of railway restructuring. But its core concept is the restructuring of the decision-making process, the approach of the operating level was the decision is taken to the level where the decision is implemented, connecting together the right to take the decision with the responsibilities from its implementation. Despite separate recording of expenses and revenues for each rail unit,(look at the restructuring scheme under of the rail units

direction) the decision-making according to this is not exercised. Albanian Railways continue to be governed by the concept of functional management organization. This is because of lower economic performance that constantly rail system has proved in the last two decades.

Conclusions

1. For rail goods transport.

The business division of goods rail transport from passengers rail transport and the same the separation of infrastructure (railway line) from the movement of trains is a simple problem to be conceptualized and realized. The purpose of creation of the goods rail transport unit is the improving of the financial situation of this sector by increasing the volume of freight transport. This indirectly is related to the purpose of following an integral transport policy, which means to take away the trucks from the roads, so to throw part of their goods on railway transport. During the history of the Albanian railways in recent decades, there have been many opposite cases as chromium, oil products and other raw materials removed from rail to the road (trucks). Specifically, these phenomena have occurred gradually with the privatization of the state's corporations that treated these raw materials. In the early post-communist period, by its own low social-economic development of the country, many distorted things were justified by the idealization of the free market, without appreciating in detail the phenomena, unintended consequences and the experience of other countries. Now such things have come the time to be seen from another point of view. Air pollution and roads blockages due to the traffic increase has begun to produce social cost. In this context, actual transport fees on our roads for over mentioned raw materials do not represent their actual levels. To follow a policy of integrated transport these external costs (social) must be internalized, so have to be reflected as an additional cost in fees that road transport currently presents. In addition, there are enough restrictions and regulations that must be implemented rigorously for better roads access, which mostly is built recently and are showing problems by Improper use.

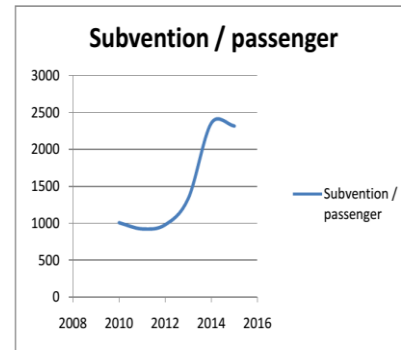
The direction of goods transport unit must change the tariff policy from the traditional long-term to short-term decision making or tariff calculation using the system of variable costs. This decision conception is the result of the loss of the monopoly position and the continuous deregulation of goods transport (by trucks). Consequently, Albanian railways have lost a substantial part of the transport of goods and as a result has created an excess of the transport capacity or unusable cost sources. Former states corporations that consume large quantities of raw materials and their coexistence with the railways no longer exist. Under these conditions, a system of variable costs for decision making in a deregulation market is more flexible.

2. For rail passengers transport.

Railway restructuring under the directives of 411/4/1991 of European Community from another view is an attempt to create value by the inclusion in the free competition market these large and complex enterprises, maintaining in the same time their social character. This quality emerges through the ticket subsidy policy in the service of passenger trains. As noted in Table 1, the decreasing tendency of the passenger's volume of the rail transport for the years 2010 to 2015 corresponds the same level or even increase of the subsidy per one passenger noticed in the table No 3.

Table No 3 Subvention for one passenger from 2010 to 2015. (period after restructuring)

Nr	Years	Subvention / passenger
1	2010	1010
2	2011	926
3	2012	982
4	2013	1337
5	2014	2358
6	2015	2319



The case is explained by the fact that the passenger trains in Albania, not covering their variable costs do not produce contribution. In this case, the only way too low the total operation costs is reducing the graphed everyday kilometers or the number of operated trains. This trend has reduced together with the volume of passengers, the number of trains and their kilometers performed, while the government has tried to keep a constant level or perhaps even to increase the operating passenger transport subsidy (see Table No.1). Such a policy is reflected as increasing trend of subsidy per one passenger reflected in table No.3. In this argument the subsidy is not justified because the trains do not cover their variable costs, so financially has not justified their operation. This conclusion argues that before the restructuring process undertaken by the European Community recommendation should be taken into consideration another prior necessary restructuring process. This process should take into consideration another type of commuter trains in the Albanian railways, trains of modern technologies, lighter and smaller capacity, flexible and low cost operating. These trains most likely will cover their variable costs from their income and realize a contribution to increasing the overall system performance.

Following the discussion of this paper and the facts of the daily reality, railway station of Tirana must be replaced on the previous position or another position that would be closer to the city center. Any tendency to argue otherwise, for example, the creation of a multifunctional central terminal designed at a greater distance from the city center, it would not avoid negative elements that already have emerged, such as the violation of comfort and increased travel costs mentioned before in this paper. Within the context of operating in an area of intense urban movement, the rail investment constitutes the best way to follow an integrated transport policy.

A part of the conclusions and findings of this paper may find solutions to the state decision-making level and other to Albanian railways. To solve some of the problems outlined in this paper Albanian government should be guided by a policy of integrated transport and realistically define the rail transport in this context. Also, the direction of the Albanian railways should pursue a liberal tariff policy, which should aim to enhance the contribution of trains in circulation through their large number train in operation.

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THE ROLE OF ENERGY IN ECONOMIC GROWTH OF THE BALKAN COUNTRIES

Galip Altinay¹

ABSTRACT

In this study, the aggregate production function that incorporates energy is estimated for some Balkan countries, namely Albania, Bulgaria, Greece, Romania and Turkey. The output (real GDP) is constructed as a function of three factors of production: capital stock, labor and total energy. The sample data, covering the period of 1960-2014 for Greece and Turkey, and 1971-2014 for Albania, Bulgaria and Romania. To find out whether a long run relationship among the variables exists, the bounds testing methodology developed by Pesaran et al. (2001) is employed. By using the autoregressive distributed lag (ARDL) approach, the long run elasticities are estimated. The short run elasticities are estimated by error correction mechanisms. The empirical results reveal that a long run level relationship among the variables is found for all countries, except for Turkey. The long run elasticities estimated by the ARDL models indicate that capital stock is significant for all of the economies. On the other hand, energy is a significant variable for Albanian, Bulgarian and Romanian economies, whereas labor seems to yield mixed results. The differences and the similarities among the countries are also explained by the composition and the historical backgrounds of the economies examined.

Keywords: *Production function, energy, GDP, bounds testing, Balkan countries*

JEL Classification: *C22, C51, E23, O57, Q43*

1. Introduction

Until 1970s, the role of energy in economic growth had been generally neglected in economics literature. After the energy crises that occurred during the 1970s, energy started to be included in economic analyses. Stern (2011) reviews extensively how the mainstream growth models have evolved and how energy use has been incorporated in production functions as one of the factors of production. Although energy may not appear in standard macroeconomics textbooks, there exist a vast literature on the relationship between energy use and economic growth, especially, on the empirical investigation of the causal relationship between energy and GDP, which constitutes an significant part of the energy economics literature.

There are many studies that attempt to explain economic growth within a production function that includes energy as one of the factors of production. Some examples of the early studies, among others, are Tintner et al. (1977) employ a Cobb-Douglas type and a constant elasticity substitution (CES) functions that include energy to estimate the output of the Austrian economy; Jorgenson (1984) uses energy as factor of production to investigate the productivity growth of

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the individual industries in the U.S.; Apostolakis (1987) investigates the role of energy in the production functions of five southern European economies by using annual time series data and concludes that by incorporating energy in the production function as a factor-input, specification errors are avoided.

More recent studies that treat energy as a factor of production are Kemfert (1998), Stern (2000), Dahl and Erdogan (2000), Thompson (2006), Wei (2007), Stresing et al. (2008), Lee and Chien (2010), Lecca et al. (2011), Stern and Kander (2012), Su et al. (2012), Ayres and Voudouris (2014), Salim et al. (2014), Esseghir and Khouni (2014), Dissou et al. (2015), Voudouris et al. (2015), Lazkano and Pham (2016), and Thompson (2016), inter alia. The aforementioned studies either focus on estimating the (short-run and the long-run) coefficients of the production function or focus on the issues of substitution among production factors, or showing empirically the importance of energy use in economic growth as in Stern and Kander (2012). The studies use different types of specifications of production function. Although Cobb-Douglas type production functions may appear more frequently in the studies, constant elasticity substitution (CES) functions and nested functions may also be used.

Most of the studies mentioned above analyzed generally developed or industrialized countries. Recently, some studies analyzed some Balkan countries or economies in transition. For example, Acaravci and Ozturk (2010), Wolde-Rufael (2014), Kumar et al. (2014), Kumar et al. (2017) and Koçak and Şarkgüneşi (2017) investigate the relationship between energy consumption and economic growth either within or without the framework of production function for the Balkan countries. This study aims at investigating the role of energy in economic growth of some Balkan countries, namely, Albania, Bulgaria, Greece, Romania and Turkey by analyzing the aggregate production functions that incorporate energy for each country separately. The sample time series data, covering the period of 1960-2014 for Greece and Turkey, and 1971-2014 for Albania, Bulgaria and Romania, employed in this study are the largest data set on the basis of availability in comparison to the aforementioned studies.

2. Background of the Economies

The countries under examination have different historical backgrounds and different compositions of GDPs. The sample period of 1971-2014 for Albania, Bulgaria and Romania cover also the socialist era up to 1990. The economic structures of these countries have changed drastically towards a capitalist system afterwards. In addition, Bulgaria and Romania have been members of European Union (EU) since 2007. On the other hand, although the economies of Greece (which has been a member of EU since 1981) and Turkey have had a capitalist system throughout the sample period of 1960-2014, they have faced different financial and economic crises at different degrees. In order to have an idea about the structures of the economies we can look at the shares of GDPs by sectors. Table 1 presents the average percentage shares of GDP by sectors for each country.

Table 3. The Shares of GDP by Sectors (%)

Countries	Sectors	1980-84	1985-89	1990-94	1995-99	2000-04	2005-09	2010-14
Albania	Services	23	22	21	47	55	53	51
	Industry	44	45	32	16	20	27	27
	Agriculture	33	33	47	37	24	20	22
Bulgaria	Services	27	28	44	59	62	64	67
	Industry	57	61	42	25	27	30	28
	Agriculture	16	12	14	16	11	7	5
Greece	Services	-	-	-	72	72	77	80
	Industry	-	-	-	21	22	20	16
	Agriculture	-	-	-	7	6	4	4
Romania	Services	-	-	33	45	52	56	55
	Industry	-	-	45	37	35	37	38
	Agriculture	-	-	21	17	13	7	6
Turkey	Services	50	49	51	52	60	63	64
	Industry	27	32	32	33	29	27	27
	Agriculture	23	19	16	15	11	9	9

Source: World Development Indicators Database. (Note: Percentages *may not* total 100 due to rounding).

As can be seen from Table 1, the share of services has increased to become the dominant sector in all the economies. Especially, after the regime change, industrial output have fallen in Albania, Bulgaria and Romania. Nevertheless, Romania has the highest share of industry among the five countries. The data for Greece starts from 1995, and Greece has the highest share of services but the least share of industry among the economies. On the other hand, Albania has the highest share of agriculture, whereas the share of agriculture seems to have shifted to services in Turkey.

As for energy consumption, industry is thought of the most consuming sector, but services and agriculture are also energy dependent. Another important indicator of the economies with respect to energy use is energy intensity, which shows how efficiently energy is used in producing the output. Table 2 shows average energy intensities of the countries over the sample period. The figures in Table 2 are in fact index numbers indicating whether energy efficiency improves or deteriorates with respect to the base period.

Table 4. Average Energy Intensities of the Countries over Time (1971 = 100)

Period	Albania	Bulgaria	Greece	Romania	Turkey
1971 - 1975	99	93	110	90	107
1976 - 1980	110	86	119	76	111
1981 - 1985	105	77	128	65	112
1986 - 1990	100	65	147	64	115
1991 - 1995	70	57	158	57	111
1996 - 2000	53	57	157	48	115
2001 - 2005	53	46	149	38	110
2006 - 2010	42	35	135	29	109
2011 - 2014	39	32	143	24	107

Source: Author's own calculations based on WDI and Penn World Table data.

The base period here is chosen as the first year, so first years index value (1971 = 100) indicates that 100 unit of energy is required to produce, say, 100 unit of output in 1971. The index

numbers, calculated for each country, in Table 2 indicate that energy efficiency have improved enormously in Albania, Bulgaria and Romania, but remained almost same in Turkey, while it has deteriorated in Greece.

3. Methodology and Data

3.1. Methodology

By taking energy as a factor of production, the output (real GDP) is constructed as a function of three factors of production: capital stock, labor and total energy:

$$Y = f(K, L, E) \quad (1)$$

where, Y is output (real GDP), K is capital stock, L is labor (number of employed people) and E is total energy use. Assuming a Cobb-Douglas function, the aggregate production function can be written as

$$Y_t = A K_t^{\alpha_1} L_t^{\alpha_2} E_t^{\alpha_3} \quad (2)$$

By taking the logarithms of both right-hand-side and left-hand-side of equation (2), the model becomes:

$$\ln Y_t = \ln A + \alpha_1 \ln K_t + \alpha_2 \ln L_t + \alpha_3 \ln E_t + \varepsilon_t \quad (3)$$

where, ε_t is a white noise error term. Although Autoregressive distributed lag (ARDL) modelling has been known for a long time, it has become increasingly popular in estimating the models related to energy economics in recent years due to the new approach developed by Pesaran et al (2001). An ARDL model is a general dynamic specification, which uses the lags of the dependent variable and the lagged and contemporaneous values of the independent variables, through which the short run effects can be directly estimated, and the long run equilibrium relationship can be indirectly estimated. Although ARDL modelling has been in use for a long time, Pesaran et al. (2001) introduced the bounds test for cointegration that can be employed within an ARDL specification. This method has definite advantages in comparison to other cointegration procedures. First, all other techniques require that the variables in the model are integrated of the same order, whereas the approach developed by Pesaran et al. could be employed regardless of whether the underlying variables are $I(0)$, $I(1)$, or fractionally integrated. Thus, the bounds test eliminates the uncertainty associated with pre-testing the order of integration. Secondly, it can be used in small sample sizes, whereas the Engle-Granger and the Johansen procedures are not reliable for relatively small samples (Altinay, 2007).

The ARDL approach involves two steps for estimating the long-run relationship. The first step is to examine the existence of a long-run relationship among all variables under examination. Conditional upon cointegration is confirmed; in the second stage the long-run coefficients and the short-run coefficients are estimated using the associated ARDL and error correction models. To test for cointegration in model (2) by the bounds test proposed by Pesaran et al. the following conditional ECM model which is a variant of parameterization of the ARDL model is constructed,

$$\begin{aligned} \Delta \ln Y_t = & a_0 + a_1 \ln Y_{t-1} + a_2 \ln K_{t-1} + a_3 \ln L_{t-1} + a_4 \ln E_{t-1} + b_i \sum_{i=1}^p \Delta \ln Y_{t-i} + \\ & c_i \sum_{i=0}^p \Delta \ln K_{t-i} + d_i \sum_{i=0}^p \Delta \ln L_{t-i} + e_i \sum_{i=0}^p \Delta \ln E_{t-i} + \varepsilon_t \end{aligned} \quad (4)$$

The variables are defined previously. For the bounds test two separate statistics are employed to test for the existence of a long-run relationship: an F -test for the joint significance of the coefficients of the lagged levels in equation (4), i.e., $H_0 : a_1 = a_2 = a_3 = a_4 = 0$ and a t -test for the null hypothesis of $H_0 : a_1 = 0$. Pesaran et al (2001) provides two asymptotic critical value bounds for the F -test when the independent variables are $I(d)$ (where $0 \leq d \leq 1$): a lower value assuming the regressors are $I(0)$, and an upper value assuming purely $I(1)$ regressors. If the test statistics surpass their relevant upper critical values one can reject the null hypothesis of no cointegration and conclude that a long-run relationship exists. If the test statistics fall below the lower critical values one cannot reject the null hypothesis of no cointegration. If cointegration is confirmed, we move to the second phase and estimate the long-run coefficients of the production function obtained from the long-run static solution of the optimum ARDL model determined by the information criteria. The short-run dynamics are estimated by the associated error correction models (Altinay, 2007).

3.2. Data

The data for real GDP, capital stock and labor are obtained from Penn World Table (Version 9.0). Both real GDP and capital stock are measured in national currencies at constant 2011 prices and denoted “*rgdpna*” and “*rkna*”, respectively, on Penn World Table. The methodology used for calculating real GDP and capital stock is explained in Feenstra et al. (2015). The data used for the variable labor (L) are the number of persons engaged and it is denoted “*emp*” on Penn World Table. The data used for the variable energy are “energy use per capita” and “population” obtained from the World Bank’s World Development Indicators (WDI) database. The energy use per capita series are converted to “total energy use” by multiplying them with the population series. All the data are in the form of annual time series covering the period of 1960-2014 for Greece and Turkey, and 1971-2014 for Albania, Bulgaria and Romania. Thus, the data set used in this study is the largest sample available in comparison to the aforementioned studies conducted on the Balkan countries.

4. Empirical Results

As stated earlier, the bounds testing methodology does not require pre-testing the order of integration since it can be employed regardless of whether the underlying variables are $I(0)$, $I(1)$, or fractionally integrated. To avoid small sample bias of the conventional unit root tests when applied to small samples usually encountered in empirical studies related to energy economics, the bounds test is directly applied to the logarithms of the variables appear in equation 4. The order of ARDL for each country is determined on the basis of the minimum Akaike (AIC) and Schwarz-Bayesian (SBIC) information criteria values. The results of the bounds tests are presented in Table 3. As can be seen, the F-values of all countries, except for Turkey, surpass the upper bound (critical value) at five percent level of significance.

Table 3. The results of the bounds tests

Countries	ARDL Model	AIC	SBIC	F-Value	LM Test (χ^2)
Albania	ARDL(3,1,1,1)	-2.630746*	-2.166305*	5.0275**	1.2430 [0.265]
Bulgaria	ARDL(1,3,2,1)	-3.749140*	-3.242476*	7.1495**	3.8287 [0.050]

Greece	ARDL(1,1,1,2)	-3.863871*	-3.488631*	5.2966**	2.0136 [0.156]
Romania	ARDL(2,3,1,1)	-3.704731	-3.198067*	4.5993**	1.4099 [0.235]
Turkey	ARDL(1,1,1,1)	-3.612987*	-3.278409*	2.3184	1.0738 [0.300]

* Indicates the lowest value; ** indicates significance at 5 percent level.

Therefore, a long run relationship among the variables of production function is found for Albania, Bulgaria, Greece and Romania. Since the bound's testing is sensitive to correlated errors, a Lagrange multiplier (LM) test for serial correlation is applied to the residuals. The results of the LM test indicate that the residuals are not correlated at first order, at five percent level of significance. After confirming cointegration relationship, the long-run and short-run elasticities of production function can be estimated. The estimates of long-run coefficients of the ARDL models determined by the information criteria above are estimated by using Microfit for windows and presented in Table 4 for all the four countries.

Table 4. Estimates of the Long Run Coefficients of the ARDL Models

Countries	lnE	lnK	lnL	Constant	Period
Albania	0.26330 [0.001]	0.64141 [0.000]	-0.38448 [0.004]	-3.10610 [0.057]	1971-2014
Bulgaria	0.66572 [0.000]	0.48883 [0.000]	0.27480 [0.328]	-1.37730 [0.374]	1971-2014
Greece	0.11233 [0.457]	0.71395 [0.001]	0.34996 [0.044]	0.62445 [0.617]	1960-2014
Romania	0.80918 [0.000]	0.39717 [0.000]	-1.30900 [0.000]	-4.20090 [0.026]	1971-2014

[Numbers in brackets are p-values]

The short-run coefficients are estimated by using the corresponding error correction models of each country and presented in Table 5.

Table 5. Estimates of the Short Run Coefficients of the ARDL Models

Panel 1. Albania

Error Correction Representation for the ARDL(3,1,1,1) Model. Dependent variable is dLY

Regressor	dlnY(-1)	dlnY(-2)	dlnE	dlnK	dlnL	dC	ecm(-1)
Coefficient	0.1055	0.1023	0.2774	3.4174	-0.2752	-2.7055	-0.8710
[Probability]	[0.414]	[0.403]	[0.001]	[0.000]	[0.209]	[0.122]	[0.000]

Panel 2. Bulgaria

Error Correction Representation for the ARDL(1,3,2,1) Model. Dependent variable is dLY

Regressor	dlnE	dlnE(-1)	dlnE(-2)	dlnK	dlnK(-1)	dlnL	dC	ecm(-1)
Coefficient	0.3073	0.0598	0.0222	1.0266	-0.6110	0.2828	-0.4944	-0.3589
[Probability]	[0.017]	[0.572]	[0.807]	[0.005]	[0.069]	[0.329]	[0.449]	[0.029]

Panel 3. Greece

Error Correction Representation for the ARDL(1,1,1,2) Model. Dependent variable is dLY

Regressor	dlnE	dlnK	dlnL	dlnL(-1)	dC	ecm(-1)
Coefficient	0.1061	2.2746	0.5531	-0.0335	0.2121	-0.3396
[Probability]	[0.222]	[0.000]	[0.004]	[0.874]	[0.617]	[0.000]

Panel 4. Romania

Error Correction Representation for the ARDL(2,3,1,1) Model. Dependent variable is dLY

Regressor	dlnY(-1)	dlnE	dlnE(-1)	dlnE(-2)	dlnK	dlnL	dC	ecm(-1)
Coefficient	0.3488	0.4551	-0.1603	-0.2585	0.7736	-0.2949	-2.0563	-0.4895
[Probability]	[0.028]	[0.000]	[0.232]	[0.017]	[0.026]	[0.173]	[0.106]	[0.000]

The results of the short-run coefficient estimates will be summarized below.

5. Conclusion

The estimates of the long-run coefficients indicate that capital stock has the correct sign and is significant for all of the economies even at 1 percent level of significance. Energy use is a highly significant variable for Albanian, Bulgarian and Romanian economies, but insignificant for Greek economy even at 10 percent level of significance. On the other hand, labor (employment) seems to yield mixed results. For instance, the long-run labor coefficient for Albania and Romania seems significant but has negative sign, whereas, it has positive sign for Bulgaria but it is insignificant. Only for Greece it has a positive sign and is significant at 5 percent level.

As for the results of the short-run coefficient estimates, first, the error correction term (denoted ecm) has the correct sign and is significant at 5 percent level for all of the countries. This result can be thought of a verification of the results of the bounds test for cointegration. Secondly, Albania has the highest speed of adjustment (87%) towards equilibrium, whereas the speed of adjustment for Bulgaria, Greece and Romania are 36%, 34% and 49%, respectively. Thirdly, the short-run effect of capital stock on output is significant at 5 percent level and much larger than the long-run effect for all of the countries. Fourthly, as is the case in the long-run, the short term effect of energy use is significant for Albanian, Bulgarian and Romanian economies, but insignificant for Greek economy. Lastly, the short-term effect of labor is significant only for Greece.

In overall assessment, capital stock is the most important factor in economic growth of the four Balkan countries, namely Albania, Bulgaria, Greece and Romania, both in the long run and especially in the short run. Energy use is an important factor both in the long run and in the short run, for Albania, Bulgaria and Romania, in other words, for the economies in transition. On the other hand, energy does not seem to be important factor for Greek economy which is dependent heavily on services sector. On the contrary, the effect of labor is significant only for Greek economy.

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PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN ALBANIA

(FOCUS AREA - GJIROKASTRA)

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ABSTRACT

Based on European Union (EU) level studies, micro, small and medium enterprises play a crucial role in economy. They are a major source of entrepreneurial skills, innovation and employment opportunities. Given their importance and weight in Europe and in the country, the study of SMEs would be of value.

The main scope of this paper is to determine the progress and performance of SMEs in the region of Gjirokastra, based on results of financial reports.

Using the data of financial statements and reports of 50 businesses in Gjirokastra region, this study tries to reveals that business growth is directly related with the financial structure of SMEs. The processing and analysis of data in this study is made by SPSS version 21 software.

Such analysis of data of will help us reach in any important conclusion regarding the growth of Small and Medium Enterprises in Gjirokastra region.

Keywords: *growth of SMEs, SMEs financial analysis, financial reports, trends of SMEs*

JEL Classification: *C58, F36, P42*

1. Introduction

– *Scope of the paper*

The main purpose of this study is to determine the progress and performance of SMEs in the region of Gjirokastra, based on results obtained from financial reports.

– *Objectives of the study*

- Referring to data processing and the results of the three financial reports for the five years taken in focus we aim to analyze, describe, or compare the trend of SMEs in the region of Gjirokastra.

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- What changes should be made by business executives to optimize the financial result in the future.

– *Methodology and data*

For the realization of this paper, a particular attention has been given to the used methodology. Only by relying on a safe basis and clear orientation in the stages of conceptualization, methodological processing, a very good empirical work was achieved.

Literature Selection - Literature selection is one of the primary and most important steps, as it consists in identifying and then reviewing the existing literature in relation to the object of the study.

Selection and description of observations - for the realization of this study, the empirical phase relied on the collection and processing of data from the financial statements of 50 businesses in the region of Gjirokastra. Data processing and their analysis in this study were implemented through SPSS program, version 21.

2. Review of the Literature for the Performance of SMEs

To measure the performance of SMEs, we need to identify the elements that contribute to it, which means analyzing a set of indicators, such as *profitability and growth*. So, in other words we have to look at the profitability and growth of an enterprise to see if there is a good, bad or poor performance. But to determine growth or profitability we need to analyze and measure them separately, which leads to the emergence of other issues. First, to measure the profitability, it is necessary to know what profitability is measured with. The same applies to growth (Foreman-Peck et al, 2006).

The modern accounting framework dates back to the middle ages and since that time the performance evaluation is largely based on financial criteria (Bruns, 1998)⁴. The literature of business and enterprises suggests that there are many factors that determine the success and growth of an enterprise (such as Storey, 1994, Watson et al, 1998, Perren, 1999, Thompson and Gray, 1999)⁵. There are also major differences in the performance of small businesses that survive which points out that the small business sector cannot be considered as a homogeneous group (Storey, 1994).

The literature that studies the barriers of business growth suggests a different perspective to answer the issue of business growth (Storey, 1994). This perspective suggests that some small businesses want to grow, but are hampered by a series of "obstacles" or otherwise called barriers. The success or failure of a new business often depends on whether it overcomes a number of potential hurdles, such as providing financial support, adequate guidance and training (Fielden et al, 2000).

The two widely popular models in the field of finances, those of Baumol and Tobin (1952 and 1956) and Miller, Orr (1966), presented in monetary theory are consistent with the theory of enterprise value. It is important to specify that both theoretical approaches refer to the demand for money of the enterprise at any time and especially liquidity in a narrower sense⁶. Maintaining a high level of liquidity decreases the probability of financial instability.

⁴ Bruns (1998), pg. 14-17

⁵ Cited in Tongue, 2001, Part 2, pg. 14

⁶ Baumol and Tobin 1952 and 1956, Miller and Orr, 1966

Money management is the most often cited obstacle by those who start a new business (Fielden et al., 2000; Bevan et al, 1987)⁷. According to the Trade-off model, firms determine their optimal level of money retention by comparing marginal costs and marginal benefits coming from cash holdings. Benefits include the reduction of the financial risk, compliance with the policy of optimal investment even when financial constraints are met, and its contribution to minimize costs, raising external funds, or liquidating existing assets⁸.

Maintaining a high level of liquidity decreases the probability of financial instability. The lack of liquidity availability, in most cases, for many firms, may represent a considerable cost. Two fundamental situations of lack of liquidity are confirmed under these conditions:

- *Lack of liquidity*, in the sense of the inability to fulfil deferred payment obligations, usually associated with a situation of excessive debt, or totally blocked real estate assets and capital.
- *Insufficiency of liquidity* or lack of funds for purposes considered as essential to the normal functioning of the firm's activity or its development policies. This is not about an immediate risk of insolvency, but can actually slow down the growth of society in the area and the foreseen programs for its development.

Small and medium-sized enterprises receive financial capital mainly from borrowed resources. The acquired capital is *short term*; *medium term* or *long term*.⁹ Ozkan and Ozkan (2004) argue that building relationships with financial institutions improves the ability of businesses to access external financing.

3. Empirical analysis of SME financial trends

For this study the financial statements of 50 small and medium-sized businesses operating in the Gjirokastra region were analyzed. Data processing and their analysis in this study were implemented through SPSS program version 21.

Table 3.1 Analysis of reports in 5 years

Year	2011	2012	2013	2014	2015
Current Ratio ¹⁰	2.33	2.56	1.22	1.39	1.57
Quick Ratio ¹¹	1.23	0.93	0.43	0.55	0.59
Cash Ratio ¹²	1.04	0.44	0.15	0.24	0.86

Source: Data Calculation.

Financial analysis is an important tool that the financial manager uses in making decisions related to his business. Depending on the interests of the entity conducting the analysis (Business, lender, investor) there are different types of analysis.

⁷ Cited in Tongue, 2001, Part 2, pg. 20.

⁸ Ferreira and Vilela, 2004

⁹ Marian Gal, 2007, pg. 40

¹⁰ **Current Ratio** = Total of Current Assets / Total of Current Liabilities

¹¹ **Quick Ratio** = Total of Liquid Assets / Total of Current Liabilities

¹² **Cash Ratio** = Total of Cash and Cash Equivalents / Total of Current Liabilities

What these analyzes have in common is the implementation of various analytical tools and techniques by which data from financial reporting are converted into relevant useful information for management, and serve as a basis for the implementation of horizontal analysis, that enable us to monitor changes with over the time.

Through horizontal analysis, the tendency of dynamic changes in the core positions of the financial statements is maintained. As a key variable in the horizontal analysis is time, since the comparisons of the elements in the financial statements, expressed in the monetary units, between two or more periods we must have a minimum of two years data.

Based on the observations obtained in the study we come to the conclusions and interpretations of the maximum and minimum values or even the average of the descriptive estimates¹³. The analytical results processed through SPSS program version 21 are given in Table 3.2.

Tabela 3.2 Descriptive Statistics¹⁴

Descriptive Statistics						
	Minimum	Maximum	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
Current Ratio	1.22	2.56	1.8140	.26598	.59475	.354
Quick Ratio	.43	1.23	.7460	.14675	.32815	.108
Cash Ratio	.15	1.04	.5460	.17383	.38869	.151

Source: Data Calculation.

Based on the average values of 50 small and medium-sized businesses surveyed, and three core reports, we can interpret the trend of SMEs for each year or the comparison from year to year. Referring to the results of Graph 3.1 and looking at the trend of SMEs for the five years that we have had in our focus, together with the three parameters, we come to some important conclusions.

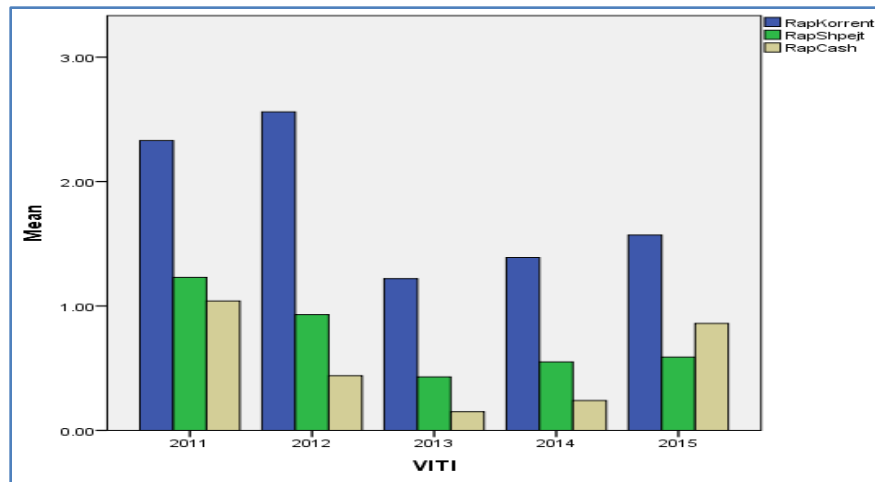
An important conclusion that appears clearly in Graph 3.1, if we analyze the three reports together, is the increase of all three parameters in 2011 and the reduction of the three parameters in 2013.

If we analyze the Cash Ratio we see that according to this report the trend has been declining from 2011-2013 and then increasing from 2013-2015.

Based on the results of Graph 3.1, there is an increase of the Current Ratio in 2012 and a fall in 2013.

¹³ Definition of empirical analysis is the small number of observations.

¹⁴ The data have been processed with SPSS program-version 21.



Graph 3.1 Trend of SMEs in five years

Source: Data Calculation.

The three graphs shown in Figure 3.1 are SPSS outputs regarding the normal tendency and probability of the three variables, Current Ratio, Quick Ratio, and Cash Ratio.

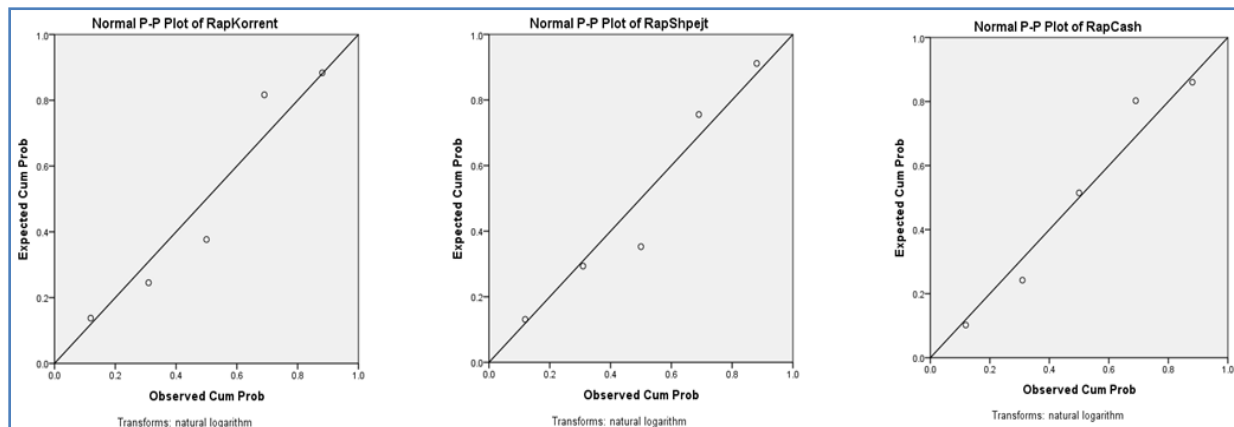


Figure 3.1 SPSS outputs regarding the normal tendency and probability

Source: Data Calculation

From the results of Figure 3.1 it is noted that the first two variables, the Current Ratio and the Quick Ratio have the same tendencies but with different values. This result is obvious in the concentration of surveys compared to the line. While the third survey has a more independent focus from the first two, especially at the middle value.

4. Conclusions

An important conclusion that is clearly shown in Graph 3.1, if we analyze the three reports together is the increase of all three parameters in 2011 and the reduction of the three parameters in 2013.

If we analyze the Cash Ratio we see that the trend according to this report has been falling from 2011-2013 and then rising from 2013-2015. Based on the results of Graph 3.1, there is an increase in the 2012 Current Ratio and a fall in 2013.

In meeting the goals and objectives set out at the beginning of this paper, an important conclusion for business leaders in the region of Gjirokastra is that by referring to the results of the five-year study they should take care of the re-concept of their ventures by creating an ambitious environment for increasing the value of their businesses in the future.

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LESSONS FROM THE CRISIS: INTRODUCING RESILIENT HR PRACTICES IN ALBANIA

Iva Veshi¹

ABSTRACT

Most important contribution of an organization in society is job creation which is directly related with development of human capital, improvement of living standards and advancement of community and society in general. Nonetheless, the economic crisis of 2009 demonstrated that people are an organization's most valued asset until organization is faced with economic crisis. This crisis shattered strongly the labor market causing high rates of unemployment, questioning many HRM policies which were unable to stand to economic downturn and erasing efforts done toward lower unemployment rates until 2008.

Unemployment has been a challenge for the Balkans in general and Albania in particular before and after the economic crisis of 2009. The aim of this paper is to draw lessons from the best practices of successful companies regarding HRM during the crisis and analyze how to implement these practices in a country where the unemployment is an ongoing crisis.

Case study method was chosen as a way to provide a deeper insight of the subject in real life context. Automotive industry provided a pertinent context to conduct the study as a major economic force worldwide, severely hit by the crisis. Within the sector, Toyota and Volvo were selected as companies well-known for their HRM policies.

Added value of this work consists in two main contributions. First, it analyses how to manage main challenges of employees management in turbulent times, which is compatible with Albanian business unstable environment. Second, based on analysis of these changes, it proposes a way to build resilience which is a relatively new concept in business world but is a necessity for companies to adjust positively to future unfavorable circumstances without experiencing trauma.

Keywords: *Human Resource Management, employees, crises, resilience*

JEL Classification: *J5, M5, M1, M14*

1. Introduction

HRM is receiving increasing attention from organizations today as businesses are being challenged like never before to address concerns of various stakeholders. Organizations' ability to continue operating efficiently has become strongly related with their performance in society and impact on environment (ISO 26000, 2010). Beyond the definition as a process of hiring and

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developing employees to add value to the organization², HRM rises on the philosophy of engaging and committing employees in order to give them power to exercise influence (Hendry,2000).

Concentration of considerable economic and political power in hands of large companies during last two decades, constituted a major risk for abuse and irresponsible behavior(Sun, Stewart and Pollard 2010). The global economic crisis of 2009 is the most recent event demonstrating how problems started in subprime mortgage markets in US in 2007, evolved in global crisis with major impacts for whole society (Kence and Dibooglu, 2009).

Although consequences of economic crisis were unpredictable, its occurrence was expected by most academic economists (Kence and Dibooglu, 2009). Irrational behavior, excess executive remuneration, market profit greed, companies' frauds, abuse of power and other social irresponsible behaviors have been present in media or academics debates during all this period but still economies failed to prevent a global crisis (Blundell-Wignall and Atkinson, 2009). As a consequence, global unemployment reached fifteen million more unemployed than before the crisis (Davies, 2010, p.1).

Most companies failed to manage the global crisis. Major layoffs, bankruptcies a general lack of trust in business from society, were all impacts of mismanagement of consequences from economic crisis.

In order to avoid drastic changes, resilience is put forward as away to handle crisis. Resilience is not about responding to one time crisis but it has to be built in order that the company gains the ability not only to survive under difficult circumstances but to be prepared to find even there opportunities and advantages (Hamel and Valikangas, 2003).

This study aims to investigate impacts of crisis on HRM policy. It starts by analyzing consequences of crisis in the region of Balkans in general and Albania in particular. Next, through literature review it explores the way to resilience as a demand for sustainable development. Then a case study research on two companies is conducted to investigate impacts in real-life context and analyze them against implications raised in theoretical framework on resilience. Third objective is to draw lessons of best practices of these companies toward challenges in HRM policies as answers to the challenges of HRM in Albanian companies. For this purpose an explanatory analysis is used based on theoretical propositions.

2. The economic crisis in the region of Balkans

Until mid-2008, SEE economies continued to grow steadily. The crisis that had begun in the rest of the world, seemed not to affect SEE Countries. Foreign direct investments (FDI) continued in the region reaching new records while banks tried to increase their market share. During the first eight months of 2008 there was the impression that SEE would decouple from the crisis. In fact the main macroeconomic challenge was how to deal with inflation (Sanfey, 2011).

Nonetheless in September 2008, the situation changed. The default of Lehman Brothers caused an upheaval in world economy due to considerable decrease in production which caused an increase in unemployment. First, the adverse effects of the crisis appeared in the US and western EU countries, then in transition and developing countries. It should be pointed out that such effects in these countries were heterogeneous depending on a country's own resources,

² <http://www.businessdictionary.com/definition/human-resource-management-HRM.html>

banking system, fiscal system, dependence on international trade and so on (Marrelli et al., 2012).

In Albania the impact of the crisis came later and partially because Albania it is the only SEE country which did not have a decline in annual GDP during 2007-2012 period of time. Nonetheless, long-term challenges and issues related to public debt, weak tax collection abilities, increased trade deficits, diminished credit, rose even stronger during 2008-2012 (Barttlet and Prica, 2011) because Albania has a great level of dependency on international trade. Actually the growth Albania experienced before 2008 was also influenced by the performance of the international markets, particularly of Italy and Greece . Being that these markets were profoundly shattered by last economic crisis, there is little possibility for Albania to reach the performance levels before crisis.

One of the greatest social costs of this crisis globally was unemployment. In Albania, the labor market almost resisting to any reform, remains poorly developed with high levels of structural unemployment, informality, low growth rates (Barttlet and Prica, 2011). According to Marrelli et al. (2012) there were two main types of adjustments of labor markets in response to this crisis:

- The first type of adjustment refers to countries such as United States, Ireland, Baltic States, Spain where employment was reduced rapidly and broadly in order to maintain labor productivity at the cost of high unemployment.
- The second type of adjustment refers to countries such as Germany, Japan, Denmark, the Netherlands which had reduced effects on labor market due to policy measures like working hours adjustments, reduced salaries etc, at the benefit of lower unemployment rates.

Based on this classification and the continuous struggle with unemployment rates, Albania is part of the first type of adjustment. Although there are not sufficient data to prove the impact of this crisis specifically in labor market, unemployment is a persistent crisis which needs to be addressed strategically. This strategic response should begin from the private companies which are the greatest hiring source in Albania. According to a study by Hackaj (2015), the majority of the companies active in Albania, approx 83% are small companies with 1-4 employees, hiring in total 34.5% of total labor force and 1% are big companies with over 80 employees hiring in total 31.5 % of the labor force. Therefore, taking into considerations the response to HRM challenges during economic downturn experienced by multinational companies like Toyota and Volvo, this article tries to give some strategic suggestions for sustainable employee's management policies which are the stepping stone toward a resilient enterprise.

3. Conceptualizing the way to resilience.

The term resilience has different meanings according to different academic disciplines. It derives from Latin word *resilio* which means "to jump back". Resilience is seen as a desirable characteristic of natural and human systems as it contributes to sustainability and reduces vulnerability although the way to it is still lacking an appropriate guidance (Klein, Nicholls and Thomalla, 2003). In business context, enterprise resilience is associated with the capability of an enterprise to survive, adapt and grow while facing turbulent change. A systemic approach is needed since industrial, social and ecological systems are closely linked, in order for managers to make the right decisions (Fiksel, 2006).

Resilience implies capability to be robust under conditions of stress and change (Coutu, 2002). The way to resilience is difficult because it requires changes in culture and strategy (Valikangas, 2004). There are two different ways of conceptualizing resilience depending on the assumptions it develops: when underlying assumption is stability and the speed with which we return to it and when underlying assumption is instability and the tendency to evolve to new states. Among all different definitions of resilience there are always two main characteristics included: ability to resist to an external change and flexibility to bounce back (McDaniels et al., 2008).

Today as we are trying to get out of the greatest economic crisis since 1930's Great Depression, resilience has another meaning and a new level of prominence because world is becoming more turbulent than organizations are becoming resilient (Hamel and Valikangas, 2003). In the past executives never had to question business models. Companies had to get better but rarely did they have to get different. Today's competitive market demands for companies to be different in order to remain competitive. Success of companies hangs on resilience- the ability to dynamically reinvent business models and strategies as circumstances change (Hamel and Valikangas, 2003).

Strategic resilience emerges as a way of not only responding to one time crisis but adjusting to trends that can diminish earning potential of the business. It is about developing the capacity to change before the need for change becomes critical (Hamel and Valikangas, 2003). It can begin with creating and maintaining cognitive, relational and structural capabilities flexible enough to deal successfully with a dynamic environment (Donnellan et al., 2006). Case study will show how changes fueled by global crisis can guide and enhance building company's capacity for resilience in real life context.

4. Profile of Toyota Motor Company

Toyota today is one of the world's largest manufacturer of automobiles both in unit sales and net sales. It produces 5.5 million vehicles per year (*Toyota history: corporate and automotive*). In 2001, Toyota adopted the Code of Conduct known as "Toyota Way 2001" as a guideline for all employees which emphasizes quality in production and implementation of company's philosophy at each step of work process (Heller and Darling, 2011).

Until the end of 2007 Toyota was a dominant car company globally. It had been profitable for 50 years in a row and it had turned into a benchmark against which, every other company compared itself. Its growth and profitability were driven by high quality of its products and customer satisfaction. Toyota was also a model for world-class manufacturing. Its production efficiency based on just-in-time inventory system defined Toyota's financial strength (Liker and Ogden, 2011).

Still during past decade alone the company had enhanced its bottom line by building new factories and by saving in its production process. In 2008 Toyota's president announced that the company needed to improve its management system which had been undergoing problems due to the growth of the company (Pride, Hughes and Kapoor, 2011). Even though, in 2009 a new wave of massive product recall began in US and in 2010 it spread in Europe and in the rest of the world.

4.1. Employees management during crisis

Wilkinson, Hill and Gollan (2001) argue that human resources need to be integrated for long-term sustainable business performance. In executive summary of 2008, Toyota emphasizes ensuring stable employment, as a key objective of Toyota in order to maintain trust of employees and enhance motivation at work. In order to apply with this basic responsibility toward human capital during economic downturn, Toyota applied several measures in human resource management (Toyota Europe Sustainability Report, 2009):

- No overtime except emergency situations.
- Collective shut downs aligned to site closures.
- Unpaid holidays for all grades
- Promotion of part-time, credit-time solutions and parental leave.
- Moving employees from one Toyota company to the other like the team member of Toyota Motor in Poland moved to Toyota Peugeot Citroen Automobile in Czech Republic.
- Shifting positions like Toyota Motor Manufacturing UK employees went to work for Toyota Parts Center Europe in Belgium changing from manufacturing activity to after sales operations.
- Work sharing to cover nonproduction days and decrease labor costs.
- Head office in Belgium agreed to 16 unpaid days.
- Hiring freeze.
- Voluntary resignation program.

Toyota's recall crisis of 2009-2010 reinforced financial issues. Double effects led to the closure of one production line and 750 layoffs in UK (Reed, 2010) as well as reduction of 600 employees in its headcount which represents great inefficiencies for the society where the company operates.

In this situation efforts of HRM policy were concentrated in intensive communication with employees and unions to explain the situation of the company and announcement of workforce reduction (Toyota European Sustainability Reports, 2010).

In the context to see opportunity even in challenging environment, Toyota focused at improving work processes in the long run through better workload management and more efficient use of work time. Working under constriction of reduced working hours and less workforce stimulated managers to find alternative ways to achieve objectives (Toyota European Sustainability Reports, 2011).

Toyota didn't succeed to adapt to economic pressure by maintaining all its employees. Due to reinforced consequences of its double crisis, engagement with employees in report of 2011 still focuses on managing redundancies, more efficient work operations and two-way communication which is very different from nurturing employees engagement as a competitive advantage to contribute to the achievement of sustainable goals of the company (Towmey, 2006).

5. Brief profile of Volvo company

Volvo is best known for its high safety standards. Company's philosophy includes basic values that guide it in the way toward profitability and meeting customer's demands. Its fundamental value of safety still differentiates Volvo in the automotive world as a company which focuses on human life value. Its concept of safety is threefold involving not only safety of the passenger of the car but also passengers in other cars and pedestrians ([Volvo](#) Corporate Report with Responsibility, 2008/09).

There are two main pyramids which represent how company links its values with business goals: the brand pyramid and the work culture pyramid.

In the work culture pyramid the foundation for success lies in excellence of execution which includes premium quality, involvement and responsibility. Values of confidence, degree and speed of development, strength of relationships within company are included in the middle level of the pyramid and are the core values through which Volvo tries to stand out in comparison to competitors. At the top of the pyramid is “the power of we” which is a result of cooperation based in integrity, courage and diversity of thought and is unique to the company.

5.1. Employees management during crisis

Volvo’s objective in labor market, to be an attractive employer, has been promoted through ensuring equal opportunities, fairness and diversity in workplace . Areas of concern in company’s responsibility and goal in human resource management prior to 2008, are mostly related to health and safety, stimulating work and continuous competence improvement. Values, principles and culture of the company are included in “The Volvo Way”, which guides daily operations of managers and employees (Volvo Group’s Sustainability Report, 2007).

Economic crisis impacted organizational framework of employees management in 2008, by emphasizing cost of human resources when faced with financial constraints. From mid 2008 until 2009, Volvo laid off 18000 employees globally. Even though, redundancies were the ultimate choice. Several measures were taken in advance such as utilization of flexible time banks, reduction of salaries, bonus retention, elimination of overtime hours, reduction of working days. Company increased collaboration with Labor Unions and governments to mitigate the risk of downturn and discuss possible variants to avoid lay off (Volvo Group Sustainability Report 2008, 2009). Crisis emphasized the necessity to find ways in order not to treat human labor as production factor subject to the same forces in marketplace, but to consider the inherent vulnerability of workers by mitigating adverse impacts of crisis jointly with workforce representatives (ISO 26000, 2010).

In the face of crisis evolution, Volvo was forced to take drastic measures in reduction of workforce to adjust to considerably lower cost levels required (Volvo Group Sustainability Report, 2009). Managing this situation required effective leadership communication. All managers at Volvo had as primary task during crisis to inform their employees about the situation as well as to listen and answer to their questions. They received training and assistance in handling in best possible way the situation (Volvo Group Sustainability Report, 2009). Mrs. Toro outlined in her interview:

“...during crisis there was an intensive communication to update people continuously about the situation of the company and the layoff. More important we communicated such decision as painful for the company and people understood. We used every internal channel to communicate, as extremely important in times of crisis.”

A strong human resource management system is defined by how well employees understand messages sent by management, behaviors that are expected individually and collectively and what the outcomes will be (Haggerty and Wright, 2010, p.10). Volvo’s HRM systems proved to be strong enough in communicating effectively during crisis, to enable the company reinstate most of its employees in 2010.

In 2010 report Volvo relates way to achieve competitive advantage and success with investing in employees. The company acknowledges that to achieve its goals and implement its strategy, it

needs motivated employees, willing to take active part in the Group's development. Employees engagement emerged high in Volvo agenda after crisis. Annual survey changed from Employees Attitude Survey into Employees Engagement Survey. Head of Volvo Group Corporate Human Resources makes a direct relation between employees engagement and business outcome and relates engagement with organizational capacity to learn and grow (Volvo Sustainability Report, 2011).

Strategic focus in employees management is oriented toward development of strategic competences, inclusive leadership and organizational agility (Volvo Group Sustainability Report, 2011). Developing strategic competences in employees goes beyond employees motivation to enabling human capital contribution to build company's competitive performance. Inclusive leadership is oriented into building a collaborative relationship among managers and employees where managers are team players and concerned in reaching organization's rather than ego-driven (Sugerman, Scullard and Wilhelm, 2011). Both these capacities tend to reduce hierarchical leadership and increase self-organization of employees around company's goals for which they feel accountable and in control.

Developing organizational agility refers to the capacity to respond to an adaptive challenge, develop necessary resources to change at the needed moment (Clark, 2010). This constitutes an essential capability for resilient human resource management which addresses necessity to manage unexpected changes successfully. Volvo's new approach to HRM is in compliance with theories of Weybrecht (2010), Loher and Schwartz (2003), Towmey (2006) on employee's engagement as a way to sustainable development and toward a more ethical and accountable working environment. Achieving sustainability goals through engaged employees emerged as new requirement after crisis and Volvo has already integrated it as main objective to guide HRM policy

6. Conclusions

As the world is becoming turbulent faster than organizations are becoming resilient (Hamel & Valikangas, 2003), there is need to renew business models in response to current dilemmas and demands for sustainable development. This paper aimed to explore changes fueled by crisis on *HRM* policy and their implications to build capacity for resilience within a company in order to enable it to respond positively to potential threats in the future and emerge stronger.

The study was raised on two cases, Volvo and Toyota, in order to investigate changes in *HRM* management processes in two companies with integrated approach to *HRM* operating in an industry hit hardly by last crisis. In order to bring a broad range of perspectives in research, analysis on sustainability reports was combined with external information from books and articles on companies as well as primary data provided from interview with internal representative of Volvo.

This study focused at capitalizing on impacts of economic crisis in HRM policy as a stepping stone to analyze changes that lead to resilience. It proposes implications for future management practices related employees management as a way to build resilience. From Volvo and Toyota cases it can be concluded that strategic changes in HRM fueled by the crisis can lead to resilience only when employees management strategy is integrated in work culture of the company, as in case of Volvo, and is not only a philosophy at top management level, as in the case of Toyota.

Global crisis developed upon a general systemic failure which generated unpredictable economic and social consequences. Building resilient HRM policy enhances organizational resilience and organizational resilience is fundamental for sustainable development of economy and society.

Even though, resilience is a new concept adapted in business field and there is a limited literature on the subject, often fragmented on specific topics not covering all dimensions of company's management practices, stakeholders and interrelations. One of the implications for further research is to develop concept of resilience in business management.

There are also limitations related to small number of cases. A study more extended in time including more companies would broaden perspectives given in this research.

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VALUATION ANALYSIS OF THE REGIONAL DEVELOPMENT PROCESS IN ALBANIA.

Eva Dhimitri¹

ABSTRACT

Regional development is one of the priorities for governments all the world. The concept of regional development is closely linked with the role and functions of the Regional Council that is the second level of local government. Until now there is not a clear platform of regional development and institutions provided with clear roles. Studies have shown that regional disparities are attributes not only of large countries but also developing countries (Shankar & Shah 2003, 2008). This concept leads to increased social and economic disparities between regions, prevents competition and slows development. In this paper I will analyze the early and the new approach on regional development. The aim of this paper is to evaluate the current model of regional policy in Albania and which is the perspective of regional development in reducing of social economic disparities. What is the aim of the new policy, which are the models that propose in Albania context? The study was conducted by using the method of primary research. Regionalization in Albania is an alternative that dictated by the current global development, especially European integration.

Keywords: *regional development, local government, regionalization, regional disparities, new model, regional strategy.*

JEL Classification: *H11, R10, R50, R58*

1. Introduction

Local government reforms are one of the tasks and challenges of the future in Albania. They are closely related to regional development which takes a special importance in the context of EU integration. Reforms have begun to change the system in 1990 to enhance implementation of local democracy and decentralization principles that are present today.

Principles of local government reform are based on the European Charter of Local Government and the Albanian legislation for this purpose. In the center of regional policies or practices is the efficient use of the potential of each region, considering that the municipality and commune level. Inequalities that exist within the region and between them show that the economic potential in some regions is not fully utilized, and this reduces the overall performance at the national level. Now, regionalism is a new concept that aims to stimulate and diversify the economic activity of a country. However, to provide a starting point for economic growth in every segment of society, to support the growth and movement of population from rural to urban areas, as the quality and variety of public services and infrastructure, remains the identification and addressing social and economic issues the regions.

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Regional development has a territorial dimension to focus on the region and a development dimension according economic sectors. During the last decade the government has recognized the importance of regional development knowing what stage they are for getting candidate status increase opportunities for hope in favor of reforms. Regional development based in three areas: decentralization, local regional development and regional development within the EU. The decentralisation process is focused in the first level of local unit mainly in financial decentralisation and competencies that has not happened with second level of local unit. Some services require the economy of scale that is not realized by small local units. Debates are encouraged about cooperation and consolidation of large local units.

2. Actual regional policy model in Albania.

Concept of regional development in Albania relate with role and functions of Regional Council. Until now I notice there isn't a clear platform of regional development as well as institutions with clearly roles. This concept leads to increased social and economic disparities between regions, prevents competition and slows development.

The legal basis consists of several draft strategic documents adopted by the Albanian government. NSDI² covers the period 2007-2013. Under the vision set out in this document, the Albanian government will continue to deepen the decentralization process in accordance with European Charter of Local Self-Government and the Albanian Constitution. This document treats first level of local units towards strengthening and improving territorial devise while for the second local level needs a new legal framework.

The most important role belongs Regional Development Cross-Cutting Strategy which was conducted in 2007 and approved in 2008 but was not put into effect. But that year was drafted a law on regional development which is not yet approved. This strategy aims to provide a sustainable socio-economic development of regions and to ensure coordination between levels of government. According that, proposed two programs, the National Program for Regional Development and the Program for the Development of Disadvantaged Areas. Likewise proposed to create the National Agency for Regional Development and 12 agencies at the regional level. Also under this strategy will be developed Regional Development Strategies for each region. This document was in the same line with the EU policies for regional development and cohesion policies. It seemed that this strategy was too ambitious and required extensive involvement of stakeholders in this process and I think this was one of the factors and was not implemented. I see that the decentralization process and regional development policies are not coming forward together. Development is more than a distribution of services and regional development policies must be not only to associated with fiscal equality policies, with adjustments forecasting of services or the transfer of powers and additional resources in individual regions. The difference is that regional policies are those policies for socio-economic development with specific regional focus.

Based on literature I see there are two-regional policy models: the classic model that means regional policies implemented through direct state intervention and contemporary model that provides opportunities to develop themselves by regions. The new model is characterized by a decentralized intervention based on integrated plans and strategies for regional development,







² National Strategy for Development and Integration

designed by partnerships and regional and local actors. This model requires the transfer of substantial resources (assets, financial resources such as subsidies, tax part) allowing access to credit, particularly in developing the capacity of local and regional authorities to act as development actors and not just as service providers. In Albania contemporary model of regional development not exist. This model requires major changes in legislation and enough time to be implemented effectively. According to Charles: "Changing the paradigm of regional development (from classic to contemporary approach it) is neither universal, nor complete; in many countries and regions, the change in policy is partial and may result in temporary "(Charles, 1994). Consequently, sustainable regional development must fulfill two purposes: to provide an acceptable level of welfare for the regional population, which can be supported in the future; and should not be in conflict with sustainable development in over-regional level (Nijkamp, Ouwersloot, Tingbergen Institute, 2008).

3. Comparative analysis of two regional development models.

A comparative overview at the changing regional policy model allows us to better understand how it develops.

Table 1: Comparison of two-regional development models (traditional vs. new model)

The Regional Development Strategies: Sector analyses		Integrate analyses
The competitiveness objective: Base in strategic, socio-economic factors, consider like contributive sectors		Development direction accepted and implemented through
The cohesion objective: Compensation and redistribution difference		Concentrating on key problem for a measure that makes
Grants and state aid	<i>Means</i> 	Integrated infrastructure interventions and those activate business and social capital.
Territorial application Administrative unit, rural areas e.g. cities surrounded by rural areas		Functional unit, theory on Homogeneity sets base role.
The actors Government and Regional Agencies.		Governments, social actors, Business.

4. Methodology of study

In this study, the methodology used was an applied research as it is conducted in order to find answers to specific and practical questions, and shows the implementation of regional development models and theories in the present context of the country. Also search can be categorized as a descriptive and comparative research. Since part of the study are interviews of people, they are often unpredictable in their behavior due to the influence of external factors, I tried to minimize their impact through rigorous elections in the questions asked. For organizing and collecting opinions, were taken into account the following conditions: geographical coverage of interviews; structure for civil society; organization of opinions in favor, against and undecided; the number and structure of those who expressed orally, and through electronic version.

Table 2: Structure of responders.

Structure of interviewees	Number
Representatives of Regional Council	35
Representatives of local units	45
Different decision making	25
Representatives of Ministries	20
Members of Parliament	10
Total of political representatives	135
Representatives of civil society	48
Representatives of RDA	10
Total Civil Society	58
TOTAL	193

According the interviews results that 30% are members of civil society while 70% belongs political decision making. During interviews used two methods, directly responses (face to face), in the form of open conversation in base of questions and second method by means of electronic mail. About directly interviews were used several national meetings that were held in the form of roundtables related to the local government issues. The criteria were: geographical coverage, the chiefs of regional councils, mayors of municipalities from 12 regions in Albania as well as their representatives. Civil society representatives selected from education, university, business, citizens, NGOs, regional development agency. While political representatives included decision making bodies from municipalities, regional council, and parliament members. The questions were: What do you think about regionalization in Albania? Is it necessary or not? Why? What types of decisions and competences should be transferred to the regional level? How can organize an efficient and sustainable process? How can that region to enhance the socio-economic and territorial cohesion? Which are the risks that could damage the process? What do you think about regionalization in Albania? Is it necessary or not? Why? 77% of interviewers were in favor of regionalization process, 14% were not agree with regionalization process and 9% were undecided or not clear.

The main arguments that support need for regionalization of Albania are : Process of decision making will be more efficient means to reduce costs and bureaucracy in public system. The creation of large region will make possible absorption of EU funds and use them so efficient; supports and stimulates economic development reducing inequalities between regions. The regionalization that is accompanied with the administrative territorial organization is a important

decision with a national impact on national development planning. The use so efficient and effective of local resources; development of economic competitiveness; the urban and rural integrated development; are factors that make regions promoter of development.

The main arguments that not support regionalization process are: increase the regional disparities between reunion larger urban capitals and regions; the damage of small towns and rural units; loss of jobs in administrative institutions; the higher cost of the process will be paid by taxpayers; the time is not adequate because it is connected with the global crisis especially our neighbors; the increase of bureaucracy as a result of legislative changes passed by an administration form in a regional else. Larger units significant lower level of local democracy because they will be less geographically connected with citizens; the administrative center of region will be the winner and will be greater economic potential.

The undecided responses mainly related to the limited information regarding this process, the lack of legislation or specific packages of regionalization or the need for studies and impact analysis.

5. Which are the suggestion models in Albania conditions?

The new policy should to create conditions to provide quality and efficiently public services for community. It will encourage regional sustainable development by strengthening social and economic cohesion, improved competitiveness and setting up a legal and institutional framework to response EU challenges.

Until now the regional development and regionalization treat divided. However goals of decentralization, regionalism and regional development are connected between them, where decentralization offers the best services and better conditions for development, regionalization generates funds for services.

What the meaning to integrate policy of decentralization, regionalization and cohesion policies of EU? Means to treat the regional disparities to improving the equity and strengthening competitiveness, to increase the regional responsibility before the regional voters; to accelerate the integration process of Albania aims to be part of EU funds; to improve quality of public services (transportation, water supply, education and health services, tourism, environment etc.); to build capacities to design and implementation of projects for regional development. The situation in Albania shows that the capacities of regional development are in the development stage and the concept of the form of the region is still unspecified.

There are three models proposed from the representatives of local units and stakeholders which can be adapted with Albanian conditions: Regionalism model from below to up which to preserve the actual situation but improve the regional council performance; Administrative regionalism model which strengths decentralization or deco centration process in county level and the regional decentralization model which coincides with the creation of new regions.

In any case preserved the tendency for regional development and scope of government and all stakeholders to work for EU integration. Whatever the option chosen, it must come through a process characterized genuine analysis of the criteria, costs and forms of decision making, and consensus among stakeholders.

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SUSTAINABLE DEVELOPMENT

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ABSTRACT

Providing the continuous changes, promotional strategies and the creation of positive premises in policies developed by governments, economic sustainability of a country still remains one of the main objectives. The context of sustainability is as important as broad. In the developed countries the parameters which are to be sustained are numerous. Throughout this topic, the discussion will be on the sustainable development. The sustainable development is referred to sustainable economic development by the realization of poverty reduction, economic growth, innovation in industry and infrastructure and an increase in social welfare. Indeed, to achieve this, the involvement of political support and public finances are needed, not for the purpose of increasing the burden on consumers but rather to set it on higher living standards.

Keywords: *sustainability, development, economy, growth, innovation*

JEL Classification: *O4, H5, H6*

1. Literature review

When we talk about sustainable development we must bear in mind two positions. Firstly, we have, economists, who include in everything only to realize a development activity and secondly, have environmentalists, who seek and accept economic development, but not touching elements related to the environment. The General Regulation 1083/2006/EC defines the principles, rules, and standards for the European Regional Development Fund (ERDF) and the European Social Fund (ESF) as well as the Cohesion Fund for the programming period 2007-2013. The principal purpose of the Structural Funds (ERDF and ESF) is to promote the economic and social development of disadvantaged regions, sectors and social groups within the EU and to 'contribute to the harmonious, balanced and sustainable development of economic activities, the development of employment and human resources, the protection and improvement of the environment, and the elimination of inequalities, and the promotion of equality between men and women'².

In the words of Robert Solow, "if sustainability is anything more than a slogan or expression of emotion, it must amount to an injunction to preserve productive capacity for the indefinite future" (Solow, 1999).

Then a sustainable development path can be defined as the one that maximizes the present value of the inter temporal social function (see Gillis et al., 1992)

This means that any economic development is linked not only to the economic result but with human resources and social character. Also, is worth mentioning foreign direct investment. The HDI is often used by national governments and international organizations to set policy goals and allocate public resources (see Murray, 1993). This implies that indicators like the

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² ec.europa.eu/regional_policy

HDI, in principle a positive or descriptive indicator, become normative or prescriptive indicators. Then, implicitly, the indicator is reflecting *some* set of "preferences". But given the way that indicators are usually constructed, these preferences are not likely to be "social preferences". Hence, maximizing the HDI may not be as desirable as maximizing some other weighted measure of life expectancy, literacy, and income per capita. The World Commission on Environment and Development (Brundtland Commission)³ defined sustainable development as "development that meets the needs of the present without compromising the need of future generations to meet their own needs" (Brundtland Commission – see World Commission on Environment and Development, 1987). Toman (1999) better describes the reaction of both economists and ecologists to this definition:

If one accepts that there is some collective responsibility of stewardship owed to future generations, what kind of social capital needs to be intergenerationally transferred to meet that obligation? One view, to which many economists would be inclined, is that all resources - the natural endowment, physical capital, human knowledge, and abilities – are relatively fungible sources of well-being.

Our country has sought development years ago. Launched in early 1990 and continues today, with the major changes that undertook. Encouraging development policies are present in all countries. Some of them find it originated in the seventies, is in the World Commission on Environment and Development in 1987 (WCED or “Brundtland Commission”) that the term is coined and also defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (Le Blanc, D., et al. 2012:1). One of the defining moments for SD was the UNCED, known as the “Earth Summit”, held in Rio de Janeiro in 1992.

Harsanyi, 1953; Arrow, 1963; and Lambert, 1993), find sustainable development associated with economic agents, preferences and opportunities they have.

Despite this we should not forget to mention the poverty, a problem especially in rural areas of developing countries. The measure poverty is not easy, although to be around 76%. (Dercon, S. 2009).

2. Albanian development process

In recent years, following the guidelines of the International, the country has recorded positive results in the Human Development climate and environment of economic stability. Regarding the development we are also part of the initiative for the 17 rules of sustainable development, especially:

1. End poverty in all its forms everywhere
2. End hunger, achieve food security and improved nutrition, and promote sustainable agriculture
3. Ensure healthy lives and promote wellbeing for all at all ages
4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

³ Our Common Future, also known as the **Brundtland Report**, from the United Nations World **Commission** on Environment and Development (WCED) was published in 1987. Its targets were multilateralism and interdependence of nations in the search for a sustainable development path.

5. Achieve gender equality and empower all women and girls
6. Ensure availability and sustainable management of water and sanitation for all
7. Ensure access to affordable, reliable, sustainable and modern energy for all
8. Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all
9. Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation
10. Reduce inequality within and among countries
11. Make cities and human settlements inclusive, safe, resilient and sustainable
12. Ensure sustainable consumption and production patterns
13. Take urgent action to combat climate change and its impacts
14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development
15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification and halt and reverse land degradation, and halt biodiversity loss
16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
17. Strengthen the means of implementation and revitalize the global partnership for sustainable development⁴

Otherwise, the Brundtland Commission described it as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs. We must consider the future then, in making our decisions about the present.

The sustainable development is shared into three basic elements and perhaps are more easily attainable even for our country: Economic Development, Social Development, Environmental Protection.

2.1. Economic Development

After Albania emerged from 50 years of communist rule, the transition from a centrally planned to a market-oriented economy, together with abundant international aid and other strategic assistance, helped Albania to make progress. At a simple glance, Albania's difficulties in maintaining the image of a stable political environment, have been a major obstacle for many foreign investors (for whom political stability, which mainly means institutional stability is the main precondition for investment) to invest in Albania. Instability and lack of law enforcement within the country or regional level, have been the main barriers to foreign direct investments in Albania, as in terms of the level of economic liberalization and proper legal framework, Albania has made significant progress.

However, this is not enough when institutions are weak and vague in their role. Since the late '90s, the Albanian government has undertaken a series of structural reforms, including land reform, financial market, price liberalization and privatization.

Throughout this time almost all the small and medium enterprises have been privatized and there was a fairly significant progress in the privatization of strategic sectors such as telecommunications and banking. Albanian Nature with all its elements, climate, landscape, soil,

⁴ Sustainable Development Goals, UNDP & UNICEF

vegetation, hydrograph etc. In low-lying areas to relief field with temperate climate can grow different types of crops such as cereals, vegetables etc. On account of strong growth performance, Albania grew from the poorest nation in Europe in the early 1990s to middle-income status in 2008, with poverty declining by half during that period.

Despite the difficulties encountered relevant governing institutions tend to create sustainable development climate. In our prevailing currents days it is that we are working with the goal of increasing positive returns. People's confidence in the system has increased, the production structure of Albania is being consolidated while adding weight and value to export. The focus of the government is to support and promote the industries, increase exports and attract foreign direct investment as the main sources of sustainable economic growth. This requires cooperation policies in place, as fiscal and monetary. One of the directives given by the IMF was teaching in the payment culture. This will be accomplished when we do not have frequent rate changes. Thus, economic agents will be able to pay taxes and fees and will be accomplished stabilization of deficits and debt.

Albania's fiscal challenge is to lower the high level of public debt to less than 66% in 2017 and below 60% by the end of 2019. The fiscal strategy envisages a significant reduction in the overall budget deficit to around 3.8% of GDP during 2014-2017, helped by tax increases implemented in 2015 and the implementation of administrative measures and the reduction of problem loans.⁵

Monetary policies aim to maintain price stability in the context addressing inflation and taking into account the need to maintain levels of reserves to support financial stability.

Economic policies are designed to promote the development of entrepreneurship, fair taxation, and support for SMEs, providing guarantee free competition and accountability and ensuring effective communication with the business community.

During these years with create and change politics the country has made considerable progress in income growth and poverty reduction. A competitive trade regime supported by a relatively efficient regulatory framework has encouraged the development of a growing entrepreneurial sector.

Data presented for our economy in world are these:

	2011	2012	2013	2014	2015
Population (million)	2.8	2.8	2.8	2.8	2.8
GDP per capita (USD)	4,691	4,359	4,512	4,782	4,151
GDP Per capita (EUR)	3,235	3,435	3,471	3,605	3,741
GDP (USD bn)	13.3	12.3	12.6	13.3	11.5
GDP (EUR bn)	9.2	9.7	9.7	10	10.3
Economic Growth (GDP, annual variation in %)	2.5	1.4	1.1	2	2.6
Consumption (annual variation in %)	1.8	0.1	1.4	2.7	-0.2
Investment (annual variation in %)	5.9	-7.9	-2.1	-3.9	11.3
Unemployment Rate	13.4	14.1	17.1	18	17.7
Fiscal Balance (% of GDP)	-3.5	-3.4	-4.9	-5.2	-4
Public Debt (% of GDP)	60.8	64.2	67.9	71.8	76.4
Inflation Rat (CPI, annual variation in %)	3.4	2	1.9	1.6	1.9
Policy Interest Rate (%)	4.75	4	3	2.25	1.75
Exchange Rate (vs USD)	106.9	106.2	102.2	115.7	126.1

⁵ Albania- economic developments, achievements and challenges- ministry of foreign affairs

Current Account (% of GDP)	-13.2	-10.2	-10.6	-12.9	-11.2
Current Account Balance (EUR bn)	-1.8	-1.3	-1.3	-1.3	-1.2
Trade Balance (EUR) billion)	-2.5	-2.3	-1.9	-2.1	-2.1
Exports (EUR billion)	1.4	1.5	1.7	1.8	1.7
Imports (EUR billion)	3.8	3.8	3.7	3.9	3.9
Exports(annual variation in %)	20.5	10.8	13.2	4.4	-4.9
Imports (annual variation in %)	11	-0.5	-4.1	7.3	-1.4
International Reserves (EUR)	1.9	2	2	2.2	2.9

Table 1

Source: [http://www.focus-economics.com/Albania economic outlook](http://www.focus-economics.com/Albania-economic-outlook)

According to this manage to understand the fact that the parameters are stabilizing. Our country is represented by positive indices in the comparisons being made by the various portals which take into account economic freedom and trade.

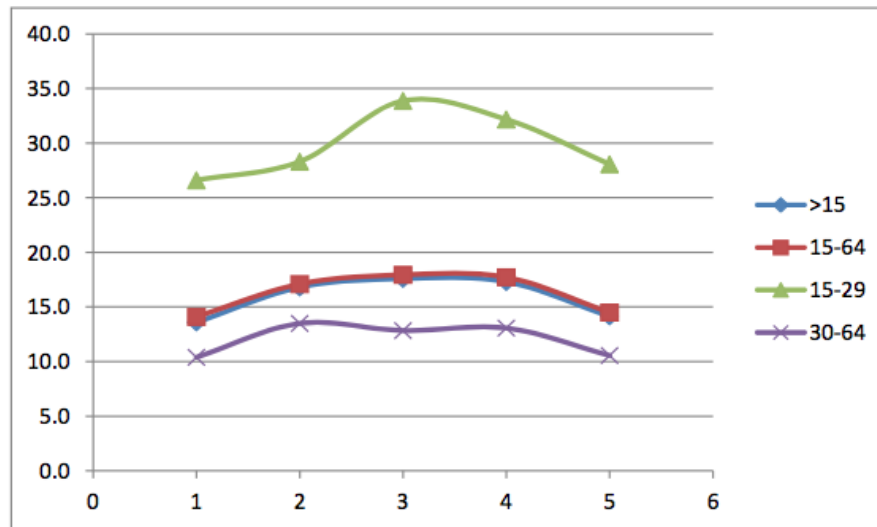
2.2. Social development

Albania is mentioned as the biggest problem of the transition countries. We had to consequences since the early 1990s with the change of a system. In the coming years there has been volatility, time to positive rates of times negative, sparking and the first signals that the best opportunities. Even today remains a visible problem. There are plenty of families that fail to provide the minimum possible money for a living, because their members are unemployed. Count as unemployed in the country is still difficult, because there are plenty of individuals who choose to work informally, just to insuring a little bit more income. Here arise before the violation of laws. Action is bilateral because the economic entity and tends to benefit the individuals in need of a wage. According to INSTAT During 2013 there was an increase in the unemployment rate for people with higher education by about 1.8 percent. Analyzing the unemployment rate by level of education, the labour market in Albania noted that the unemployment rate is higher for people with higher education, with 14.7 percent of the people with basic education or 8 and 9 years old. Another distinctive feature of the Albanian labour market is relatively high share of unemployed discouraged, aged 15-64 years, who in 2013 accounted for 23 percent of all economically inactive individuals, be they male or female. The table and graph below we present the norms changes that unemployment in the last five years:

	Tr.4.2012	Tr.4.2013	Tr.4.2014	Tr.4.2015	Tr.4.2016
	Q4.2012	Q4.2013	Q4.2014	Q4.2015	Q4.2016
>15	13.6	16.8	17.6	17.3	14.2
15-64	14.1	17.1	18.0	17.7	14.5
15-29	26.6	28.3	33.9	32.2	28.1
30-64	10.4	13.5	12.8	13.1	10.6

Table 2

Source: INSTAT

**Graph 1**

Source: INSTAT, Mars 2017

Instead we have and migration factor here. This regards for leaving the rural areas and resettlement in the urban areas, mostly in Tirana. This has caused congestion and at the same time show unemployment.

2.3. Environmental protection

Environmental protection is the third pillar and to many, the primary concern of the future of humanity. It defines how we should study and protect ecosystems, air quality, integrity and sustainability of our resources and focusing on the elements that place stress on the environment. It also concerns how technology will drive our greener future; the EPA recognized that developing technology and biotechnology is key to this sustainability, and protecting the environment of the future from potential damage that technological advances could potentially bring.

UNDP presents and purposes both important for the environment, with relevant strategy and visible positive effects, considering the advantages of the country, as production capacity, emphasizing energy, agricultural and livestock products.

Conclusions

Reducing the size of the informal economy will not only help in improving the economy in macroeconomic terms, but will also eliminate the biggest obstacle, which is the unfair competition.

Infrastructure (including electricity and water) needs a solution, in order to encourage foreign investment in Albania. Increased public investment in infrastructure is not the only solution; efforts can be made in terms of attracting foreign projects in this area by providing special incentives.

Albanian Government can encourage the development of specific geographic areas within the country, which represent areas of major investment opportunities in the country, trying to make the whole country more attractive. Such areas are industrial or tourist areas.

Acting on the basis of the advantages we will have more chances to achieve development. Herein lies an important fact that this is sustainable development and to touch all areas of the country, rural and urban. Initiatives are positive, it should be noted that the creation of an alternative that is to be developed further. In the country increased freedom of economic activity, business freedom, and trade freedom, however, require changes in government spending policy and taxation measures.

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SECURING THE FUTURE: RECONCILING ALBANIA'S DEVELOPMENT URGENCY WITH SUSTAINABILITY, PROTECTION OF ENVIRONMENT AND SOCIAL JUSTICE

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ABSTRACT

Sustainability, protection of environment and social justice have been, for some time now, the keywords when debating economic development policies. These approaches towards development will be the focus of our paper, whereas the objective will be to show that the security of our future depends heavily on them. The global financial crisis put in disarray our resolve regarding the abovementioned approaches. The 2007-2008 crisis brought about the 2008-2009 recession, the deepest in Europe since World War II. In 2012, Europe was hit by yet another recession. Albania, as well as the rest of the world, implemented various austerity measures in order to bring back confidence in the markets and spur growth. Our research is descriptive, as well as analytical, since it points out the measures taken in Europe and Albania in order to promote economic recovery: budget cuts, reduced public investments, tax increases. We will also reveal that such measures were accompanied by a relaxing of state social commitments: new labor laws to diminish employee protection, amendment of social security schemes to minimize their impact on budgets. By concentrating mostly on Albania, the paper will indicate that, in order to attract foreign investments, the protection of environment is being overlooked, too. All these data collected and presented will be analyzed to show that the path chosen to steer out of the crisis is very costly. The results obtained from the analysis are in the form of higher unemployment, greater poverty, worsening of social justice etc. We conclude that, as of now, Albania is moving farther away from the sustainable development, thus putting at greater risk the security of our future. Our assumption is that, once the world economy gets back on its feet, Albania's approach would change, but the price would have been paid, too.

Keywords: *economic growth, environment, security, social justice, sustainability*

JEL Classification: *I31, O44, P18, Q01*

1. Introduction

Sustainability is not a new and recent approach to development, since it goes as far back as 1972, when the United Nations Conference on the Human Environment was held. By 1983, the UN General Assembly established the World Commission on Environment and Development with the purpose of identifying ways to unite countries to pursue sustainable development together. In

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1987, the WCED released its report *Our Common Future*, a document that contained and defined the term “sustainable development”. In 1992, the UN General Assembly established the Commission on Sustainable Development, as part of the UN Economic and Social Council (as of 2013, it was replaced by the High-level Political Forum on Sustainable Development). Various international conferences and summits have taken place since then, and, in September 2015, the UN General Assembly approved a resolution, adopting the 2030 Agenda for Sustainable Development. However, quite often, states seem to choose the easiest way out and overlook the conditions for sustainable development.

This paper will focus on Albania’s economy, the compliance with the sustainable development criteria, and the path chosen to promote growth during crisis. We will indicate that, during hard times, Albania has somewhat lost track of the long-term sustainable development goals. We will discuss the theoretical framework of sustainable development, as well as the main global scale efforts to promote sustainability. We would also focus our attention on Albania, the economic development since the early 1990s, and the policies adopted to pursue sustainable development, indicating that, while struggling to steer out of the global crisis, the country is moving farther away from the sustainability goals. By analyzing the data relating to the Albania’s economy, as well as the policies adopted to promote growth, the paper would show that the revival and growth enjoyed lately would come to be pretty costly for the later years.

1.1 Theoretical framework

Countries around the world take different approaches to economic growth and development, and that does not mean to be a bad thing. However, there is a global consensus as to the need for the development to be sustainable. Making development sustainable means “to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs” (World Commission on Environment and Development, 1987, p. 8). The WCED (1987) emphasized that “the results of the present profligacy are rapidly closing options for future generations” and we must ensure that “the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are made consistent with future as well as present needs” (pp. 8-9). However, sustainable development is not just that, but it is that and a lot more.

The earth — with all its main components: land, water, air — serves as the foundation and the fuel for humanity’s economic growth and development, but these natural resources are not replaced as fast as we are depleting them. If the development drive is to maintain the same trend and course it has had since the Industrial Revolution, it will not be far the day when the development as we know it today would stall. This is the reason why humanity needs to chart a somewhat different course of development, and that would be sustainable development. The UN, in its 2030 Agenda for Sustainable Development, has set out 17 sustainable development goals, and they make sustainable development far more reaching as far as its objectives are concerned. Those goals include ending poverty, ending hunger and ensuring food security, ensuring healthy lives, ensuring inclusive and equitable education, achieving gender equality, ensuring access to affordable energy, reducing inequality, combating climate change, promoting peaceful and inclusive societies etc (UN General Assembly Resolution 70/1). This is why various scholars have defined sustainable development as a combination of different factors and conditions, each of them having their part in shaping and being shaped by the sustainable development. If we were to put it differently, sustainable development would be that particular type of development which

simultaneously satisfies the needs for societal wellbeing, the needs for economic growth and prosperity, and the conditions for protection of environment (refer to Fig. 1).

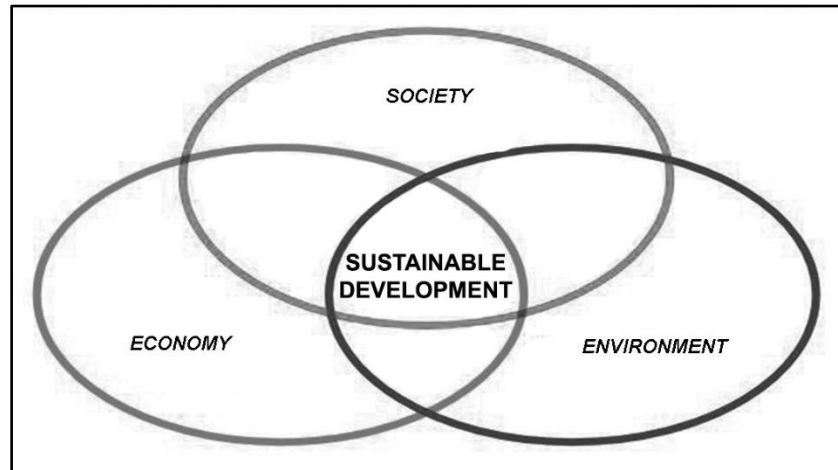


Fig. 1 Sustainable development and its relation to the three constituent components

Apart from the three above components, Scerri and James (2010) are of the opinion that there is also a fourth components playing an important role in ensuring sustainable development, and that is culture and institutions.

1.2 Limitations

It is thus clear that sustainable development is a different type of development, and that refers to a lot more than just economic growth and prosperity. But, since the economy has always been at the heart of the whole human developing endeavors, its role is very important and maybe a lot more important than that of others components. This is the reason why in this paper we will focus mainly on the impact that the economy has in attaining sustainable development and how Albania is going about it.

However, this represents a sort of limitation to this papers, and we understand that further observations are needed to also understand the role that society, culture, institutions, and environment play in conditioning the behavior of Albania towards a sustainable development. We have touched a little on the environment and society, but we are aware that is not enough to have a clear picture of the sustainability of these factors.

2. Economic growth in Albania

Albania is a country situated in the Balkan Peninsula, with a *de jure* population of about 4.4 million, even though, due to high emigration rates, the resident population stands at about 2.88 million (Institute of Statistics, 2017). At the beginning of 1990s, just like the rest of the Eastern Europe, Albania embraced democracy and the free market economy, thus abandoning socialism and the centrally planned economy. Since the early 1990s, Albania's economy has grown steadily and the 2016 Gross Domestic Product per capita, based on the purchasing power parity, was at about USD 11,800 (IMF, 2016, pp. 4-5). Albania is now categorized as an emerging and developing economy, and the GDP per capita, based on the PPP, is at 35 percent of the European

Union GDP per capita, based on the PPP. In 2016, the International Monetary Fund ranked Albania as the 96th economy of the world.

2.1 Policies promoting economic growth in Albania

At the beginning of 1990s, for Albania there was no other way, but up. In 1992, the GDP was a meager USD 840 million and the economy was in deep recession. Compared to the year before, in 1991 the GDP had declined by the record level of 28 percent.

Like most of the Easter European countries after World War II, Albania adopted socialism and a centrally planned economy. Due to innate difficulties associated with such economic system, the economic growth policies adopted in Albania were mainly of extensive nature. From 1945 to 1991, Albania developed, the economy grew, and the society prospered, even though that was not enough to keep the pace with other countries of the world. The economic growth was almost totally based on increasing inputs and that was the easiest way out, even though not exactly sustainable. Not having access to modern technology, Albania increased the use of natural resources. Back then, deforestation was the order of the day in order to increase the surface of arable land and, consequently, increase agricultural production. The same goes for industry, which was mostly based on extracting as much as possible raw minerals and other natural resources.

In a nutshell, for about 45 years the economic growth and the whole development of Albania and the Albanian society was built on exploiting the environment. During those years, there was almost nothing on protecting and preserving the environment and natural resources.

From 1991 onwards, Albania embraced democracy and the free market economy. Yet, things did not change overnight. Up to 2010, the economy enjoyed growth at an average rate of 6.2 percent per year. As the country got more and more entangled in the international community, especially for reasons of Albania's resolve to join the EU, economic growth policies starting becoming more aligned to the international community standards. Reforms, laws, and strategies were put in place in order to manage the economy grow and the whole country develop in alignment with sustainability requirements. The Albania's Economic Reform Programme 2016 - 2018 states:

Albania's Economic Reform Programme 2016 – 2018 outlines the main macroeconomic and fiscal policy aspects as well as priority structural reforms planned by the Government of Albania (GoA) in the medium term future for strengthening the domestic economy and stimulating sustainable growth and increased competitiveness. [...] Our economic policies seek to generate sustained medium term growth that results in tangible gains, including employment generation and a sustained improvement in the standard of living of Albanians. (Council of Ministers Decision No. 52, of 27 January 2016, p. 655)

However, the 2007-2008 world financial crisis, the 2008-2012 recession, and the 2010 EU debt crisis hit Albania hard. Foreign investments, the driving force behind the economic growth, fell drastically. Due to the crisis, the exports fell, too, since the EU countries were not exactly in the position to spend as much as they used to. The crisis brought about the sharp decline of remittances from the Albanian emigrants living and working abroad, mainly in Greece and Italy, the two countries which were struck the most by the world financial crisis and EU debt crisis.

In the face of such reality, Albania let loose almost everything. Anything that could generate growth and somehow create new jobs was acceptable. Sustainability was nothing but something too good to be true, and it was put aside for discussion during better times. Various laws and policies were implanted, from those allowing the import of waste for recycling purposes to those rolling back the commitments to social justice.

3. Albania's economic development vs. sustainability

If we are to compare Albania's standing to the sustainability criteria, the result is not very encouraging. The *Bertelsmann Transformation Index* emphasizes that there is still a lot to do:

Environmental concerns have rarely been taken into account during the Albanian unruly transition. [...] foreign initiatives have not been enough to generate comprehensive and sustainable policies. In a 2014 report on Albania, the European Commission noted that 'there has been little progress in the fields of environment and climate change. Significant further efforts are needed in all areas to strengthen administrative capacity and to ensure proper implementation and enforcement of legislation.' (Bertelsmann Stiftung, 2016, p. 23)

It is thus clear that the standing is not as good as it should be. So far, the attitude has been that prosperity and better income would be able to solve, or maybe push aside and make us forget, all other problems and issues, which otherwise would assist Albania in achieving sustainable development.

The IMF (2016) states that "[i]n contrast with some of its regional peers such as Macedonia and Serbia, it [Albania] has yet to diversify its export base into higher value-added products such as chemicals, plastics, or machinery. [...] productivity is also low compared with the rest of the region" (pp. 22-23). This means that, in so far as the economy is concerned, sustainability seems more like a mirage than a reality. Almost nothing in Albania's economy can be defined as sustainable, since it is mostly based on low cost, labor intensive, and low value-added activities. This is why the main exports of Albania are crude petroleum, chromium ore, various textile and footwear products of the *façon* industries, agricultural products etc. The economy is entirely built on exploiting natural resources and exporting them raw, without adding more value. To this end, the IMF (2016) observes that "[g]iven the challenges ahead in the oil sector and the significant headwind in textiles, Albania will need to step up reforms to improve investment prospects and attract FDI that allows it to diversify into higher value-added products" (p. 22). In other words, even though Albania has put in place the needed policies and strategies, they do not mean much as they are not implemented, leaving the economy vulnerable, thus not sustained, to future revolutions. It may look as a paradox, but actually Albania's economy in 1964 had a much better standing at the Economic Complexity Index than it has today. In 1964, Albania was placed 52nd in the world, in 1980 reached the highest standing ever, in the 29th place, and, unfortunately, today it is in the 111th place (MIT Media Lab Observatory on Economic Complexity, 2015).

After having discussed one component, that being the economy, it is now only logical that we shift our attention to environment. Albania, being a country working its way towards full membership in the EU, is struggling to meet the obligations stipulated by the Stabilization and

Association Agreement with the EU, which includes those relating to the environment. In this regard, Albania is actually transposing many of the EU legal acts concerning air quality, water, nature protection and biodiversity, wastes, climate change, noise, chemicals etc. The country has also adopted the Environmental Intersectional Strategy 2013 - 2020. Yet, environmental problems, such as deforestation, soil erosion, water pollution from industrial and domestic effluents, are persistent (*The World Factbook*, 2013), and these are problems which would affect especially the future endeavors for development.

In so far as the society is concerned, there indications that the situation is not conducive to being fully sustainable. Around 60percent of Albanian firms have reported that lack of properly educated workers is an obstacle to development (The World Bank, 2013). This has led to the IMF to again emphasize that “this has created a bottleneck for growth. The lack of skilled workers is more severe in the tradable sectors—manufacturing and tourism—than in no tradable sectors, such as construction and retail trade (IMF, 2016, p. 24).

However, the economy remains the crucial player. In order to get through the crisis, Albania had to take numerous measures, all of them being austere policies. Taxes were increased, public investments reduced, borrowing also increased, investments in crucial future sectors, such as education and social security, kept getting lower. Unemployment and poverty increased, meanwhile wages went down. This is not exactly the picture of an economy that is vying to be part of the sustainable development drive. Albania should strive to reconcile the economic development with the preservation and protection of environment, with the social justice, in order to reach sustainability.

4. Conclusions and recommendations

When the world economy, as well as Albania’s economy, will be back on its feet and growth would stabilize, the international agenda on sustainability will also pick up steam again. At such a time, the question would be whether is Albania in the position to comply and survive those requirements.

Faced with the dire need to spur growth, Albania relaxed many of the sustainable development policies. That means that the revival of the economy and the growth generated is based on the wrong foundations. In order to have fast recovery, Albania choose to still rely on some short-term goals, which is improving domestic demand and market confidence by promoting low cost and labor intensive sectors of the economy. Austerity measures, increasing taxes, reducing public investments, overlooking environment protection guidelines served well, but up to a point. The easiest way out of the crisis will not stand the test of sustainability, and that is not just because of some international standard being out there for observance.

The future of the country is at stake. Due to various incentives and promotions, agricultural exports grew notably during the last few years. However, they are almost entirely unprocessed products. In 2015, Albania exported about USD 60 million agricultural products, meanwhile the imports were at about USD 800 million, and this shows the vast difference between the raw exports and processed import agricultural goods (MIT Media Lab Observatory on Economic Complexity, 2015). The whole of Albania’s economy is based on low value-added activities, which makes it vulnerable in the long run and unsustainable to keep it going and generating the growth and prosperity the people need and expect.

The WCED (1987) states that “[s]ustainability is putting technical, scientific, ecological and economic social resources in order so that the resulting system can be maintained in an equilibrium state for some time and in space.” That is exactly what should Albania do. This is not the case of doing some patch work here and a little bit repair there. The country, since it has been in a long transition, must now grasp the moment and build a new system, based on sustainability, and that will be the system that would carry the country through future challenges.

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BEYOND HYPER-CAPITALISM: CAN THE SHARING ECONOMY RESHAPE SUSTAINABLE DEVELOPMENT?

Dr. Romina Gurashi¹

ABSTRACT

In nowadays globalized world, highly interconnected by various kind of networks, first of all the social networks, a radical phenomenon is rapidly gaining momentum: that of the sharing economy. From the United States to the Eastern Europe, the phenomenon is becoming increasingly vast and increasingly discussed. Uber, Airbnb, Home Exchange, and so on are extending like wildfire. Even in Albania we start to see the first startups and the first experimentations. But what does this mean? Does this represent an opportunity of development for the country? What are its critical issues?

The work starts from the crisis of the hyper-capitalism and of the concept of ownership which is being replaced with that of a more fluid sharing. In this way, we will analyze the words and the concepts which lay at the basis of the sharing economy, influencing the effects this new way of acting and living has on the economies and on the socialization processes of the countries involved. In this perspective, we will also try to consider if and to what extent the sharing economy can be said to be a bearer of a reform of the sustainable development.

Keywords: *hyper-capitalism, sharing economy, sustainable development, globalization, access, socialization*

JEL Classification: *Z1, Z13, Y2, Y8*

1. The main aspects of Hyper-capitalism

In nowadays globalized world, highly interconnected by various kind of networks, first of all the social networks, a radical phenomenon is rapidly gaining momentum: that of the sharing economy. From the United States to the Eastern Europe, the phenomenon is becoming increasingly vast and increasingly discussed. Uber, Airbnb, HomeExchange, and so on are extending like wildfire. Even in Albania we start to see the first startups and the first experimentations. But what does this mean? Does this represent an opportunity of development for the country? What are its critical issues? Let us start by seeing what Hyper-capitalism is.

The term Hyper-capitalism is usually used “to depict a relatively new form of capitalistic social organization marked by the speed and intensity of global flows that include exchange of both material and immaterial goods, people, and information”(Ritzer, 2011). In other words, the term Hyper-capitalism indicates a degeneration of capitalism, consisting in economic imbalances and atomization of the social life, able to permeate every aspect of sociality and socialization. The different spheres of the human life overlap. The economic sphere becomes dominant over the others: economy becomes increasingly and inexorably embedded in the social life at the point that it is impossible to distinguish between one and the other. “In addition, critical scholars

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believe that this new type of capitalist system has moved toward an extreme laissez-faire capitalism that is marked by greed, selfishness, destruction, wars, and exploitation” (Ritzer, 2011). Since 1980, in fact, the wave of deregulation authorized an increasing flow of capitals supported by no or little regulation producing what Harman (2009) calls the “zombie capitalism”.

It is therefore undeniable that capitalism has change during the years, particularly in the new millennium. This transformation has been provoked by the development of new technologies in communication, transportation and market functioning (Graham, 2002) which favored faster exchanges both on the real and the financial market. “Hence, the traditional form of the capitalist market economy, in which spheres of production, consumption, and circulation are separated, does not adequately describe current social, cultural, and economic relations” (Ritzer, 2011).

But what is the difference between capitalism and hyper-capitalism? Established that the most important ideas of capitalism are the right to private property, the control of the factors of production – i.e. labor, land and capital – by the private enterprises, the accumulation of capital, the competition between private businesses provide faster, cheaper and better goods and services, the willingness to change and the presence of a night-watchman state, hyper-capitalism is known to be an exasperation of capitalism characterized by hyper-consumerism – i.e. the consumption of goods for non-functional purposes (Sirgy, 2001) –, the centrality of the information technologies that influences the consumption-production flow, the costumes, the tastes, and the way of living. The immediacy, intensity, and the sheer volume of those processes make hyper-capitalism a historically unique social process (Ritzer, 2011).

In this framework, the economic and social theorist Jeremy Rifkin (2001) shows how the accessing of experiences is becoming dominant over the ownership of things. Using Internet, apps, software, smartphones, and B2B commerce, the users are contributing to give shape to a new – maybe different – type of capitalism.

2. From ownership to access

Rifkin’s work *The Age of Access: The New Culture of Hypercapitalism, where All of Life is a Paid-for Experience* (2001a) is illuminating in this regard. The social theorist brilliantly shows how the transactions between buyers and sellers progressively changed in time and space. Now in fact the products are bought and sold 24 hours a day for 7 days a week, in different markets, with different time zones, and in different geographical positions.

Products like CDs, books, newspapers are being sold in digital formats making the products always available and reducing their production cost. People more and more pay for experiences, not tangible products.

Through apps and software, we pay to be connected in networks guaranteeing unlimited access to information and new experiences. “In the network economy, both physical and intellectual property are more likely to be accessed by business rather than exchanged. Ownership of physical capital, however, once the heart of the industrial way of life, becomes increasingly marginal to the economic process. It is more likely to be regarded by companies as a mere expense of operation rather than an asset, and something to borrow rather than own” (Rifkin, 2001a). As Shipman (2015) demonstrates, the recent turbulence in the world economy are a consequence of capital gain and losses exacerbated by the disappearance of assets in the real market.

In this globalizing process, it is clear that a big change is taking place: we are shifting from a system of mass industrial production to another of mass cultural production. Our society is therefore experiencing a new phase of capitalism characterized by a continuous impulse to be connected in virtual network in order to obtain services and to try new experiences (as sport programs, virtual life-coaching, virtual tourism and so on). The immediate consequence is the replacement of old social relationships characterized by empathy, faith, solidarity with the buyer-seller market relationship. “It is human time that is being commodified, not places or things. Services always invoke a relationship between human beings as opposed to a relationship between a human being and a thing. Access to one another, as social beings, becomes increasingly mediated by pecuniary relationships” (Rifkin, 2001a).

The assimilation of the social and cultural sphere in the economic sphere represents a cardinal transformation in the future of the human beings. If we think of Polany’s *Great Transformation* (2001), we realize that during the first phases of industrialization “essential to the change from a premodern economy to a market economy was the altering of human economic mentalities away from a non-utility maximizing mindset to one more recognizable to modern economists”, and that “prior to the great transformation, markets had a very limited role in society and were confined almost entirely to long distance trade” (Polany, 2001). But when the great transformation begun – we are speaking of the Second Industrial Revolution – the states adopted competitive capitalist economies whose effect was the demolition of the social order and the adoption of a *laissez-faire* politics.

If we then consider what already said in this sociological framework, we realize that culture progressively and inexorably lost its primary role in shaping economy and society. This is the first time in history that social trust, sense of community and values are postponed, make subservient to markets. The risk of this imbalance is the depletion and the dissipation of cultural resources, which is a global catastrophe. “Finding a sustainable way to preserve and enhance the rich cultural diversity that is the life-blood of civilization in a global network economy increasingly based on paid access to commodified cultural experiences is one of the primary political tasks of the new century” (Rifkin, 2001b).

The challenge our globalized world should face in the near future therefore concerns the identification of a balance in the most important political-economic aspects of the life. This means the preservation and the improvement of local cultures accompanied by the preservation of the possibility to access to other cultural resources and assets on the marketplace.

3. The sharing economy and the challenge of sustainable development

Given that the sharing economy – also known as collaborative consumption – is a hybrid market model based on collaboration and exchange, people usually associate it with website or smartphone applications like AirBnB, Uber, Blablacar, TaskRabbit etc. But the sharing economy is not only an app or a website. It invokes values such as democracy, decentralization, sustainability, local economic development, sense of community and rejection of hierarchies (Botsman& Rogers 2010).

Moreover, the phenomenon reveals an important aspect related to the preservation of the environment: the choice to access to services and products rather than to buy and own them reflects anti-consumerist inclination which demonstrates that it is not the possession, but the experience we made with these things that makes people happy. This inclination therefore is

ecological in the sense that drives us to optimize the use of assets we have at our disposition and to contain the excessive consumerism typical of the Hyper-capitalism.

Through networks, people share ideas and create communities based on common principles and values. Some of these communities are created between neighbours who share and exchange their goods with the people of the neighborhood creating new social reticulations expanding their network of relationships. This situation helps to strengthen the sense of community and the empathy between people.

But what is to be tested is if the dominant trend of the sharing economy goes towards the sustainable development or, as already said, towards a dangerous drift of extreme capitalism.

Established that the sharing economy is “1) an economic opportunity; 2) a more sustainable form of consumption; 3) a pathway to a decentralized, equitable and sustainable economy; 4) creating unregulated marketplaces; 5) reinforcing the neoliberal paradigm; and, 6) an incoherent field of innovation” (Martin, 2015), the difficulty to comprehend whether it could be the future of sustainable development is evident.

However, as “there are limits to earth’s resources and its capacity to absorb the waste of products of industry; this must be taken into account in the process of economic development so that the legacy we leave our children is not a planet in a worse state of health than we inherited” (Kaplan M.A., 1992). Some aspects of the collaborative consumption can help in this sense, favoring the contrast of Hyper-consumerist drifts: these are the preference for access rather than ownership, the appeal to values such as solidarity, equity and sustainability, the references to the rise of a social awareness.

On the other hand, it is undeniable – and we must not underestimate it – the strong impact the Hyper-capitalist trends had in the strengthening of the neoliberal paradigm, the increasingly fast and reckless consumption, the creation of new, increasingly global and increasingly deregulated markets.

4. Conclusion

The aim of the present work was to explore the two sharply contrasting souls of the sharing economy: the sustainable and the destructive. Both affect the socio-economic phenomenon under consideration and both have contributed to give shape to it. But its future developments remain uncertain, depending on which of the souls will prevail.

In order to strengthen the positive aspects, the states of the world should start to regulate the phenomenon, so as to contain the drift. States should also sensitize people that the natural resources upon which society depends are not endless, and that the ongoing depletion and pollution are going to have an irreversible impact on our lives once the irreproducible public goods will expire.

The time for a turnaround is about to expire, but maybe through a different economic system, and through social awareness we could create a society where the basic human needs are met without disintegrating the ecosystem guarantying our survival.

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AN ECONOMIC VALUATION OF TOURISM IN SHËNGJINI BEACH USING THE ZONAL TRAVEL COST METHOD

Dr. Elona Pojani¹

ABSTRACT

With increasing income and opportunities for entertainment, the demand for tourist visits to the beaches will increase. In addition, the expected warming weather will lead to the extension of the summer touristic season, which ultimately will increase demand for touristic activities. On the other hand, coastal erosion and sea level rise will affect the quality of beaches. The impact of these events on tourist visits in the country depends on the level of destruction of the area and the availability of substitute areas for tourism in Albania or in the region. Studies predict that the coastal area of Albania will be seriously affected by climate change, and the beaches of Shëngjini and Tale on the northern coastal area of Albania will be partially destroyed in 2080. This paper will offer a calculation of tourism values in Shëngjini beach using a zonal travel cost method. This method of environmental valuation is based on choices of individuals to spend their holidays in a given area, compared to the possibility to choose another area, or to do other activities such as going to work. In addition, travel cost method is the most used in the literature to assess the benefits of coastal tourist areas. The result of the assessment will be the compilation of a demand curve for tourism in Shëngjini beach. Knowing this value will give a strong support to all projects or activities undertaken by public authorities for the protection and further development of the area in the future.

Keywords: *environmental valuation, touristic values, travel cost method, coastal areas, Albania*
JEL Classification: *Q54, Q570, Q260*

1. Introduction

The environment contributes to several economic sectors through the services and functions it provides. The functions of the ecosystem are categorized by De Groot (1994) into four categories: Regulation functions, which are related to the ability of natural ecosystem to regulate the main ecological processes; Carrier functions, which contribute to the development of some main economic and human activities, such as agriculture, tourism, etc.; Production functions, which are related to the ability of the ecosystem to produce several goods, including food, raw materials, energy products and genetic materials; and Information functions, by which the environment contribute to the mental health of individuals by offering them the opportunity for recreation through its aesthetic values (de Groot, 1994).

The focus of this paper are the tourism values created by the environment. A particular setting has been chosen for this purpose. With increasing income and opportunities for entertainment, the demand for tourist visits to the beaches is expected to increase. In addition, the expected

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warming weather will lead to the extension of the summer touristic season, which ultimately will increase demand for touristic activities. On the other hand, coastal erosion and sea level rise seriously affects the quality of beaches. Studies (Laçi, S., 2009; Laçi, S., Muçaj L. 2010, MoEWFA& UNDP, 2013) predict that the coastal area of Albania will be seriously affected by climate change, and the beaches of Shëngjin's end's Tale on the northern coastal area of Albania will be partially destroyed in 2080.

This paper will offer a calculation of tourism values in Shëngjini beach using a zonal travel cost method. The result of the assessment will be the compilation of a demand curve for tourism in Shëngjini beach. This exercise will be preceded by a thorough exploration of environmental assessment methods in general and travel cost method in particular. This method of environmental valuation is based on choices of individuals to spend their holidays in a given area, compared to the possibility to choose another area, or to do other activities such as going to work. In addition, travel cost method is the most used in the literature to assess the benefits of coastal tourist areas. The analysis of results will offer accordingly the main recommendations of the study.

2. Literature review

2.1. Environmental valuation and methods of assessment

Ecosystem valuation is the process by which a monetary value, or non- monetary is assigned to environmental resources or products and/or services provided by those resources, a task rather difficult because of the diversity of such values (ELC, 2007). The process of assessment plays an important role in creating markets for biodiversity conservation and environmental services (TEEB, 2010). The value in the context of an environmental assessment contains some characteristics (TEEB, 2010, ELC, 2007). First, the economic perspective of "value" is focused on the individual. Second, the value is determined by the will of the people to make exchanges. If a person spends money for a good, he has less money for other goods. Thus, environmental values are associated with two very important concepts: *willingness to pay (WTP)* - maximum amount of money that an individual would be willing to give up to have something good (or to avoid something bad); and *willingness to accept compensation (WTC)* - minimum amount of money that an individual would be willing to accept as compensation for giving up something good (or accepting something bad). Researchers have traditionally preferred the use of WTP, because of its conceptual framework: its easier and more trustable to declare how much money an individual is willing to pay rather than how much he would accept for something. However this depends on the context and method of assessment (OECD, 2006). Third, environmental values vary depending on the context of their calculation: local, regional, national, or international. For example, the value of a colony of rare species, which are located in a poor village, normally is expected to be much lower for rural residents, slightly higher nationally and much higher at international level. This distinction is very important, because it is through this quality that foreign donations are justified. Sometimes benefits and environmental costs go beyond the borders of an area or a country. For example, damage caused by pollution emitted by an industry located near a state border, may damage the citizens of the other state as well. Therefore, it is important to carefully select of area and population affected by an environmental consequence.

When it comes to the assessment of environmental benefits, the concept of Total Economic Value (TEV) is commonly used (DEFRA, 2007; TEEB, 2010). TEV is composed of two

components: *use values*, and *non-use values*. Use values are usually divided into two categories: *direct use values*, defined as the benefits associated with the direct use of ecosystem services, such as the consumption of goods or simply enjoying the natural aesthetic sights; and *indirect use values*, usually associated with regulatory services, such as improvement of air quality and prevention of erosion, which can be seen as public services that are not reflected in market transactions. Non-use values, also called protection (conservation) values, are related to the responsibility that the natural environment must be maintained. In this case, just the awareness of knowing that the environment is being protected creates an additional value to individuals, although they are not using or do not plan to ever use an environmental service. Often these values are derived from environmental regulatory and information functions. Because of problems of recognizing and quantifying the economic and monetary value of these non-use benefits, they often are not part of national income accounts. Literature usually distinguishes three components of non-use values: existence value, bequest value, and altruism value (Krutilla, 1967, De Groot, 1994, Krutilla and Fisher, 1975). Extending the time frame in which the values are taken into consideration, leads to the possibility of assessing the option for the future use of a specific environmental service (Krutilla and Fisher, 1975). This refers to the "option value".

There are several possible ways to assess the environmental benefits in economic terms. In general terms, methods for environmental assessment can be divided into two categories: *methods which are based directly on the market*, and *methods based on people's behavior* (Bolt et. al, 2005; TEEB, 2010, Garrod and Willis, 1999).

The methods based directly on the market use information from current markets, thereby reflecting preferences or actual costs. They are based on scientific measurements, dividing the process of environmental impact assessment in two parts: first, the impact assessment for environmental change in quantitative terms (e.g., changes in the amount of crops) is conducted; second, the monetary evaluation of these changes is completed. Required data are generally available and easy to obtain. Methods based on the behavior of people calculate the willingness to pay directly from people's reactions to a given environmental change. Two main categories for measuring value in these cases include: revealed preference methods, which analyze the decisions that people make in response to changes in environmental quality, and stated preference methods, which determine the values directly from the survey methods. When the implementation of any of the methods described above is not appropriate or is not possible the literature suggests using the technique of benefit transfer. It uses the results of existing studies and adapt their values to the conditions of the study in question.

Each of the methods described above has its own restrictions. The main limitation associated with each of the methods lies in the fact that its implementation will require a number of assumptions, which leave much room for discussion and possible alternatives. For this reason, the implementation of environmental assessment methods is often associated with the so-called "sensitivity analysis", which develops the "what if" scenarios for the valuation results by manipulating several independent variables.'

2.2. The travel cost method

The travel cost method (TCM) has evolved over the almost 50 years since Clawson first proposed the model in 1959 (Clawson & Knetsch, 1966). The travel cost method (TCM) has been usually used for the evaluation of non-market goods, especially in geographical areas that are used for recreational purposes, such as parks, beaches, protected areas (Brandli et al, 2014;

Jim and Chen, 2005; del Saz Salazar and Mene´ndez, 2005; Tameko et al, 2011). Such areas, for several reasons, usually do not have a market price and thus alternative means have to be used to calculate their value. TCM assumes that the trip to the tourist area and the touristic area itself are complementary goods. Usually, the touristic area is a good that does not have a price in the market, therefore the market values for the trip to the touristic area serve as a reference for its valuation. Using TCM a researcher can determine a demand curve for visits to the area and assess the consumer surplus, which shows the willingness to pay of those who visit the zone (OECD, 2006; TEEB, 2010; Haaband McConnell, 2002, ecosystem valuation, 2013).

One of the main advantages of the TCM is that it uses actual behavior for conducting the valuation process. Therefore the results of such methods are less controversy and more accepted for decision making and policy planning. On the other hand the valuation of the travel cost has several issues. It includes the calculation of two elements: the monetary cost of tickets of bus or fuel consumption and amortization of the vehicle used for travel and the cost of time spent for traveling. This second one is particularly difficult to access. The concept used for assessing the cost of time is the opportunity cost: if an individual chose to travel he is giving up doing other activities, such as working, which would earn him income. Thus, the demand for travel will increase if the travel time would decrease, despite other monetary costs of travel. A value used for assessing the cost of time is the level of income of the individual.

The starting point (Haaband McConnell, 2002) for compiling a demand curve is the equation of the budget constraint of the individual:

$$\sum_{j=1}^n x_{ij} c_{ij} + z_i \leq y_i \quad (1)$$

where: x_{ij} is the number of visits that the individual pays to the area; c_{ij} is the cost of the round trip to the area; z_i is the combined basket of goods that an individual purchases, with an average price equal to 1, and y_i is his level of income. Then it's assumed that each travel requires t_{ij} units of time. The individuals earn money mainly by working, despite other sources of income they might have. It is supposed that the individual can chose how much he can work². Under such circumstances and supposing that the individual works h hours in each period, its time constraint can be shown as:

$$\sum_{j=1}^n x_{ij} t_{ij} + h_i = T_i \quad (2)$$

Where: T is the total amount of time he has. The total amount of disposable income is shown as:

$$y_i = y_i^0 + w_i h_i \quad (3)$$

Where w is his net wage and y^0 is his fixed income. If we solve equation (2) in relation to the hours of work, and (h) and substitute the value in the budget constraint equation, the later can be written as:

$$\sum_{j=1}^n x_{ij} (c_{ij} + w_i t_{ij}) + z_i \leq y_i^f \quad (4)$$

Where $y_i^f = y_i^0 + w_i T_i$ represents the full income that an individual would earn if he worked during the whole time he has at his disposal. The utility function of an individual is shown as $u(x_{ij}, \dots, x_{in}, q_1, \dots, q_n, z_i)$, where q_j is the quality of a specific area. If an individual visits more areas and their quality improves, then the utility level would also increase. On the other side, other

²This assumption is a strong one, since this is not possible in real world.

aspects of travel, such as time and money spent would decrease the utility. The price of travel can be shown as (from equation 4):

$$p_{ij} = c_{ij} + t_{ij} w_i \quad (5)$$

Maximization of the utility function, will produce the standard equation of demand:

$$x_{ij} = f_j(p_i, q, y_i^f) \quad (6)$$

where, $p_i=(p_{i1},...,p_{in})$ is the vector of prices for different touristic areas and $q=(q_1,...,q_n)$ is the vector of defining their quality.

This is the easiest conceptual framework of TCM, which assumes that the time of travel can be converted into the cost using the level of wage. TCM can be applied in practice in three different ways (OECD, 2006; ecosystem valuation, 2013). Its easiest application is the zonal TCM (ZTCM), which uses secondary data to gather information on: number of visits to the destination area from different origin areas, demographic information on individuals coming from each origin areas, distance of the round trip travel to the area, cost of travel per km, value of time spent traveling, or the opportunity cost of time (Loomis et al., 2009, duPreez and Hosking, 2010). This method does not consider possible marginal changes to the area. The second application of the TCM is the individual TCM (ITCM). In this case the data are gathered through on site surveys conducted with visitors of the area. Through this method is possible to access the travel behavior if potential changes to the area and its quality will happen, and use this information for compiling the utility and demand function. The information gathered from them is similar to the information described before when using ZTCM. The analysis of this data in either case will include a regression analysis, which will find a relation between the number of visits to area with the cost of travel and other demographic factors. The behavior of an average visitor will be predicted through it and after the demand function will be constructed. The most complicated application of the MCU is the random utility approach. The rational of the method is that individuals make exchanges between different areas based on their quality and cost of travel. This method assumes that individuals will chose the area they prefer between all their substitutes, and this choice is the starting point of valuation.

TCM can be used for different purposes which lead to decision making at public and private level. Such decisions would include: changes in the entry fee of a touristic area, destruction of an existing area, construction of a new touristic area, improvement of an existing area, etc.

3. Touristic demand and value of coastal tourism in Shëngjini beach

The following analysis will include the calculation of the value of coastal tourism in Shëngjini beach (Albania). This study has been conducted in 2013 by the author, based on data from a project focused on climate change impacts in the study area³. The author has been part of the project team during its implementation. The zonal travel cost method has been used for this purpose. Shëngjini beach is situated in the northern part of Albanian coast and represents the main coastal attraction in that area. Shëngjini beach attracts visitors from nearby areas, as well as visitors from Kosovo and FYROM. No official sources are known for “extended stay” tourists (e.g. families, couples, etc. renting accommodations for a week or more on summer holiday) or

³Title of Project: “Identification of adaptation response measures in the Drini-Mati river deltas”, developed by UNDP and MoEFWA.

“day” tourists (families, couples, etc. typically from the nearby region spending only the day at beaches and restaurants, and again returning home at night) in Shëngjini or even Lezha (MoPWTT, 2012). The main touristic facilities include hotels, guest houses, bars and restaurants. The main touristic season is in summer, starting from June until September. The number of visitors, including daily visits is between 13000-40000 visits (Laçi, S., 2009; MoPWTT, 2012). Studies (Laçi, S., 2009; Laçi, S., Muçaj L. 2010, MoEFWA& UNDP, 2013) have shown that the beach is seriously affected by coastal erosion, climate change, sea level rise and human activity. These have put much pressure on the beach and its quality affecting the number of tourists visiting the area. These studies have foreseen that if no measures are taken to protect the beach, it will be partially destructed by 2080. On the other hand, projections on tourist flows based on the current number of tourists and other demographic developments show that the area of Shëngjini has a potential for attracting more tourists. The Final Design/ Masterplan Reports by CES calculate about a 14percent increase in Lezha and 33 percent increase in Shëngjini increase over the “year round” population forecasted in 2025 – and does not appear to specifically address the issue of day tourists. This study has forecasted an increase in the number of tourist to 44000 in 2040.

The application of the ZTCM includes several steps and assumption. In the first step the origin areas of visitors have been identified. Figure 1 shows the origin areas using concentric circles. The numbers 1-5 of each area divided by the circles show the distance from Shëngjini, 5 representing longer travels to the area. A combination of public data on the number of visits and origin towns of visitors is used. It is assumed that the average number of visits is 26400 during a year including daily visitors. Most visitors usually come from: Tirana, Kosovo and Macedonia. Public data do not show any detailed division between daily visitors and those who stay longer in the area (1 week or more). Therefore, some assumptions have been made for this purpose. It is assumed that 50% of the number of reported visits are daily visits and 50% are weekly visits; the visitors are coming from areas 1, 2, 3, and 4, while beyond the area 4 (zone 5) there are no more visitors; there is an equal distribution of daily visits between visitors coming from areas 1, 2 and 3. There are no daily visits from the area 4; in relation to weekly visits, the following distribution have been assumed: 10% of visits come from area 2, 40% are from areas 4 and 50% of visits are from area 4. These assumptions have been summarized and detailed in Annex 1.

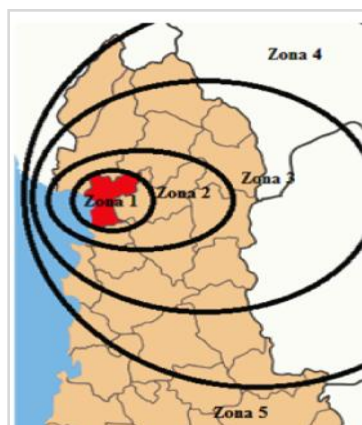


Figure 1: Map of visits to the area

Source: Author

Annex 2 shows a summarized information about the visits and their conversion in the *visitors report*, which is based on the actual number of visits from one area divided by the number of the

total population of that area. In this case, weekly visits have been converted to daily visits by multiplying them by the number 8, which represents the average number of days spent in the area for long trips (7 nights and 8 days).

The next step is to complete the calculation of the cost of travel, which includes direct costs associated with travel, as the cost of fuel and depreciation of the travel vehicle, as well as the opportunity cost of time spent in travel and tourism in the area. This calculation is shown in Table 3. The information collected to carry out this evaluation include: the average distance of each zone to Shëngjini and average travel time (round trip) travel; the average cost of travel by car (a low value have been used in this case, in order to make an average assessment taking into consideration also those who may travel by bus or in groups); the average salary in three countries: Albania; Kosovo; Macedonia.

After these calculations the demand curve for visits in the area has been compiled, which will show the relationship between visits and total price (value) of entry into the area. For its construction a regression equation has been used which shows the relationship between the number of visitors rate (calculated in Annex2) with total daily cost / visit (calculated in Annex3).

The regression equation is as follows:

$$VR = 107.229 - 0.006 * TC$$

Where: VR – represents the visitors report; and TC – represents the cost of travel.

Using the data obtained from the regression function and the actual number of visits in the area, you can build the demand curve. The curve will be constructed assuming different entry fees in the area, which are added to the cost of travel. By increasing the entry fee, the number of visitors will be reduced. The change will reflect the reduced demand and increased cost. Area under the curve of demand obtained in this way represents the value of Shëngjini beach. The first item in the demand curve, which represents the actual number of visits to the area in conditions where there is no entry fee, is (26400, 0). Details concerning the demand curve –its different coordinates –are shown in Annex4, while the demand curve itself shown in Figure 2.

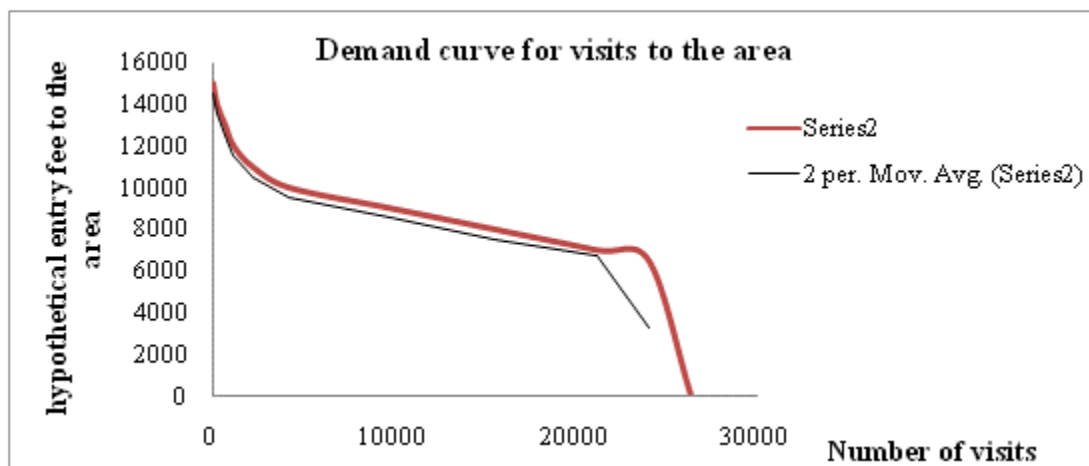


Figure 2: Demand curve for visits to the area
Source: Author

The area under the curve of demand, calculated in Excel, is ALL 219,658,728.93, representing the total value of visits in the area, based on the travel cost method. Converted to Euro, the value obtained is approximately 1,570,000 Euro.

Discussions and conclusions

The analysis performed in the previous session is based on one of the most used environmental assessment methods in the literature: the travel cost method. The evaluation process has shown the value that one of the touristic sites in Albania generates each year. This calculation is based on actual individual choices, which means that it is based on their actual behavior. It is their decision to travel to this area and not to other substitute areas which generates the basis for making this calculation. In terms of the risk of losing the beach quality due to sea level rise by 2080, this amount represents the loss of the converted annual monetary value of this natural resource. In the context of a sensitivity analysis, the value used for daily expenses in a travel can be alternated and changes would occur to the cost of damages to different cases. It is believed that the value calculated here is the lower limit. Also, a national point of view, as noted, these values may not represent loss, since visitors can move to other beaches within the country.

This valuation process can serve as a basis for public sector to justify investment in the area which aim will be the improvement of the quality of the area or further development of the site for touristic reasons, especially in the light of projections on tourist flows shown before. These improvements can even lead to higher values in the future since the number of tourists can significantly rise because of the higher quality of the area. This valuation in this case can serve as a basis for any cost-benefit analysis for future investments in the area.

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Annex 1: Summary of daily and weekly visits to Shëngjini Beach

Areas	Description of the area	Total (No. daily visits)	Percentage of tourists coming from each area for daily visits	Number of daily visits from each area	Total number of weekly visits	Percentage of tourists coming from each area for weekly visits	Number of weekly visits from each area
1	Villages and towns in the district of Lezha	13200	33.3%	4400 ⁴	0	0	0
2	Kurbini, Miredita, Puka		33.3%	4400	13200	10%	1320
3	Kukës, Tiranë		33.3%	4400		40%	5280
4	Dibër, Kosovë, Maqedoni	0	0	0		50%	6600
5	Beyond the above listed areas	0	0	0	0	0	0
Total		0	100%	13200	0	100%	13200

Source: Calculation of the Author

Annex 2: Calculation of the visitors report

⁴ 26400/(2*3)

	Total number of daily visits	Number of weekly visits converted in daily visits (weekly visits * 8 (days))	Total daily visits	Population from each area	Visitors report (Visits/inhabitants)*1000
Area 1	4400	0	4400	77184	57.0066335
Area 2	4400	10560	14960	105968	141.1746942
Area 3	4400	42240	46640	763050	61.1231243
Area 4	0	52800	52800	3909000	13.50729087
Area 5	0	0	0		0

Source: Calculation of the Author

Annex3: Total cost of travel to the area

Area	Average round trip distance from Shëngjini (km) (1)	Direct cost of travel (2)	Average time of travel (min) (3)	Time of weekly travel distributed per day (4)	Average daily time spent in the area (min) (5)	Total time (6) = (4+5)	Average/mini male wage (7)	Cost of time spent traveling (8) = (7)*(6)	Total daily cost per visit (9) = (2+8)
1	0	0	0	0	480	480.0	3.8	1824.0	1824.0
2	100	2500	96	3.2	480	483.2	3.8	1836.0	4336.0
3	168	4200	132	10.2	480	490.2	3.8	1862.7	6062.7
4	428	10700	378	54	480	534.0	5.35	2856.9	13556.9

Source: Calculation of the Author

Notes:

- (1) The average distance is calculated from the center of the area for areas that are within Albania, and from the average distance of some of the main cities of Kosovo (Pristina, Prizren, Peja) and Macedonia (Gostivar, Tetovo, Skopje)
- (2) Direct cost of travel is calculated based on technical information on the average consumption in a standard vehicle: the average consumption for vehicles with smaller motorized power than 80-110 Kw is 9 liters per 100 km. The average price of fuel used for the trip is taken 200 lek / liter (including depreciation). The value of consumption per km calculated in this way results 25lek / km, which is considered a low value, considering that similar studies use a value of 0.3 Euro / km. The lower value is used to include in the average of all cases, even for those visitors traveling in groups or for those traveling by public transport.
- (4) The weekly travel time spread over days represents the conversion and distribution of time spent on the trip shown in column (3) in each of the days within week because the weekly trips include one round trip in the area and not daily traveling. Calculation of converted time is accomplished by considering the percentage of weekly visits compared to total visits.
- (5) The time spent in the area represents the time of one working day converted in minutes, so (8 hours*60 min), time which is actually spent on holiday, reflecting the opportunity cost of labor.
- (6) The average salary is derived from the data of the Statistical Institutes in all three countries: Kosovo, Macedonia and Albania in 2013.

Annex 4. Details on coordinates of demand function

Entry fee	0	6500	7000	8000	9000	10000	11000	12000	13000	14000
Number of visitors	26400	24054	21215	15538	9861	4184	2179	1128	665	202

Source: Calculation of the Author

AN EMPIRICAL INVESTIGATION OF THE DETERMINANTS OF FOOD WASTE GENERATION IN URBAN AREA AT HOUSEHOLD LEVEL IN ALBANIA.

Arben Kambo¹

Remzi Keco²

Ilir Tomori³

ABSTRACT

Economically avoidable food losses have a direct and negative impact on the incomes of both farmers and consumers. Given that many smallholders live on the margins of food insecurity, a reduction in food losses would have an immediate and significant impact on their livelihoods. For poor consumers, food insecure or at-risk households, the priority is clearly to have access to food products that are nutritious, safe and affordable. Improving the efficiency of the food supply chain could help to bring down the cost of the food to the consumer and thus increase access. The present study deals with approaches for preventing food waste based on a thorough analysis of the scale, reasons and pattern of food wastage in urban area in Albania. The study is the first empirical piece of research focused on Albanian households' food waste behavior. The research scope includes not only what households discard in terms of amounts and waste structure, but also as an evaluation of the possible determinants for the wasteful behavior. Evidence reveals that Albanian consumers have a significant food waster self-identity and consistent post-shopping routines which lead to a reduction in the reported food waste.

Keywords: *food waste, food insecurity, discard, consumer, Albania, households, values*

JEL Classification: *A12, B23, C35*

1. Introduction

Food waste in this paper refers to food items intended for human consumption, which have been discarded by the consumer, while edible food waste is defined as the amount of discarded food and drinks that could have been consumed, but was discarded. Food waste is thus the sum of edible and non-edible food waste. It is also important to point out that food products intended for other uses, for example for animals, biofuels and biomaterial are not included in this definition. The subject of food waste is a multidimensional issue related to several social, economic, and environmental aspects. The economic impact of food waste on households, is that food costs money, and by consuming a larger portion of the food bought, families can save

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money. The social perspective roots in the reality of food being a scarce resource and like other scarce resources it can be reallocated to the parts of the world that have food shortages. Wasting food means losing not only life-supporting nutrients, but also scarce resources like land, water, and energy that were expended in the production, processing and distribution of food. These losses will be exacerbated by future population growth combined with changing dietary habits. Due to increasing prosperity in developing countries, the per capita caloric intake from meat consumption is assumed to rise in mid-century. The production of animal-derived products requires considerably more resources than the production of grain-based food. Reducing the current level of food wastes, offers us a significant opportunity for diminishing environmental risks and conserving finite resources that could be utilized for other human activities.

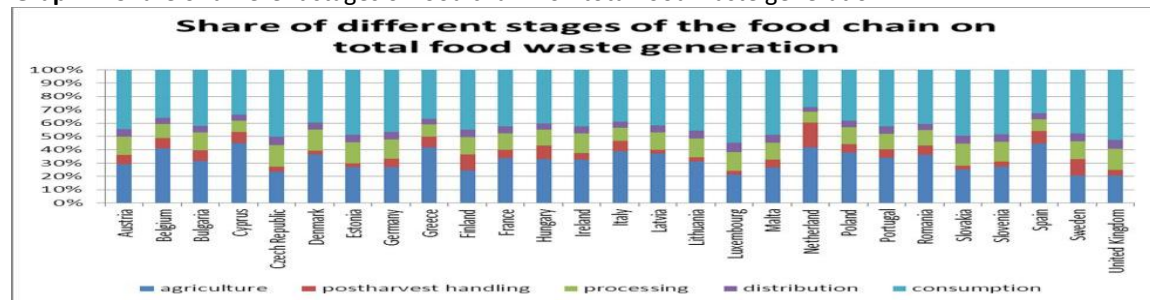
2. Background

In view of the different types and causes of food losses along the supply chain some authors (Waartset al.2011) distinguish between food losses and food waste. Following this distinction, food losses take place at the earlier stages of the food supply chain, during cultivation, harvesting, post-harvest treatment and processing, while losses occurring at the end of the food chain, during retail and final consumption are referred to as food waste. Thus, food waste is related to human behavior and is seen as a result of decisions made by businesses, governments and individual consumers (Bloom 2010). Other authors (Quested & Johnson 2009) make a further differentiation and distinguish between avoidable, possibly/partially avoidable and unavoidable food waste: Avoidable food waste: products that are still suitable for human consumption at the time of discarding or products that would have been edible if they had been eaten on time; Possibly/partially avoidable food waste: products or ingredients which are not consumed due to consumer preferences (e.g. bread crusts, apple skins), or that can be eaten when food is prepared in one way but not in another (the skin of fried poultry is usually eaten, the skin of boiled poultry normally not). This category also covers leftovers in canteens or restaurants as a mixture of avoidable and unavoidable waste; Unavoidable food waste: products or ingredients which are not suited for human consumption in accordance with today's food standards. This encompasses non-edible components (e.g. banana peels, bones, egg shells), as well as products that are so damaged due to weather, diseases or pests and cannot be consumed.

Table.1: Total amount of food waste (in 1000 tons) share of the individual stages of the supply chain across EU-27 in 2006

	Total amount of food waste	Specific amount of food waste	Agricultural production	Postharvest handling and storage	Processing and Packaging	Distribution	Consumption
	1000 tons	kg/capita	Share of the individual stages (%)				
EU-27	138 019.4	279.8	34.2	7.5	12.0	5.1	41,2

Source: Eurostat 2008

Graph.1: Share of different stages of food chain on total food waste generation

Source: Eurostat 2008

3. Methodology

In total, 350 fully completed questionnaires were collected during the data collection process. The number of respondents is sufficient to generate a sample with a good statistical power. As (Tabachnick and Fidell 2007) explain, when regression analysis is applied, the minimum sample size can be determined by the formula: $50 + 5 \cdot m$, where m is the number of independent variables. As it can be seen later, the total number of independent variables (composite variables + demographic ones) is 23, which results in a required minimum of 165 respondents. In order to construct a quota sample, several steps are to be implemented in the data collection process: 1) The population is divided in specific groups; 2) A quota is calculated for each of the groups based on the available data; 3) The number of cases which are required for each quota is chosen; 4) All the data is combined, so that the full sample is provided (Saunders et al., 2009). The choice of quota sampling is justified by the number of advantages that it provides over the probabilistic techniques. In general, it is less costly and can be implemented quickly. Moreover, quota sampling does not require sampling framework and it works well with large sample sizes (Saunders et al., 2009). For the purposes of this study, the main objective was to construct a sample that matched the population in terms of age distribution. If age is represented by the sample accurately, it can also be suggested that the characteristics of the remaining population included in the survey (household size, number of children, income and education) are to be relatively well matched, as well. It should be also clarified that respondents aged 70+ are excluded from the analysis. Limiting the focus on the households comprised by individuals within the age boundaries of 18-70 is suggested to produce more relevant and accurate data that objectively reflects the existing reality.

Table.2: Population and sample characteristics

Age group	Sample		Urban Population	
	Nr	%	Nr	%
18-25	75	23	297365	24
25-35	59	18	238973	19
35-45	68	20	201366	16
45-55	75	22	241605	20
55-65	44	13	192918	16
65-70	14	4	62157	5
Total	335	100	1234384	100

Source :National Statistical Institute and authors calculations

3.1 Aims and objectives of the study

This study aims to investigate the food waste issue in Albania. The main research objective of the study can be formulated as follows: We aim at understanding this issue at household level by identifying a number of main factors affecting food wasting. Our hypothesis is that people's attitudes, individual behavior and family typology may influence the quantity of food waste at household level.

3.2 Delimitations

There are few aspects of the food waste problem which cause certain limitations while investigating the issue in its depth. One of the significant obstacles for fully revealing the food waste problem originates from the complexity of the food production/distribution/consumption chains. Another potential limitation of the current study is the complete lack of statistical data about the food waste in Albania considering the fact that, no previous research has been done on the topic in local context. This poses serious limitations in understanding the prevailing food practices of the Albanian consumers, as well as a lack of punctuality in assessing the magnitude of the food waste problem in the country. The implementation of household surveys is methodically simple, but usually it can provide only qualitative information, because quantitative estimates out of memory regarding the weight of the food purchased and discarded are very prone to error (Schneider 2008). Experience also teaches that consumers substantially underestimate their losses when self-reporting (Beretta et al. 2013).

4. Results

The models are estimated using SPSS 23 and STATGRAPHICS Centurion. Several methods analysis are used as principal component analysis, analysis of variance, regression etc.

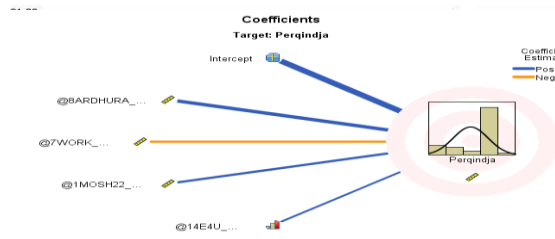
Table.3: Variables

Variable											
Age	Education	Residential	Zone	Family Type	Immigrants	Working	Income	Interest	Food Value	FoodPercent	FruitType
X1	X2	X3	X4	X5	X6	X7	X8	Y10	Y1	Y2	F
VegetType	Throw	ThrowFreq	BuyFreq	Cooker	ThrowQuant	Why Throw	Waste Use	WasteQuantOrdin	ThrowValue	PercentThrow	
V	Y11	Y3	Y12	DA	Y4	Y5	Y6	Y7	Y8	Y9	

Zone				Immigr	Throw	Cooker		WhyThrow	
a=Bllok				0=No	0= No	0=Mother		1=Buy too much	
b=Tr Re,M.Shyri Rr El				1=Yes	1= Yes	1-Other		0= Other	
c=Other									

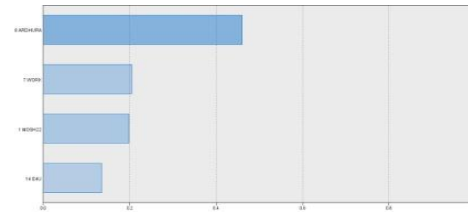
Graph. 2

Estimated Means
Target: Perqindja
Estimated means charts for the top ten significant effects (p<.05) are displayed.

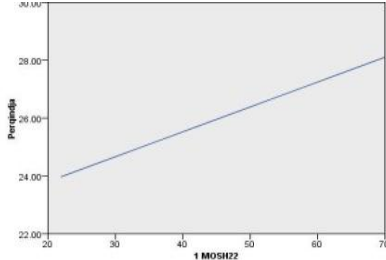


Graph. 3

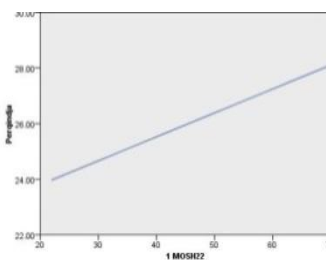
Predictor Importance
Target: Perqindja



Graph. 4



Graph.5



Graph. 6

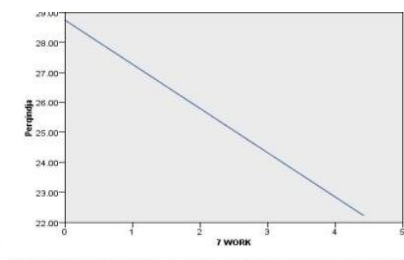


Table.4: Analyze variance for Y1 Analysis of Variance for Y1 - Type III Sums of Squares

Source	Sum of Squares	Df	Mean Square	F-Ratio	P-Value
COVARIATES					
X8	5.39732E6	1	5.39732E6	30.21	0.0000
MAIN EFFECTS					
A:X3	1.71573E6	4	428933.	2.40	0.0499
B:X5	3.2249E6	6	537484.	3.01	0.0071
C:X6	1.39139E6	2	695695.	3.89	0.0213
RESIDUAL	5.68088E7	318	178644.		
TOTAL (CORRECTED)	6.84842E7	331			

Table.5: Factor Analysis

Factor Number	Eigen value	Percent of Variance	Cumulative Percentage
1	2.61969	43.662	43.662
2	0.900327	15.005	58.667
3	0.814204	13.570	72.237
4	0.75073	12.512	84.749
5	0.496164	8.269	93.019
6	0.418882	6.981	100.000

Table.6: Factor Score Coefficients

	Factor
	I
Y1	0.782927
Y2	0.448148
Y4	0.563071
Y7	0.523762
Y8	0.809535
Y9	0.74777

Table.7: Least Squares Means for Y1 with 95.0% Confidence Intervals

Level	Count	Mean	Std. Error	Lower Limit	Upper Limit
-------	-------	------	------------	-------------	-------------

GRAND MEAN	332	605.257			
X3					
4	1	559.399	466.306	-358.037	1476.84
A	129	674.619	153.855	371.917	977.322
B	138	685.832	149.836	391.037	980.628
C	18	641.384	179.077	289.057	993.711
D	46	465.05	161.766	146.782	783.318
X5					
1	18	879.632	202.888	480.46	1278.8
2	45	681.568	186.596	314.449	1048.69
3	51	515.884	186.126	149.69	882.078
4	128	496.223	180.278	141.533	850.912
5	69	568.073	183.023	207.984	928.163
6	18	413.836	174.319	70.8704	756.801
7	3	681.583	302.163	87.0905	1276.08
X6					
0	245	733.164	98.6597	539.055	927.272
1	86	582.284	100.369	384.812	779.756
2	1	500.323	450.178	-385.383	1386.03

Table.8: Y1 Dependent variable: OLS, using observations 1-335 (n = 332)Dependent variable: Y1

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	865.93	100.548	8.6121	<0.00001	***
X8	0.0022594	0.0003856	5.8594	<0.00001	***
X3	-60.045	24.0693	-2.4947	0.01310	**
X5	-57.0926	19.215	-2.9712	0.00319	***
X6	-124.995	52.7234	-2.3708	0.01833	**

Mean dependent var	688.2530	S.D. dependent var	454.8636
Sum squared resid	59087159	S.E. of regression	425.0820
R-squared	0.137215	Adjusted R-squared	0.126661
F(4, 327)	13.00125	P-value(F)	7.76e-10
Log-likelihood	-2477.926	Akaike criterion	4965.852
Schwarz criterion	4984.878	Hannan-Quinn	4973.440

Table.9: OLS, using observations 1-335 (n = 329) Dependent variable: Y4

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	337.885	126.52	2.6706	0.00795	***
X8	0.00287088	0.000478176	6.0038	<0.00001	***
X3	-66.9254	30.2736	-2.2107	0.02775	**
X5	63.7413	23.8797	2.6693	0.00798	***

Mean dependent var	683.1307	S.D. dependent var	568.1159
Sum squared resid	90211550	S.E. of regression	526.8529

R-squared	0.147853	Adjusted R-squared	0.139987
F(3, 325)	18.79658	P-value(F)	2.88e-11
Log-likelihood	-2526.636	Akaike criterion	5061.271
Schwarz criterion	5076.456	Hannan-Quinn	5067.329

5. Conclusions

Incomes, number of employees in the family, age, and education level are the main factors that determine the percentage of food that is thrown. Income levels, age and level of education have a positive impact on increasing the percentage of food thrown away as waste. Number of employees negatively impacts percent of food thrown as waste. The best indicator for food waste measure is Y_1 :value of food waste thrown. Factor of housing or flat ownership significantly affects the value of food that is thrown away. Families who do not own houses and live in rented flats or house throw less food than those who have owned a home. An important factor that influences the value of this issue is also the type of family. A single person family throws 879 ALL per week on average, in the range of 480.5 to 1278.8 ALL. Meanwhile a family with a few members to a family with more members is accompanied with reduction of the value of food that is thrown during a week respectively: childless couples families 681.5ALL for week, couples with a child 515.8ALL for week, couple with two children 496.2ALL for week, couple with three children 568ALL for week. Increasing in member is associated with a reduction of the value of the food thrown away for a week, with 57 ALL when income and ownership of housing or flat and immigration remain unchanged. Immigration affects the reduction of the value of food thrown weekly. During a week, in the family that hasn't member in emigration, value of foods thrown is 124 ALL more than a family with member in migration, in conditions where the income, ownership of house or flat and type of family remain unchanged. The value of food thrown away is influenced by the level of the incomes. Increasing the family's average incomes with 10 thousand ALL, the average amount of food thrown away for a week is increased by 225 ALL. On average, in Albania in the urban area the value of the food thrown away is 12917932023 ALL (409309 family in urban area x52.14weeks x605,3 ALL per week)or 94998765EUR (1EUR= 135.98 ALL).The average value of food waste per year by urban families is 232 EUR or 19.4 EUR per month. The average weight of food that is thrown during a week on urban household is 1.042kg. Apartment and house ownership factors influence significantly the weight of food that is thrown. Families living in private home throw away 0.902 kg food per week, holders of apartments throw 0.86 kg per week. Households living in private rented houses 0,762 kg per week and those living in the rented apartment throw 0.686 kg food per week. Families who do not own houses and live in rented flats or home throw 60gr per week less food in quantity than those who have owned a home or apartment. Increasing in member is associated with a increasing with 63 gr. for week of the food thrown away, when income and ownership of housing or flat and immigration remain unchanged. Increasing the family's average incomes with 10 thousand ALL, the average weight of food thrown away for a week is increased by 283gr. Families living in the center throw more food in weight than those in the periphery. On average in Albania in the urban area the weight of food that is thrown is 22237709 kg or 22238 tons.(409309x52.14x1.042). The average value of 1 kg of thrown food is 4.271 EUR or 580ALL per kg. On average 22.4 percent of the purchased food is thrown. As a result of these amounts of food waste, an additional quantity of 42252 tones CO₂ is produced. The largest contributors to

food waste are easily perishable items like fresh fruit and vegetables, followed by bakery products, dairy products and eggs. The most mentioned drivers for food waste are: cooking too much due to a lack of experience, likes and dislikes of children, too large packaging, poor quality of purchased groceries. When using a shopping list, the amount of food thrown away per capita is lower. The most required prevention measures are organizational improvements like optimized planning of meals, adequate storage and reuse of leftovers.

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"FUNCTIONAL AND FINANCIAL DECENTRALIZATION OF SOCIAL SERVICES IN ALBANIA THROUGH A CASE STUDY IN THE LEZHA MUNICIPALITY"

Tatjana Elezi¹

ABSTRACT

The last reform in the field of social services in Albania is based on the national and sector strategy 2015-2020, which is applied immediately after the new administrative and territory reform in Albania. The main objectives of the both above reforms has been strengthening local governance and increasing their efficiency in improving welfare of citizens and their services. The objective of this paper is: "To evaluate the social service system not only in terms of how it serves in achievement of the objectives mentioned above reforms, but especially in terms of functional and financial decentralization in order to strengthen local governance especial on key social services for their respective communities".

This analysis will be performed for Lezha municipality through assessments of legal framework, and financial managerial and other sector capacities using interviews and analyzes of data collected in this municipality. The paper aims to address the issues that affect the development of as a social as well as that of local governance, into strengthening financial stability at the local level toward meeting the needs of the regional community. In that meaning the purpose of this paper is to are provided some conclusions and recommendations for improving the financial management system toward a system pure decentralized in decision making, as well as financing policy of that scheme, covering treatment and payment services for people in need of all categories; poverty, disability, those discriminated, abused children and women, etc.

Keywords: *social services, financial decentralization, functional decentralization*

JEL Classification: *H750*

1. Introduction

As it is by EU's common basic social standards the enlargement countries should take further measures necessary to improve and enhance the socio-economic transformation of potential candidate countries, and the revitalization of socio-economic rights². The paper aims to provide an evaluation of recent reform in social sector, based on national strategic development, issues of concern, and some conclusions and recommendations. This analysis is based on studying the development of the reform at the municipal level through studying, analyzing and evaluation the data collected for municipality of Lezha. Since the reform of the social sector was implemented as administrative-territorial reform ended, this analysis is based on researches collected in the municipality of Lezha, as one of 61 new municipalities (after this reform).

The analysis is focused on economic and social assessment, as well as the system established on providing, delivering and financing of social services in local level, seeing this closely with the

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² Chapters 23 and 24; "The Europeanization of a strong social model".

process of decentralization of local government functions in Albania, which is a process widely begun from 1999, (or after ratification of European Chart for Local Autonomy). Still more, this analysis also provide an assessment of stakeholders and target groups regarding their perception about quality and efficiency of delivered social services. The data are collected based on a methodology that includes interviews and questionnaires, reviewing of legal framework and policies, as well analyses of collected information regarding the municipality of Lezha.

2. General policy, legal, economic and social context for Social Services in Albania.

The Albanian governments' policy and strategies on social sector are focused on a deep reform with a significant economic and social development impact, and to ensure the better quality of life and the welfare of the citizens. The main objectives are outlined in the 2015-2020 National Strategy for Development and Integration includes; (i) develop an integrated and sustainable social services system, (ii) strengthen the role of regional as well as local governance on social services, (iii) modernization of the process, and (iv) strengthen the administrative capacities and control of public funds management. Other sector strategic documents are drafted, which affects the social development and social inclusion of certain target groups, such are: The National Strategy for Gender Equality (2016-2020), National Strategy for Social Protection and Social Inclusion (2016-2020), National Action Plan for Integration of Roma and Egyptians etc. Beyond of all, the Cross -Cutting Strategy for Decentralization and Local Government (2015-2020), affects directly the social sector in national and local level, because of reconfiguration of the local administrative units, transferring to them some other new functions and strengthening the efficiency of local governance and toward sustainable local development. The objectives of these reforms are; (i) supporting decentralization process; (ii) increasing the quality and effectiveness of public services provided by local government using best standards; (iii) increasing the transparency and accountability of local government; (iv) increasing the participation of citizens and stakeholders in the local decision making process.

The legal framework is most of reviewed recently. There was amended law on social assistance and is under implementation a new IT system. The legal framework on measures against domestic violence, includes measures to prevent, reduce and protect the victims of violence, (especially children, the elderly and persons with disabilities), where the local governance has its role for social integration of the victims. The rules and certain national and local agencies are established for institutional protection of children rights and for monitoring the law enforcement and relevant policies in their territory. For the rights guaranty of minorities there is a specific law for protection from discrimination (including Roma and Egyptian), which, recently were on the focus of many project funded by EU, UNDP, and has taken increasing attention of national and local government budget. Even if there is not any specific legal act³ for preventing and combating human trafficking and protection of the victims of trafficking, there is a sector strategy and action plan (2014-2017)⁴, also is establishment the State Committee, as tools against trafficking of persons.

Social service model. As a candidate member country, Albania is under the process of harmonisation of social services policies with those of EU. Behind similarities, the problems that must be discussed here are differences between Albania and EU members on this sector issues,

³ It is treated by Criminal Code only.

⁴ DCM No.8663 dated 17.07.2013

of which the most important are those cultural, historical, social and economic. The Scandinavian model (Sweden, Denmark, Norway and Finland), has been based on universalism principle for a long time, by which all social services beneficiaries are paid from taxes. Recently this system is modified toward "welfare pluralism" because of increasing of the number of NGO-s in social services. Other Mediterranean countries, (Greece, Spain, Malta and Italy), have in use "the family care" model, where the state provides limited services, while the most of them are provided by catholic families and well-established NGO-s (even if the model has critiques because of not well protection of rights of service users). United Kingdom model is based on a system where is reduced the traditional role of state as direct service provider through contracting with private providers or NGO-s (in residential care for elderly people etc). In other northern Europe countries and France is mostly in use the "subsidiarity model", where the social services are provided mainly by NGO-s, but the state plays a major role in financing those NGO-s. If we take a look at region of South East Europe countries we can see that the role of local government is still extremely limited, the local expenses are also limited, where Albania is ranked at the end.

Table 1. Regional Comparisons: South East Europe ⁵

	Macedonia	Serbia	Croatia	Slovenia	Albania
Pop. in mill.	2.0	7.3	4.4	2.0	2.8
LG as GDP%	8.1	6.9	4.0	10.2	2.2
Social Welfare	Decentralized	Mixed	Central/ Parallel	Decentralized	Mixed

History of social protection and social inclusion in Albania is completely different with other regional and European countries because of totalitarian role of state on everything including social issues, and because of the very long transition process.

Economic context is closely linked with the state capacity in financing social services. Total expenditures used for social benefits are depended on different economic development of countries. Albania is qualified as a lower middle income country, with GDP per capita equal to 3,840 \$ in 2015⁶; is 13th by National Poverty Headcount ratio (the percentage of the population living below the national poverty lines)⁷. Albania is ranked as 98th from 189 countries per GDP per capita (PPP). The table below shows an unsustainable economic development.

Table 2. Real GDP growth⁸

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
5.9%	6%	7.5%	3.4%	3.7%	2.6%	1.4%	1%	1.8%	2.8*	3.4%*

Social context. Relating some social indicators, Albania is ranked 52nd from 150 countries as by social progress index for 2015, and population below poverty by last estimation/2012 has been 14.3%. Albania has a well educated young workforce (about 57% of population is under the age of 35), but unemployment rate is continue to be high as it is given on the tables below.

⁵ Derived from: Coffey (2012) and Albanian data from ISB

⁶ Albania Overview, World Bank

⁷ Index Mundi; Poverty headcount ratio at national poverty lines (% of population) - Country Ranking - Europe.

⁸ IMF World Economic Outlook 2016 (*estimated index)

Table 3. Unemployment rate⁹

2013	2014	2015	2016*
16.0%	17.5%	17.1%	16.9%

The curve of poverty after 90-ies has been almost sustainable. (45.2% in 2008, 47.5% in 2012, and 46.7 % in 2014). Although some progress has been made in recent years, the situation of homeless peoples continues to be serious, when the number of applicants for social housing is 2.77 times higher than the number of beneficiaries¹⁰, and municipalities continue to not have correct information on number of homeless peoples (69.23% reported having information on the number of homeless individuals, meanwhile, 30.77% do not have such kind of information). It continues to have a higher poverty of rural and mountain areas, larger flows of internal migration, higher unemployment rates, especially of the long term nature for females and middle aged labor force, problems of elderly, orphans and disabled, abused women and youth, problems of Roma and Egyptian minorities, etc.

3. The municipality dimension on social services- Lezha Municipality.

Economic context: Municipality of Lezha is one of 61 municipalities of Albania, with 10 administrative units, 137 thousand citizens (63% urban community.)¹¹ The main economic sectors are services and trade, agriculture and forests, fishing and fishing agro processing, some industries which work with the principal raw materials (fason), and construction; in total there are about 1,700 business entities. Since the 95% of businesses are small and medium entities as well as 73% are in trade and services sector, they have approximately 1-4 employee, where about 39% of businesses are managed by women entrepreneur. Even if the Lezha region has a favourable geographical position with natural resources for economic development, the region has the lowest GDP per capita with about 24% lower than national one (after Dibra with 36% lower)¹², and lower than the GDP for the North Region (which was 23.6% of total Albania in 2013), constituting about 3.1% of the total national GDP).

Poverty and Social Exclusion¹³: The Lezha region has the poverty level higher than other coastal regions also higher than the average total of the country, as it is in table below.

Table 4. Poverty indicators

Poverty measures	Lezha region	Coastal		Total	
	<i>Poor</i>	<i>Poor</i>	<i>Extreme poor</i>	<i>Poor</i>	<i>Extreme poor</i>
<i>Headcount</i>	18.4	17.7	3.0	14.3	2.3
<i>Depth</i>	4.7	3.8	0.5	3.0	0.4
<i>Severity</i>	1.8	1.3	0.1	1.0	0.1

⁹ IMF World Economic Outlook 2016, (*estimated index)

¹⁰ UNDP; Social housing situation in Albania

¹¹ INSTAT, year book 2015.

¹² Administrative and territorial reform, analysis of the local government situation in Albania, April 2014.

¹³ The social exclusion means "the failure of the society to provide certain individuals or groups with the rights and benefits which normally are available for other members, such are employment, housing, health care, education etc".

Active working force 15-64 years old is 72% versus the total population, where women are about 49%. The Roma and Egyptian communities account for approximately 1330 people, 5% of the population's size. About 35% of jobseeker in Lezhais of age less than 30 years old, and unemployment rate among the youth is 33%. In 2016, more than 50% of them have only secondary education or less, which is the reason why several courses' programs are into implementation for 16+ year old people with preference individuals living under social assistance. There are over 1,500 families living with social assistance in this municipality.

4. Country model in social services delivering, through analyses of municipality of Lezha, and its implications

Albania is under implementation of a social services delivering system in three levels; national, regional and local one. In this meaning the institutional capacities are established in compliance with this system in which the Ministry of Social Welfare and Youth is responsible for drafting, monitoring, implementing and financing the system through National Agency, the regional agency for social services is responsible in regional level, and the social service unit within municipality is the structure responsible for delivering those services. This system has some implications, which are:

a) Legal and other regulatory implications in shared functions and its implementation;

The decentralization reform has increased the municipalities' competences. Albania is still identified as a country "in the decentralization process". By "National Crosscutting Strategy for Decentralization and Local Governance 2015-2020", and by law¹⁴ are legally defined below local government functions:

- Infrastructure and public services;
- Social services;
- Culture, sport and entertainment services
- Environmental protection
- Agriculture, rural development, public
- Local economic development
- forests and pastures, nature and biodiversity
- Public Safety

On the other hand, by the State Budget legal framework, relating budget execution, those functions are categorized into; i) their own functions; the municipality has to use the municipal budgets/incomes (local taxes, local fees, shared taxes, loans, subsidies); and, ii) delegated functions from central government; the central governance provides tools and sufficient financial resources to perform these functions, which is defined by law¹⁵. Referring the mode of functioning of the economic assistance scheme for Lezha municipality, it is obvious that the local government is not executing its functions on social services defined by law as a function of local government, because the model under implementation is mixed governance from the standpoint of the functions execution as those of funding, as it is showed in the figure no.1.

¹⁴ Low No. 139/2015 "On local government"

¹⁵ The guideline No. 1 date 15.01.2016 " For execution of 2016 budget"

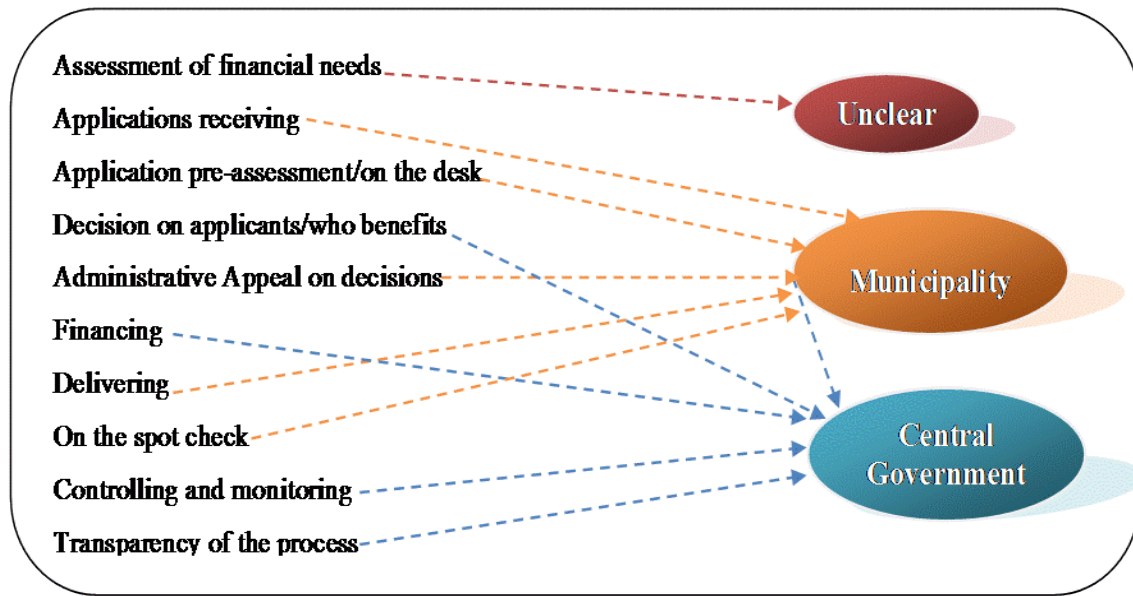


Fig. 1. Operating network on social assistance and disability full process

b) Self governance and local fiscal impairment;

Although the decentralization policy and strategy is aimed at strengthening local governance, the model is being implemented in the field of social services still did not have any impact in this regard, at a time when these still remained only such theoretical concepts, Referring example of Lezha municipality, the model of social assistance implementation appears in several aspects as follows:

Administration of the process. The local administration receives applications and records them in the system, while the decision about eligibility of applicants, the amount calculation and fund transfer are all executed by central administration, and in general does not refers to these needs. The scoring and formula on which is calculated the respective amount is transparent neither for local administration nor for the local community and beneficiaries.

Fiscal capacities and financial management is weak decentralized. The local budget for supporting social needs is negligible, while there is no any budget line dedicated for some specific functions of social service which are formally responsibility of municipality such are social protection, additional economic assistance and disability issues, children rights and protection, protection against any form of the violence, social inclusion and equal treatment of minorities, and social housing, etc. On the other hand, the respective weight of local budget expenditures in the state budget remains relatively low. Although they have several responsibilities, local governments' spending are at the level of about 8 percent of the spending of general government (or 2.4 percent of GDP), which is low compared to other European countries. If we discuss about outcomes from other resources we found that at the end of March 2015, only six local governments had outstanding loans, and their total debt was less than 0.1 percent of GDP. The one of the main goals of administrative and territorial reform has been strengthening of local finances, but so far there is no concrete action toward achieving this.

State budget support is minimal. Besides financing of social economic aid program and partial financing of some national residential centers (for orphans and elders), the state budget has not any other fund delivering dedicated for other social protection issues, which are all under financial support of NGO-s, Red Cross, or other religious. By collected data of Lezha

Municipality, state budget fund for economic aid program, is approximately 7,638,839 monthly level covering 1,590 families¹⁶ (approximately half of the total needs), but over 69% of total fund goes for persons with disabilities. In the table no. 5 below, fund resource is in the majority financed from state budget, and represents the decreased number of beneficiaries and total amount from year to year. Except the financial assistance, the local financial capacity for all other social issues for 2016-2017 has been in very insignificant amount (4.8 million ALL for 50% rent reimbursement for Roma and Egyptian, 500 thousands ALL for a day care center for elder and 200 thousand for gender equality).

Table 5. Allocation of Economic Aid in years in 000/leke

Year	Number of families	Total Allocation	Total Expenses ¹⁷	Expenses by the Municipality funds	Total of Economic Aid. ¹⁸
2010	542	126,203	423,066	106,490	2,313,966
2011	555	128,206	515,412	107,786	2,309,627
2012	546	104,081	448,939	107,209	2,251,775
2013	549	99,051	331,624	114,912	2,229,992
2014	501	93,187	527,896	143,089	2,013,225

Neither central government, nor municipality, does not provide funding for other social services, except financial assistance and disability payment. As it is in national level, the social services of residential and day care centers are mostly offered and financed from NGO-s. There are no more financial capacities for other social issues. This is clearly showed in the table no.6 below about grant transfers, where social services fund is zero.

Table 6. Grant transferred from state budget to municipality of Lezha for year 2016¹⁹.

Uncond. transfer	Conditioned transfer by functions									Total
	Residential for pre-univ.edu.	Pre-School education	Pre-university education	Fire protection	Soc. Protection	Forest admin.	Rural roads	Irrigation & Drainage	Inv.	
230,553	8,958	95,447	8,357	25,735	0	3,066	4,957	13,184	0	390,257

Relating the national budget for 2016 by line ministries, the budget for social protection and social inclusion is about 29% of total budget of MSWY, furthermore about 28.7% is for economic aid and disable people. For the year 2016, the state budget for social assistance and

¹⁶Lezha Municipality, December 2016. <http://www.lezha.gov.al>

¹⁷ Including grants from central government

¹⁸ Financed more by central government budget

¹⁹ www.financa.gov.al

disable people is 1.3% of PBB²⁰, and the structure of this has been; social care 20, 595,500 thousands ALL and social inclusion 74, 051 thousands ALL for year 2016.

c) *Political context and well governance;*

The local government has a political contract with its citizens. Poor exercise of the functions of local government does not create opportunities for citizens neither in measuring the efficiency of their government, nor to assess the level of implementation of its political promises. On the other part, municipal governor do not have so wide possibilities to show their accountability in front of citizens. They have "reasons" to transfer this accountability to central government, which has centralised both functions and financial resources. Lack of functions execution, financial insufficiency and lack of human capacities, makes the local government fail even in political context, and decline the trust of citizens in its efficiency and capabilities. Another important issue is the equality in social benefits amount in national level. Since the central government uses an equal distribution of financial assistance for social care, this removes the possibility to make a distinction between different local government's performances, as well as for the efficiency measures of resource used, their reallocation in different ways, and better compeering resources with needs.

d) *Capacity and quality of social service delivering;*

Except financial support for efficient functions, the municipalities need also human capacities, professional training/qualifications, operational procedures, etc. Municipalities are not well prepared for implementing their social services functions with their human capacities. Considering the Lezha municipality, more than 70% of social services unit staff is new hired, not trained, and there are not implemented the rules of social servants low in hiring, training, qualifications etc. Although there is adopted the low on "Order of the Social Workers in the Republic of Albania", to establish professional criteria and ethic standards for social workers, this process has not yet started after about more than two years since the low enforcement. There are not reviewed the practical procedures for everyday working operation, and there is a lack of knowledge in field of management, internal control building and management skills.

5. Conclusions and Recommendations

- 5.1. The main goal of recent reforms on local governance and decentralization were been strengthening local governance power, efficiency and financial independence. There is formally expanded functional autonomy which is not accompanied with financial support. GoA should undertake some other legal initiatives for increasing local capability inimproving the social service schema and social inclusion at local level, through creating more sustainable financial resources. Some significant aspects must be; i) a new low on local finances; ii) transferring social fund as part of unconditioned grant (part of national shared tax system using European best practices); iii) supporting with borrowing guaranty, or, iv)more public/national asset transferring , etc.
- 5.2. The current model for delivering and administration of the social services is not neither centralized nor decentralized. To improvestability, simplicity, equity of the transfer system

²⁰ <https://www.osfa.al>

along with increased transparency, it is necessary to establish a fully decentralized model, to transfer all responsibility and accountability to local governance in respect of the Charter of Local Autonomy and European Charter on Local Self-Government.

- 5.3. Local governments have not the necessary managerial and administrative capabilities after administrative and territorial reform. They should improve their self governance and increase their capacities in ensuring and efficient management their resources through providing more regulatory, institutional and human capacity, improving the mechanisms to identify and assess the needs for social care services, according to standard operating procedures and methodologies.

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OFF-SHORING OF MANUFACTURING SMES: THE IMPACT OF KNOWLEDGE MANAGEMENT ON FIRM PERFORMANCE

Denada Lica Berberi¹

ABSTRACT

Knowledge management (KM) has been considered by many studies as crucial factor in determining the level of performance of companies. When focusing on international business and in particular on off-shoring manufacturing SMEs, knowledge become even more interesting to study considering the fact that most of the studies examine more large companies rather than small-medium. The objective of this paper is to analyze how KM impacts on firm performance. A literature review about 85 articles published on peer-reviewed journals for the period from 2006 to 2016 is offered in order to examine the related issues. Findings indicate not only that KM influences firm performance but even that different typologies of performance are driven by different typology of knowledge. This paper contributes in enhancing the literature on KM on off-shoring manufacturing SMEs performance.

Keywords: *knowledge management, internationalization, manufacturing, SMEs, off-shoring*

JEL Classification: *F2, F23, L25*

1. Introduction

Studying the process of internationalization of firms, many scholars examine which are the factors that influence the degree of this process (Oviatt & McDougall, 2005) and in particular factors that drive the level of firm performance, such as “knowledge management” (Darroch, 2005).

Many studies have been conducted in analyzing the motives of off-shoring decisions. For Kinkel *et al.*, (2007) the motives of off-shoring decisions are different such as reduction of factor costs, market and customer motives while for Roza *et al.*, (2011) consist on cost, resource and entrepreneurial drivers. When focusing on finding the drivers of firm performance, little evidence has been shown in particular for off-shoring manufacturing SMEs. In examining the firm performance most of the studies has considered “knowledge management” as key driver, however they focus only on large companies. Considering the relevant evolution of SMEs in the process of internationalization in terms of exploitation and exploration of knowledge (Chiarvesio *et al.*, 2003) and their contribution in the economy of the country, this paper focus on analyzing the role of “knowledge” in the process of internationalization as driver of firm performance (Shirokova *et al.*, 2013) and in particular focusing on manufacturing SMEs. The off-shoring process represents for many SMEs a relevant challenge in terms of changing location, risk taken, diversifying customers, knowledge exploitation and knowledge exploration (Rodriguez *et al.*,

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2010). Wang *et al.*, (2016) find that a strong relationship between intellectual capital and knowledge management strategy have a positive influence on firm performance. This paper offer a literature review in understanding how manufacturing SMEs evolve over time in their process of internationalization in terms of using an appropriate “knowledge management” as potential driver of firms performance. The word “appropriate” refers in finding and analyzing different types of knowledge that affect firms’ performance. In conducting this analysis about 85 articles are provided published in peer-reviewed journals from 2006 to 2016. Each of them are examined in order to find out the role of KM in firms performance while focusing on off-shoring manufacturing SMEs. The second section of this paper offers a literature review of the relationship between KM and firms performance in the process of internationalization. The third section refers to methodology and descriptive analysis of articles selected for the review. The fourth section describes some relevant findings and the paper concludes with discussion and conclusion.

2. Theoretical background

2.1 Knowledge management and SME performance

Knowledge, characterizing human action, has been considered as created by flow of information (Nonaka, 1994). In 1994’s study, Nonaka identify two dimensions of knowledge creation: *tacit* and *explicit knowledge*. Tacit knowledge is characterized by cognitive and technical element. Cognitive elements are based on human’s mental model and refer to beliefs, paradigm, schema that offer to individuals guidelines in order to perceive and understand the world. Technical element refers to skills, craft, know-how according to how they can be applied to specific context. Explicit knowledge refers to knowledge that can be transferred in formal language. March, (1991) in his study identify to different aspects of knowledge: exploitation and exploration. Exploration refers in adding value, enriching the existing knowledge or acquiring new one, while exploitation rooted in the existing knowledge, so using the possessed knowledge in order to innovate. How difficult is to transfer knowledge? Zander and Kogut (1995) find that transferring manufacturing knowledge depends on the way they can be codified and taught. Creating and managing knowledge represent for a firm one way to evolve over time and to capture different opportunities from the external environments (Kogut & Zander, 1996) in that firm is conceptualized as an institution able to integrate knowledge (Grant, 1996). Knowledge of course need to be not confused with knowing. According to Cook and Brown, (1999) “knowledge” is knowledge possessed by individuals or groups while “knowing” is part of action. Of course, according to the authors, there is a strong relationship between knowledge and knowing in what combining together they contribute for the firms in its interaction process with the world. According to Sawhney and Prandelli, (2000) for firms is very difficult to produce and manage knowledge autonomously for long time. In order to create knowledge firms need to co-operate with their business partners and customers, referring in this case to communities of practice (Wenger & Snyder, 2000). Many studies have been conducted in finding and examining the definition of performance and the main indicators of SME performance. Of course, due to the complexity of firm performance, this continues to challenge scholars. Each of the indicators determine a specific domain of performance. Venkatraman and Ramanujam, (1986) find several indicators to measure business performance such as financial (sales growth, earnings per share, profitability) and operational indicators (market share, product quality, introduction of new

product, marketing effectiveness, manufacturing value-added). Another typology of firm performance is the organizational performance. According to Wenger and Snyder, (2000) knowledge plays an important role in influencing organizational performance of a firm. Li *et al.*, (2008) in examining manufacturing SMEs performance find innovation strategy and formal structure as main drivers. Cerchione *et al.*, (2015) analyzing the spread of KM in SMEs point out five typology of performance: *economic and financial performance* (sales growth, cost reduction, return on investment, profit, revenue growth, profitability) (Andreeva & Kianto, 2012; Huselid, 1995), *market performance* (market flexibility, service quality, market share increase, services to customers, reputation) (Chao *et al.*, 2014; Soukhoroukova *et al.*, 2012), *technical and innovative performance* (product quality, productivity, growth in core competence, innovation, efficiency) (Ai & Wu, 2016; Lai *et al.*, 2014), *human performance* (staff performance, creativity, staff satisfaction, entrepreneurial growth) (Bettiol *et al.*, 2012; Chen *et al.*, 2013; Sheehan, 2013), and *organizational performance* (organizational agility, flexibility in the use of resources, diffusion of new idea, external partner and relationship, work relationship) (Jasimah *et al.*, 2013; Noruzy *et al.*, 2013). Recently some papers provide different factors that influence firm performance, for example Wand *et al.*, (2016) find intellectual capital as the main factor that influence firm performance.

2.2 Off-shoring phenomenon and the role of knowledge on SMEs performance

Before analyzing how KM influence firm performance in off-shoring manufacturing SMEs is important to offer some insights about the off-shoring phenomenon. Off-shoring starts when firms move their activities or a part of them abroad in order to enlarge the dynamic capabilities in terms of product development and specific activities. Different theories have examine the internationalization process of firms. Referring to the Uppsala model the internationalization is conceptualized as a gradual incremental process that has to follow several stages before the process itself can be established (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1990). It means that if a company decides to internalize its activities or a part of them, this process cannot be effectuated immediately. This happens because of lack of knowledge. It means that, according to this model a firm has difficulty in acquiring knowledge about the targeted market and also difficulty in formalizing operations into foreign country. It is clear evident how knowledge is strong related to the internationalization process of the firm. This is because Johanson and Vahlne in their 1977's study consider internationalization as learning experience based on physic distance. Of course, when a firm decides do locate its production or a part of it into foreign country, it has to cope with differences in terms of language, culture, religion, education and business practices. Also in their 2009's study they introduce "trust" in their model as an important element to consider on business relationship that makes easier the possibility in exploiting new opportunities. Of course, due to the lack of knowledge, SMEs select first country that is similar to the country of origin. Another important theory such as the Innovation-related model (Andersen, 1993) considers knowledge as relevant driver of internationalization process. As behaviorally oriented this model also focus on lack of knowledge and this is due to the uncertainty that characterized the internationalization process.

Consider that knowledge plays an important role on internationalization process of SMEs it is important to underline how it can influence the performance of an SME. Lu and Beamish, (2001) argue that when SMEs internalize broadly, alliances with partners with local knowledge encourage and help them in order to surpass deficiency in terms of resources and capabilities

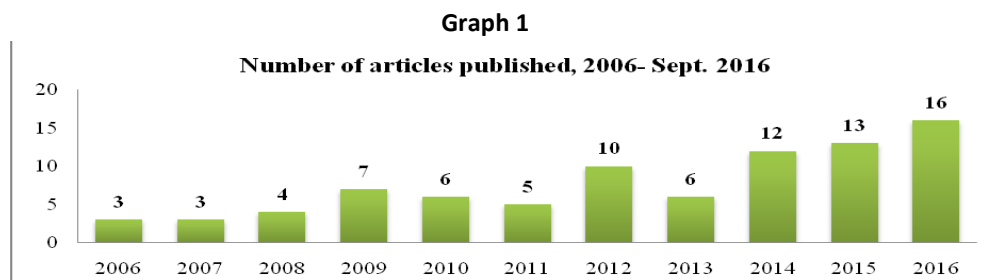
contributing so in the performance of SMEs. Considering knowledge as a function of continuous interactive learning, (Sim & Rajendran Pandian, 2003), it is important that can be transferred through agents in order to capture and manage it. For Darroch, (2005) KM is viewed as coordinating mechanism permitting at firms to use resources in more efficient way and contributing so to their innovation and performance. Of course, SMEs through managing knowledge have become important companies like the larger one in successfully coping barriers deriving from off-shoring process (Brook, 2004). Oviatt and McDougall, (2005) identify knowledge-intensity as driver of firms performance. José Acedo and Florin, (2006) argue that knowledge acquisition is important in order to accelerate the degree of internationalization process affecting in this way the firm performance (Mejri & Umemoto, 2010). For example through off-shoring SMEs can improve efficiency, selecting qualified personnel and potential customers (Roza et al., 2011).

3. Methodology

This section provides insights of how methodology is conducted. In particular, this paper adopts a literature review as method in order to examine the impact of KM on manufacturing SMEs performance in the context of internationalization. About 85 articles were individuated for the period from 2006 to 2016 published on peer-reviewed journals. The selection of these articles was carried out throw searching tools such as Scopus, ScienceDirect, Springerlink, and Wiley. All articles were identified using key words such as “knowledge management”, “SME”, “manufacturing”, “off-shoring”, “performance”, and “internationalization”, and were selected only articles in English language.

3.1 Descriptive analysis

The first phase of analysis consists on examining the period when articles were published. Referring to the Graph 1, starting from year 2006 there is an increase of number of articles published on the domain of KM and firm performance, in particular most of the articles, about 16 out of 85 were published on 2016.



The second phase of analysis consists on reporting the methodology adopted from each of selected articles (Table 2). Most of the articles (about 55) focus on survey method, following by review of literature (about 19) and case study (about 11).

Table 1. Number of articles according o the methodology applied

Discipline	Nr of articles
Strategy	49
Operation management	8
Marketing	8
Logistic	12
Economics	8
Total	85

Table 2. Number of articles published in each journal

Methodology	Nr of articles
Case study	11
Review	19
Survey	55
Total	85

The third phase of analysis focuses on individuating the main discipline of journals in which articles were published. Table 3 shows that most of the articles are published on journals with strategy discipline (about 49 articles), while the remaining articles are spread on journals with logistic, operation management, economics and marketing disciplines.

The fourth phase of analysis examines the articles according to the country in which manufacturing SMEs, selected for examination, operate (Table 4). Most of the articles focus on examining multiple countries (about 37).

Table 3. Number of articles according to the country examined

Country	Nr of articles	Country	Nr of articles	Country	Nr of articles
Australia	1	Italy	3	Singapore	2
Bangladesh	2	Jordania	1	Slovenia	2
Canada	3	Korea	1	Spain	3
China	5	Malaysia	2	Sweden	1
Denmark	2	Midwestern	1	Taiwan	2
Egypt	1	Multiple	37	UK	2
Finland	1	Pakistan	1	US	2
France	1	Poland	1	Vietnam	1
Germany	3	Portugal	1		
India	2	Scandinavia	1		
Total				85	

4. Findings

After analyzing all articles according to the period of time in which they were published, the methods applied by each of them, the relative journals in which they were published, the specific discipline of journals, the country that each article refers, this section offers some main results according to the impact of KM on firm performance. All articles are examined providing insights about how different types of knowledge influence specific types of firm performance. The main results are shown in Table 5. Five typology of firm performance are identified: economic and financial, market, technical, human, and organizational (Cerchione et al., 2015). Each of them are influenced by different types of knowledge according to specific article. Only 1 article out of 85 shows that KM supports all five typologies of performance [32]. Also, only 1 of them out of 85 shows that KM supports four types of performance [77]. About 7 articles out of 85 show that KM support 3 types of performance [4, 10, 23, 29-30, 44, 85]; about 20 out of 85

articles show that KM influence 2 typology of performance [1, 13, 19, 21, 24, 33, 35, 38, 42, 45-46, 56-57, 62, 66-68, 72, 74, 80, 83]; and about 53 out of 85 articles show that KM support only one specific typology of performance [2-3, 5-9, 11-12, 14-18, 20, 22, 25-28, 31, 36-37, 39-41, 43, 47-55, 58-61, 63-65, 67-68, 70-71, 73, 75-76, 78-80, 82, 84]. Each typology of performance is analyzed below according to specific knowledge affecting them.

Table 4. The influence of knowledge management on SME performance

Author	Economic and Financial	Market	Technical and Innovative	Human	Organizational	Performance number
Amendolagine et al. (2014)	•	•				2
Ancarani et al. (2015)	•					1
Armario et al. (2008)		•				1
Ashby (2016)	•			•	•	3
Baier et al. (2015)	•					1
Behyan et al. (2015)	•					1
Belso-Martínez (2006)		•				1
Berger et al. (2012)		•				1
Boden et al. (2012)				•		1
Buckley (2016)			•	•	•	3
Camison & Villar-Lopez (2010)	•					1
Caniato et al. (2012)					•	1
Cereola et al. (2012)		•	•			2
Chelliah et al. (2010)	•					1
Chelliah et al. (2010)	•					1
Ciešlik et al. (2012)		•				1
Cincera et al. (2014)		•				1
Coreynen et al. (2016)		•				1
Cusmano et al. (2009)		•	•			2
Doole et al. (2006)		•				1
Dutot et al. (2014)			•		•	2
Eden (2010)		•				1
Fayoumi (2016)		•	•		•	3
Filatovchev et al. (2009)		•	•			2
Giannakis et al. (2012)		•				1
Gómez-Miranda et al. (2015)			•			1
Graf (2013)		•				1
Gylling et al. (2015)	•					1
Hätönen & Eriksson (2009)	•	•			•	3
Hätönen (2009)	•	•			•	3
Hilmersson & Johanson (2016)	•					1
Hitt et al. (2016)	•	•	•	•	•	5
Hsu et al. (2013)	•	•				2
Huang & Mas-Tur (2016)		•		•		2
Javalgi & Todd (2011)	•	•				2
Joniaková & Blštáková (2015)				•		1
Khalid & Bhatti (2015)					•	1
Kim & Hemmert (2016)	•	•				2

5. Discussion and conclusion

Through a literature review, the objective of this paper is to offer important insights about the role of KM on off-shoring manufacturing SME performance. Each article, part of literature review, were examined according to different aspects. There was an increase of number of articles published from 2006 to 2016. Most of them adopt survey methodology, referring to multiple country of study in which SMEs operate; are published on journal focus on strategy discipline. In order to examine the role of KM on performance, for each of articles were

individuated different categories of knowledge. Five typology of SME performance (economic and financial; market; technical and innovative; human; and organizational) were highlighted by these different categories of knowledge. These findings indicate not only how important is KM on firm performance but in particular on off-shoring manufacturing SMEs. This, because considering that most of the studies focus more first, on highlighting more the role of KM on performance of large companies rather than small-medium and second, others studies refers more on SMEs performance in general aspects but not on off-shoring manufacturing SMEs in particular (however there exist a few number of such studies).

This paper contributes to the literature of KM and SMEs performance in order to understand better the strong relationship between these two elements. Future research need to be conducted in order to compare the role of KM on performance before and after the off-shore process for the same SME. This paper also has some limitations referring to the number of articles selected for the literature review. All 85 articles individuated from 2006 to 2016 result all in open access and of course there are many other articles published during this period. It means that these results cannot be generalized, however they provide preliminary and important insights about the role of KM on SMEs performance.

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THE FIRM'S SIZE INVESTMENT ASSESSMENT DEPENDING ON THE LIKELIHOOD OF FINANCIALLY CONSTRAINED FIRMS

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ABSTRACT

This paper aims to analyze the impact of influential variables on the firm's investment decision. In this case the "likelihood" of the firm to be financially constrained or not will be part of influential variables together with all other variables such as: the firm's activity sector, annual turnover, number of employees, age of the firm, etc. Therefore the main question to be raised is: What happens to investments of financially constrained firms? Do they increase, remain unchanged or decrease?

In order to achieve this aim, a survey process is undertaken on 320 small and medium enterprises distributed in the main district of Albania (strata choice). Regression analysis is applied, where the dependent variable is the volume of investment and together with 7 independent variables (qualitative and quantitative) is included as a dummy variable the fact if the firms is whether or not in terms of financial constraints.

As the findings of the paper can be mentioned the fact that investments of firms that are not in terms of financial constraints, are statistically significantly greater than the investment of firms that are financially constrained. Although the measure of the constrained effect is statistically significant, it is small; average around 0.087%.

Keywords: *investments, financial constraints, firms, turnover, credits, employer*

JEL Classification: *C18, G11, C32, D24, G21*

1. Introduction

A firm is considered financially constrained if it seeks any external financing, but faces obstacles in the capital market. It can also be said that a firm is more financially constrained than another, if the former requires more capital to lend, or if the company faces a higher cost of obtaining a given amount (Povel, 2001). Financial constraints are considered crucial to the survival of businesses. The more numerous the financial constraints facing a business, the greater is the probability that this business does not survive and then to exit the market. Access to external sources of funding has a positive effect on business growth in terms of sales, employment and capital. In the last two decades, an intense debate on the impact of financial constraints on firm investment decision was conducted. Regarding Fazzari et al. (1988), as long as financially constrained firms have limited access to external finance, their ability to exploit investment opportunities will be sensitive to the ability of these firms to finance these projects with internal

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resources, that means, it will depend on their cash flow. Specifically, according to this view, financially constrained firms' investments are more sensitive to changes in cash flows. The other view (Kaplan & Zingales, 1997) argues that the sensitivity of cash flow investment cannot be used as a method of measurement for financial constraints. Kaplan and Zingales (2000) suggest that there are other factors which can have significant impact. These factors relate to changes in environmental conditions, which are not observed, but that affect investments over time, e.g. changes in the firm's investment criteria, changes in preliminary savings of firms, etc.

In many countries of the world and particularly in Europe, the relation between financial constraints and firms' investments, has become the subject of scientific papers, research papers and articles, proving that these constraints play a crucial role in the behavior of the firms towards the investments they require to undertake. In this context, in this paper, the investment behavior of domestic firms toward the financial constraints they face will be analyzed, bringing thus a study in this area even in the case of Albania.

2. Data and methodology

The methodology used in this paper is based on primary data obtained through a direct survey of local business from the main districts of Albania such as: Tirana, Durrës, Fier, Vlorë, Elbasan, Korçë, Shkodër. In case to study the firm's size investment of financially constrained and not financially constrained firms, a questionnaire was conducted and addressed to general managers and financiers of private firms. Based on the statistical selection theory, there were distributed 400 questionnaires, but only 321 completed questionnaires resulted in answers to all the questions, and were available for use in the study. The variables that were intended to be used in the regression equation consist of the operation's sector of the firm, realizes turnover, number of employees, age of the firm, the rate of financing with own capital, the rate of financing with a bank loan, the "likelihood" of the firm to be financially constrained or not.

Regression equation in this case will take the form:

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + b_7X_7 \quad (1)$$

Where:

Y = The amount of investment (in million ALL),

X₁ = Number of employees,

X₂ = The percentage of ownership capital financing,

X₃ = Age of the firm,

X₄ = Percentage of bank loan financing of the activity,

X₅ = Annual turnover (in million ALL),

X₆ = Activity sector (dummy variable: 1 = Service, 2 = Manufacture),

X₇ = Do you think that your firm faces a financial constraint? (Dummy var. 1 = Yes, 2 = No).

The regression model we use is linear, where one of the main assumptions in this case is that, in the model the variables should have a normal distribution. Regarding data processing, it was found that quantitative variables in the model do not have a normal distribution, so we got logarithm values on a 10 basis (log₁₀) for each variable. In this way the regression equation of the model takes the form:

$$\log Y = b_0 + b_1 \log X_1 + b_2 \log X_2 + b_3 \log X_3 + b_4 \log X_4 + b_5 \log X_5 + b_6 X_6 + b_7 X_7 \quad (2)$$

On the basis of calculations carried out the equation is as follows:

$$\text{Logy} = 1.018 + 0.464 \text{ Log Employee} + 0.223 \text{ Log Self-financing} - 0.454 \text{ Log Age} + 0.066 \text{ Log Bank Loan} + 0.657 \text{ Log Annual Turnover} + 0.049 \text{ Sector} - 0.087 \text{ Financial Constraints} \quad (3)$$

Table 1: Model Summary

Model	R	R ²	R ² adjusted	Std. Error of the Estimate
1	.758 ^a	.575	.559	.59485

Source: Author's calculations through SPSS

Table 2: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	90.325	7	12.904	36.466	.000
Residual	66.877	189	.354		
Total	157.202	196			

Source: Author's calculations through SPSS

Table 3: Regression coefficients

	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
Constant	-1.018	.534		-1.908	.058
Log employees (x ₁) *	.464*	.120	.294	3.860	.000*
Log self-financing (x ₂)	.223	.267	.043	.834	.405
Log age (x ₃)*	-.454*	.166	-.138	-2.728	.007*
Log bank loan (x ₄)**	.066**	.039	.092	1.690	.093**
Log annual turnover (x ₅)*	.657*	.095	.521	6.938	.000*
Sector (x ₆)	.049	.091	.027	.537	.592
Is your firm in financial constraint conditions? (x ₇) *	0.087*	.009	0.484	3.996	.032*

Source: Author's calculations through SPSS

R² (adjusted) = 55.9% and it is statistically significant sig. = 0 < 0.05, which means that variation in the variables X explains in a statistically significant manner at 55.9%, the variation of the variable "Investment" by the regression equation. In statistical terms, the results of this regression should be considered in decision-making, because not only in general the equation explains the reality considerably and statistically significant, but the coefficients of each variable are almost all statistically significant regarding the individual relationship of each variable X with variable Y.

Among other things, the results of the equation are to be assessed as far as correlations between independent variables are too small, so in this way ensure that the model does not suffer from multicollinearity.

Table 4: The correlation matrix of regression equation variables.

	Is your firm in financial constraint terms	Sector	X ₁ log employee	X ₂ log Self-financing	X ₃ log Age	X ₄ log Bank loan	X ₅ log Annual turnover
Is your firm in financial constraint terms?	1.000	-.007	.032	-.093	-.049	.094	-.148
Sector	-.007	1.000	-.098	.097	.041	-.075	-.093
X ₁ log employees	.032	-.098	1.000	.180	-.126	-.153	-.647
X ₂ log self-financing	-.093	.097	.180	1.000	-.142	.133	.023
X ₃ log age	-.049	.041	-.126	-.142	1.000	-.008	-.123
X ₄ log bank loan	.094	-.075	-.153	.133	-.008	1.000	-.148
X ₅ log annual turnover	-.148	-.093	-.647	.023	-.123	-.148	1.000

Source: Author's calculations through SPSS

3. The findings of the model

There is a positive correlation between the number of employees in a company and the amount of investment undertaken by firms. If the number of employees grows on average by 1%, the investments grow on average by 0.464% when all other variables are held constant. This relation is statistically significant.

The average growth by 1% in the financing of firm's investments with own capital, grow the firm's investments on average by 0.223%, when all other variables are held constant. However, this relation is considered statistically insignificant, so in reality we cannot say that investments are significantly explained by the proportion of own capital funding.

Regarding the age of the firm, if the number of years of activity of the firm increases on average by 1%, then the investment decreases on average by 0.454%, when all other variables are held constant. It is estimated as a statistically significant relation.

The average growth of the financing activity with bank loans by 1%, increases the firm's investments by an average of 0.066%, when all other variables are held constant. The positive relation between these two variables is evaluated as statistically significant. If the annual turnover grows by an average of 1%, the firm's investments grow by an average of 0.657%, when all other variables are held constant, and also this relation is statistically significant.

The investments of firms that operate in the manufacturing sector are, on average, 0.049% higher than those of the firm operating in the service sector. However, this conclusion is evidenced only to our sample and a general conclusion cannot be reached, because this coefficient is statistically insignificant.

Investment of firms that are not in terms of financial constraints, are 0.087% higher than the investment of firms that are regarded as financially constrained firms. This relation is positive and also statistically significant.

4. Conclusions

In this study, we estimate the impact of financial constraints on investment decision making, using primary data, obtained by direct surveys of firms. In this survey, we used a qualitative indication of the existence of financial constraints, based on the assessments of firms themselves,

which allows us to avoid the traditional problems associated with the interpretation of the cash flow effects. The study shows that the probability of a firm to undertake investments reduces by the existence of financial constraints. The estimated reduction is amounted to 0.087%, when every other variable is held constant. This means that the investments of firms that are not in terms of financial constraints, are greater than the investment of firms that are regarded as financially constrained. Firms that have financial constraints declare the decrease or constancy of their investments and firms that do not have financial constraints declare the increase of the level of their investments. Furthermore this relation is estimated as statistically significant. Our findings show that the increase of the firm's investment is significantly explained by the proportion of loan bank financing and not by the own capital financing of the firm's activity.

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FLEXIBLE FORMS OF EMPLOYMENT INTEGRATION. ASSESSING THE IMPLEMENTATION OF EMPLOYMENT POLICIES WITH FLEXIBLE WORK ARRANGEMENTS. THE CASE OF CYPRUS¹

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ABSTRACT

This paper examines the dynamic relation between flexible work arrangements and effective employment policies. It analyzes the regulations that form the integration frame of the flexible forms of employment based on the country's social model and the labour legislation. Moreover, it examines the active employment policies as a tool of increasing the flexibility of labour market, in conditions of macroeconomic crisis. The results that emerged from the implementation of two employment policy plans with flexible work arrangements in Cyprus, are assessed. The employment policies were implemented in order to promote flexible forms of employment in the country's labour market. Through the application of the ex-post evaluation methodology and the process of qualitative and quantitative data, we try to assess the outcomes, draw conclusions and provide proposals that promote the conditions for a flexible, decent and productive work. Those three characteristics are the key points/elements of the International Labour Organization's (ILO) engagement for achieving an inclusive sustainable economic growth, as recorded in Goal 8 of the 2030 Agenda for Sustainable Development, adopted at the United Nations Sustainable Development Summit on 25 September 2015.

Keywords: *employment policies, flexibility in labour market, policies assessment, decent work, labour market policies, work arrangements, sustainable economic growth*

JEL Classification: *J08, J78, J21, J28, J41*

1. Introduction

The fiscal adjustments imposed since 2010 for the production of primary budget surpluses in order to payout public debt interest, plugged the economy of Cyprus into recession, increased unemployment and income inequalities and thereby exacerbated population's living conditions. These aftereffects are illustrated in the main statistical findings for people at risk of poverty or social exclusion in Eurostat.

During the recent economic crisis, households had to deal with unemployment, income and credit rating reduction. Increased and prolonged unemployment results to difficulty of getting a job, even after persistent pursuits. Therefore, changes in the Cypriot workforce are caused by

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two opposing forces: the discouragement of unemployed people, and the pressing need for income increase and safeguard against uncertainty caused by unemployment.

After the economic crisis the Cypriot economy is in a slow recovery. In particular, it is in a divestment process from 2014, hence the net fixed capital investment is negative, meaning that the investments made are not sufficient to replace part of the capacity that is discredited. More specific, according to European Commission's forecasts the three-year period 2015-2017 will be characterized by low growth of GDP rates and high level of unemployment rates. Therefore, the deterioration of labour market's quality indicators is still significant. Temporary and part-time employment, long-term unemployed and despondent workforce are phenomena of great and crucial extent, whereas before the crisis there were apparently limited (Cyprus PEO Labor Institute, 2015).

2. Employment policies and Flexible Forms of Employment

Modern economies are characterized by increased and prolonged unemployment rates. In order to deal with this phenomenon, a variety of tools at both macroeconomic (macro settings) and microeconomic level, is implemented. These tools are widely known as employment policies, while their aim is to address the causes and manage the consequences of unemployment.

Employment policies are examined by a great amount of researchers, Calmfors (1994) defines active employment measures as, "*Measures targeted to improve labor's market functioning and are addressed to unemployed*". According to ILO, Labour market policies (LMP) comprise all kinds of regulative policies that influence the interaction between labour supply and demand.

- **Active employment policies** focus on tackling unemployment and refer to cyclical unemployment, work allocation, training, job creation, incentives to self-employment or starting a business, integration of social groups etc. (Gravaris, 1991; Peterson, 2001; Karamesini, 2005).
- **Passive employment policies** focus on managing the consequences of unemployment and are discerned into those that promote early retirement and those seeking income supports for the unemployment (European Commission, 2006).
- **Employment services** focus on services provided by private or public employment services to operators/parties that contribute to the integration of unemployed and other job seekers.

Although, European Economic Community (EEC) was established in 1975, the creation of a European Institutional Framework for Industrial Relations was not a priority, until the late 80's. The structure of a central guidance for industrial relations for the member states of the European Union (EU) started in the '90s. The European guidance focused in flexible forms of employment in order to strengthen competitiveness and employment in European member – states (Spiropoulos, 1998).

The Lisbon Strategy, also known as Lisbon Agenda, was a development plan devised in March 2000 and aimed to declare Europe the most competitive and dynamic knowledge based economy in the world by 2010. Nowadays, Europe has developed the appropriate institutional framework for the operation and implementation of flexible forms of employment, accompanied with the recognition of rights to flexible workers (fixed-term contracts, part-time workers, lending of employees etc.).

International literature uses a number of alternative names, such as informal (nonstandard), atypical, special, flexible, marginal contingencies (contingent) or dreadful (precarious) employment forms.

Flexible forms of employment are distinguished in the following categories according to the international and European practice (Kouzis, 2001; KEPA, 2010):

- **Temporary employment:** This form of employment differs from the “typical” form of employment in terms of duration. The duration of temporary employment is limited and is mainly expressed through fixed term contracts.
- **Part – time job:** The employees of part – time jobs, work in the same or similar objects with the employees of full – time jobs, though they have reduced work hours.
- **Flexible working hours:** In this form of employment the employee decides himself the arrival and departure time of each day, within a specific framework set by the employer.
- **Scaled working hours:** Employees or groups of employees agree to have different time schedules (they start and stop their work at different time), but the same fixed working hours.
- **Intermittent job/employment:** In this form of employment there is a distribution of working hours in irregular intervals or in indeterminate time periods, depending on the demand/needs of business’s goods and services.
- **Job availability:** In this form of employment, the employees are not supposed to show up at work unless they are said/ invited to, or they are employed only in time periods of increased business demand/needs, while they are not employed during time periods of reduced business demand/needs.
- **Compressed weekly employment:** The employee is able to complete his total weekly working hours in fewer days.
- **Job sharing:** Is a flexible employment arrangement where typically two people share (after their request) their tasks/responsibilities, rights, working hours and remuneration, arising from a job.
- **Cyclical employment:** Replacement of an employee in a professional license (parental, educational, personal etc.) with an unemployed, for the time period of the employee’s professional license.
- **Individual working time accounts:** The working time of an employee is calculated/ recorded in total at some point basis (annual, half yearly, quarterly etc.) and the employee is able to distribute it, depending on the needs/demands of the business or the needs of the employee.
- **“Lending” of employees:** In this form of employment there is a “lending” contract between the employer and a third, while it takes place only with after the agreement of the employee.
- **Telecommuting:** Fulfillment of work duties by the employee, solely from his house, or the physical space of his preference, though the employee must be electronically connected to the working location during working hours.
- **Working from home:** In this form of employment, the employee works in his own home.
- **Rotating employment:** The employee is employed full-time, though less working days a week or month.

3. The Labour Market of Cyprus

This section captures the prevailing trends of the Cypriot labour market and draws conclusions regarding the flexibility of work and its development during the economic crisis.

The following graphs (see. Figure 1 & 2) present the evolution/progress of full-time and part-time employment in Cyprus for the time period 1999-2016. The upward trend of part-time employment, especially after the outburst of the economic crisis and the downward trend of full employment, indicate the adoption of flexible forms of employment.

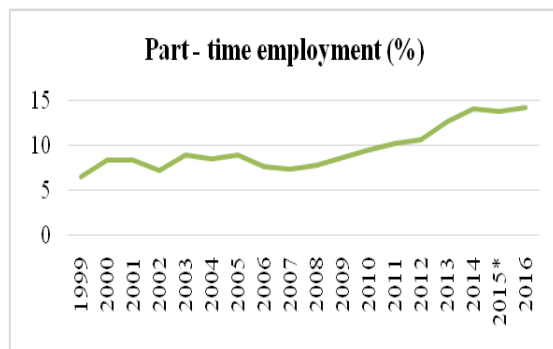


Figure 1: Percentage of part-time employment in Cyprus during the time period: 1999-2016

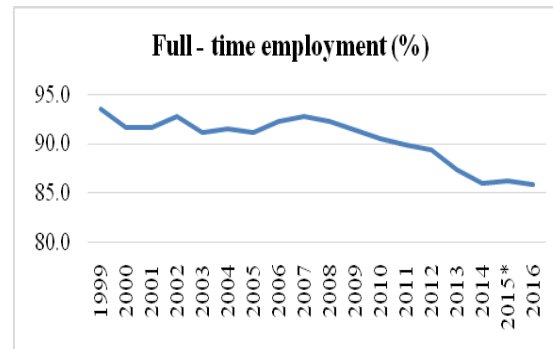


Figure 2: Percentage of full-time employment in Cyprus during the time period: 1999-2016

Examining the data provided from the Survey of the Labor Force of Cyprus, for the third quarter of 2016, we draw the conclusion that the superabundance of Cypriot employees are Officers/Clerks (85.6%), while 11.7% are Self-employed. Regarding the age distribution of the Cypriot workers, as illustrated in Figure 3, the majority of Cypriot employees are productive as they belong to the age group 25-34, followed by groups of 35-44 and 45-54. It is worth noting that the distribution between men and women is almost equal to those three age groups.

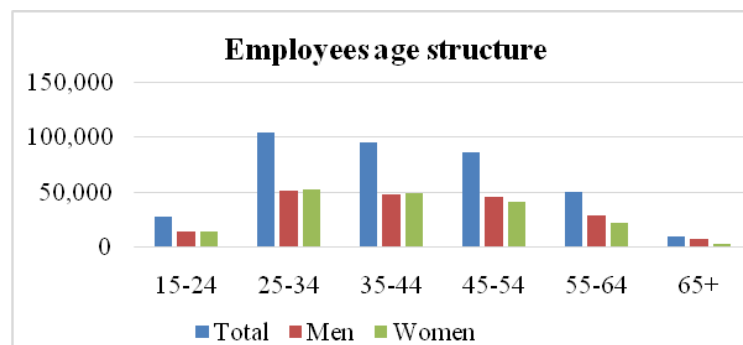


Figure 3: Age structure of employees

Figure 4 illustrates the evolution of unemployment in Cyprus. As reflected in the figure the unemployment rate had an upward trend during the period 2008-2014, immediately after the outburst of the economic crisis, while a downward trend began after 2014. However, despite the decline, unemployment remains at significantly higher levels compared to the period 2004 - 2008.



Figure 4: Evolution of Unemployment rate during the period 2004-2016

Moreover, in accordance with the EU trends, young people in Cyprus have the highest percentage of participation in unemployment. Specifically, the age groups 15-24 and 25-34 account for 53% of the unemployed (20.3% and 32.7% respectively), while the 35-44 group concentrates 17.5% of unemployed.

As expected, 73.6% of the unemployed were employed as Officers, while 16.4% were newcomers that failed to establish themselves in the labour market of Cyprus. At last, 17% of total employees are occupied as temporary workers, while 83% are occupied in a permanent basis.

4. Application of flexible forms of employment in Cyprus: Case study of Subsidy Schemes for 2010 and 2013

Cyprus implemented two Sponsorship/Grant Plans related to flexible forms of employment, the “**Subsidy Scheme for attracting people in the Labour Market through Flexible Forms of Employment (2010)**” and the “**Subsidy Scheme for Employment with flexible arrangements (2013)**”.

Objective of the “**Subsidy Scheme for attracting people in the Labour Market through Flexible Forms of Employment (2010)**” was to raise the employment of economically inactive women, economically inactive elderly (older persons) and economically inactive persons that seek/need flexible employment due to family obligations.

Objective of both Plans was:

- The grant of businesses/organizations for the wage costs of people hired in jobs with flexible arrangements, in order to encourage employers to create such positions and to recruit interested individuals who satisfied the inclusion criteria.
- The grant of those who were employed through the Plan for their transportation, to and from their workplace.

In the frame of the Subsidy Schemes’ implementation a field research was contacted to both employees and employers, in order to assess these Schemes. The research’s goal was to include a sufficient number of respondents of each category, so that the results are representative and in addition able to draw statistically reliable conclusions about any differences in relation to the rated parameters between individuals in different categories.

4.1 Evaluation of Subsidy Schemes in terms of employees

The employees' opinion survey/poll, examined the following topics:

- Employees' evolution and their salary/remuneration after the expiration of the flexible arrangement.
- Preferences in particular forms of flexible employment.
- Degree of employees' satisfaction from their participation in the program/plan, plan's correspondence/coherence to the needs of employees and acquirement of new knowledge and skills.
- Problems encountered by employees, benefits gained and respondents' proposals, in order to improve relevant future plans.

The main findings resulting from the opinion survey questionnaires to **employees** for the Subsidy Schemes of 2010 and 2013 are as follows:

The **main reason for adopting flexible forms of employment** is the simultaneous favoring of businesses and individuals, and to a lesser extent, to serve the employee's individual needs, such as: childcare (caring of children), financial support/enhancement, facilitation in the attendance of curricula and employability under favorable terms due to pregnancy.

The majority of working respondents, **42% of 2010 Subsidy Scheme** respondents and **34.5% of 2013 Subsidy Scheme**, replied/claimed that the plans contributed immensely in acquiring skills, knowledge and other skills, while a significant lower percentage of working respondents, **9% of 2010 Subsidy Scheme** respondents and **8.5% of 2013 Subsidy Scheme** claimed that they had minimal contribution.

Regarding the *evolution/performance of employees after the expiration of the arrangement*, the majority of employees, remained in their position/job for at least four months, with the same flexible form of employment. Though, there were some cases, where the employment was terminated, **before the expiration of their contract**, after a unilateral decision of the company.

On the other hand, the main reasons that resulted in the interruption/discontinuation of employment **after the end of the contract**, according to employees were company's/organization's decision, low wages and unfulfillment of employee's needs or expectations.

For those who remained in business after the end of the plan, working conditions did not changed/were the same. Specifically, the majority of respondents, **75.3% and 73.8%**, reported that they were occupied with the same form of employment, while there were cases, where the employees contract adapted to the contract of their colleagues.

The opinion survey examined, *the level of satisfaction of employees on flexible employment form in which they worked*, since the plans aimed to serve not only the needs of businesses, but also to encourage economically inactive people and the unemployed to enter the labor market through flexible forms of employment. According to employees the *main benefit* gained by their participation in the examined plans, was the opportunity to work through a flexible form of employment and ensure a stable personal income (**47% of 2010 Subsidy Scheme** and **39.5% of 2013 Scheme**, respondents). Also, a very important benefit, was the acquisition of additional work experience and the preservation of employment after the end of the project/program (**16.9% of 2010 and 25.6% of 2013 Scheme**, respondents).

The vast majority of working respondents, **89% and 80%** of 2010 and 2013 Subsidy Schemes, did not face particular problems during their integration in their new working environment.

Overall, the vast majority of working respondents declared very or extremely satisfied with their participation in the project. Therefore, most respondents, **87.1%** of 2010 Scheme and **68.6%** of 2013 Scheme, responded that they are willing to participate in similar projects in the future.

4.2 Evaluation of Sponsorship Plans/ Grant Schemes in terms of employers

The employers' opinion survey aimed to assess the level of satisfaction and the benefits reaped after the implementation of both Subsidy Schemes.

The main forms of flexible employment adopted by businesses under the 2010 and 2013 Scheme, were related to flexible hours (52.7% of 2010 Scheme and 52.8% of 2013 Scheme), and employment with continuous working hours (21.2% of 2010 Scheme and 27.3% of 2013 Scheme). Notably, the most favorable form of flexible employment for businesses with up to five (5) employees was shift work, while larger companies preferred less common flexible forms such as, telecommuting, job availability and working from home.

The main reason for implementing, the aforementioned forms of flexible employment is related to the simultaneously favoring of business's needs and employee's needs and to a lesser extent merely the satisfaction of the individual's needs.

Regarding the contribution of flexible forms of employment in business operation:

- 37,8% and 36,9% of 2010 and 2013 Subsidy Schemes respondents claimed, that they contribute greatly to the reduction of labor costs.
- 53,7%, and 48,5% of 2010 and 2013 Subsidy Schemes respondents claimed, that they optimize work's organization.
- 50% and 52,3% of 2010 and 2013 Subsidy Schemes respondents claimed, that they provide opportunities to deal with the fluctuations in the demand of labour market.
- 52,4% and 47,7% of 2010 and 2013 Subsidy Schemes respondents claimed, that are important means for attracting competent employees.

A topic of particular interest is the evolution of employees, at the end of their contract. The results reveal that, most employers, **80.4%** of 2010 and **70%** of 2013 Subsidy Scheme, renewed the employee's contract, for at least four months after the end of the initial contract, while in several businesses employees terminated their employment after the end of their contract, **18.2%** of 2010 and **23.1%** of 2013 Subsidy Scheme. The fact that a minimum percentage, **4.8%** of 2010 and **6%** of 2013 Subsidy Scheme, of employees left from their workplace, highlights the high degree of success for both Subsidy Schemes. Additionally, according to the responses of employers, most employees terminated their employment by the end of contract, after their own decision, while in few cases the termination occurred due to reduction of businesses activity or payment difficulties.

Furthermore, the opinion survey examines *the level of employer's satisfaction* in respect to employees' skills, amount of the grant, grant's payment flow, and cooperation with the Business and Cultural Development Center. More than half of employers were satisfied from the process of fitting the employees' profiles (skills) to the business's needs, the amount of the grant and the program's management framework.

The majority of employers mentioned that they did not encounter any problems/difficulties in the employment of working people, but they mainly encounter/face problems in the payment flow (payout) of the grant from the Business and Cultural Development Center. Finally, the majority of employers were willing to participate in similar projects in the future.

5. Conclusions

The recent financial crisis had a significant effect on the general conditions of Cypriot employment. The increased use of flexible forms of employment reacts with the continuous expansion of globalization. Flexibly forms of employment are considered to contribute in the reduction of unemployment, which is a major structural problem of modern economies and societies. Main concern of the European Employment Strategy nowadays, is the preservation of a balance between businesses' demand for flexible arrangements and employees' job security. This balance is expressed by the term flexicurity, and indicates the composition of these two concepts through a European employment policy, the fundamental basis of which is to protect employees, promote quality in workplace, and enhance competitiveness and the creation of favorable conditions for the inclusion of unemployed.

The experience of implementing subsidy schemes to promote employment with flexible arrangements in the labour market in Cyprus, provides an indicative implementation framework that serves the above targets. However, in a possible future implementation of such plans we should give special attention and consider not only the strengths, but also the weak points in order to limit or even eliminate them. The main topics that we should pay attention are the following:

- ⇒ Targeting of any future interventions to preserve and enhance the quality of work and the combination of flexibility and security between employees and employers.
- ⇒ Adjustment of the respective interventions in selected target groups, such as women, elderly, and vocational education system learners, that can benefit from the implementation of flexible working arrangements.
- ⇒ Take the necessary action (information and publicity actions) in order to disseminate the objectives, goals and results of future plans.
- ⇒ Effective and methodical functioning of control mechanisms, in order to ensure the high degree of compliance with the requirements and conditions of each plan, as well the effective implementation of labour and social security legislation. Provision for short-term training of workers before placing them in a flexible job in order to integrate them into the operational environment and responsiveness to the needs of each job.
- ⇒ Develop functional and efficient system which fits employees' profiles with the needs of the business, in order to serve highly expectations of both businesses and workers, placed in jobs under conditions of flexicurity.

In any case, successful transition to a flexible, socially equitable and efficient labour market, is achieved through interventions that deviate/forgo from the rationale of a development model, based on low labour costs and deregulation and deterioration of labour relations. In this direction, corrective actions are required to eliminate ambiguities and shortcomings/deficiencies of the current legal and institutional framework for flexible forms of employment.

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IMPACT OF INTEGRATION IN THE EUROPEAN UNION IN THE ECONOMY OF THE REPUBLIC OF MACEDONIA

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ABSTRACT

Republic of Macedonia by its structure is multiethnic and multicultural state, where they are present numerous differences in language and more, religious, customary, etc, differences that play an important role in determining the relationships and processes in the development. All these facts indicate that the Republic of Macedonia is truly multicultural and multiethnic state, which in itself makes it specific, and therefore treatment of any kind of problems requires access from this perspective.

According to the conclusions of the European Council held in June 1993, in Copenhagen, "Membership in the European Union" requires the existence of a functioning market economy and capacity to manage with competitive pressure and market forces within the Union. According to the Ministry of Finance projections for 2014-2016, the economic growth of the Gross Internal Product is expected to be 3.8%, which did not occur in 2016, where specifically were mentioned the significant risks in relation to the internal political, which although brought an extra dose to uncertainty who are estimated to have limited effect on the economy.

This paper aims precisely to answer these questions, where is nowadays Macedonia on the path of integration, does she achieved to meet these criteria, whether the authorities are sincere enough in its actions and performance of obligations taken, is it really Macedonia prepared for full membership in EU and NATO, is there sufficient institutional and human capacities in Macedonia to fulfill these criteria, the chances of the Republic of Macedonia for EU and NATO membership, analyzing the factors that help or obstruct these processes.

Keywords: *Republic of Macedonia, European Union, economic developments, integration, challenges*

JEL Classification: *A1, A3, E5, E6, H3*

1. Introduction

Building the future of the Republic of Macedonia before has had many challenges that determine its path. Steps taken will be key to the operation, development and existence of the state. The challenges were and remain numerous, therefore require a serious approach to the new reality that will determine the building path of the state. An important challenge for the authorities was

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and remains the construction of new institutions based on the principles of the democratic system, where it meant that in the state building should be included the new values that promotes the democratic system.

Republic of Macedonia by its structure is multiethnic and multicultural state. There lives more ethnic and cultural communities. All ethnic communities living in Macedonia are characterized by cultural norms and value systems different from each other. It makes the Macedonian society where numerous differences are present as language, religious, customary, etc and these differences that play an important role in determining the relationships and processes in the development of the country. All these facts indicate that the Republic of Macedonia is truly multicultural and multiethnic state, which in itself makes it specific, and therefore the treatment of any kind of problems requires access from this perspective. Republic of Macedonia since its independence, the fundamental objective is integration into international organizations. It must be mentioned that NATO and EU membership is conditional on fulfillment of the more strictly political, economic and social criteria. So today, due to not meeting these criteria, the Republic of Macedonia is still in front of the doors of two powerful political organizations, economic and military.

Republic of Macedonia unfortunately since its independence, has not managed to build a system of government and political model which would be run by the concept of multiethnic and multicultural reality, and not coincidentally, this state throughout its period has implemented unprincipled and unworkable policies. As a result of these policies, Macedonia has not managed to build stable and effective institutions, but weak and un capable institutions and society of social tensions and ethnic conflicts. Year 2001 is the year of the turn and the most important year in the history of the Republic of Macedonia. In this year two important historical events occur for the future of the country. In April 2001, was signed the Stabilization and Association Agreement between the Republic of Macedonia and the EU, which was opening the door to membership in the most powerful political organization, while in August of the same year, was signed the Ohrid Framework Agreement, which in addition to the stopping of the armed conflict, laid the foundations for the creation of the common state on the principle of equality between communities.

Macedonia on 17 December, 2005 had received EU candidate status, but after 11 years has not yet received an invitation to start negotiations for membership. Whereas, although in 2008 it was safe candidate for NATO membership, and there again failed to join. As a criterion for measuring the degree of realization of the proclaimed goals of a democratic society and a member state of the European Union, remain the implementation of the Ohrid Framework Agreement and the implementation of recommendations arising from the Progress Report of the EU Commission. The last conference on the Western Balkans, held in Berlin on August 28, 2014, initiated by Chancellor Merkel, is a new impetus to achieve our major objective - eventual membership in the European family. It should be mentioned that the issue of resolving the name of the Macedonian state, the Commission recommended opening accession talks with the country, until 2015 when he made this conditional on continued implementation of the agreement PRZINO and substantial progress in implementing the "Urgent reform priorities". Coming closer to the European Union implies the improvement of public sector employment, and guarantee of the maximal rights of every citizen of the Republic of Macedonia. It is a pity, since this political discourse that is still being developed, it appears that their priorities have narrow partisan interests rather than the state. But where is today Macedonia on the road to integration, how much it has managed to meet these criteria, is actually Macedonia prepared for

full membership in EU and NATO, whether there is a sufficient human and institutional capacity on fulfillment of these criteria, these are some of the questions that have recently been present but also needs to given the right answer.

This paper aims precisely to give answers to these questions, by treating seriously the appropriate methodology from which the indicators can draw objective assessments about the situation and problems that is facing the Macedonian society in the way of building cohesive and powerful institutions, as well as the possibilities of the Republic of Macedonia for EU and NATO membership, analyzing the factors that help or hinder these processes.

2. Methodology

In order to analyze and to give a correct conclusion about the topic will analyze the integration of the Republic of Macedonia in the European Union over the years, the causes and consequences. Among the methods that we have used in preparing this paper has been monitoring and analyzing the details of the country integration. The paper used qualitative methods and descriptive research.

3. Macroeconomic achievements for year 2016

Macroeconomic stability in Macedonia is also maintained in 2016. The local economy continued to grow in 2016, the year in which the conformity of the data, domestic production increased by 2.3% (Ministry of Financein RM, 2017). Although with a lower intensity compared to the previous year, the national economy continued to grow among a slow recovery of the national economies of key partners. According to Ministry of Finance data for 2014-2016, the economic growth of the Gross Internal Product is expected to be 3.8%, which did not occur in 2016, where specifically were mentioned the significant risks in relation to the internal political situations, which even brought an extra dose of insecurity, are considered to have limited effect on the economy. In addition, in 2016 there was a large expressed uncertainty that derives from the political situation in the country mainly fear of shedding the negative effects of them on the economic developments as well as domestic entities and foreign promoters that leads to growth in 2016, and this issues out that an important role in this direction played the construction sector, such shifts greatly derives from the realization of the infrastructure public projects.

Even in 2016, the same as in the previous year, the growth of the local economy largely is related to the capacity operation export-oriented, the activity of which provided a substantial increase in production and exports. In such circumstances, they were also recorded positive shift in the labor market, which gave additional impetus to the growth of local economic activity. Despite this we can say that unemployment remains high, particularly for young people, which has fallen during the reporting period through. Unemployment rate reaches 23.9% (Ministry of Financein RM, 2017). Additional contribution to employment growth, as in the previous year, gave the operation of new capacities in technological-industrial development zones, as well as the effects of fiscal policy through active employment measures, infrastructure projects funded with public money, the policies of agriculture subsidies and credit lines provided through the European Investment bank dedicated to small and medium enterprises.

In 2016, it was recorded an increase in some economic sectors. Greater impact on annual growth has had construction, trade, transportation and hospitality that are substantially in line with short-term displacement indicators in these sectors. Seen from the demand perspective, the growth of the local economy in 2016 mainly is explained by the increased of the domestic demand and export activity. Domestic demand, in general it was supported by rising personal request, thus reflecting the favorable movements in the labor market, real wages increased during the year, as well as increased lending to "households" sector. A small positive contribution to such growth gave public consumption and gross investment as a percentage of GDP increased from 31.1% to 31.8% (Ministry of Finance in RM, 2017), with this high participation can say that investments have an important role the country's economic growth. In addition to domestic demand, to express support for the growth recorded in 2016 gave also the export sector, with an increase of 6.9%, in which case similar to the previous year positive shifts in this sector mainly dealing the operation of new production capacities. Such displacement of domestic demand and exports, also resulted in the increase of imports, an increase that was of a lower intensity compared with exports of 5.7%, thus the net export contribution for 2016 year is positive in this sense.

Fiscal policy is an important factor which affects on the positioning of the monetary policy and proper coordination of these policies is a key factor in achieving sustainability of the external position and maintaining macroeconomic stability. The budget deficit in 2016 was 2.8% of GDP, respectively decreased by 0.7 p. p. compared with the previous year. This change results in a significant increase in revenues from profit tax as well as the successful implementation of budget revenue (Ministry of Finance in RM, 2017). Public debt in 2016 was 48.03% of GDP level unlike 2015 which was at 46.7%

Public investments are still the primary targets of fiscal policy. In fact, for the next period is foreseen realization of capital investment projects in road and railway infrastructure, local infrastructure and energy sector, agriculture, etc. It is expected that the deficit funding to be provided from internal and external sources. In this case, in the context of internal resources, it is foreseen the use of a portion of the accumulated deposits in the state National Bank of RM and issuance of securities. The fiscal framework set in this way foresees moderate growth of state debt in the following period, which will not threaten the sustainability of public finances. The settled fiscal policy is accompanied by risks, which like monetary policy, stemming mainly from external conditions and their impact on domestic economic activity and the possibility of having access to foreign financial markets.

However, these situations imposed additional challenges to monetary policy guidance to whom responded with appropriate changes aimed at realization of the set legal targets. Inflation in 2016 was a mild negative rate (-0.2), under the influence of supply-side factors, mainly the lower oil prices on world markets, which had the highest impact of inflation development globally.

4. Macedonia's integration as a driving force for economic growth and stability

Membership in the EU means alignment with a qualitative socio-economic model of the European Union with its own rights, economic, social political goals that gives member country and greater freedom of modest finding ways of organizing society and the economy. When talking about EU membership from the economic viewpoint, this process applies not only to fulfill the political criteria and recognition of the acceptance of common EU legislation *Acquis Communautaire* (ability to assume the obligations stemming from membership, including the

conviction against political union, economic and monetary), but also the fulfillment of the economic criteria, the existence of a functioning market economy and the ability to interact with the pressures and forces inside the EU market.

The European Union is based on the concept of social market economy, where full employment, social progress, social inclusion, social protection, social cohesion and solidarity are included in the EU Treaty as some of the priority objectives.

The European Union Instrument for Pre Accession started from 1 January 2007, following the new amendments to the Financial Perspective (2007-2013). The purpose of this tool is to help these countries, but not with equal participation. The Republic of Macedonia is beneficiary of five-component as transition aid and institution building, cross-border and regional cooperation, regional development, human resources development and rural development.

Technical Assistance Information Exchange Office -TAIEX is a program that covers all aspects of EU law, which is shown as an important instrument for the Republic of Macedonia in providing short-term technological assistance during transportation, implementation and enforcement of EU legislation, including administrative structure.

In 2010, the European Union launched a 10-year development strategy through which it aims to overcome the crisis, which continues to afflict many EU Member States - **Europe 2020**. This strategy aims to create conditions for a smarter, more sustainable and more inclusive development. To achieve this goal, five main objectives were decided to achieve EU by 2020, including here employment; education, research and innovation; social inclusion, poverty reduction and climate/energy. Financial assistance under IPA funds for the period 2014-2020 in support of the Former Yugoslav Republic of Macedonia went up to € 664.2 million. This can be seen from the following table:

Table.1. Indicative Allocations (million EUR) per policy areas and sectors

The former Yugoslav Republic of Macedonia	-2014-	-2015-	-2016-	-2017-	-2018-2020-	Of which climate change relevant (%)	Total 2014-2020
a. Reforms in preparation for Union membership	39.7	17.9	35.6	26.9	85.8		205.9
Democracy and governance				66.1	56.8		122.9
<i>Rule of law and fundamental rights</i>				54.0	29.0		83.0
b. Socio-economic and Regional development	41.0	38.7	38.0	46.0	135.1		298.8
Environment and climate action				61.3	51.6	100%	112.9
Transport				56.4	56.5	60.0%	112.9
Competitiveness and innovation				46.6	27.0		73.0
c. Employment, social policies, education, promotion of gender equality, and human resources development	0.0	14.0	13.0	0.0	26.2		53.2
Education, employment and social policies				27.0	26.2		53.2
d. Agriculture and rural development	5.0	18.3	5.0	22.0	56.0		106.3

<i>Agriculture and rural development</i>				50.3	56.0	10%	106.3
TOTAL	85.7	88.9	91.6	94.9	303.1		664.2

Source: The Former Yugoslav Republic of Macedonia - financial assistance under IPA II - European Commission.html

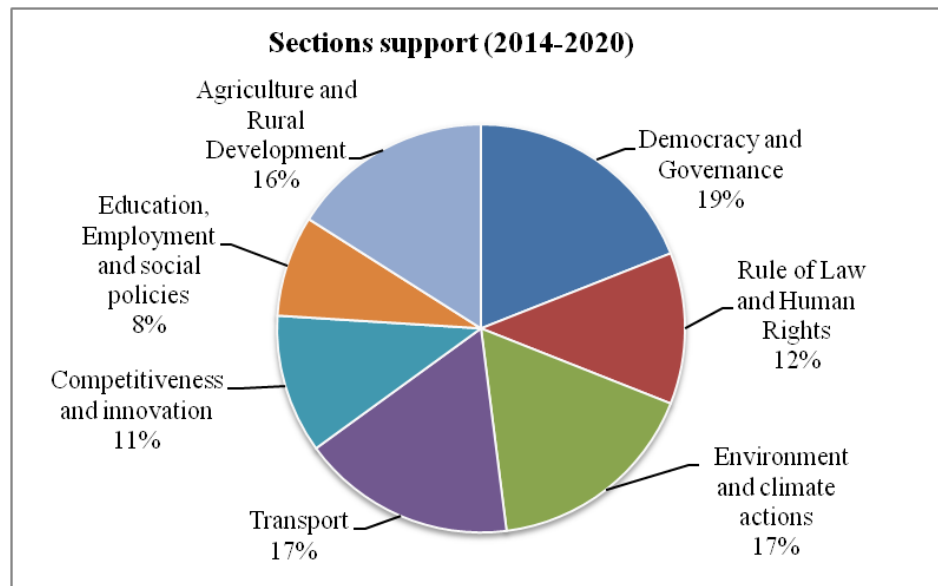


Figure 1: Data retrieved from https://ec.europa.eu/neighbourhood-enlargement/instruments/funding-by-country/former-yugoslav-republic-of-macedonia_en

A political tool was established in 2010, called 'European Semester' which runs every year from January to July in order to allow economic policy analysis of the Member States at EU level and the adoption of EU recommendations to countries in particular, before drafting budgets proposed by governments and their submission to the national parliamentary debates. The EU's aim is to become one of the fastest economies, sustainable and inclusive. In this context, through this study we analyzed the current situation of the country and towards addressing complementary measures which should be taken in terms of macroeconomic approximating with other member countries and the use of these funds planned to use by European Commission. The Commission has again reduced the financial assistance of the EU to the Republic of Macedonia with about 27 million from what was planned for 2016 (Commission staff working document: The former Yugoslav Republic of Macedonia 2016 Report, page 82).

The multi-year trend of declining support for joining the European Union for Macedonia, has continued in the past year, but is still at a high level, totaling up to 77%, according to a survey conducted by the Institute for Democracy "Societas Civilis" in cooperation with Konrad Adenauer Institute. Data of the Institute for Democracy said that the key factor for the gradual decline in support for EU membership have implications for national identity arising from the dispute with Greece over its name.

Regarding the political integration, the country suffers from a divisive political culture and lack of capacity to compromise. Also continue to prevail narrow political party's interests above the interests of the country and its citizens. The political crisis has continued in 2016. As regards the "Përzhino" agreement can be said that there is partial implementation, which requires involvement and continued support us EU and the US. We can say that there is a lack of political will. The political crisis which deepened in 2015 after declaring illegal communications

interception continued in 2016 and still is going on after 4 months of the elections. Regarding negotiations on forming a new government is wasting enough time which further deepens the political crisis in the country. The new government should be entirely devoted to reforms recommended by the European Commission. All bodies and institutions in the country should be able to be independent, effective and free to carry out their functions.

Decentralization of government is an important element, where the lack of central budget funds and low capacity of local tax collection affects the capacity of some municipalities to perform their duties. The legal framework for local governance needs to be reviewed for a more transparent and balanced distribution of national funds.

Regarding the functioning of the judicial system has not been progress. Political interference in the judicial system is still disturbing. The Special Prosecutor's work should not be hindered. So, the country should adopt and implement a new strategy for judicial reform in order to prevent further barriers. In terms of corruption remains prevalent in many areas and continues to be a serious problem. Protection of human rights is in accordance with European standards, but the laws are often not implemented fully or correctly. Freedom of the media remains a serious challenge, and the country in the coming period should continue with reforms in this direction.

Economic integration is an important step to be joined EU. Being part of the European Union, means also have obligations. Macroeconomic stability was maintained in 2016, supported by the high cost of public infrastructure and foreign direct investment. Government in future should be engaged in fostering growth through economic policies. According to The Heritage Foundation estimates for 2016, Macedonia climbed to 31st position in the index of economic freedom and entered into the category of free states. The report shows considerable climbing Macedonia within one year of the country's 47th place in the 31th until the assessment has improved 70.7 points.

In 2016 we have a drop in Foreign Direct Investment from 2.1% to 1.9% as a percentage of GDP. Movement of citizens to work in another Member State, simplification of administrative procedures for work and residence permits can be calculated as a direct effect to the integration.

The EU supports the smooth functioning of the internal market for electronic communications, electronic commerce and audio-visual services. Agricultural policy in place support farmers. Rural development investments help improve access to irrigation, land consolidation and promotion of agricultural cooperatives remains low. Preparation for the implementation of IPARD program measures is not yet at the required level where about 16.2 million euros from EU funds have remained unused. The country is moderately prepared so in the field of transport policy, but with some shortcomings that has led to the reduction of financial assistance from the EU. For Research and innovation the EU provides significant support and this financial support enables Member States to benefit from research programs of EC.

The country has continued to participate actively in regional initiatives such as the South East Europe Cooperation Process (SEECP), the Regional Cooperation Council, CEFTA, the Western Balkans Six, the Energy Community Treaty, the European Common Aviation Area Agreement, the Central European Initiative (CEI), the Regional Initiative for Migration and Asylum (MARRI) and RECOM (Commission staff working document: The former Yugoslav Republic of Macedonia 2016 Report, page 22).

5. Conclusions

The Republic of Macedonia is involved in the European integration process since 1991. The process of the European integration contains itself in almost all aspects of a state activity from lawmaking to labor standards or traffic on the road. The main benefit of this process is expected access or participation in the country's exports to foreign markets, promotion of competitive structures and improvements related to long-term effects in the period leading to the strengthening of the economy of the country.

According to the estimation of the European Commission, the administrative capacity to plan, design and implement projects remains a matter of concern, along with the rules of financial management. The main challenge remains the government's inability or unwillingness to prepare essential reforms in Key Areas. In response, the Commission has again lowered the EU financial assistance to about 27 million from what was planned for 2016. Therefore, it is recommended that, for the realization of strategic goals through which will improve the citizens' conditions in RM, the political authorities should change the political discourse being committed to the full implementation of the Ohrid Agreement with most obvious and time dynamic, as well as the implementation of all recommendations for meeting the Copenhagen criteria.

We must improve the current model of coordination of EU aid and bilateral international assistance, by channeling it toward the country's development agenda. It should be a mechanism for inter-institutional level to identify the needs and capacities for programming and implementation of EU-funded projects. The country needs to implement the recommendations of the EU's auditors in connection with the accreditation of structures for the management of EU funds, including here the role of the National IPA Coordinator and distribution measures to facilitate management of agricultural funds IPARD.

The state should deprive new political relations by promoting the culture of political compromise and production of tangible reforms and consistent states building. Sustainable reforms which aimed at consolidating the democratic state of law, the establishment and strengthening of a functioning market economy able to cope with competitive forces and implementation of European standards in everyday life remain a priority of the country.

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ADOPTION OF NEW MECHANISMS IN INTERNATIONAL ASSISTANCE PROGRAMS (IPA) IN ALBANIA

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ABSTRACT

Missing coordination and deficiencies are observed in the management of foreign assistance flowing to Albania. There is a lack of efficient mechanism in translating national policies into International Assistance Program, allowing assistance delivers the desired impact. This is particularly reflected when evaluating classical EC/IPA funded projects that neither do bring sectors synergistic solution, nor contributing fully to the sector overall reform. This is important to annotate as EC/IPA is amongst most important developing partners, by having delivered EUR 1.5 Billion from 1992 – 2013, and committing additional EUR 650 Million for the period 2014-2020.

While considering the ongoing Official Development Assistance, disbursement versus commitment remains low and there is a slowdown in the pace of disbursement also in the future. In considering this management problem, we have made use of both primary and secondary data. Desk review was the main methodology to get to our results, by looking at Strategic documents; Reports by EC, OECD, EBRD; Foreign finance progress reports; and Medium Term Budget documents. As well as, structured interviews have been conducted with National authorities and with donor's representatives.

In this framework, we have confirmed agency problems and lack of management capacities in the Albanian public administration. There is firm willingness of European Commission to change this situation, and move ahead in piloting innovative mechanisms as "Budget support", Joint Project Pipeline; and "Sector Approach". All are likely to improve efficiency, but impact still need to be validated.

In conclusion, we aim at identifying shortages of so-called classical methods of allocation of Foreign Assistance, and provide valuable recommendations for increasing recipient country absorptive capacity.

There is a need to set and validate a clear and long-term correlation between increased absorption of funds and funding mechanisms.

Keywords: *absorptive capacity, foreign aid, international assistance program, official development assistance, European Commission*

JEL Classification: *F35, F36, F52, F53*

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1. Introduction

Since 2007, Albania, first as a potential candidate country for EU membership and then as Candidate Country, has been able to use EU financial pre-accession instruments for implementing political, economic, social and institutional reforms within the framework of the EU Integration Process. In recent years a lot of effort has been invested in the creation of a national institutional structure able to efficiently co-ordinate reforms supported through EU funded projects. Albania has benefited for the period 2007-2013 resources of total 591 million EUR, or 85 million EUR on average per year from the IPA pre-accession fund - about 0.1% of its national GDP. In order to understand the potential economic boost from EU funds, we should take into account the upper limit according to which each EU member state can receive resources from European Structural and Investment Funds (ESIF) is equal to a maximum of 2.6 % of its GDP³, Albania theoretically as an EU member state could, at current GDP levels⁴, receive a maximum 283 million EUR per year.

The experience in previous EU enlargements shows that many accessing countries, especially during the early post-accession years, have faced difficulties in absorbing EU funds from the EU budget. The major problems in using allocated EU funds have been lack of a coherent long-term strategy of national development at government level, lack of resources to co-finance projects, inefficient or in some cases absent horizontal and vertical coordination among ministries and different levels of governance in countries, and limited capacities in project/program planning and implementation.

Along with systemic shortages, a lack of skilled human resources pacifically engaged in management of EU funds in national, regional and local administrations has also been a problem. Therefore, this article aims at identifying shortages of so-called classical methods of allocation of EU assistance, and provides valuable recommendations for increasing recipient country absorptive capacity.

2. Experiences related to absorption of pre-accession EU funds. Case study of Slovakia

2.1. Absorption situation in pre-accession period (1995 – 2004)

Slovakia applied for EU membership in 1995. During nine years of reforms Slovakia managed to create administrative structures capable of implementing legislation harmonized with the *acquis* and fulfilled all necessary requirements for EU membership in May 2004. As in other similar accessing countries, the required reforms have been implemented with the support of EU pre-accession instruments for economic development (PHARE), environment and transport (ISPA) and agricultural and rural development (SAPARD).

In the period 1990-2007, the European Commission, via the PHARE program, committed 717.6 million EUR to Slovakia, with an absorption rate of 91.42% in the period 1990-2006⁵. The same is not achieved when referring to ISPA, where in the period 2000-2006, out of a total value of 637,451,738 million EUR only 60% of committed funds for Slovakia had been disbursed.⁶

³ The case of Croatia, in 2015.

⁴ As per Macroeconomic and Fiscal Framework 2018-2020, the GDP for 2016 is 10.9 Billion EUR

⁵ European Commission, Commission Staff Working Document Annexes to 2007 Annual Report on PHARE, Turkey Pre-Accession Instrument, CARDS and Transition Facility Country Sections & Additional Information Brussels, 2008

⁶ Report from the Commission Annual Report on the Cohesion Fund (2006) com(2007) 678 final, Brussels, 2007

The total allocation for Slovakia in the period 2000-2004 from the SAPARD fund was 77million EUR and 327 projects were completed by the end of 2004 i.e. one third of the total number of approved projects⁷. The absorption rate of SAPARD funds for Slovakia was 41.5% as of the end of 2004.⁸

As the absorption level shows, Slovakia has faced several challenges in using pre-accession assistance. Various European Commission Evaluation Reports show that the PHARE financial instrument to a large extent has been effective in influencing change and modernization of infrastructure, practices and procedures in all sectors. PHARE implementation in Slovakia is considered to have been particularly successful in areas such as the environment and internal market. This was not the case for some sectors such as cross border cooperation, agriculture, and social affairs and human resources development. It is important to emphasize the significance of the Twinning type projects which were successfully used in many priority areas and helped Slovakia to prepare for the implementation of EU policies and laws.⁹

As in most candidate countries, applied mostly to Albania also, the public sector in Slovakia has experienced major problems in recruiting and retaining highly qualified and motivated staff capable of managing EU funds effectively and efficiently. In addition, a huge administrative and human capacity problem was observed in central and local public administration and among applicants. Relevant studies related to candidate countries' absorption capacities reveal that the best overall performance regarding available personnel was in Hungary and Estonia and the worst in Slovakia.

A lack of human resources caused concern and drew criticism from the European Commission as to the adequate preparation of the Slovak Republic for EU Cohesion policy. The Slovak government reacted by launching intensive recruitment programmes in all relevant ministries and set aside additional financial resources to increase salaries of employees working with the EU agenda in order to prevent staff levels fluctuating.¹⁰

As a result the number of newly employed staff was even higher than the European Commission had recommended, but it was difficult to recruit staff with adequate knowledge, experience and background or to train them in a short period of time. All these problems which were related to a lack of administrative capacities posed a threat to efficient and sound implementation of the 2004-2006 programmes.¹¹

Additionally, weak administrative capacity for absorption of EU funds in Slovakia was caused by problems in inter-ministerial coordination, persistent lags in legislative adaptation while other problems delayed the preparation, coordination and adoption of necessary strategic and project documentation. For example, there were substantial difficulties regarding ISPA environment

⁷ Stanislav Buchta PhD, Regional aspects of SAPARD programme implementation in the Slovak Republic, AGRIC. ECON. – CZECH, 51, 2005 (12): 539–546

⁸ Commission Staff Working Document Annex to the SAPARD Annual Report – year 2004 {com(2005) 537 final}, Brussels, October 2005

⁹ Commission staff working document Annexes to 2004 report on PHARE {com(2005)701 final} Brussels, 2005

¹⁰ Vladimír Benc Readiness of the Slovak Republic for EU regional policy, Conference Almanac- Readiness of Candidate Countries for EU Regional Policy, Slovak Foreign Policy Association SFPA, 2003

¹¹ Slovakia and Cohesion Policy, Karol Frank, Veronika Hvozdíková and Vladimír Kvetan, From Policy Takers to Policy Makers-Adapting EU Cohesion Policy to the Needs of the New Member States, Swedish Institute for European Policy Studies, September 2005

projects in Slovakia as, largely because of a lack of suitable projects, it took two years to start the projects.¹²

2.2 Absorption situation in Post-accession period (2004 – 2008)

On the basis of the decisions of the Copenhagen European Council of December 2002, 1.1 billion EUR was allocated to Slovakia from EU Structural Funds and some 0.6 billion EUR from the Cohesion Fund. Implementation of Structural and Cohesion funds has been carried out under the sole responsibility of Slovak authorities applying national procurement rules since October 2004. In terms of the absorption of the 2004-2006 funds, Slovakia was not particularly efficient in the first two years. By the end of 2006 cumulative execution rates were 36.3% of the total budgets available. At the same time, for example, Estonia, Slovenia and Hungary reached rates of 51.4%, 51.4% and 49.7% respectively. The average execution rate for the 10 new EU member states by the end of 2006 was 39.3%.¹³

However, by the end of 2008 - the fifth year of implementation of 2004-2006 programmes - Slovakia had reached a cumulative execution rate of 93.4% while the 10 new EU member states had an average cumulative execution rate of 94.8% - one percentage point below the 10 new EU member states' average execution rate. In addition to this it should be noted that in 2007 and 2008, 15 out of 25 EU countries registered N+2 de-commitments but only one of them was an EU-10 country: Slovakia. In Slovakia's case only one Objective 3 program was affected by an N+2 de-commitment of 8 million EUR in 2007 and 2008.

Moreover, Slovakia has had N+2 de-commitments higher than the EU-25 average of 0.68 %.¹⁴

In its first year after accession, Slovakia continued to implement both pre-accession and post-accession assistance to address the remaining needs related to institution building for the implementation of the *acquis*, in line with the Extended Decentralized Implementation System (EDIS). As already outlined, institutional and administrative capacities were suboptimal during the pre-accession period and apparently deficient for simultaneous implementation of two different EU financial instruments (pre-accession and Structural Funds) in the first years of Slovak EU membership.

Finally, one very specific characteristic of the Slovakian experience of EU funds use was unprepared regional structures in the EU funds management system. This led to many deficiencies in vertical coordination between managing structures and final beneficiaries. The delay in implementing the fiscal decentralization reform caused problems connected to the preparation of regional structures for regional development management. Although administrative regionalization of the country was not necessary for the use of Structural funds, Slovakia has significantly transferred competencies and responsibilities for implementing regional policy to newly established self-governing regions. At that point, self-governing regions lacked experience of programming and planning at regional and local levels and, moreover, there

¹² Slovakia and Cohesion Policy, Karol Frank, Veronika Hvozdíková and Vladimír Kvetan, From Policy Takers to Policy Makers-Adapting EU Cohesion Policy to the Needs of the New Member States, Swedish Institute for European Policy Studies, September 2005

¹³ European Commission Directorate-General Budget, Analysis of the budgetary implementation of the Structural Funds in 2006, Brussels, May 2007

¹⁴ For the programming period 2000-2006 N+2 de-commitments are regulated by article 31.2 of Council Regulation (EC) N° 1260/1999, known as the N+2 rule. The implementing rules are set in Commission Communication C(2002)1942, as amended by Commission Communication C(2003)2982

was a shortage of time to build up administrative capacities to participate efficiently in the creation of national programming documents and implementation of Structural funds.

3. Capacities of Republic of Albania for absorption of pre-accession EU funds – Instrument for Pre-accession Assistance (IPA) 2007-2013

In 2007 the EU introduced a new financial instrument for the pre-accession process for the period 2007-2013. During this budgetary period pre-accession funding is channeled through a single, unified instrument, the Instrument for Pre-accession Assistance (IPA), designed to deliver focused support to both candidate and potential candidate countries. According to the IPA programming 2007-2013 the allocation for the Republic of Albania was around 591 billion EUR. As a potential candidate country the Republic of Albania benefited from IPA components I and II. Only with the new IPA 2014-2020 framework Regulation, IPA components III, IV and V were available to all EU candidate countries which had to establish a certified Decentralized Management System (DMS) for EU funds.¹⁵

IPA is being implemented by the EU Delegation in Tirana, which has also taken over responsibility for past CARDS assistance from the European Agency for Reconstruction, which ceased to exist on December 31, 2008. Along it, the Albanian government has actively increased the participation in the programming of IPA funds in Albania, through Ministry of Integration as National IPA Coordinator.

To increase the impact of IPA assistance, the Commission has decided to concentrate its efforts on six targeted sectors, as outlined in the MIPD 2011-2013: 1. Justice and Home Affairs; 2. Public Administration Reform; 3. Transport; 4. Environment and Climate Change; 5. Employment and Social Inclusion; 6. Agriculture and Rural Development. Under the IPA 2007-2013 Programme, all sectors are covered by a set of projects or sector programmes, showing a balanced approach between capacity building (technical assistance) or investments (infrastructures). In the last years of IPA 2007-2013 programme, Albania has dedicated a lot of efforts to achieve the accreditation for the management of IPA funds under Component I (decentralized management). The EU transferred the management of IPA funds to national authorities under the Decentralized Management (DM) once the Albanian government assumed capacities and responsibilities during the accreditation period. More precisely, DM involves the transfer of responsibilities from the Commission to the Contracting Authority of the beneficiary country. Contracting Authority was responsible for tendering and contracting, and financial and administrative management of projects. The objective of decentralized management in the context of pre-accession strategy was

¹⁵ IPA consists of 5 components: IPA I - Institution Building and Transition Assistance: involves institution building measures and associated investment, as well as transition and stabilisation measures still necessary in the Western Balkans. It is delivered through annual national and multi-beneficiary programmes; IPA II - Cross-Border Cooperation: supports cross-border cooperation at borders between candidate/potential candidate countries and between them and EU countries. It may also fund participation of beneficiary countries in Structural Funds' trans-national co-operation programmes and Sea Basins programmes under the ENPI as appropriate; IPA III - Regional Development: finances investments and related technical assistance in the areas of transport, environment and regional competitiveness; IPA IV - Human Resources Development: is designed to strengthen human capital and help combat exclusion similar to the ESF in Member States; IPA V - Rural Development [referred to as IPARD]: serves to emulate post-accession Rural Development programmes by financing rural development-type measures, similar in nature to these programmes, though smaller in scale.

to improve ownership and enable the candidate and potential candidate countries to self-implement EU funds.

The effective decentralization of IPA management (i.e. the transfer of management power from the EU delegations to the beneficiary country) required the establishment of new structures and designation of authorities responsible for implementation of IPA funds. These authorities and structures are already established and functional.¹⁶ Albania in this process adopted the "Roadmap for the decentralization of the management of EU funds" and as result, IPA 2013 was the first Programme partly implemented under decentralized mode as a pilot exercise for the national IPA structures.

The establishment of institutional structures, with the exception of the Audit Authority, and key appointments of a national IPA coordinator (NIPAC), strategic coordinator for regional development and human resources development components (SCO), competent accrediting officer (CAO), national authorizing officer (NAO) and national fund (NF), were carried out as required by the DM Road map. Even though, Albania walked through a well-defined roadmap, and had the opportunity to learn from other more advanced candidate/accessing countries, there have been identified several problems.

Firstly, overall absorption capacities have been low, and still is. According to the Prime Minister's Office / DDPFFA¹⁷ the disbursement level in 2014 account for 47% of committed fund from all donors. In the same year, the disbursement for EU/IPA 2007-2012 funded projects is at the level of 45%. This is identified at key sectors/ministries such as Transport, Water and Sewerage, Justice and Home Affairs.

Secondly, timely planning of future assistance is essential to address key areas. Past experience with delays in implementation of CARDS and IPA has shown the need to ensure that projects do not become obsolete because of late implementation. Furthermore, project preparation is a complex process which requires significant time and human resources, especially in case of large infrastructure projects. Investment projects require the complex expertise by all involved stakeholders. Experience has also proven that the adequate preparation of a project is of the outmost importance for the later stages. The risk of delays or failures in implementation is higher in inadequately prepared projects. The lessons learned showed that there is a need to enhance the capacity of all relevant stakeholders in project preparation and implementation.¹⁸

Thirdly, the government and all ministries individually provided not sufficient level of support to all DM stakeholders and showed a poor understanding of the crucial role that they play in the successful management of EU funds in Albania. This situation constantly jeopardizes efficient use of EU funds in Albania and slowed down the efficient establishment of DM structures. There was an issue related to the recruitment of adequate personnel for efficient functioning of DM structure. This problem is related to current civil service salary scales that are low for the type of high quality staff urgently required for adequate functioning of DM institutions. Moreover, current restrictions on the employment of civil servants due to Albanian government obligations in the framework of an IMF financial arrangement could have been a serious obstacle to progress towards meeting the set deadline for DM accreditation. As matter of fact, this is partly addressed

¹⁶ Neritan Totozani, Challenges Of The Indirect Management Of EU Funds In Albania, European Scientific Journal, March 2016

¹⁷ Prime Minister's Office / DDPFFA, External Assistance Progress Report 2013-2014, Tirana, 2014

¹⁸ Neritan Totozani, Challenges Of The Indirect Management Of EU Funds In Albania, European Scientific Journal, March 2016

only lately (2017), with the revision of salary policies for Ministry of Finance structures, including the DM structures.

3. Conclusions and recommendations

Taking into account the objectives, instruments and precisely defined mechanisms for management of EU funds, it is not difficult to conclude that the success of their management depends exclusively on the capacities of the candidate countries to take the opportunities that the EU funds provide. Slovakia's practical experiences in the process of preparation for management of EU funds show that in spite of a relatively long preparatory period significant difficulties were still encountered in the initial years of EU membership (2004-2006). This illustrates that the preparatory phase of a candidate country is of enormous importance for the creation of efficient capacities for absorption of EU funds in the country. Moreover, it is of utmost importance that a policy for strengthening administrative capacities for using EU funds is quickly adopted at the highest political levels.

Once a member country, Slovakia's experiences show that efficient absorption of structural funds depends largely on the success of reforms of administration at national level reflected in a strengthening of administration to define efficient frameworks for managing long-term sector policies, enhancing inter-ministerial coordination, qualitative defining of national development programmes and improving human resource capacities to implement them.

The key to success was timely recruitment and adequate salaries of staff engaged in administrative structures assigned for EU funds management. Here it is important to note that continuity in personnel is very important as it enables the administration to build up a knowledge curve and helps new staff reach certain levels of knowledge as soon as possible.

In conclusion, it is of the utmost importance that the government provides competitive remuneration levels as well as an attractive career path for civil servants dealing with the management of EU funds in the country. Additionally, it is necessary to establish the recruitment and training mechanism of staff engaged in various DM institutions as quickly as possible to provide the necessary numbers and quality of required personnel.

As per Albanian government's experience in the initial years of using IPA funds and during preparation for IPA components III and IV showed that technical documentation for large investment projects at local level were not completed in a number of cases. In order to develop a pipeline of potential projects, line ministries must be very proactive in cooperation with relevant stakeholders at local, regional and national level and improve inter-sector cooperation with other line ministries during the programming and implementation of IPA funded projects.

Given the current experience in Albania and lessons learned from other countries, we can draw some recommendations:

- More ownership is needed by national authorities so that they are fully committed to the objectives and undertake the necessary reforms and actions for quality programming and implementation of all pre-accession funds as well as other funds after accession;
- Increase coordination between central institutions (Ministry of Integration, Prime Minister's Office / DDPFFA, Ministry of Finance and Key Line Ministries) and local authorities, as well as other stakeholders such as civil society.

- Ensuring a stronger link between Medium Term Budgeting, EU financing and strategic framework as a way to a better streamlining of IPA funds. This allow to have complementarities of funds and increased leverage to achieve results
- Further support to innovative mechanism for IPA funds implementation such as: Budget Support; Finance Programming via Sector Wide Approach; Joint programming (EU-Government Unit-Local Government Units); Strengthening National Investment Committee and Single project Pipeline mechanism.
- Ensuring professional, efficient and sustainable national administration which must meet EU rules on procurement and as well as function as Member States in the light of Structural Funds.
- Adequate involvement of NGOs and other relevant stakeholders in monitoring structures in order to reaffirm the transparent use of EU funds and prevent corruption. This includes the increase of capacities in the evaluation and impact assessment culture. The Albanian government must actively encourage development of own central and local, independent evaluation expertise found either in the private or NGO sector.

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THE BENEFITS OF ALBANIA FROM THE EUROPEAN UNION COHESION

POLICY AND THEIR SIGNIFICANCE

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ABSTRACT

The Functioning of the European Union as a whole requires low social and economic disparities between participating countries and regions. Cohesion has evolved as an important issues to be addressed, especially at the beginning of the EU enlargement process when the differences between the founding members and the new ones that aimed to be part of this organism emerged. In order to support solving it, the EU Cohesion Policy was developed as an instrument that aimed to reduce economic and social disparities between different regions of the EU.

Despite the assistance to member countries the EU provides support even for those that have received the EU candidate status, in order for them to implement the necessary reforms. Albania, as an EU candidate country, has received support to improve economic growth, competitiveness and technological development.

This paper aims to analyze the benefits of Albania from the funds assigned by the EU for social and economic cohesion during different time periods, highlighting the main areas and sectors where funds are used. The main objective of the study is to make evident the importance of these funds and how they affect improvement in certain sectors, highlighting the deficiencies that cause their not fully-efficient use.

Keywords: *cohesion, inequality, EU funds*

JEL Classification: *F35, F42, F15*

1. Introduction

1.1 Outline of the EU Cohesion Policy

The Cohesion Policy is to accelerate and facilitate the process of real convergence between regions. The need for such a policy is shown in sustained differences in economic development among Member States of the EU -27.

The idea of the EU Cohesion Policy, initiated along with the Treaties of Rome in 1957, was intended to enhance socio - economic cohesion among regions of the Member States by supporting development of the poorest areas of the Community. The implementation of the Policy was to be realized by Structural Funds, established as financial instruments for individual sectors of the economy.

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In 1964, the European Agricultural Guidance and Guarantee Fund was created. Along with subsequent accessions to the European Community, divergence within the Community continued to increase, leading to the intensification of efforts to increase cohesion.

Structural Funds launched in 1989. It was then that the official policy goals were formulated: to promote economic growth in the poorest regions of the Community, promote entrepreneurship, and improve the quality of the environment in industrial areas; flexible programs focusing on labour market policies, and acceleration of the structural adjustment of agriculture to reforms within the Common Agricultural Policy.

In 1993, according to the provisions of the Treaty of Maastricht, a new instrument was incorporated into the Cohesion Policy – the Cohesion Fund. It was meant to support large investments, primarily in the area of infrastructure and environmental protection in less developed countries of the Community.

Another reform of the Cohesion Policy was carried out in 1999 and was associated with preparations for the accession of 10 countries which took place in 2004.

In 1999 the following objectives for the EU cohesion policy were formulated:

Objective 1: Promoting development and structural adjustment of regions lagging behind,

Objective 2: Supporting the economic and social conversion of areas facing structural problems,

Objective 3: Supporting the adaptation and modernization of policies and systems of education, training and employment.

In 2000 and 2001 the European Union adopted the Lisbon Strategy, revised in 2005. The aim of the Strategy was to make the European Union within 10 years the most dynamic and competitive knowledge based economy in the world capable of sustainable economic growth with more and better jobs, greater social cohesion, and respect for the environment. Three priority lines of action adopted for the implementation of the strategy included: development of knowledge and innovation, development of the EU's attractiveness as a place to invest and work, and to develop mechanisms to enable businesses to create more and better jobs. At the same time, the EU's cohesion policy objectives were reformulated and defined as:

1. Convergence (eliminating the gaps to the least developed Member States and regions supporting real convergence);
2. Regional competitiveness and employment;
3. European territorial cooperation.

The next financial perspective for 2014-2020 is designed in the context of the Europe 2020 Strategy, which includes the following priorities as stated by the European Commission, (2010):

1. Smart growth: developing an economy based on knowledge and innovation;
2. Sustainable growth: promoting a more resource efficient, greener and more competitive economy;
3. Inclusive growth: supporting the economy with high levels of employment, ensuring social and territorial cohesion.

The priorities for Europe 2020 are partially consistent with the priorities of the Lisbon Strategy: the most important are as still include competitiveness, building a knowledge based economy, the environment, high employment and social cohesion. The new strategy, however, placed greater emphasis on strengthening the digital society, developing research and innovation, the rational use of natural resources, developing entrepreneurship and competitiveness, while maintaining the objectives of employment growth and poverty reduction.

2. Albania's access to EU Cohesion Funds

An important principle of the EU is solidarity between member states and EU candidate countries, which is being implemented through cohesion policy and the application of "internal" and "external" cohesion instruments. Cohesion policy aims to reduce social differences (i) between internal regions within the EU by using "internal" cohesion instruments, and (ii) between member states on the one hand and candidate countries in the other side by using "external" cohesion instruments. As part of a region that has the clear commitment to full membership in the EU, Albania has access to IPA funds. The purpose of this assistance is not just development but the preparation of the country for EU membership and within this context also for the EU Cohesion Policy.

The Instrument for Pre-accession Assistance (IPA II) is the main financial instrument to provide EU support to the beneficiaries in implementing reforms with a view to Union Membership. The IPA II Regulation, according to the European Commission (2014), states that financial assistance shall mainly address five policy areas:

- a) reforms in preparation for Union membership and related institution-and capacity-building,
- b) socio-economic and regional development,
- c) employment, social policies, education, promotion of gender equality, and human resources development,
- d) agriculture and rural development, and
- e) regional and territorial cooperation.

In order to increase its impact, EU financial assistance is concentrated on the areas where reforms or investments are most needed to meet accession criteria, and tailored to take into account the capacities of Albania to meet these needs. Assistance is planned in a coherent and comprehensive way with a view to best meeting the four specific objectives and address as appropriate the thematic priorities for assistance.

3. Allocation of funds between countries and between components in Albania

3.1 Allocation of funds between countries

The starting point for allocations in 2007 was a commitment by the Commission to ensure that no beneficiary country would receive less in 2007 than they did in 2006 and furthermore that Bosnia and Herzegovina and Albania should receive no less than the annual average of the funding each received between 2004 and 2006.

For Montenegro, the per capita levels of funding are higher than for other potential candidate countries, reflecting a minimum level of funding needed for adequate administrations, irrespective of the size of the country.

The global breakdown of funds between countries has been respected with the exception of Kosovo which received increased IPA funding. During the period 2007 – 2013, about 639 million were granted by the budget authority as part of a wider mobilization of new funds to support the stability and development of Kosovo.

For Croatia and the Former Yugoslav Republic of Macedonia, as candidate countries, a level of over €30 per capita (in 2004 prices) is allocated. This level is maintained across the period for Croatia. For the Former Yugoslav Republic of Macedonia, the funding in per capita terms continues to increase, reflecting a minimum level of funding needed for building adequate

administrations, irrespective of the size of the country. Albania received during this period about 600 million, an amount that is less than all the other regional countries, except Montenegro. While Serbia is the one who has benefit more, with about 1400 million euro granted for 2007-2013 period.

Table 1: Allocation by country during years 2007-2013 (million EUR)

	2007	2008	2009	2010	2011	2012	2013	Total
Croatia	141.2	146	151.2	153.6	156.5	159.7	163	1071.2
FYR of Macedonia	58.5	70.2	81.8	91.7	98	105	117.2	622.4
Albania	61	73.8	81.2	94.2	94.5	96.3	98.2	599.2
Bosnia and Herzegovina	62.1	74.8	89.1	105.4	107.5	109.5	111.8	660.2
Montenegro	31.4	32.6	34.5	33.5	34.2	34.8	35.5	236.5
Serbia	189.7	190.9	194.8	198	201.9	205.9	214.8	1396
Kosovo	68.3	184.7	106.1	67.3	68.7	70	73.7	638.8

Source: European Commission.

3.2 Allocations between Components in Albania

IPA is delivered through five components. Component I, Transition Assistance and Institution Building, covers all institution building actions and the investments related to the *acquis communautaire*; it helps beneficiary countries build up administrative and judicial capacity and addresses, according to priority, cooperation measures not expressly covered by other components. Component II, Cross-Border Cooperation, supports cross-border activities among beneficiary countries and between beneficiary countries and Member States;

Component III, Regional Development, emulates to the greatest extent possible the ERDF and Cohesion Fund. Component IV, Human Resources Development prepares candidate countries for the European Social fund, in the framework of the European Employment Strategy.

Component V, Rural Development, helps the candidate countries prepare for post-accession EU-funded rural development programmes by implementing pre-accession assistance through systems which are as similar as possible to those required post accession.

As a country that has not received the candidate status during 2007-2013, Albania has benefit budget destined for only two components; Component I, Transition Assistance and Institution Building with an amount of about 533 million and Component II, Cross-Border Cooperation with about 66 million euro as presented in Table 2.

Table 2: Allocation of Funds for Albania during 2007-2013 (million EUR)

	2007	2008	2009	2010	2011	2012	2013	Total
Transition Assistance and Institution Building	54.3	65.2	71.4	84.2	84.3	86	87.5	532.9
Cross-border Co-operation	6.7	8.5	9.8	10	10.2	10.3	10.7	66.2
Total	61	73.7	81.2	94.2	94.5	96.3	98.2	599.1

Source: European Commission

In view of the progress made since then by Albania, the Commission recommended in October 2013 that the Council should grant Albania the status of a candidate country on the

understanding that Albania would continue to take action in the fight against organized crime and corruption. In June 2014, the European Council granted candidate status to Albania.

Albania's economic situation requires strengthening of economic governance to progress towards gradually becoming a functioning market economy.

Taking into account Albania's own needs assessment as well as the Commission's findings, pre-accession assistance for the period 2014-2020 will focus on governance and the rule of law and competitiveness and growth.

▪ **Governance and the rule of law**

Governance and the rule of law have been identified in the Commission's progress reports on Albania as well as in Council conclusions as key challenges Albania will have to address on its way to accession. Concerning democracy and governance, there is a need to further strengthen democratic institutions in particular the role of the parliament for national consensus building. A key issue to be addressed concerns Albania's public administration, including Public Administration Reform (PAR) process and its coordination, policy-making, and civil service and public administration organisation and functioning both at central and local level.

Civil society needs further strengthening, including capacity building and encouraging of the creation of an enabling environment for its development and greater involvement of stakeholders in reforms, including through greater transparency of government action and spending.

▪ **Competitiveness and growth**

The global economic crisis has underlined the need for Albania to strengthen its economic governance in particular the policies towards competitiveness and growth. In this regard, several related sectors need to be supported:

In the environment and climate action, transport, and energy sectors, Albania needs to build further capacities to manage these sectors in order to prepare and enforce policies in line with EU legislation and best practice. Concerning transport, priorities are to ensure the completion and maintenance of existing infrastructure of the South East Europe Transport Observatory (SEETO) comprehensive network, the connectivity to the trans-European transport network, and to address safety issues in all modes of transport.

With regard to the energy sector, there is a need for reforms in order to ensure the smooth functioning of the overall system and the good governance of the sector. Climate action represents a cross-sector element that applies to most sectors in the Strategy Paper, notably transport, energy, agriculture and rural development, as well as disaster management.

The low levels of productivity and competitiveness as well as of the living conditions in the rural areas require support within the agriculture and rural development sector. A preparation of administrative structures able to provide services and manage funds in line with the EU agricultural policy is required.

Economic growth needs strengthening in order to foster the competitiveness and innovation, through strengthening the innovation capacity in general and in particular through the development of small and medium sized enterprises.

The sector education, employment and social policies equally require support, notably for achieving inclusive growth. Beyond informal employment and low participation, there is a need to clearly establish the challenges of the labour market and design relevant capacity building accordingly. The data in Table 3 are indicative allocation as presented by the European Commission (2014).

Table 3: Indicative Allocation of Funds for Albania during 2014-2020 (million EUR) per policy areas and sectors

areas and sectors

	2014	2015	2016	2017	2018-2020	Total
Reforms in preparation for Union membership	78.7	59.9	12.7	74.9	94.3	320.5
Democracy and Governance	157.2				66.3	223.5
Rule of Law and Fundamental Rights	69				28	97
Socio-Economic and Regional Development	0	18	50	0	100	168
Environment	34				34	68
Transport	18				38	56
Energy	0				0	0
Competitiveness and Innovation	16				28	44
Education, Employment, Social Policies and Human Resource Development	5	0	14	0	50	69
Education, Employment and Social Policies	19				50	69
Agriculture and Rural Development	0	9	13	18	52	92
Agriculture and Rural Development	40				52	92

Source: European Commission

4. The importance of IPA funds received by Albania until 2015

The drafting and implementing institutions of the European Union Cohesion Policy and other financial support instruments acknowledge that one of the major constraints is the lack of accurate indicators that measure the impact of these funds and the extent to which the set objectives are met. This is also true as the areas in which these projects are implemented are very different. However, this paper tends to make an appraisal of the amount of funds received by our country in comparison with the total public investment. As indicated in the table below, IPA funds represented from 11% (2008) to 22% (2012) of the total public investment in the country, as published by the Ministry of Finance of Albania (2016).

Table 4: The Importance of IPA funds compared to Total Public Investment in Albania

Year	Public Investment	IPA Funds	IPA Funds/Public Investments (%)
2007	57040	8540	15.0
2008	93783	10318	11.0
2009	95881	11368	11.9
2010	67492	13188	19.5
2011	70679	13230	18.7
2012	61655	13482	21.9
2013	65477	13748	21.0
2014	60749	11718	19.3

2015	61622	12166	19.7
2016	59988	12558	20.9

Source: European Commission, Ministry of Finance, Author's Calculations

5. Problems that Albania faced during benefiting from IPA funds

The entire process of applying, benefiting and implementing projects funded by the European Union in the country has encountered problems for all the institutions involved. Some of them are listed below, but the main of them is consider co-financing. Co-financing is one of the obligations to be met by all project beneficiary institutions. Inadequate planning or lack of budget for co-financing has led to non-realization of some activities that have directly impacted the implementation of the entire project.

Providing relevant permits for infrastructure projects and land ownership are also very important for implementing a project. Due to the frequent change in the legal framework for various permits prior to the start of construction, some infrastructure projects have had problems in their implementation.

Another commonly encountered problem is the value added tax (VAT). The ambiguity in Albanian legislation is as in the case of co-financing, some institutions do not plan this payment, affecting the delay in carrying out the activities.

Co-ordination among beneficiaries is a problem that faces those projects that have more than one beneficiary. Failure to clearly define the responsibilities of each beneficiary institution affects the proper implementation of the project.

The administrative capacities to plan and then follow the implementation and monitoring of projects are often considered inadequate. This problem becomes more important after the decentralization process, when Albanian institutions will be themselves responsible for the entire management cycle.

6. Conclusions and Recommendations

This paper is intended to show the benefits of Albania from the financial support of the European Union, within the framework of economic and social cohesion. Following the analysis of the data available, a number of conclusions were reached and relevant recommendations were made.

Despite the lack of accurate indicators, the amount of IPA funds is clear, reflecting the large share of these funds on total public investment in Albania. These funds account for about 20% of the total public investment of each year, being valued as a major source of their funding. The value gained has increased, even our country is not among the main beneficiaries compared to the other countries in the region,. The main problems identified include: co-financing, the lack of transparency of the legal framework regarding fiscal obligations, property rights and lack of capacities. As a result, it is recommended to improve all these indicators by increasing the opportunities for these funds to apply them in an efficient way, thus guaranteeing social and economic cohesion.

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BREXIT – IMPLICATIONS FOR SOUTH EAST EUROPEAN COUNTRIES

Ela Golemi¹
Alma Shahini²

ABSTRACT

The paper aims to identify and evaluate the risks to which the South East European (SEE) Region is exposed to *Brexit*, the so-called process of leaving the European Union (EU) from United Kingdom (UK). The exit of the UK from the EU is estimated to have potential negative effects on the economy and financial system of the SEE Region. An exhaustive assessment of the consequences is difficult and surrounded by uncertainty related to unknowns that will accompany the process of exit. The impact of *Brexit* on SEE Region would be divided into two groups: (i) *direct effects*, deriving from economic, trade and financial links that SEE countries have with the United Kingdom; and (ii) *indirect effects*, deriving from the consequences that *Brexit* could cause to economies and financial markets of Europe and beyond. The analysis concludes that *Brexit*, will have marginal direct impact on the economy, trade and financial sector of SEE countries, but the region remains potentially exposed indirect from *Brexit*'s effects in Europe. From a longer-term perspective, the SEE region stands to lose if *Brexit* weakens EU integration process as a policy anchor of SEE countries and induces a tightening of EU regulation, with adverse effects on trade and cross-border finance. Brexit could jeopardize the EU itself.

Keywords: BREXIT, financial impact, trade and real sector exposure, political economy

JEL Classification: F17, F51, F62, G12.

1. Introduction

On 23rd June, 2016 in the United Kingdom was held a referendum to decide whether the country will remain in the European Union or will leave it. The result of referendum showed that the majority of people, about 52% of it, voted pro-exit from the European Union, ending a 40-year relationship with it. Britain's position came as a requirement of the population concerned of the consequences of the economic and financial crisis and new waves of migrations. The main arguments pro Brexit (combination of Britain and Exit) were : (i) *economy*: It is easier for Britain to sign economic and trade agreements with other countries as a single and independent actor. EU exit would facilitate the negotiation procedures with countries like China and Russia to establish agreements based solely on the British national interest. On the other hand, the country will be liberated from the burden of contributing to the Union's budget, and it will facilitate taxpayers making Britain to save £ 20 million every day. (ii) *political freedom and governance*: Britain is considered as the mother of parliamentary democracies, and for Brexit supporters EU decision-making and the decisions of the Commission unelected by the people, simply violates the autonomy and the freedom to decide for themselves on important issues for the country; and

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(iii) *Full control of border*: the number of those who come to Britain, exceeds the number of British citizens who go to live and work in other EU countries. Another problem remains even illegal immigrants and terrorists who find it easier to come to Britain, even though Britain is not in Schengen. With the emergence of the EU country takes full control of borders, and may impose conditions and acceptance of foreigners and refugees on its territory.

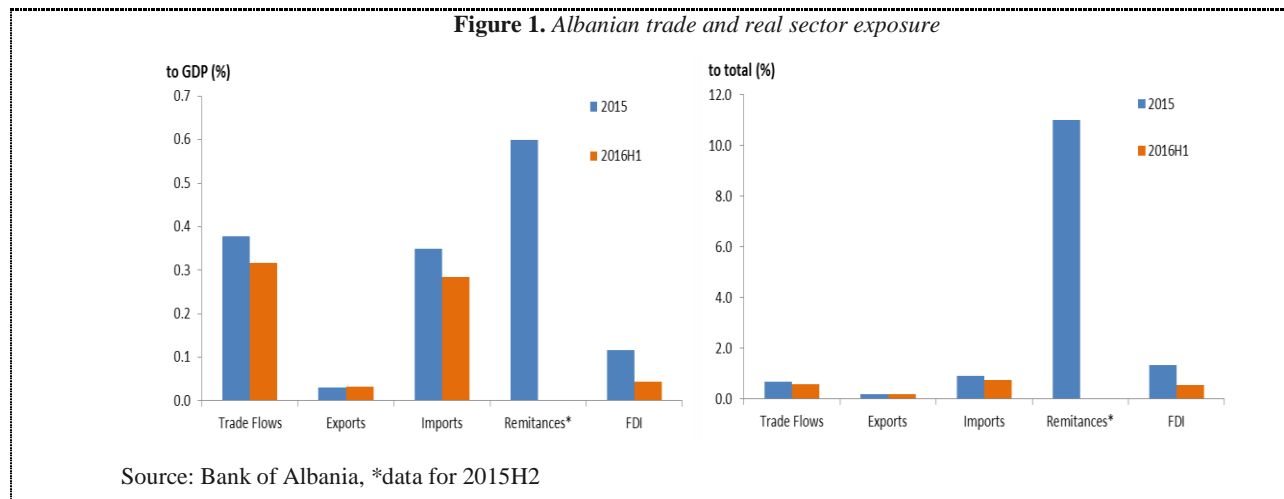
Currently, the United Kingdom has not yet begun the process of legal divorce papers from the European Union; this process will be gradual and will take time. Exit from the EU would then be placed on implementing Article 50 of the Lisbon Treaty, which imply the use for the first time of this article. According to this article, "Any member state may choose to withdraw from the Union in accordance with its constitutional requirements". But the process continues with negotiations with the other EU member states on the withdrawal conditions and within two years the country has to have reached an agreement with the EU. Being that Brexit is the first time that this process will be placed on implementation, no one can predict whether two years is a sufficient period to reach an agreement. Many experts believe that this issue is very complex and difficult to be completed within the period prescribed by law.

The leaving of the United Kingdom from the European Union or the process of so-called "Brexit" could have potential consequences for the economy and financial system of SEE Region. Their full assessment is difficult and surrounded by high uncertainty mainly caused by large uncertainties that are associated with this process. The transmission channels of *Brexit* for SEE region theoretically can be *directly* from economic, financial and trade relations that the Region have with the UK, and *indirect*, from the consequences that Brexit could bring to economies of Continental Europe and global financial markets. In following we present a preliminary assessment of the potential direct and indirect impacts of "*Brexit*" organized in a such way: in section 2 we analyze Albania and SEE Region's exposure to UK; section 3 examines Political economy of *Brexit* and last section 4 reveals conclusions of the analysis.

2. Albania and SEE region's exposure to UK

2. a Impact of the direct effects on the Albanian economy

From a short-time perspective, the economy of Albania and South East Europe countries will remain uninfected by withdrawal of Britain from European Union. Trade relations with UK are almost non-existent, the number of immigrants in Britain is very low, and English investors have ever had in their radars SEE countries. But in the medium-term, if the exit of Britain from the EU would plunge in crisis the Europe and the whole world, today more interconnected, the consequences would become apparent quickly. Albania is closely connected with the rest of the European Union and cannot be saved without being infected. A simple example is what happened in 2008, although was not touched directly by the first wave of banking crisis due to low financial integration, the country suffered then an investment braking difficulties in exports and overall slowdown economic growth, even today, (the expansion is not expected more than 3%) continues to be far growth rates of 8% that came before the 2008's. The most visible effect could be a slowdown in the accession process to the European Union.



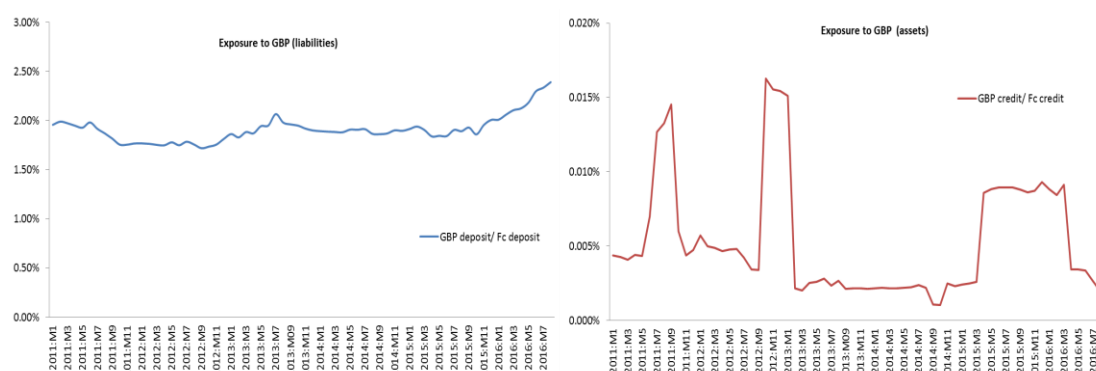
Trade flows with UK occupy a small share of total Albania's trade activity. The weight of imports and exports with the UK to respective totals are respectively 0.8% and 0.2%. Reduction or stoppage of Albanian exports to the UK will have a marginal effect on the Albanian economy. The stock of FDI originating in the UK was estimated at EUR 19.8 million in the year 2014. The expected investment is estimated in 0.44% of the total stock of foreign direct investment in Albania and around 0.2% of GDP in 2014. The withdrawal of these investments or curbing inflows of them would have an insignificant effect on the Albanian economy.

The latest complete information about the weight of remittances from residents in the UK belongs the second half of the year 2015. The estimates show that the share of remittances from UK to Albania is about 11% for the reference period, representing a value of 32.3 million euros transfer or 0.6% of nominal GDP. Complete stoppage of remittances is a low probability event. Meanwhile, their reduction could have marginal effects - although not completely negligible - at consumer level and pace of economic growth.

2. b The impact of the direct effects on the balance of the Albanian banking system

Brexit is associated with strong tendencies depreciating British pound (GBP), which further strengthened in the coming days. Theoretically, these trends ease the burden of credit-makers in GBP and diminish the value of savings (deposits) in GBP. Given their weight in the total volume of deposits and loans of the Albanian banking system, the intensity of the action of this channel seems negligible.

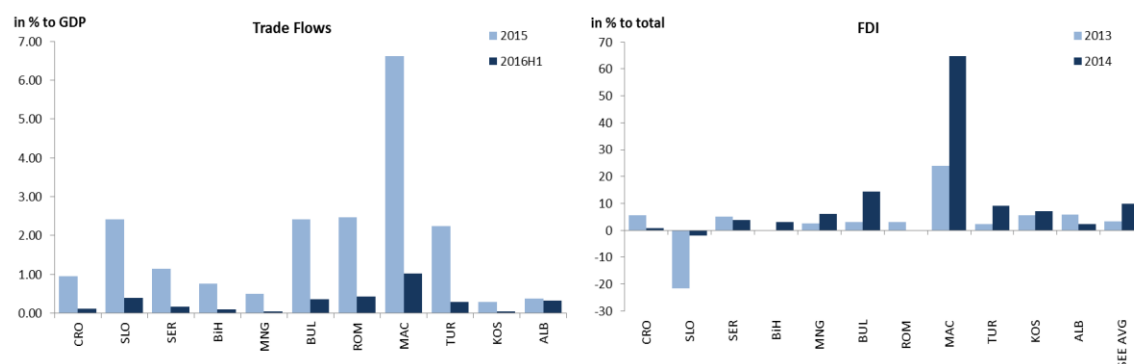
Deposits and loans in GBP comprise respectively 0.002% and 1.17% of the respective totals, according to data of the month April 2016.

Figure 2. Albania's financial exposure

Source: Bank of Albania

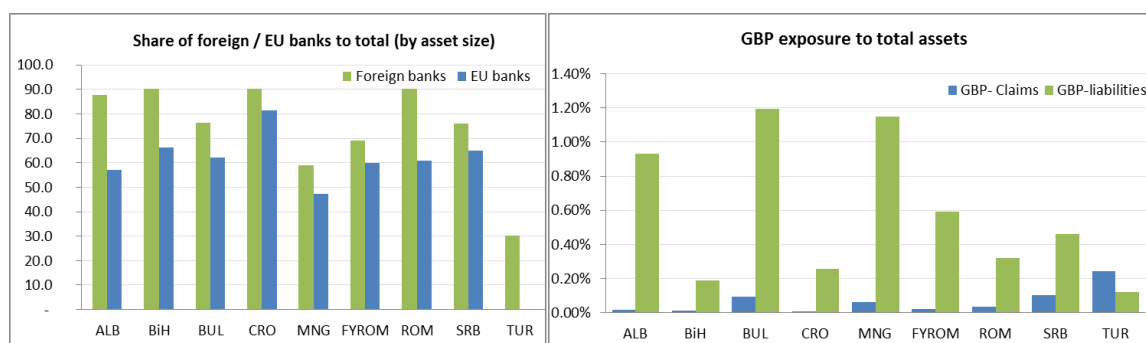
2. c From a regional perspective

The UK is not an important trading partner for the SEE countries, with the exception of Macedonia, the trade flows of which occupy about 6,7% of country GDP. For the other countries of the region, the trade flows with UK occupy not more than 2,8% of their GDPs (Fig.3). If we refer the Foreign Direct Investments (FDIs), the UK is also not a large source of FDIs in the region. The FDIs from UK occupy 8% of the total stock of foreign direct investment in SEE region. Macedonia is excluded, its stock of FDIs originating from UK were 62% of the total, as per 2014's data.

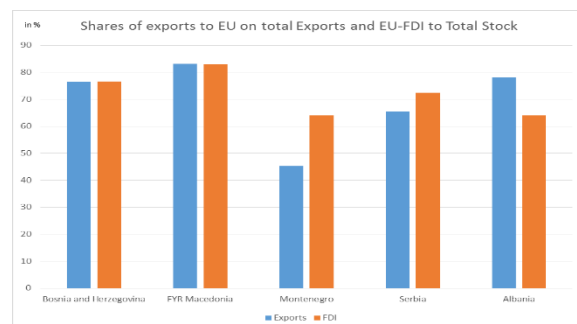
Figure 3. SEE real sector exposure to the UK

Source: Eurostat, respective central banks, Bank of Albania

Financially, the region is not exposed to fluctuations in the GBP, because in their balance sheets the claims and liabilities in GBP have a relatively low weight in respective totals, claims do not exceed 0.22% of total assets, while liabilities maximum occupy 1,20% of total liabilities (Fig4). Given their weight in the total volume of assets and liabilities of the SEE Region financial system, the intensity of the action of this channel seems negligible. So, from a regional perspective, the SEE's financial system exposure to the UK and GBP is fairly limited.

Figure 4. SEE financial sector exposure to the UK

Source: EIB, BSCEE, respective central banks, Bank of Albania

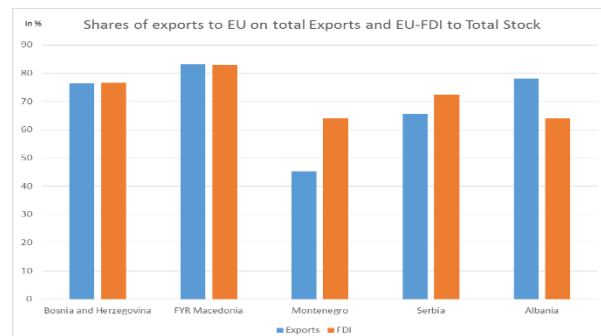
Figure 5. Regional exposure to EU

Source: Eurostat, WTO, Bank of Albania

Figure 6. Expected Brexit effect on EU**Cumulative GDP growth effects as % from baseline**

	Mild scenario		Severe scenario	
	2016	2017	2016	2017
UK	-0.3	-0.9	-0.6	-2.6
EA	-0.1	-0.2	-0.2	-0.5
EU27	0.0	-0.2	-0.2	-0.5
EU28	-0.1	-0.3	-0.3	-0.9

Source: European Commission. "The Economic Outlook after the UK Referendum", Institutional Paper032, July 2016

Figure 5. Regional exposure to EU

Source: Eurostat, WTO, Bank of Albania

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EU28	-0.1	-0.3	-0.3	-0.9

Source: European Commission. "The Economic Outlook after the UK Referendum", Institutional Paper032, July 2016

2. d Potential indirect impact via EU

Brexit indirect negative effects may be materialized in the form of one or more shocks as follows:

- *Economic recession in the euro area, due to the increase of extreme uncertainty*

This scenario would have negative consequences for the SEE region economy, affecting

negatively the exports, Foreign Direct Investments inflows from trade partners, and increasing insecurity in the countries. Depending on the intensity of the crisis, the shock can take extreme forms similar to the 2008 attack.

- New crisis in the European banking and financial system

This scenario would lead to liquidity and capitalization problems of parent banks. Depending on the intensity of the crisis, the effects can go from a reduction of appetite for expansion in SEE Region, in deleverage or reduction of exposure to the SEE's economy. Soft extreme of the spectrum, the effects on the SEE's economy would be relatively low, as long as credit growth remains weak. In the most negative extreme of the spectrum, the SEE's economy may face similar situations in 2011-2012, which deleverage created problems for financing the public and private sectors. However, it should be noted that the SEE's banking system would not be affected directly by the withdrawal of funds, because locally generated deposits are more than enough to cover loans and government securities on the asset of the banking system.

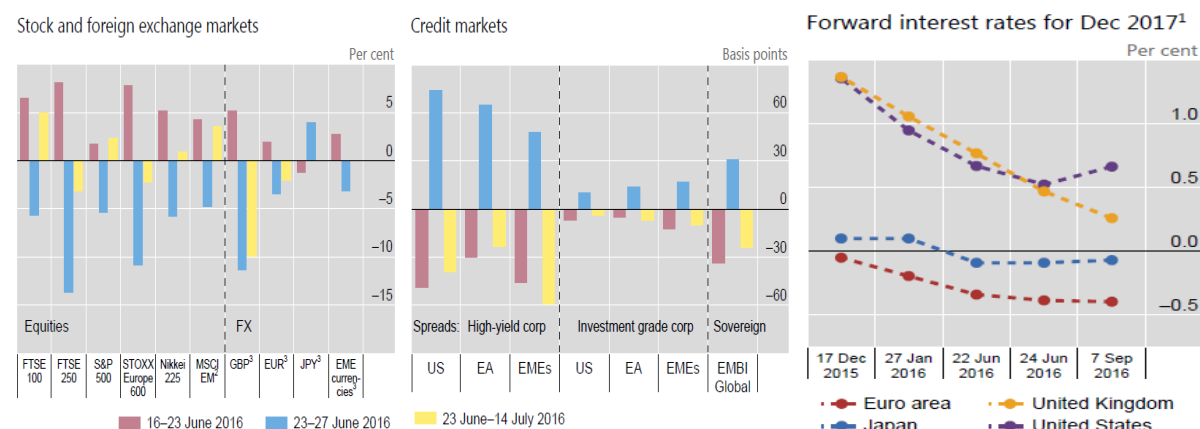
- Strong depreciation of the euro against the US dollar

Proportionally, the exports appear more oriented towards the euro (85%) compared to imports (about 70%). This means that, in case of depreciation of the euro against the dollar exchange: (a) receipt of exports will fall faster than imports bill; but, (b) the trade balance will improve, because imports are valued significantly higher than exports.

In other words, saving on import items will be greater than the decline in revenues from exports. If these savings will generate additional consumption in the SEE's economy, the resultant effect on economic growth would be positive. In contrast, the effect on growth would be negative.

Beyond that, the depreciation of the euro against the dollar may be accompanied by shifts in domestic portfolios of the euro, which would mean a strengthening of the exchange rate. This strengthening will be harmful and undesirable for the cyclical position of the Albanian economy and our monetary policy direction. The materialization of the negative effects of indirect scenarios would have consequences potentially harmful to the SEE's economy.

Figure 7 . Financial markets



Source: BIS Quarterly Review, International banking and financial markets developments; September 2016

3. The political economy of Brexit

"What happens to the UK if they can not reach agreement by the deadline? There are two possibilities: *first*, more talks on extending the deadline or exit from the EU without any privilege or special treatment, with no protection from the EU law for businesses and trade; without privileges to citizens of Britain to live and worked in Europe, or to travel freely and without visas. These rights may be losing about 2 million British citizens who live, work and travel in the EU member states, they also lose access to health services, pensions and other public services in these countries. *The second*, if Britain manages to secure agreement from these rights, probably should do the same for European citizens living and working in the UK. But if it happens, it falls under one of the main reasons why Brexit happened.

UK without her vote in EU decision-making will have to revise its global position and at the same time, the EU will weaken in the international level. The reaction of the EU's 27 countries are expected to be through a new political treaty, which will change the institutional and operational asset, as the only way to discourage the growth of Eurosceptic parties. Undoubtedly, the EU without the UK is a weak partner for the USA in the international table. The fragmentation of the EU at a time of global challenges like this one will provide a cascading effect on the economic recession, financial crisis in the Eurozone, in the migratory phenomenon, terrorism and threats from Russia.

The UK's withdrawal from the European Union has the potential to impact EU enlargement to the Western Balkans in a multitude of ways. While EU leaders have reaffirmed their commitment to enlargement, accessions are likely to be pushed back several years and the remaining EU may itself seem a less attractive, although still necessary, prospect for the Balkan states.

The result of British referendum will have a major impact on the candidate countries for EU membership. Candidate countries such as Albania, Serbia, Macedonia and Montenegro will lose one of their greater supports within the EU. The enlargement of the EU, in the strategic view of the London, was a move to avoid the deepening of close cooperation at European level (Schengen, Eurozone, etc.), because the more members the more difficult it is to be managed in the political level. Undoubtedly, the topic of EU enlargement will pass into the second plan for policy maker in EU and the Western Balkan countries will lose the power of transformative force in the integration process. EU attention will be focused entirely on restoring relations with Britain in all forms, rather than enlargement.

Less financial attention to the region means lack of will to make reforms so much required by the EU, which will slow down because they have political and electoral cost. Less attention to political guidance from the EU to the region would be accompanied by increased uncertainty, which states that currently have pro-European government will lose ground against parties that are for another alternative orientation.

Britain's exit (Brexit) will be a huge economic cost on the EU member states, candidate countries and those aspiring to integrate into the EU. The domino effect of the release of the UK from the EU will be associated directly with the growing influence of Eurosceptic parties, who have begun to require other referendums to go out of the EU, which hurts inevitably European project as a project of peace and economic prosperity. Brexit would have a wider political impact on the EU, both by disrupting internal political dynamics and because of the risk of political contagion if the 'proof of concept' of leaving the EU encourages disintegrative forces in other member states. Europe would also lose esteem and influence around the world.

4. Conclusions

The paper analysis the consequences of Brexit on SEE Region and specifically on the economic and political situation of the region. The study emphasizes however that the predictions on the economic effects of a Brexit are subject to significant uncertainty.

While the direct influence of Brexit on the SEE countries is expected to be small, the region though remains exposed via the indirect effects of Brexit on EU, arising from lower than expected growth of the EU. Impacts could come through trade, growth, and financial sector channels; the EU is the biggest SEE countries' trade partner and most of its FDI originates there. Heightened volatility could trigger investors' flight to quality as risk aversion rises, impacting external financing through interest rates, exchange rates, and capital flows. This would make it more difficult to meet the region's relatively large financing needs. Increasing uncertainty about banking

Stability in Italy or other EU countries hit by Brexit could affect the parent banks of regional intermediaries, leading to further deleveraging and tighter credit. Across the region, however, domestic funding and the inward orientation of most financial/banking systems is a mitigating factor. Political tensions and security concerns in Turkey may well bring about a possible slowdown in Turkey's economic growth. That could have moderate impacts on the Western Balkans through trade and investment links but could also result in an increase in tourism in the Western Balkans. From a longer-term perspective, the SEE region stands to lose if Brexit weakens EU integration process of the countries of SEE region as a policy anchor. Brexit might induce a tightening of EU regulation, with adverse effects on trade and cross-border finance. Finally, Brexit might jeopardize the EU itself.

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CLICAL BEHAVIOR OF FISCAL POLICY IN THE WESTERN BALKANS

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ABSTRACT

This paper studies the cyclical behavior of fiscal policy in the Western Balkans region², investigating empirically the fiscal policy response to business cycles for the period 2003-2016. Although there is a large empirical literature which has found that fiscal policy in developing countries is pro-cyclical, not many studies are found on the Western Balkans region, with only a few done at country level. We apply the Hodrick-Prescott (HP) filter and other filters to measure the potential output and output gap for each of the respective Western Balkans countries. By performing country regressions we find that one of the main determinants fiscal pro-cyclicality in the WB6 region is the quality of the government. We conduct a series of structural vector auto-regressions (SVAR) for each of the countries in an attempt to obtain further evidence on the reaction of fiscal policy to the business cycle.

Key words: *Fiscal Policy, Business Cycles, Pro-cyclicality, Counter-cyclicality, WB6*

JEL Classification: *E32, E60, E62, E30, H6.*

1. Introduction

It is widely known from the Keynesian view that fiscal policy is usually a tool for dealing with output fluctuations, but growing literature is shown ambiguous results. In the last decade studies have shown that for developing countries fiscal policy behavior has been mainly pro-cyclical. A pro-cyclical fiscal policy from Keynesian view and also from the neo-classical view is suboptimal, therefore not desired. Frankel *et al.* (2013) brings empirical evidence that many developing countries are graduating, so passing the school of using pro-cyclical policies. After the 2009 crisis the focus on using fiscal policy has come back and better understanding of its effect especially in times of crisis are needed. The purpose of this paper is to study if the Western Balkans, have graduated from the cyclical behavior of fiscal policy using different approaches. Additionally, we intent to measure the impacts in the fiscal behavior rising from different structural shocks the economies of the Western Balkans might suffer, including output temporary crisis.

The paper is organized as follows. After this Introduction, Section 2 gives a briefly overview of the main papers, that have dealt with the cyclicity of fiscal policy, worldwide, and also in the western Balkans, showing some of their results. Section 3 deals with the methodological aspects of this paper, and with the data description. Here, we describe our methods for measuring fiscal policy cyclicity, calculating the output gap and the cyclical adjusted balance, giving an overview of the filtering techniques used and we explain the VAR methodology for seeing the

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² The views expressed in this work are those of the author and do not necessarily represent those of the Albanian Ministry of Finance or MoF policy. The paper describes research by the author and is published to elicit comments and to further debate.

effects of structural shocks. In Section 4, discusses our empirical results for dealing with fiscal policy cyclicity. Section 5 presents concluding remarks, while the Appendix shows extensive figures measured from our empirical analysis.

2. Literature review

The traditional Keynesian view argues that fiscal policy usually should be counter-cyclical and should be a tool used to reduce the effects of the business cycle. Gavin and Perroti (1997) were among the first to notice that this was not always the case. They saw for Latino America a phenomenon called pro-cyclicity, where fiscal policy was expansionary in good time and vice-versa. Later in 2004, one of the most influential papers over cyclicity came out from Kaminsky, Reinhart, and Vegh (2004), where they stated, that pro-cyclicity is present in many developing countries, while counter-cyclicity happened more in advanced economies. Lane (2003), checking evidence from the OECD countries provides results that countries with volatile output and dispersed political power are the most likely to run pro-cyclical fiscal policies. Similar results were also confirmed by Alesina and Tabellini (2005), where they give arguments that pro-cyclicity is influenced mostly by political distortions. Talvi and Vegh (2005), notice that while fiscal policy in the G7 countries appears to follow Barro's optimal smoothing rules, fiscal policy in developing countries is highly pro-cyclical. They explain pro-cyclicity due to the credit borrowing constraints that are a common issue this countries face in times of crisis. Woo (2009), associate the problem of pro-cyclicity with the polarization of preferences related to social inequality. Aghion and Marinescu (2007), say that the counter-cyclicity of fiscal policy has increased over time, though additional studies are needed in middle income countries. Frankel *et al.* (2013) show that a third of the developing world has been able to escape the pro-cyclicity trap and actually become counter-cyclical, but still this has been depending on having stronger institutions. Garneiro and Garrido (2015) confirms the findings of Frankel *et al.* (2013), and of earlier findings in the literature, where they show that developing countries have a tendency to behave in a way that contributes to exacerbating the effects of the business cycle; tending to exhibit more often than industrialized economies pro-cyclical fiscal policies in both booms and downturns, contributing to exacerbate output volatility.

A few studies on the issue of fiscal policy cyclicity were also found about the western Balkans. Kabashi (2016) investigating the cyclical character of fiscal policy in transition countries, also of WB6, in the period from 1995 to 2011, using system GMM as the preferred estimation method, finds that discretionary policy in the Western Balkan countries has been pro-cyclical, thus aggravating economic fluctuations. Staehr (2008) finds that fiscal policy in the SEE EU member states is more countercyclical than in the Western European countries. Bezovska *et al.* (2011), in investigating the cyclical behavior of fiscal policy in the Republic of Macedonia during the period of transition, imply that the fiscal policy behavior prior to 1996 was pro-cyclical, whereas afterwards the fiscal policy became countercyclical. Gazidede (2013), in estimating the fiscal position of Albania through the Cyclically-Adjusted Budget Balance, finds that in the case of Albania fiscal policy shows pro-cyclical behavior during the years 2006, 2008, 2009, 2012, while in the years 2007 and 2010 the nature of fiscal policy is more counter-cyclical.

3. Methodology and data

3.1. Measuring Fiscal Cyclicalities

Halland and Bleaney (2009) say that there is no consensus on how to measure fiscal cyclicalities. The methods may start from measuring the correlation between the cyclical component of output with the fiscal variable as used also in Kaminsky *et al.* (2004), or move to regression-based measures between the fiscal variable and the output gap or cyclical component of output. Following a similar method as Aghion and Marinescu (2007), we estimate the following equation for each country i :

$$\frac{revenue_{it} - expenditure_{it}}{GDP_{it}} = c_{1it} + c_{2it} * Outputgap_{it} + \varepsilon_i, \text{ where } \varepsilon_i \sim N(0, \sigma_\varepsilon^2) \quad (1)$$

Where c_{2it} measures the cyclicalities of fiscal policy and a positive sign of it means that the budget surplus increases (so the difference $revenue_{it} - expenditure_{it}$ becomes more positive) when the economy is in expansion, so the fiscal policy is countercyclical and vice-versa when the sign in front of c_{2it} is negative. The variables in equation (1) are defined as follows: $revenue_{it}$ are the total revenues of the budget for each of the countries, $expenditure_{it}$ are the total expenditures of the budget for each of the countries, their difference when is positive shows a budget surplus and when negative it shows a budget deficit. In order to assess the quality of government impact on the fiscal balance and on fiscal cyclicalities we have decided to experiment and see the effects by including two variables as proxy-s for government quality, the control for corruption and government effectiveness.

$$\frac{revenue_{it} - expenditure_{it}}{GDP_{it}} = c_{1it} + c_{2it} * Outputgap_{it} + Controll_corruption_{it} + \varepsilon_i, \quad (2)$$

$$\frac{revenue_{it} - expenditure_{it}}{GDP_{it}} = c_{1it} + c_{2it} * Outputgap_{it} + GovernmentEffectiveness_{it} + \varepsilon_i, \quad (3)$$

Since both variables might be highly correlated with each other they are not included together, rather one by one.

3.2. Calculating the Output gap and Cyclical Balance

The Output gap is computed as:

$$Output\ gap_{it} = \left(\frac{Nominal\ GDP_{it} - Potential\ GDP_{it}}{Potential\ GDP_{it}} \right) * 100 \quad (4)$$

An increasing $Output\ gap_{it}$ shows an economic situation of expansion while a negative one, a situation of recession. The real issue when calculating the output gap is the estimation of the Potential GDP. As suggested by De Jong and Sakarya (2013) some of the most used techniques are the filtering or the statistical smoothing conducted in a series, separating the trend from the cycle. In our estimation we will use the filters of Hodrick-Prescott (HP)³ (Hodrick and Prescott (1997)); the Baxter – King filter (Baxter and King (1995)); the Christiano-Fitzgerald filter (Christiano and Fitzgerald (2003); Butterworth filter (Butterworth, 1930); and Corbae-Ouliarisfilter (Corbae and Ouliaris (2006)). The Hodrick-Prescott Filter is used among macroeconomists to obtain a smooth estimate of the long-term trend component of a series Y_t . The

³In our case we will use a parameter of $\lambda = 1600$ as usually suggested for quarterly data.

series may be decomposed into a trend or growth component g_t and a cyclical component c_t . The Hodrick–Prescott filter effects such a decomposition by minimizing the following equation:

$$\sum_{t=1}^T (y_t - g_t)^2 + \lambda \sum_{t=2}^{T-1} ((g_{t+1} - g_t) - (g_t - g_{t-1}))^2 \quad (5)$$

The Baxter–King filter suppresses both the low and the high frequency components in a series Y_t which has the following representation: $Y_t = \int_{-\pi}^{\pi} e^{i\omega} dZ(\omega)$ (6) and from Y_t it extracts the component

$$c_t^* = \int_{-\pi}^{\pi} F^*(\omega) e^{i\omega} dZ(\omega) \quad (7)$$

The Butterworth filter (Butterworth, 1930) as explained also by Pollock (1999) is an approximation to an “ideal” square-wave filter. It divides the spectrum of a time series into a pass-band and a stop-band; where the gain is 1 for the pass-band and 0 for the stop-band. The Christiano–Fitzgerald filter as explained by Christiano and Fitzgerald (2003), identify one approximation which is optimal when the series is a random walk and it minimizes the means squared error between the true series and the estimated one. The Corbae–Ouliaris filter, according to Corbae and Ouliaris (2006), overcomes some of the shortcomings of the HP and Baxter–King filter therefore it might be useful as an alternative method. The issue with potential output filter estimations is that sometimes the results for different technical aspects might often be ambiguous and contradictory with the perception that economic experts might have over the potential of an certain economy. Therefore the choosing of the filter is also up to the expert using them upon story convenience.

Returning to the fiscal balance cyclical, today many governments for transparency and for a better representation of the fiscal position of the country are widely presenting in their balance sheets also the cyclically-adjusted fiscal balance. In our case we will calculate the Western Balkans countries fiscal balances off cyclical, using the Huidromet *al.* (2016) approach where the cyclical balance is given as:

$$\text{Cyclical balance} = \text{revenues} * (1 + \text{output gap})^{-1} - \text{expenditures} * (1 + \text{output gap})^{0.1} \quad (8)$$

Where it has been assumed an output gap elasticity of 1⁴ for revenues and an elasticity close to zero for expenditures.

3.3. Fiscal Deficit effects rising from shocks in output

We use Structural Vector Autoregressive (SVAR) models to measure the effects of the business cycle on the fiscal policy. The SVAR model sheds light on the relationship between the output gap and the fiscal deficit and how this relationship affects later the fiscal deficit. As noticed also in Huidromet *al.* (2016), the SVAR model isolates the responses of fiscal policy⁵ to exogenous shocks to the macroeconomy. Blanchard and Perroti (2002), via a recursive identification scheme identifies the shocks to fiscal policy and economic activity. Following a similar approach, starting it from a basic VAR specification we would have:

$$Y_t = c + A(L)Y_{t-1} + e_t, \quad E\{e_t e_t'\} = \Sigma e \quad (9),$$

where y contains n variables and p lags in the VAR. In our case we will have only two variables, the fiscal deficit and the output gap, therefore our equation would look like in a matrix form:

⁴ Usually revenues are thought of being affected mostly by the business cycle, while expenditures almost not at all.

⁵ In our case represented by the fiscal deficit.

$$\begin{bmatrix} 1 & a_{12} \\ a_{21} & 1 \end{bmatrix} \begin{bmatrix} Fiscal\ deficit_t \\ Output\ gap_t \end{bmatrix} = \begin{bmatrix} b_{10} \\ b_{20} \end{bmatrix} + \begin{bmatrix} b_{11} & b_{12} \\ b_{21} & b_{22} \end{bmatrix} \begin{bmatrix} Fiscal\ deficit_{t-1} \\ Output\ gap_{t-1} \end{bmatrix} + \begin{bmatrix} e_{fiscal\ deficit,t} \\ e_{output\ gap,t} \end{bmatrix} \quad (10)$$

where we need to identify to get $\begin{bmatrix} 1 & a_{12} \\ a_{21} & 1 \end{bmatrix} = A$, and we need to impose restrictions on A . Therefore, the SVAR identification is about imposing restrictions on matrix A . In our case we will use the classic and most popular SVAR variant, which consists in an implementation of the Cholesky decomposition-based approach as offered by Gretl⁶.

3.4. The data description

For our study we will use mainly quarterly data. For most of the analysis and estimations we will use data from 2003-Q1 to 2016-Q3, by having in total a minimum of 55 observations. The main sources of data are the WIIW⁷ for quarterly data, the IMF World Economic Outlook for yearly data and the World Bank Governance Indicators dataset for the data⁸ on Control of Corruption⁹ and for Government Effectiveness¹⁰. For the countries that lack quarterly data in the early years we have used Litterman(1993) interpolation method to recreate quarterly data. All the data used in the regressions are seasonally adjusted using Tramo/Seats method. The econometric software(s) used for this work are Eviews and Gretl. The abbreviations such as Alb (Albania), Ks (Kosovo), BH (Bosnia and Herzegovina), Montenegro (Monte), Macedonia (FYROM), Serbia (Sr), WB6 (6 Western Balkans countries) are used in the tables or figures.

4. Empirical results

We have calculated the potential output for all the countries, according to all the methods mentioned in section 3.2, and we use them to estimate the output gaps as suggested by equation (4). Putting equation (4) results into equation (1), and estimating the regressions for each country we obtain the results of fiscal deficit cyclicity as seen in table 1.

⁶ Econometric software

⁷ The Vienna Institute for international Economic Studies

⁸ Estimate of governance (ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance)

⁹ Reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

¹⁰ Reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

Table 1: Fiscal Cyclical coefficient estimations

	Baxter-King	Butterworth	Christiano-Fitzgerald	Corbae-Ouliaris	Hodrick-Prescott
Albania	0.27	0.21	0.33	0.06	-0.18
Bosnia-Herzegovina	-0.13	-0.06	-0.10	-0.11	0.06
Kosovo	0.10	-0.18	0.11	0.13	-0.10
Macedonia	0.04	-0.52	0.00	0.12	-0.13
Montenegro	-0.08	0.72	-0.06	-0.06	0.15
Serbia	0.41	-0.48	0.31	0.43	-0.45

Estimation period: 2003Q1 - 2016Q3

n = 55 for each country

Source: Author's Calculations (2017)

Our results show that on average the fiscal policy of Albania, Kosovo and Serbia seem to be somehow counter-cyclical. The opposite is noticed for Bosnia and Herzegovina and Montenegro whose policy looks on average pro-cyclical. On the other hand Macedonia is the only one whose policy although looks pro-cyclical, has some tendency to be a-cyclical. The results are a bit contradictory for Albania, Kosovo and Serbia, where as seen from section 2, developing countries have mostly pro-cyclical fiscal policies. As expected for some of the countries, the filters used do not show similar results, and the choosing of only one filter for continuing the analysis it is done intuitively. In our case we have decided to use as a measure of the potential output the filter that shows the median results in terms of fiscal cyclicity, as highlighted in Table 1¹¹.

In addition, estimating¹² the equations (2) and (3), we are able to obtain the government quality impact on the deficit. From the results presented in table 2, we can see that economically both the proxy(s) used for government quality are economically significant, although not always statistically significant.

¹¹ In the appendix, Figure 2 illustrates the output gaps gained from the estimations using only the highlighted filters for the respective countries.

¹² All the models estimated in table 2, are checked if they fulfill Gaus-Markov assumptions for the OLS method. We have checked for Heteroskedasticity (Breuch-Pagan test), Functional form (Reset test), Normality (Jacque-Bera test), Serial Correlation (this explains the AR(s) added into the regression. For Macedonia we have used robust least squares method as the tests indicated some issue of Homoskedasticity. The Residuals mostly suffer from lack of normality, but this problem comes mainly because of some outliers in the data, and it can be skipped.

Table 2: Government quality effects on the fiscal balance

Method:	Albania		Bosnia Hercegovina		Kosovo		Macedonia		Montenegro		Serbia	
	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2
	LS		LS		LS		Robust Least Squares		LS		LS	
	Coefficient		Coefficient		Coefficient		Coefficient		Coefficient		Coefficient	
	(p-value)		(p-value)		(p-value)		(p-value)		(p-value)		(p-value)	
C	(1.64)	(3.07)	1.78	(0.75)	(7.78)	5.87	(3.07)	(3.42)	(3.13)	(1.13)	(4.92)	(3.85)
	0.17	0.00	0.42	0.76	0.10	0.15	-	-	0.35	0.48	0.00	0.00
OUTPUTGAP_BT_ALB	0.49	0.43	(0.13)	(0.10)	0.18	0.09	(0.10)	(0.10)	(0.09)	(0.09)	0.07	0.12
	0.04	0.09	0.20	0.28	0.23	0.65	0.34	0.40	0.61	0.62	0.90	0.83
CONTROLL_CORRUPTION	4.10		5.63		(12.57)		(5.89)		(2.88)		(4.07)	
	0.04		0.37		0.08		-		0.83		0.09	
GOVERNMENT_EFFECTIVENESS		3.34		(0.97)		15.12		(5.81)		(9.25)		(2.31)
		0.12		0.75		0.19		-		0.28		0.20
AR(1)	0.49	0.49	0.86	0.85	0.12	0.12			0.27	0.23	0.35	0.36
	0.01	0.01	-	-	0.38	0.46			0.14	0.30	0.00	0.00
AR(2)					0.09	0.10			0.27	0.24	0.26	0.24
					0.51	0.58			0.10	0.29	0.06	0.07
AR(3)					(0.22)	(0.20)						
					0.06	0.07						
AR(4)					0.63	0.63						
					0.00	0.00						
Adjusted R-squared	0.28	0.25	0.72	0.72	0.44	0.44	0.34	0.25	0.16	0.18	0.29	0.27
Included observations	55.00	55.00	55.00	55.00	55.00	55.00	55.00	55.00	55.00	55.00	55.00	55.00
F-statistic	6.16	5.52	36.35	35.67	7.12	7.09			2.98	3.43	5.45	5.08
Durbin-Watson stat	1.96	1.94	2.18	2.21	1.71	1.68			2.04	2.03	2.08	2.05

Source: Author's Calculations (2017)

The positive sign in front of the coefficient for both variables for eg. Albania, show that the higher is the government effectiveness and the higher the control for corruption (so a reduction of it), the higher will be the government surplus, while for Serbia are shown opposite results where it seems that the government deficit increases in this case. The including of government quality indicators in the regressions seem to make the Albanian fiscal policy more counter-cyclical than in the initial estimations, the Serbian less counter-cyclical, the Macedonian more pro-cyclical, while the fiscal policy of Bosnia-Herzegovina, Kosovo and Macedonia remain on the same path without too much change.

By estimating the SVAR from the equation (10), we are able to investigate further the effects of the cycle in the fiscal policy for the WB6 countries. We have included¹³ in the VAR 4 lags for Albania, 2 for Bosnia-Herzegovina, 2 for Macedonia, 1 for Kosovo, 2 for Montenegro and 6 for Serbia. In figure 1, we can see the impulses obtained from Cholesky decomposition-based approach, where we show¹⁴ the effects of the output gap on the fiscal deficit. The interpretation of figure 1, taking as an eg. Bosnia-Herzegovina would be: When a positive shock in the output gap hits the Bosnian economy, with the output gap which increases, this will result with a positive effect in increasing the Bosnian fiscal surplus. The effect starts showing after 2-3 periods, and it reaches a top impact within 5 periods, starting to slow down after it, till it almost disappears around the 13th period. The opposite interpretation is valid when we take into consideration a negative shock in the output gap.

¹³ For quarterly data, usually it is recommended using 4-8 lags, while in our case by watching the Inverse Roots graph and using the information criteria of Akaike and Schwarz we have come upon with this choice of lags.

¹⁴ The vice-versa results are not included as they were not relevant for the current analysis.

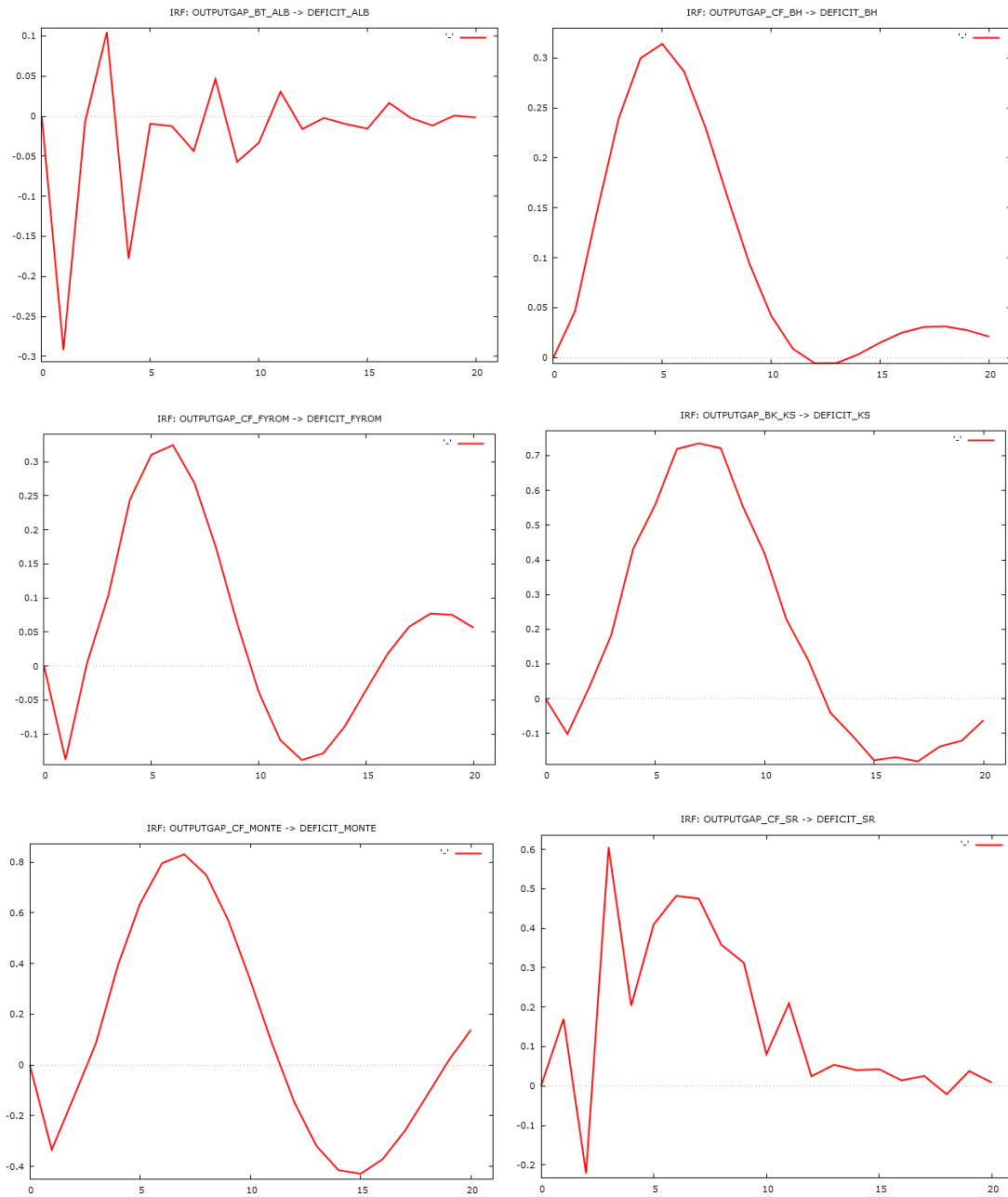


Figure 1: The impulse response from the output gap shock(s)

Source: Author's Calculations (2017)

In the case of Albania the shock impact is a bit not clear, though it seems that on average, it looks that it increases temporarily the fiscal deficit, but this effects is reflected only after 1-2 periods, starting to disappear around the 6th period. In general we can see that for all countries there is a big impact of a structural shock in the output gap to the fiscal balance, suggesting that the business cycle really affects the deficit in the WB6 countries. These results are also confirmed by the Forecast Error Variance Decomposition¹⁵, which it shows better understanding

¹⁵ See Figure 4 in the Appendix

of the relationship between the output gap and the fiscal balance. The Forecast Error Variance Decomposition shows to us the proportion of movements of a variable due to shocks to itself and to other variables. The forecast error variance of the fiscal balance for all the countries at longer horizons (till 20 periods) it is explained from the output gap shocks at a range from 10-16% of all the variance.

5. Conclusions

Our main results show that on average fiscal policy in Albania, Kosovo and Serbia have counter-cyclical behavior, graduating from the fiscal policy issue of pro-cyclical, but contradicting Kaminsky *et al.* (2004) results for the developing countries. For Bosnia and Herzegovina, Montenegro and Macedonia the results are not that satisfying, showing respectively pro-cyclical, pro-cyclical and a-cyclical behavior, by suggesting the need for fiscal policy changes in this countries toward counter-cyclical way. In investigating further the causes of fiscal cyclical behavior and relating it with government quality, we proved empirically that the fiscal policy approaches of the WB6, thought might not be strong enough to change fiscal policy direction they have amplifying effects. If WB6 countries fight more corruption and increase government effectiveness, their fiscal policy will be more effective.

In general, if all the WB6 countries are hit by a structural shock in the output gap, the fiscal balance effect from the business cycle will be considerable and important. This finding is also confirmed by the forecast error variance of the fiscal balance for all the countries, where the output gap shocks explain on average almost 2% of the fiscal balance variance. As result, better fiscal policy designing are needed in general for the Western Balkan countries in order for them to be able to cope with challenges arising from the business cycle, such as future possible crisis. A solution to better understanding fiscal cyclical effects would be the using and calculation by the governments of the Cyclically Adjusted Fiscal balance as suggested by Frankel (2011)¹⁶.

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Appendix

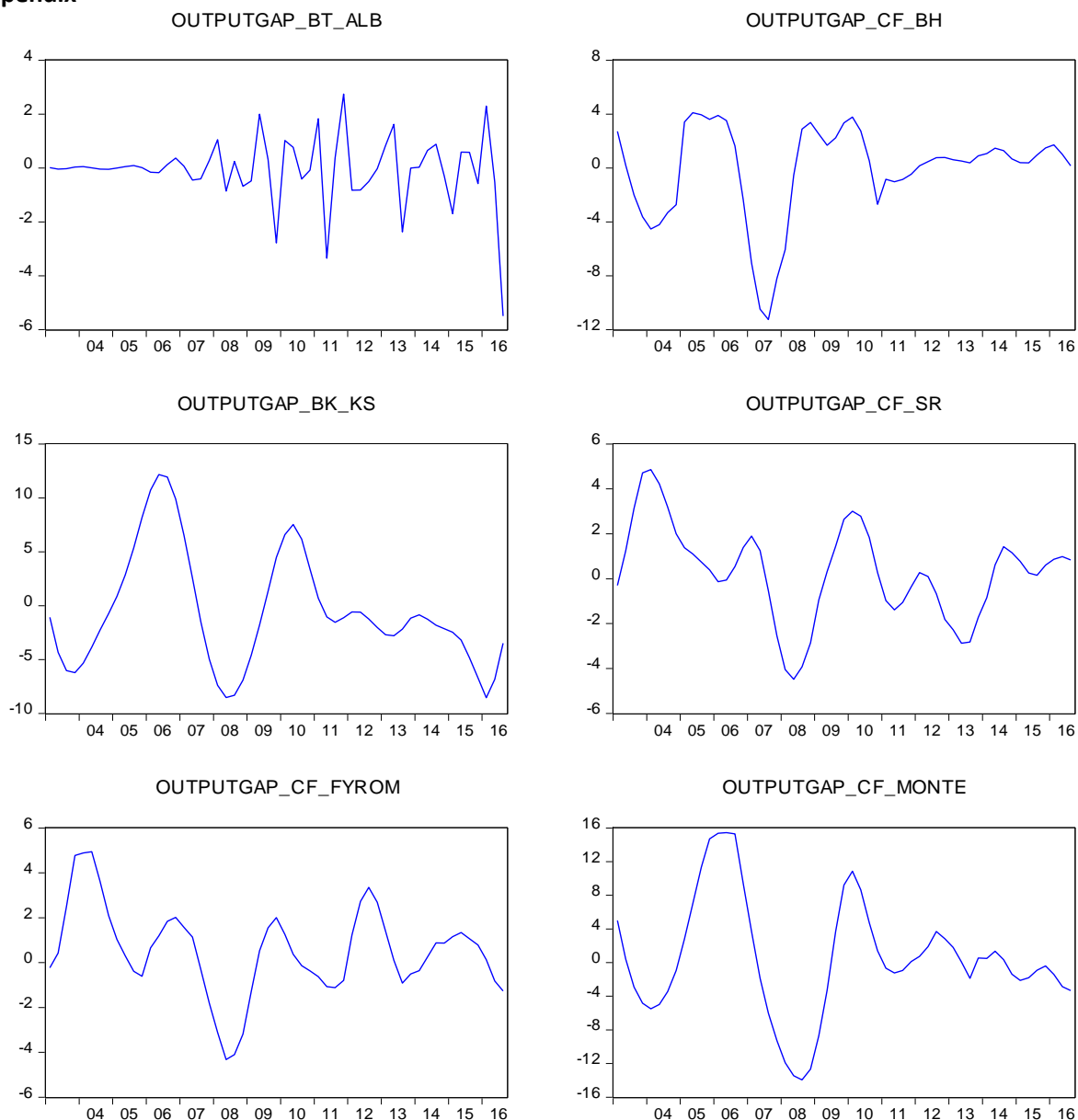


Figure 2: The output gaps of the chosen filters

Source: Author's Calculations (2017)

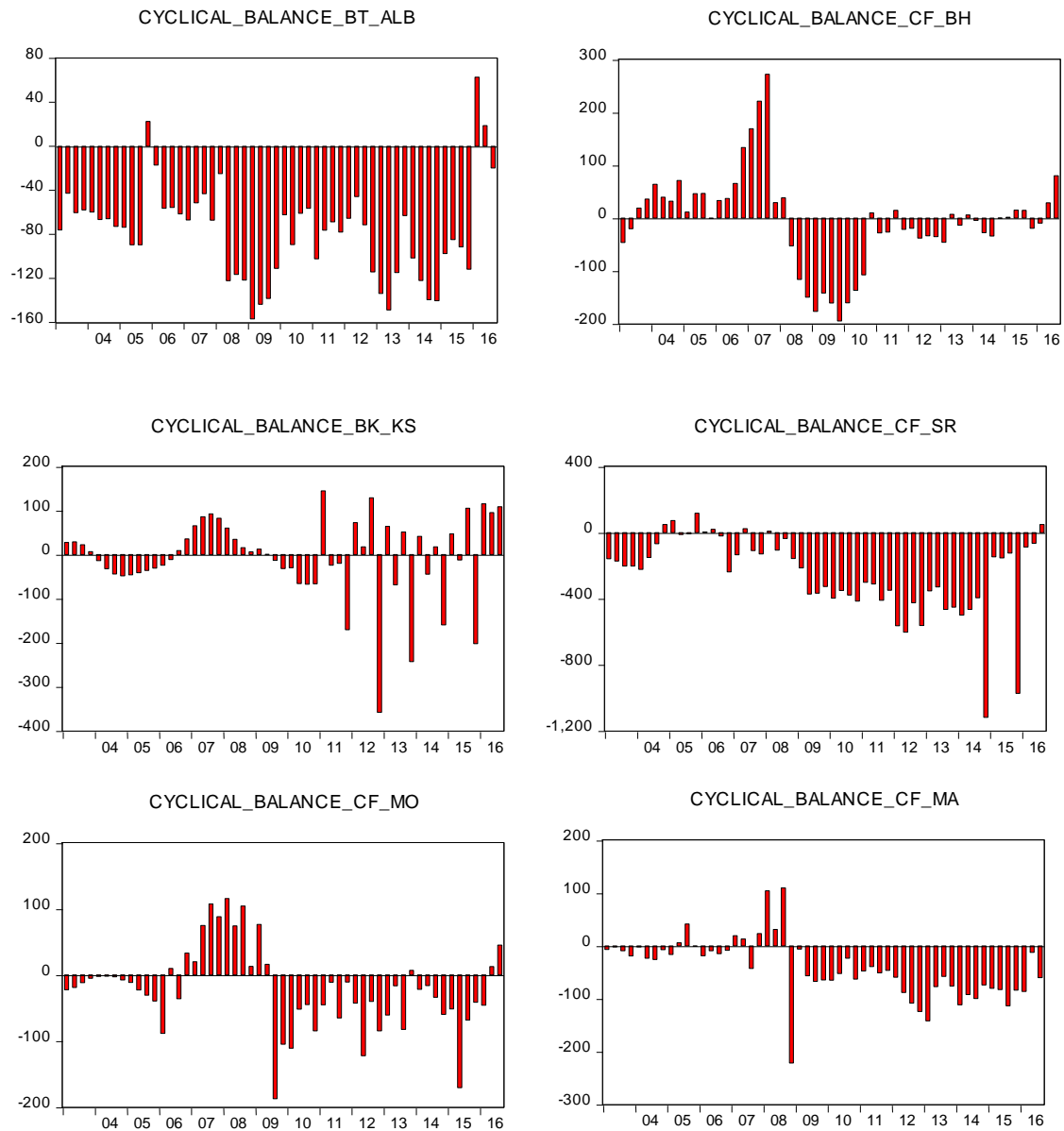


Figure 3: The cyclical balances of the chosen filters

Source: Author's Calculations (2017)



Figure 4: The forecast error variance decomposition

Source: Author's Calculations (2017)

ESTIMATING THE EFFECTS OF FISCAL POLICY ON THE PRIVATE CONSUMPTION: EVIDENCE FROM ALBANIA

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Ermira Kalaj²
Alma Zisi³

ABSTRACT

In this paper we investigate the relationship between fiscal policy and consumption in Albania during the period 2000-2016. An increase in the budget deficit will cause an increase in the aggregate demand and domestic real interest rates according to Keynes (1936). Keynesian economists argue that deficits do not need to crowd out private investment. Therefore, a substitution of debt for taxes has a positive influence on private consumption and aggregate demand. Furthermore, according to the Neo-Classical point of view, a country experiencing a financial crisis resulting from chronic, excessive current account deficits may face a situation in which large injections of public funds are required to restore troubled financial sectors, and to attenuate a recession. These different views yield very different policy implications.

In this paper, we use for the static multiple regression models and Granger causality. The data have been derived from World Bank, Eurostat and INSTAT. Our empirical approach is based on two different equations; the one measuring the current account balance (CA) and the other measuring the private consumption (C). In the models we use control variables such as; fiscal deficit, government consumption, public debt, income growth, and population growth.

Keywords: *private consumption, fiscal policy, current account, Granger causality*

JEL Classification: *E21, E32, C31*

1. Introduction

Fiscal policy is an important determinant of economic developments and often government decisions on spending and taxes are assigned a crucial role in speeding up or slowing down economic growth.

Macroeconomic implications of fiscal shocks are subject to debate. Neoclassical models predict a positive fiscal multiplier due to a wealth effect on labor supply but an always contractionary impact on private demand, such that the multiplier tends to be less than unity. In contrast, models built around Keynesian theories allow for output to be partly determined by demand, and under certain conditions, this can lead to a multiplier greater than one. A crucial component of the conclusions derived from those theories is how consumers respond to government spending increases. The fall in private consumption crowds out the expansionary effects of fiscal policy, resulting in only a modest increase in the aggregate demand.

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These opposing views regarding the effectiveness of fiscal policy are explained by very different assumptions that support different theories; for example, assumptions about the rigidity of markets, the existence of financial constraints in the economy, economic agents' degree of myopia and so forth. Therefore, the question about consumers' response to fiscal policy is, in the end, an empirical one.

1.1. Literature review

Effects of fiscal policy on private consumption: evidence from structural-balance fiscal rule deviations, is studied by Juan A. Correa, Christian Ferrada, Pablo Gutiérrez and Francisco Parro (2014), using a narrative approach in the spirit of Ramey and Shapiro (1998) to test the existence of Ricardian effects of fiscal shocks. They study the effect of three fiscal announcements of expansionary deviations from a structural-balance fiscal rule on private consumption in a small and open economy. Controlling for the macroeconomic conditions, they find a negative response of private consumption. When the government announces expansions of fiscal spending, rational individuals expect higher taxes in the near future and thus decrease their current level of consumption in response to the negative wealth effect.

Ramey and Shapiro (1998) have found that works based on narrative methods find a decline in private consumption following a fiscal expansion, supporting the existence of Ricardian agents. But the Blanchard and Perotti (2002), Galí et al. (2007), Perotti (2008), Mountford and Uhlig (2009), Auerbach and Gorodnichenko (2010), Gordon and Krenn (2010), Céspedes et al. (2011) and Caldara and Kamps (2012), using techniques based on vector autoregressive (VAR) methods, found that some works derive positive effects of fiscal spending expansions on private consumption.

Using data from the European countries for the period 1970-2010 Magazzino (2012) investigated the effects of fiscal deficit on trade balance and private consumption. He found that a one per cent increase in the fiscal deficit/GDP ratio tends to deteriorate the current account/GDP ratio of 0.21 per cent, although it promotes private consumption of 0.21 per cent. Yet, the dynamic estimates reach contrasting results, so that his conclusions largely depend on which estimator he chooses.

Mançellari (2011) studied the effects of Fiscal Policy in Albania based on a model with four macroeconomics variables, namely Fiscal Policy, Gross Domestic Product (GDP), interest rates and the prices level, through a SVAR and impulse responses approach. The analysis was based on the methodology developed by (Blanchard & Perotti, 2002). The main findings of her study was that Fiscal Policy does affect economic activity, cuts in tax burden have the highest cumulative GDP multiplier and the GDP multiplier of capital expenditure is greater than current expenditure multiplier.

Also, Gjokuta (2013), differently from Mançellari (2011), studied the Fiscal Policy and economic growth in various ways. He considered Fiscal Policy as endogenous and was based on a different endogenous economic growth model. On this approach this paper incorporated the public sector, Fiscal Policy, into the Solow Growth Model.

According to a study made by (Nakagawa, 1999) that analyze the importance of the different types of uncertainty on the household saving rate in the Japan according to the age and incomes, income risk is important for the low to middle income. Also it suggest that stagnation of household disposable income and the decline in household wealth have been the main causes of the stagnation of household consumption during the 1990s and early 2000s in Japan and

increased uncertainty about the future does not affect a major cause of the stagnation of household consumption.

The lack of the previous research focused on the interaction between fiscal policy and the private consumption in Albania, served us as a motivator for further investigation on this relationship. We examine how fiscal policy affects the consumption relying on previous international empirical studies.

1.2. Some fiscal data for the Europe, EU countries, and Adriatic and Ionian Region, compare with Albanian fiscal data

The fiscal policies' architecture of the European Union aims to build a robust and effective framework for the coordination and surveillance of the fiscal policies of the Member States. The 2011-2013 reforms of the structure are a direct response to the sovereign debt crisis, which showed the need for stricter rules, considering the spill over effects from unsustainable public finances within the euro area. The revised framework therefore draws on the experiences of the initial design failures of the European Monetary Union and attempts to reinforce the guiding principle of sound public finances.

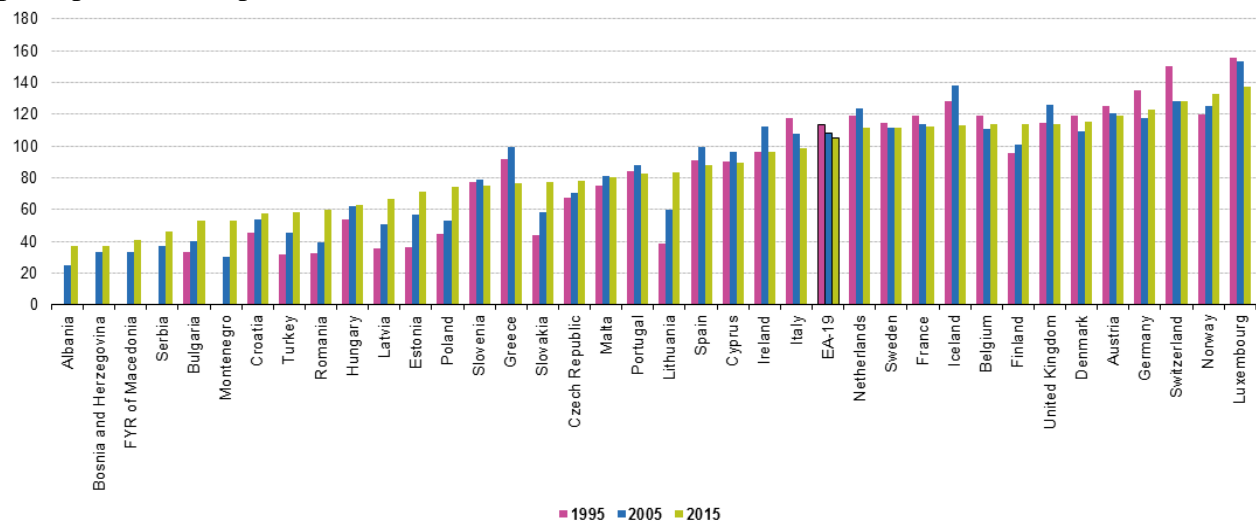


Fig. 1. AIC (Actual Individual Consumption) per capita in the long run, in Europe.

Source: Eurostat

Figure shows the volume indices of AIC per capita for the years 1995, 2005 and 2015 (with EU-28=100) and demonstrates the "catching-up" of the countries that became EU Member States in 2004 and 2007, as well as of the candidate and potential candidate countries, with the "old" Member States during this time period. The former countries nearly all demonstrate significant increases in the level of AIC per capita relative to the EU28. The exceptions are the countries that already had a relatively high AIC per capita in 1995, such as Malta and Cyprus. Furthermore, the effects of the economic crisis are visible, for example in the data for Greece, Ireland and Iceland, that show a healthy increase between 1995 and 2005, but a significant decrease between 2005 and 2015.

The evolution of Gross Domestic Product (GDP) in the AIR (Adriatic and Ionian Region) in recent years has resulted in general in an increasing divergence of the AIR from EU-28 average GDP per capita, despite the decreasing population. GDP data in Fig. 2 demonstrates the decline of GDP versus minimal GDP growth in the EU. In 2013 only Albania, Bosnia and Herzegovina,

Montenegro and Serbia were closer to the EU-28 average than in 2005. These countries have very small economies and low GDP per capita. The Progress made by these countries is much less in absolute terms than the decrease of economic activity in the larger economies of Italy, Greece and Slovenia. Italy has fallen from above to below the EU-28 average, while the gap between Greece and the EU-28 average increased from only 10 % in 2005 to almost 30 % in 2013.

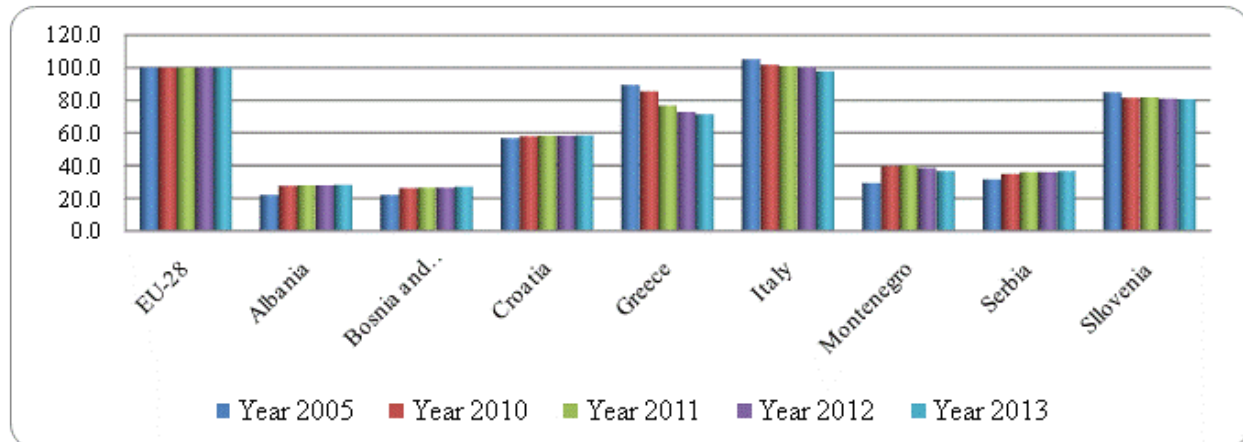


Fig. 2. Gross Domestic Product per capita at PPP (Purchasing Power Parity) in AIR relative to EU-28-100

Source: European Parliament

In 2013 Italian GDP and population density in Italy are many times larger than in the other AIR countries: Italy's GDP density is for example almost seven times that of Croatia and 12 times that of Serbia. Slovenia is the only country that demonstrates a positive foreign trade balance due to its exceptionally good terms of trade with other former Yugoslavia economies. Montenegro outperforms the entire AIR in terms of relative volume of foreign direct investment (FDI). Albania has achieved a steady rise in FDI inflow, from 3 % of GDP in 2005 to almost 10 % in 2013, and its economic performance exhibits growth in GDP, foreign direct investment, stock gross debt and gross external debt, as well as high gross value added in construction and agriculture, but it is still a very poor economy by European standards. Albania is largely excluded from international markets, a fact that has mitigated the impact of the 2008 financial crisis on its economy. It has continued its own economic development path, outperforming Bosnia and Herzegovina and Montenegro in terms of density of economic activity as well as in relative GDP per capita, even though their position in 2005 was almost identical.

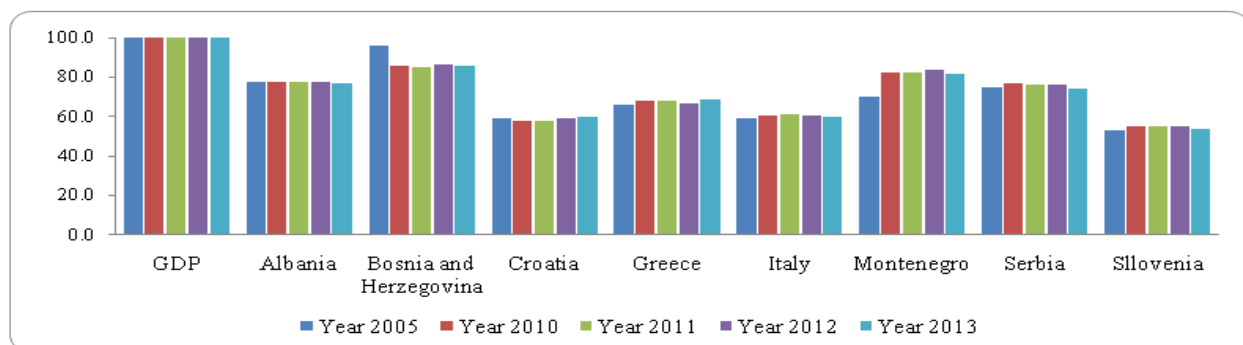


Fig. 3. Final consumption expenditures of households (shares in % of GDP), AIR

Source: Eurostat

The economic performance of Bosnia and Herzegovina is in contrast to its complex political situation. The country is improving in terms of GDP, FDI stock and employment; it has reduced imports in order to improve the foreign trade balance and achieve a decrease in domestic spending. Croatia continues to leverage its GDP formation by increasing its debt and improving its trade balance: it now has a positive trade balance and its tourism performance is improving thanks to investment inflow and lower energy prices.

Table 1. Current account, % of GDP, Adriatic and Ionian Region

COUNTRY	2005	2010	2011	2012	2013
Albania	-9.0	-11.3	-13.2	-10.2	-10.6
Bosnia and Herzegovina	n.a	-6.2	-9.6	-9.2	-5.9
Croatia	-5.2	-1.1	-0.8	-0.1	0.9
Greece	n.a	-9.9	-9.9	-2.4	-0.6
Italy	-0.9	-3.5	-3.1	-0.5	1.0
Montenegro	-16.6	-22.9	-17.7	-18.7	-14.6
Serbia	-8.4	-6.3	-8.6	-11.5	-6.1
Slovenia	n.a	-0.1	0.2	2.6	5.6

Source: Eurostat

Despite the economic crisis, Serbia has improved its GDP per capita (at PPP) in relation to the EU-28, from 31.5 % in 2005 to 36.7 % in 2013. Gross capital formation has declined as a share in GDP while foreign trade has increased. Serbia also now has a higher foreign debt to GDP ratio. In Greece, GDP per capita (at PPP) relative to the EU-28 average has fallen from 89.5 % to only 71.5 %.

Table 2. GDP per capita at PPP (EUR at current PPP), Adriatic and Ionian Region

COUNTRY	2005	2010	2011	2012	2013
Albania	5 200	7 100	7 400	7 500	7 600
Bosnia and Herzegovina	5 200	6 700	7 000	7 100	7 300
Croatia	13 400	14 900	15 400	15 700	15 800
Greece	21 000	22 000	20 300	19 600	19 300
Italy	24 700	26 200	26 700	26 900	26 400
Montenegro	6 900	10 200	10 600	10 400	10 700
Serbia	7 400	9 000	9 500	9 700	9 900
Slovenia	20 000	21 000	21 600	21 800	21 800

Source: Eurostat

1.3. Fiscal Policy in Albania, recent economic developments

After Albania emerged from 50 years of communist rule, the transition from a centrally planned to a market-oriented economy, together with abundant international aid and other strategic assistance helped Albania to make progress. On account of strong growth performance, Albania grew from the poorest nation in Europe in the early 1990s to middle-income status in 2008, with poverty declining by half during that period. By the end of the 1990s and during the last decade, Albanian economic policies aimed at maintaining macroeconomic stability, enabling poverty-

reducing and non-inflationary economic growth policies and achieving fiscal consolidation through budget deficit and public debt reduction. Public finance was subject to major reformation aiming at government expenditure cuts and boosting revenues.

Recognizing these challenges, the Government of Albania in 2014 embarked on a broad-based reform program focused on macroeconomic and fiscal sustainability, financial sector stabilization, energy concerns, pensions, and territorial administration. This program is based on fundamental reform of tax system, and tax administration, as a supplementary supporting package. The last system has been in force since 2008, which mostly was attributed the flat tax rate and some other fiscal facilities for different sectors of goods and services. The new regulatory fiscal reform is based on progressive taxation rate for direct taxes (corporate and personal income taxation), maintaining the same Value Added Tax. Significant progress propelled by the on-going reforms has created the conditions for rebounding business confidence and domestic demand, including early signs of increased investment and an export-led recovery. Maintaining the reform momentum and implementation is critical for Albania's continued economic growth and its aspirations for European Union (EU) integration.

Albania's economy continued to expand in 2016, supported by robust private investment and a recovery in consumption. Economic growth is reflected in the higher labor force participation as jobs have opened up. Net external trade continues to undermine growth, however, because of falling commodity prices hitting exports and an uptick in investment-related imports.

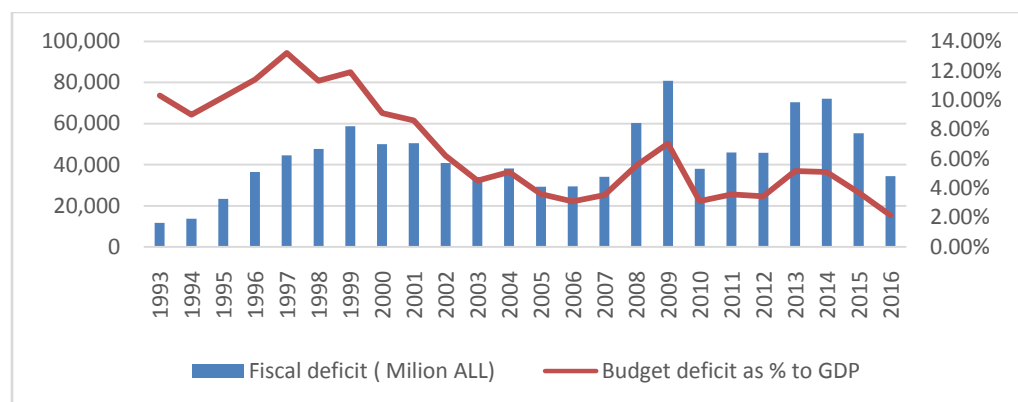


Fig. 4. Budget deficit (in Million ALL) as % to GDP (1993-2016)

Source: Bank of Albania and Ministry of Finance

Fiscal consolidation has continued in 2016, leading to a decline in the public debt-to-GDP ratio for the first time since the global crisis. The fiscal balance improved as more revenue was collected and capital spending declined. The budget deficit reached 2.16% of GDP in 2016, down from 5.1% in 2014 and 3.71 in 2015, helped by a strong revenue performance, controlled current spending, and lower capital spending. The public debt-to-GDP ratio in 2015 was 72.7% and the aim for 2016 was to decline to 72.5% of GDP. The current fiscal deficit is projected to expand in 2016, but it will continue to be financed primarily by foreign direct investment (FDI) inflows and external public borrowing. After narrowing to 11.7% of GDP in 2015, the current account deficit is expected to reach 13% in 2016, led by a worsening balance of trade in goods and services. Economic growth, combined with labor market trends and patterns, is estimated to have reduced poverty and promoted inclusion. Albania has benefited from positive job creation. Labor markets have continued to improve steadily, with employment growing by 6.7% in annual

terms in the second quarter of 2016. Better employment outcomes are the result of a reduction in unemployment as well as higher labor force participation rates.

During the period of January 2015- December 2015, INSTAT conducted the Household Budget Survey (HBS) on a sample size of 7,335 private households, which ensures the description of consumption expenditures of the households that were usual residents in Albania during that year. In the reference period, the monthly expenditures are estimated to be about 70,766 ALL taking into account that a household is composed by 4 persons on average.

In 2015, the total amount of monthly consumption expenditures of households from the survey is estimated at about 54 billion ALL. The number of Albanian households in the same year is estimated at about 764,115. Considering the per capita monthly consumption expenditures in the one year period of the survey, an individual in Albania spends on average about 18,600 ALL, of which 9,100 ALL are spend for food and 9,500 for non-food consumption.

The group “Food and non-alcoholic beverages” remains an important element in the household’s budget, estimated at 48.7 percent of the total consumption expenditure. Three subgroups also in 2015 like in previous years can be distinguished within this group, with the largest share: “milk and milk products/derives eggs” (18.8 percent of the budget within this group), “meat and its products” (17.4 percent of the budget within this group) and “bread and cereals” (17.0 percent of the budget within this group). The following subgroups are “vegetables” with 13.3 percent and “fruits” with 7.9 percent within the group.

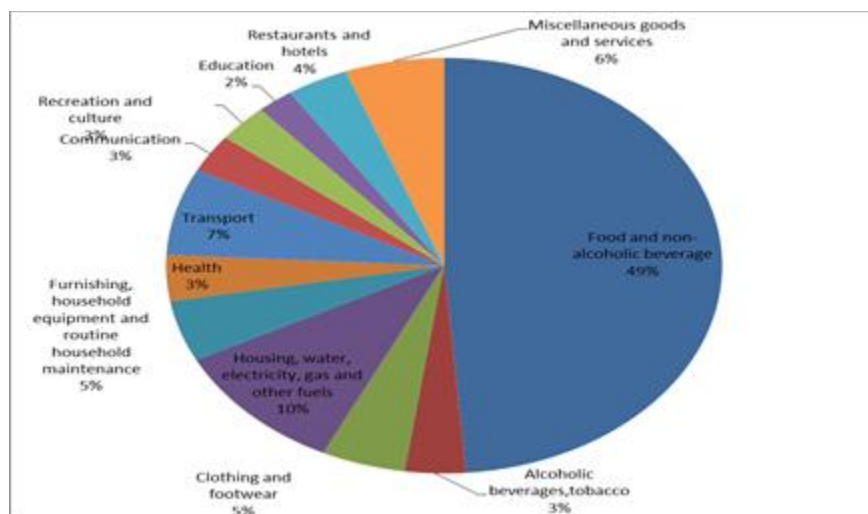


Fig. 5. The structure of consumption expenditures, 2015

Source: Household Budget Survey, 2015

2. Methodology and Data

To check to what extent the relationship between fiscal policy and private consumption in Albania is observed we statistically test the following equations (Magazzino, 2012):

$$CA_t = \beta_0 + \beta_1 Def_t + \beta_2 GC_t + \beta_3 Debt_t + \beta_4 YG_t + \beta_5 PG_t \quad (1)$$

$$C_t = \alpha_0 + \alpha_1 Def_t + \alpha_2 GC_t + \alpha_3 Debt_t + \alpha_4 YG_t + \alpha_5 PG_t \quad (2)$$

Table 3. Definition and construction of variables

Variables	Definition and construction
<i>Dependent variable</i>	
CA	Current account balance, % of GDP
C	Private consumption, % of GDP
<i>Explanatory variables</i>	
Def	Fiscal deficit, % of GDP
GC	Government consumption, % of GDP
Debt	Public debt, % of GDP
YG	GDP growth, annual %
PG	Population growth, annual %

In Table 3 we give definitions of the variables. The data are obtained from World Development Indicators (WDI) database of the World Bank for the period 2000 to 2016.

The analysis of the correlation between the variables identified has been achieved through the Pearson correlation coefficient (R) that shows the intensity and direction of the correlation as shown in Table 4.

Table 4. Correlation Matrix

	CA	C	Def	GC	Debt	YG	PG
CA	1.00						
C	0.45	1.00					
Def	0.83	-0.03	1.00				
GC	-0.24	-0.31	-0.25	1.00			
Debt	0.62	0.26	0.11	-0.23	1.00		
YG	0.03	0.05	0.04	-0.12	0.04	1.00	
PG	0.73	0.21	0.34	-0.11	0.07	0.22	1.00

3. Empirical results

Table 5 presents the estimated results of the model of equation (1) and (2) by using a static multiple regression. The two separate columns indicate the fact that we conducted two separate regressions separately for the current account and private consumption in order to capture the eventual differences.

Table 5. Estimation Results

Explanatory variables	CA	C
Def	-0.002* (0.073)	0.003*** (0.000)
GC	-0.235*** (0.000)	0.310*** (0.002)
Debt	-0.036** (0.072)	0.025*** (0.003)
YG	0.010 (0.523)	0.023** (0.021)
PG	0.081 (0.751)	0.073 (0.834)
Constant	0.032** (0.004)	0.041** (0.007)
F	4.65 (0.0032)	4.87 (0.0024)
R square	0.326	0.410
Wald test	1.000	1.000

Note: For the diagnostic test P-values are reported. Significance levels *, **, and *** respectively 10%, 5%, and 1%.

Table suggests that, where the dependent variable is CA, the coefficient of fiscal deficit is negative and statistically significant, supporting the conventional hypothesis. Thus, a one percent increase in the fiscal deficit tends to decrease the current account by around 0.2 percent. While for the private consumption the direction of the relationship is inverse and statistically significant.

Moreover, from the list of the explanatory variables Government consumption and Debt negatively affect the current account. These results are in line with the empirical results obtained in other economic contexts. On the other hand, Income and Population growth are not statistically significant.

On the other hand we can notice the positive and statistically significant relationship of private consumption with deficit, government consumption, and debt. In line with the theory is the positive relationship between GDP growth and private consumption.

To further investigate on the robustness of our results we examined the causal link between Deficit and Private Consumption based on Granger causality test. According to Granger a time series X_t causes another time series Y_t . If current Y_t can be predicted better using past values of X_t , than by not doing so then all other relevant information like past Y_t is taken into consideration in both case. Appropriate lag lengths of relevant variables for tests of causality were determined by Akaike's Final Prediction Error.

Table 6. Granger Test Estimations

Causality test	Number of lags	F-statistics	Probability	Chi-square	Probability
<i>C does not Granger cause Deficit</i>	4	1.32	0.41	4.23	0.22
<i>Deficit does not Granger cause C</i>	4	1.86	0.11	5.57*	0.08

Note: ***, **, and * indicate statistical significance respectively at 1, 5, and 10 percent level or better.

While the F-statistics as well as the associated probabilities does not allow us to reject the null hypothesis of no bi-directional causality between Private consumption and Deficit, the chi-square shows a rejection of the null hypothesis. This means that while Private consumption granger causes the Deficit growth, the inverse is not statistically significant.

4. Concluding Remarks

In this article we empirically investigate the relationship between the private consumption and fiscal policy in Albania by using the static multiple regressions for data over the period 2000-2016. In our study we conduct separate estimations for dependent variable Current account and Private consumption. Among the main results obtained, in the first model we have found evidence of a negative effect of the deficit on the current account which is in line with the traditional theory. Moreover, we find evidence that, current account is negatively affected by government consumption, and the debt.

In addition, this study also offers several useful insights for policy-makers and researchers. First, our findings have an important implication in terms of policy recommendations. Private consumption is positively affected by the government spending, income growth, and deficit. Second, policy-makers also need to anticipate the country's demographic structure and income level. However, further research of the issue of how private consumption promotes economic growth in Albania should be on the focus of researchers.

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AN ECONOMETRIC ANALYSIS OF ONLINE RATINGS OF HOTELS IN ALBANIA

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Enxhia Sala²

ABSTRACT

During the travel and tourism decision making process, the online reviews are used as an important source of information by hotel guests. The main objective of this research was to analyze the online ratings of hotels in Albania. The data from Booking.com were collected for 220 hotels with 40 or more online reviews during the period of time 4 - 6 January 2017. The results of descriptive analysis indicated that about 44% of the hotels in the sample are located in Tirana-Durrës region, 40% have 20 to 30 rooms, 48% are 3-stars hotels, and 45% had from 40 to 100 online reviews. The average of overall online rating of hotels was 8.57 and 68.2% of the hotels had an overall online rating ranging from 7 to 9. To analyze the relationships between hotels' size, hotel's category, hotel's region, the number of online reviews and the overall online rating of the hotels, two econometric models were estimated. Results of econometric models indicated that hotel's size and region negatively impact the overall online rating of the hotels, whereas the hotel's category and the number of online reviews positively impact the overall online rating.

These findings are useful for hotel guests and potential customers, and also for hotels' managers in order to increase the online ratings of their hotels and customer satisfaction. The hotels' managers should pay attention to the online reviews provided by the hotel guests and they must encourage their guests to write reviews about their hotel stay.

Keywords: *online ratings, Booking.com, hotel sector, logistic model, Tobit model, Albania*

JEL Classification: *C34, C35, C51, L83*

1. Introduction

Development in information and communication technology has recently affected the tourism sector. Tourists usually use social media to give a feedback about the experience they had. The feedback includes rating, views and comments posted online. The reviews can be checked in various websites like Booking.com, TripAdvisor, Expedia, Hotel.com, Yelp, etc. Such websites provide lots of reviews about the accommodation establishments and generate an online rating for each property based on the individual user reviews. Tourists check these websites to be informed about properties and facilities of the resorts or the hotels they are interested in. And usually these reviews, that they read online, affect the decisions they take. Even the hotels have been using their own review platform to help guests and potential customers interact with each other

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(Kasavana et al., 2010). The influence of these online review platforms has a great contribution to the tourism and hospitality industry in general (Kwok and Yu, 2013).

Two of the largest hotel review databases with global reach are Booking.com and TripAdvisor. These two systems use different approach to the hotel reviews. In TripAdvisor every person can write a review, regardless whether he stayed at the hotel or not. This fact creates the possibility for fake reviews, making this website with low credibility. On the other hand, reviews in Booking.com may be written only by guests, who have actually stayed in the reviewed hotel via a reservation through Booking.com website. Hence, Booking.com reviews and ratings should be considered as more objective and subject to less manipulation compared to reviews in TripAdvisor (Ivanov, 2014). For this reason and since the number of hotels in Booking was higher compared to TripAdvisor, in this study was selected the database of Booking.com.

The World Economic report by World Travel and Tourism Council shows that the tourism continuous to grow in spite of continuous economic competitiveness. In Albania, the direct contribution of Travel & Tourism to GDP in 2015 was ALL 87.6 billion (6.0% of GDP) and is forecast to rise by 5.7% to ALL 92.6 billion in 2016. This primarily reflects the economic activity generated by industries such as hotels, travel agents, airlines and other passenger transportation services (excluding commuter services). But it also includes, for example, the activities of the restaurant and leisure industries directly supported. The total contribution of Travel & Tourism to GDP (including wider effects from investment, the supply chain and induced income impacts) for Albania was ALL 306.2 billion in 2015 (21.1% of GDP) and is expected to grow by 5.4% to ALL 322.7 billion (21.5% of GDP) in 2016. Travel & Tourism generated 51,000 jobs directly in 2015 (5.5% of total employment) and this is forecast to grow by 3.4% in 2016 to 53,000 (5.6% of total employment). The total contribution of Travel & Tourism to employment (including wider effects from investment, the supply chain and induced income impacts) was 180,000 jobs in 2015 (19.3% of total employment). This is forecast to rise by 3.1% in 2016 to 185,500 jobs (19.7% of total employment) (World Travel and Tourism Council, 2016).

The hotel industry assumes an important value in the tourism industry because it is essential for the provision of all other tourism services and it is the first service demanded by tourists who reach the destination (Orfila-Sintes et al, 2005). Moreover, the hotel industry carries a high weight in the totality of tourist expenditure (Santoro, 2015). For these two reasons, this research focuses on the hotel industry within the tourism sector in Albania.

The aim of this study was to analyze the online ratings of hotels in Albania using database of Booking.com. Two econometrics models are used to evaluate the influence of hotel's size, region, category and the number of online reviews on the overall online rating of hotels in Albania. The findings of this research are useful for potential customers, guests and hotels' managers.

2. Literature review

Web-based content research using customer reviews, opinions and comments has become widespread over the last decade. The opinions of customers about hotels, travel destination and travel services have recently been recorded in the form of the online customer reviewers. The online reviewers are used by customers as an important source in travel and tourism decision making process (Ye et al. 2011). Exchange of information using social media is important, as

customers rely on online reviewers of other customers on the decision making process. Consumers tend to rely on easy-to-process information, when evaluating a hotel based upon reviews (Sparks and Browning, 2011).

Research has shown that potential customers tend to trust written comments posted online by other customers more than recommendations found on official destination marketing or hotel websites (Sparks, Perkins, & Buckley, 2013). According to Santoro (2015) competition between tourist destinations is affected by quality offered by hotels in the region, and for this reason, to add value to the hotel and to the region is necessary providing quality services and to pay attention to the customer needs and customer satisfaction. In their study, Iliera and Ivanov (2014) found that hotel's size and category negatively influence its online rating, whereas the number of online reviewers has a positive influence on online rating. Using the data collected from online hotel review websites, Rajaguru and Rajesh (2016) found that the hotel managers should pay attention to online reviewers provided by the customers and make sure that the customers receive value for money they spend as value for money significantly contribute to the customers' overall satisfaction. Also service quality impacts the customer satisfaction. The results of Kim and Park (2017) indicate that social media review rating is a more significant predictor than traditional customer satisfaction for explaining hotel performance.

3. Research Methodology

The target population of this study consists of hotels operating in Albania with 40 or more online reviews. The sample is comprised by 220 hotels. The data from Booking.com are collected from 4 January to 6 January 2017. Information about online reviewers' score for cleanliness, comfort, location, facilities, staff, value for money, Free Wi-Fi, and overall online rating; information about the number of stars, number of rooms of the hotel and the time since the Booking.com has welcomed the hotel are gathered.

To analyze the relationships between hotels' characteristics and the overall online hotel rating, a binary logistic regression and a Tobit regression model were estimated.

A logistic regression model with a binary response was modeled. Logistic regression is recommended over linear regression when modeling binary responses and allows the researcher to estimate probabilities of the response occurring (Hosmer et al, 2013). The logistic regression equation takes the following form

$$\ln \left(\frac{p}{1-p} \right) = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \dots + \beta_k x_k \quad (1)$$

where p is the estimated probability that a hotel to have an overall online rating ranging from 9 to 10, and x_1, x_2, \dots, x_k are independent or explanatory variables of the model.

The estimated probability of the response occurring (p) divided by the probability of it not occurring ($1-p$) is called the odds ratio (OR). Maximum likelihood method is used to estimate the odds ratios of the model. Values of odds ratios higher than 1 indicate positive association between the variables, odds ratios equal to 1 indicate no association, while odds ratios lower than 1 indicate negative association between each independent variable and the dependent variable of the model.

Tobit regression model was also used to identify the determinants of overall online rating of hotels in Albania. Since online reviewers score was bounded, it is appropriate to use a limited dependent variable approach. The Tobit regression model is an alternative to ordinary least

squares regression and is employed when the dependent variable is bounded from below or above or both with positive probability pileup at the interval ends, either by being censored or by being corner solution (Wooldridge, 2002). The possible determinants of the overall online rating are investigated using a random effect Tobit model. A random effects model assumed that the unobservable effects are uncorrelated with the observed explanatory variables, whereas a fixed effect model assumes that they are correlated.

The two-limit Tobit model is given as:

$$y_i^* = \beta_0 + \beta_1 x_{i1} + \dots + \beta_k x_{ik} + \varepsilon_i \quad (2)$$

$$y_i = \begin{cases} y_i^* & 0 \leq y_i^* \leq 1 \\ 0 & y_i^* < 0 \\ 1 & y_i^* > 1 \end{cases} \quad (3)$$

where $\varepsilon_i \sim N(0, \sigma^2)$, x_1, x_2, \dots, x_k are explanatory variables and β are unknown parameters. The variable y_i^* is a latent variable and y_i is the dependent variable, the overall online rating of the hotels. The maximum likelihood method is used to find β and σ based on values of variables y_i and x_i for n observations (hotels).

STATA12 was used to conduct the data analysis.

4. Results and discussion

About 44% (96) of the hotels in the sample are located in Tirana-Durrës region, and other hotels in Saranda (39), Vlora (16), Shkodër (13), Berat (12), Gjirokastër (9). Nearly 40% of the hotels have 20 to 30 rooms, and around 48% of them are 3-stars hotels. Also 45% of the hotels had from 40 to 100 online reviews and 47.73% of the hotels have been welcomed by Booking.com during the period 2013-2014 (Table 1).

Table 1. Descriptive statistics for hotels' characteristics

Variable	Frequency	Percentage
Size (number of rooms)		
Less than 10 rooms	34	15.45
20 – 30 rooms	89	40.45
30 – 50 rooms	49	22.27
50 room or more	48	21.82
Category (number of stars)		
5	8	3.64
4	75	34.09
3	105	47.73
2	3	1.36
Unrated	29	13.18
Region		
Tirana-Durrës	96	43.64
Other	124	56.36
Number of online reviews		
40-100	99	45
100-250	88	40

> 250	33	15
Starting Year in Booking.com		
2011-2012	57	25.91
2013-2014	105	47.73
2015-2016	58	26.36
Total	220	100

Among online reviewers of hotels in Tirana-Durrës region (17378 reviewers), almost 56% of them have scored 9 to 10 and 33.6% have scored 7 to 9. Whereas among online reviewers of other hotels (15835 reviewers), 54% have scored 9-10 and about 33% have scored 7 to 9 (fig.1).

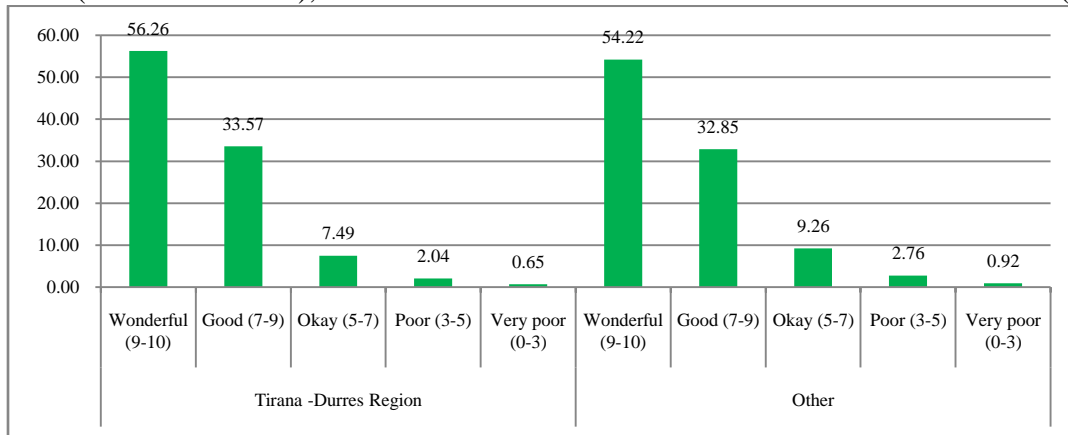


Fig. 1. Percentage of online reviewers according to their score about hotels by the region

Among online reviewers of hotels in Tirana-Durrës region, roughly 32% of them were couples, 23.5% solo travelers and 18.6% business travelers. While among online reviewers of hotels in other part of Albania, about 52% were couples, 20% were families and 16.5% were group of friends (fig. 2).

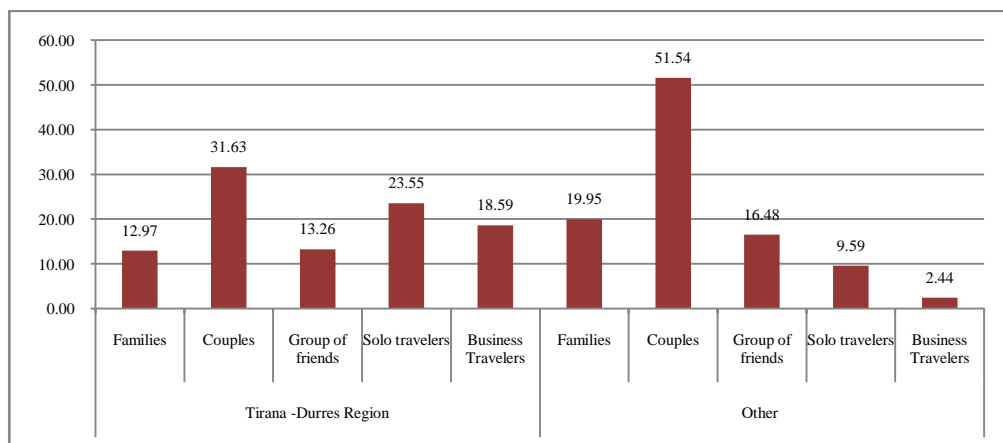


Fig. 2. Percentage of online reviewers according to type and region

The Booking.com evaluates the online ratings of hotels using 7 dimensions of performance: cleanliness, comfort, location, facilities, staff, value for money and Free Wi-Fi. Booking's online scoring allows customers to award quantitative scores ranging from 0 to 10. The average overall online rating for hotels in the sample was 8.57 with standard deviation of 0.73. In addition, 29% of the hotels had overall online rating ranging from 9 to 10 (wonderful) and 68.2% of the hotels had overall online rating from 7 to 9 (good). For hotels in Tirana–Durrës region, the average overall online rating was 8.64 and standard deviation was 0.70, while for other hotels the average was 8.51 and standard deviation 0.75.

The location had the highest score for 35% of the hotels in the sample, and for 35% of hotels the staff had the highest score. For 33.6% of the hotels the second highest reviewers score was cleanliness and for 26.4% was the staff. For 25% of the hotels, the third highest score was cleanliness and for 23.6% of the hotels was the value for money (fig. 3).

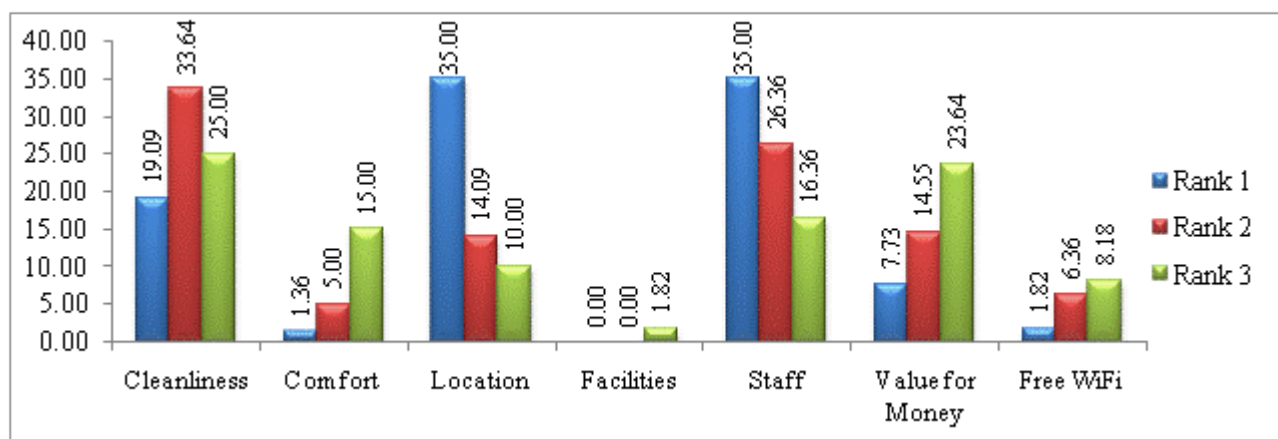


Fig 3. Percentage of hotels according to the online reviewers score

The correlation coefficients in table 2 indicated that the overall online rating was positively and significantly correlated with all the dimensions of hotels performance at 5% level.

Table 2. The correlation matrix between the dimensions of performance

	Overall	Cleanliness	Comfort	Location	Facilities	Staff	Value for money	Free Wi-Fi
Overall	1.000							
Cleanliness	0.955*	1.000						
Comfort	0.947*	0.935*	1.000					
Location	0.690*	0.581*	0.543*	1.000				
Facilities	0.957*	0.931*	0.962*	0.534*	1.000			
Staff	0.889*	0.824*	0.787*	0.498*	0.841*	1.000		
Value for money	0.914*	0.837*	0.843*	0.525*	0.864*	0.853*	1.000	
Free Wi-Fi	0.773*	0.723*	0.709*	0.484*	0.750*	0.756*	0.738*	1.000

Note: * $p < 0.5$

The results of analysis of variance indicated statistically significant differences at 5% level between hotel online ratings and hotel's size, and also between hotel online reviewers'

scores and the number of online reviews. Moreover, statistically significant differences were found between staff score and the hotel region, between Free Wi-Fi score and the hotel region, and between value for money score and the hotel category.

The results of table 3 showed that overall online rating was negatively correlated with hotel size and region, and positively correlated with hotel category and the number of online reviews at 5% level.

Table 3. Correlation matrix between overall online rating and hotel's characteristics

	Overall	Size	Region	Category	Reviews
Overall	1.000				
Size	-0.317*	1.000			
Region	-0.085*	- 0.197*	1.000		
Category	0.016*	0.423*	-0.147*	1.000	
Reviews	0.182*	0.104*	-0.189*	0.064*	1.000

Note: * $p < 0.5$

To estimate a binary logistic regression model, the dependent variable with binary response was used. A hotel was considered with top performance if its overall online reviewers score was from 9 to 10. The results of three binary logistic regression models are shown in table 4. The results of model 3 indicated that the model was statistically significant (LR chi-square (5) = 34.7, $p < 0.01$). The value of Pseudo- R^2 was 12.3% and the percentage of cases correctly classified was 71.82%. The classification accuracy should be at least 25% greater than that achieved by chance (Hair et al., 2009).

The results of model 3 indicated that the overall online rating was statistically significant and negatively related to the hotel's size at 1 % level, that is, the hotels with 30 or more rooms were less likely to score 9 to 10 by online reviewers. Also, region of the hotels influenced negatively the overall online rating at 10% level, that is, the hotels in Tirana-Durrës region were more likely to score 9 to 10 by online reviewers. The overall online rating was positively related to the hotel's star category and the number of online reviews at 1% level. This means that hotels with 4 or 5 stars and hotels with 250 or more online reviews were more likely to have an overall online rating from 9 to 10.

Table 4. Results of Binary Logistic Regressions

Variable	Model 1		Model 2		Model 3	
	Coef.	OR	Coef.	OR	Coef.	OR
Size: <i>Less than 30 rooms</i> <i>30 rooms or more</i>	-0.857	1.000 0.424**	-1.034	1.000 0.356**	-1.672	1.000 0.188**
Region: <i>Tiranë-Durrës</i> <i>Other</i>			-0.749	1.000 0.473*	-0.612	1.000 0.542 ⁺
Category: <i>4 to 5 stars</i> <i>3 or 2 stars or unrated</i>					1.253	3.502** 1.000
Number of reviews: <i>40 to 100</i> <i>100 to 250</i> <i>250 or more</i>					0.067 1.152	1.000 1.069 3.163**
Constant	-0.311	0.732 ⁺	0.168	1.183	-0.360	0.698

LR chi-square (df)	8.49(1) ^{**}	14.63(2) ^{**}	34.70(5) ^{**}
% correctly classified	66%	65.5%	71.82%
Pseudo-R²	3.0%	5.2%	12.3%

Note: + $p < 0.10$ * $p < 0.5$, ** $p < 0.01$.

The robustness of the hotel's characteristics that influence overall online rating was checked by estimating a Tobit regression model. The results of three Tobit models are shown in table 5.

Table 5. The results of Tobit models

Variable	Model 1	Model 2	Model 3
Size	-0.465 ^{**}	-0.509 ^{**}	-0.615 ^{**}
Region		-0.225 [*]	-0.162 ⁺
Category			0.245 [*]
Number of reviews			
40 to 100			
100 to 250			0.103
250 or more			0.453 ^{**}
Constant	8.77 ^{**}	8.921 ^{**}	8.730 ^{**}
Sigma	0.690	0.681	0.655
LR chi-square (df)	23.33(1) ^{**}	28.95(2) ^{**}	46.34(5) ^{**}
Pseudo-R²	4.82%	6%	9.6%

Note: + $p < 0.10$ * $p < 0.5$, ** $p < 0.01$.

The results of Tobit model 3 indicated that the model was statistically significant (LR chi-square (5) = 46.34, $p < 0.01$). The value of Pseudo-R² was 9.6%. The results of model 3 showed that the hotel's size and region have negative effect on overall online rating, whereas hotel's star category and the number of online reviews has positive effect on overall online rating.

The results of two econometric models were consistent with the findings of Ilieva and Ivanov (2014). Ilieva and Ivanov (2014) found that hotel's size and category negatively influence its online rating, whereas the number of online reviewers has a positive influence on online rating.

5. Conclusions and future research

The goal of this research was to analyze the online ratings of 220 hotels operating in Albania. The results of descriptive analysis indicated that the average overall online rating for the hotels in the sample was 8.57. About 68.2% of the hotels had overall online rating from 7 to 9 and 29% of the hotels had overall online rating ranging from 9 to 10. Almost 55.3% of online reviewers of Booking.com have scored from 9 to 10 and 33.6% have scored from 7 to 9. This indicated that 55% of online reviewers awarded scores that reflect very good experiences during their hotel stays in Albania.

The results of econometric models indicated that hotel's size and region negatively influence the overall online rating of the hotels in Albania, whereas the hotel's star category and number of online reviews positively influence the overall online rating. More specifically, hotels with less than 30 rooms, hotels located in Tirana–Durrës region, hotels with 4 or 5 stars and

hotels with 250 or more online reviews were more likely to score from 9 to 10 by online reviewers.

The results of this research suggest that the hotels' managers should pay attention to the online reviews provided by the hotel guests. The hotels' managers must encourage their guests to write reviews about their stay since the number of online reviews was positively related to the overall online rating of the hotels in the Booking.com. The findings of this study can be used by potential customers, hotel guests, and by hotels' managers to make decisions regarding their marketing budget allocation.

In the future research, the comparison of overall online ratings of hotels in Albania by different websites (Booking.com, TripAdvisor, Expedia, Hotel.com, Yelp, etc), and also the comparison of overall online rating of hotels in Albania with overall online ratings of hotels in other Balkan countries such as Montenegro, Macedonia FYR and Kosovo can be conducted.

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PROCYCLICAL BEHAVIOUR OF THE ALBANIAN FINANCIAL SYSTEM

Natasha Ahmetaj ¹

Ela Golemi ²

ABSTRACT

This paper evaluates the procyclical relations that have emerged in the Albanian economy and the correlation with the banking sector. Based on the analysis of correlation coefficients and data since 2002, the results show that there is a strong causal two-way correlation between economic growth and credit, where the slowdown in the expansion of the deposit base has mitigated the effect from the procyclical deceleration of credit. The assessment of the linear correlation between economic growth as an independent variable and capital buffers above the minimum regulatory capital (as a dependent variable) shows that, although the positive coefficient shows a positive procyclical relation between the two indicators, where the acceleration of the economy is reflected in a higher level of capital addition, it remains weak and statistically insignificant.

Keywords: *procyclicality, countercyclical capital buffer, linear correlation, credit growth, macroprudential policy*

JEL Classification: *C31, D53, D62, D81*

1. Background

Lehman Brothers was a lecture at a high cost on the effective management of the financial crisis. It showed that the system could not be left to its fate, in a free fall, because the consequences would be detrimental to all. The governing instinct guided the politicians toward an energetic intervention without waiting on comprehensive modeling and information. Once the crisis is legitimized, there is no time for calculations and scientific forecasts. The further fall should be prevented and this is always done in the absence of a clear picture.

This reasoning helped the advanced economies to intervene adequately through the bail-out tool, irrespective of its cost in public balance sheets. Non-intervention would have worsened those balance sheets significantly. The battle with the financial crisis was won by containing the consequences at the limits of a recession, although large, but without allowing it to precipitate in the area of a depression.

Yet, after this first victory, the next post-crisis one is not taking a clear shape. Even after eight years, recession, stronger in some places and weaker in others, remains present. Nonetheless, efforts continue to correct what resulted as inadequate for preventing the crisis.

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2. Reforms, resilience and procyclical behavior

Structural reforms are the keyword of all remedies. They are mostly seen as a golden key to successfully terminate this prolonged recession, bringing about a positive fiscal result.

But, the structural reform is important not merely for the fiscal result. It is equally important for the effectiveness of the monetary policy and price stability, taking into consideration that they, in a positive and permanent manner, change the supply side of the economy. This implies that they give rise to two essential effects: shifts upward the aggregate supply curve and, subsequently, the trajectory along which the potential product moves, and enhances the economy's resilience to shocks. A higher *resilience* increases the flexibility of price adaptation, reducing thus the effect of histeresia once the shock has passed, improving, therefore, stability. Thanks to structural reforms applied extensively insofar in European Union countries, researchers explain a stronger inflation-unemployment correlation, and therefore a steeper *Philips* curve.

On the other hand, a low potential product becomes an obstacle to new investments, limiting a further rapid growth. This slow-growing GDP implies, at the same time, a challenge to financial stability due to the negative effects it introduces to the procyclical behavior and the aggregate level of systemic risk. As the monetary policy focuses mainly on price stability, it is the macroprudential policy that assumes the management of such risks to financial stability. The coordination of these policies to provide synergy instead of overlapping becomes necessary. The mission of the macroprudential policy is to mitigate the systemic risk arising from the pronounced procyclicality and correlations.

Mostly, procyclicality and systemic risks stem from errors in the macroprudential or monetary policies.

They may originate mainly from three sources:

- strategic complementarity of financial institutions, through which weaknesses are outlined,
- so-called *fire-sales* and simultaneous contraction of credit, which is realized due to the fall in asset prices balance sheet contraction - financing drying up -contraction of the business cycle,
- interconnectedness within the network, which disseminates the contagion due to the *spillover* effect through the interbank market, other reciprocal exposures with each other, change in asset prices that affect the entire market, suffering the same *feedback* for the real economy.

About the banking system, these sources of systemic risk arise mainly from three forms of its activity: a) financial intermediation, b) transformation of maturities, and c) financial leverage (Blundell-Wignall, 2014). These activities extend beyond the banking sector, to what is known as shadow banking.

Thus, the macroprudential policy aims at identifying misbalances in the financial system before they materialize in a systemic risk, choosing an appropriate instrument to mitigate this risk and coordinating these instruments with other policies with a view to reducing the procyclicality in the economy.

Given the main share of the banking sector in the financial system, its contribution to the overall financial stability is significant; therefore, identifying systemic risks that arise from it and constructing in due time buffers against them, are a matter of priority. In the light of accomplishing this mission, it is essential to understand the procyclical relation that arises from the banking activity and factors that are sources of systemic risks.

The financial system stability is an essential condition for the financial system, to enhance its effectiveness in intermediation. The Bank of Albania has made over time decisions in response to economic developments and financial cycle in Albania. Until 2008, they were oriented to keep

credit growth in check, under the conditions of a financial cycle expansion. After the crisis, the policies were aimed at endorsing credit expansion to mitigate the financial cycle. In 2006, the central bank requested capital addition in the event the growth of the credit portfolio exceeded 30%, overall. The intervention of the Bank of Albania with regard to credit did not aim at preventing lending but discouraging rapid credit growth.

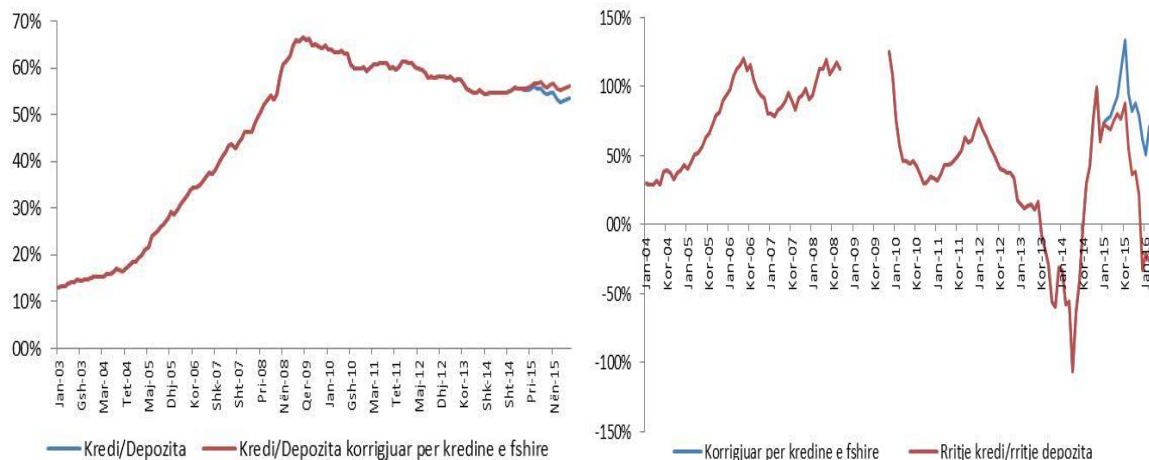
After the financial crisis in 2008, the banking environment in Albania has changed, reflecting international developments, and restrictions imposed by parent banks and host country regulators. Banks faced liquidity problems due to deposit withdrawals at the end of 2008 until June 2009. However, by the end of 2009, the level of deposits returned to that of 2008. In the meantime, credit has fallen significantly, due to the slowdown of economic growth, which has affected credit demand, as well as to the increase in non-performing loans.

In 2013, the Bank of Albania introduced some new macroprudential measures, which treated directly the procyclicality of credit in the economy. In essence, the package consisted in promoting credit growth. It created stimuli for channeling bank funds to the economy, through easing capital requirements for credit and strengthening requirements for investment abroad. The stimulation of credit through these measures is envisaged to remain in force until the end of 2017. The primary aim of this package and other instruments that may be added later is to mitigate concerns that may arise for the financial stability in various forms of the procyclicality.

The first element of procyclicality, which have been addressed in the above-mentioned package, pertains to the level of financial intermediation in the banking system in Albania.

If we analyze the balance sheet structure of the Albanian banking system over the years, specific elements of this structure assess a downward cycle of financial intermediation in Albania. The credit/deposit indicator has contracted to 53% (chart 2). However, the share of deposit expansion in the banking sector, which is transmitted in credit expansion by the banking sector shows that adjusted for the value of written off loans, the banking sector continues to credit the economy following the sources of its financing. The slowdown in the expansion of the deposit base has mitigated the effect of the procyclic slowdown credit activity.

Chart 1. Credit/deposit ratio in terms of stock and flows³ (right)



Source: Bank of Albania.

³The graphic presentation does not include the bank run period in 2009.

The diversification of credit in loans to households and loans to business is a derivate of this procyclicality. Financial intermediation has slowed down to around 40% of GDP, as the financial intermediation deepened with loans to households expanding faster than loans to businesses (chart 3). Although the outstanding loans to enterprises continue to have a higher share in the credit portfolio, the countercyclical policies with regard to supporting the households sector with credit would accelerate the deepening of financial intermediation in Albania.

Chart 2. Credit to GDP per year

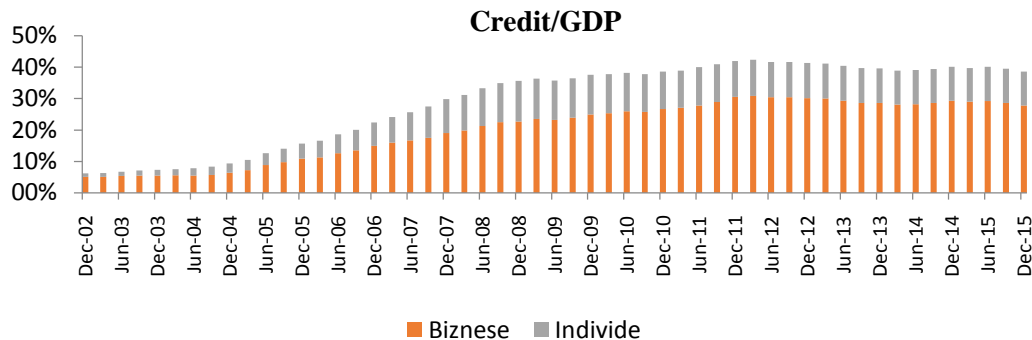
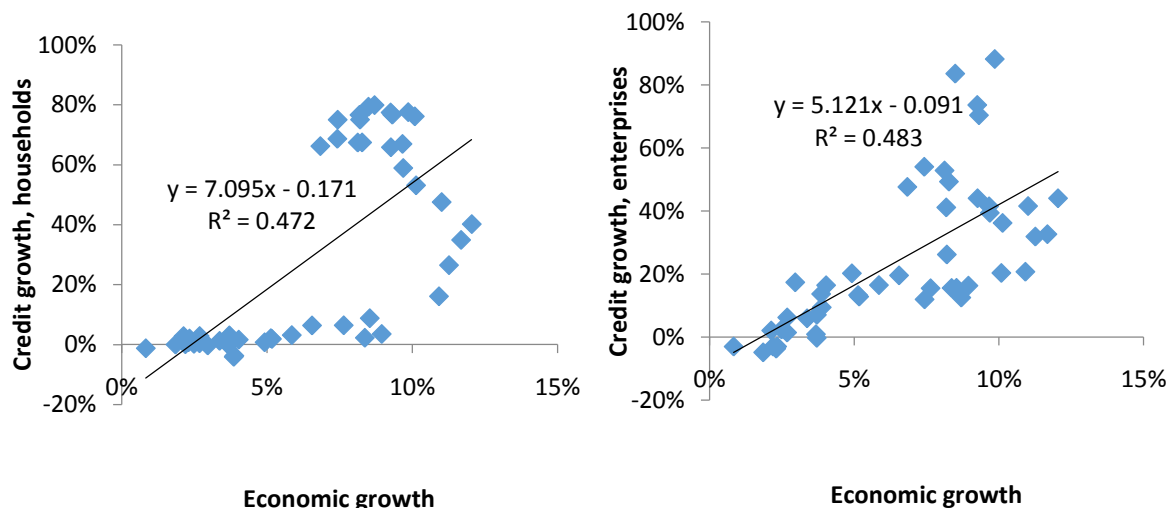


Chart 3. Credit growth and economic growth



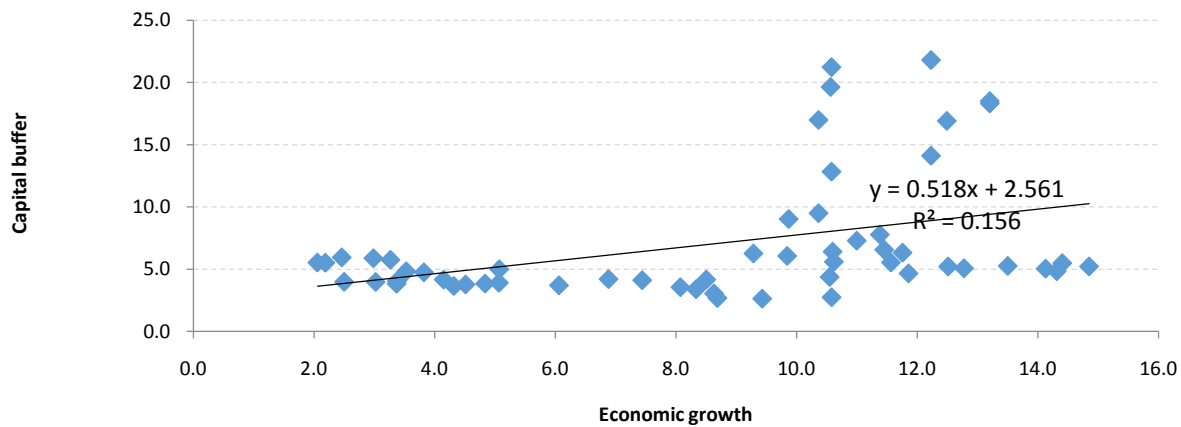
Source: Bank of Albania, author's estimates

Other procyclicality elements are similar to those noted internationally. Overall, economists agree on two main elements as sources of procyclicality in the banking sector. The first element relates to the *capital buffer*. The risk management policy determines that banks should maintain the regulatory capital above the required level by the Supervisory Authority (Isepy, 2008). Keeping higher regulatory levels allows banks to absorb potential financial losses without falling below the minimum level required by the regulator. Consequently, having this function, the size of this "cushion" is closely linked to the degree of diversification in the credit portfolio, which is one of the main sources of losses and depend on its quality. Linquist K. G, (2004) argues that the more

diversified the credit portfolio, the lower the level of the *capital buffer* that the banking sector should keep.

But, the literature suggests, on the other hand, a negative correlation between the *capital buffer* and the business cycle. When the economy contracts, the correlation between the two turns procyclical and becomes stronger (Suyeter, 2004). For emerging economies, such as Albania, with a low financial intermediation level, (credit/GDP ratio), results are shown in Chart 4.

Chart 4. Procyclicality of capital buffer and economic growth



Source: Bank of Albania, author's estimates

The evaluation of the linear correlation between economic growth, as a dependent variable, and the addition of capital above the regulatory minimum requirement (as a dependent variable) shows that the correlation is positive but weak with a low explanation coefficient at 16%. Although the positive coefficient evaluates a positive procyclical correlation between the two indicators, where the acceleration of the economy is reflected in a higher level of capital addition, it remains weak and statistically insignificant. These results are confirmed also by the analysis of correlation coefficients between the economic growth rate and capital addition. In this analysis, we construct two alternative hypothesis of statistical significance of the correlation coefficient:

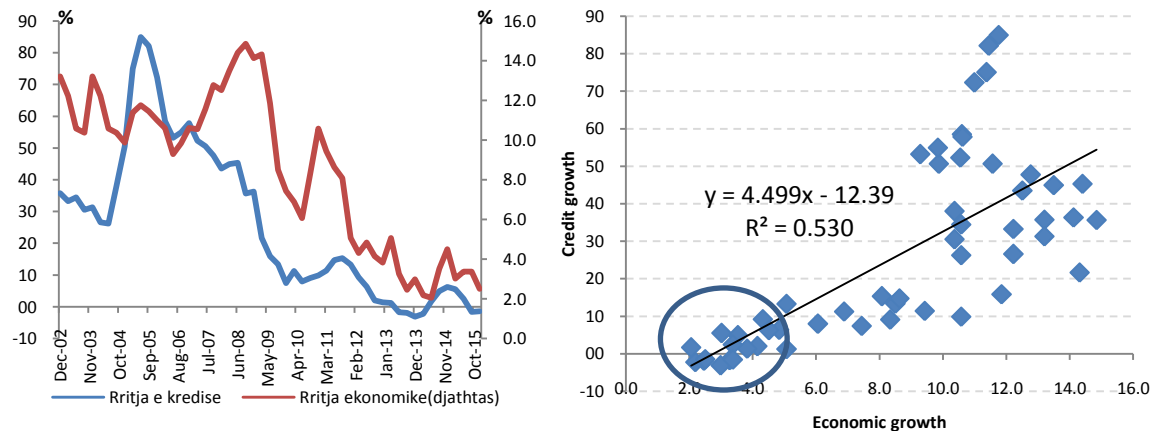
H₀: economic growth and capital addition to the regulatory capital requirement are not correlated.

H₁: correlation is statistically significant.

Results show that the correlation is low and statistically insignificant, at 0.18 (p-value=0.37). These results confirm that it is difficult to evaluate the direct correlation of economic developments in the capital addition held by banks. This relation is affected by another third external factor, the banks' asset quality.

The second element of procyclicality pertains to credit growth. The theoretical approach suggests that credit expansion and economic growth are mutually inter-dependent. The evaluation of the cause-effect direction in various countries shows that credit affects the business cycle of an economy; however, the opposite relation is also important. For Albania, the close procyclical correlation between credit and economic growth is very clear, as shown in Chart 5.

Chart 5. Procyclicality of credit and economic growth



Source: Bank of Albania, author's estimates

The evaluation of the linear correlation between economic growth as an independent variable and credit growth shows that the correlation is positive with a satisfactory explanation coefficient at 53%. The results are supported also by the evaluation of the correlation coefficient, which results at 0.73 and is statistically significant at 5% (p-value=0.0) reliability. The economic growth slowdown at around 3%, in annual terms, is accompanied by the significant slowdown in the pace of credit expansion.

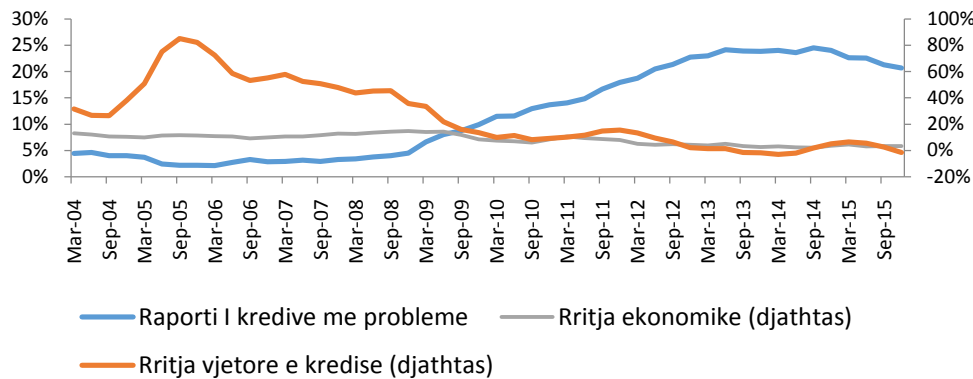
Literature suggests that there is an important correlation in the credit performance and economic growth, especially for countries such as Albania, where alternative capital markets are not present, and credit is the only source of financing the economy. Evaluations for the pre-crisis period in Albania suggest that, in the long run, there is a long-term positive correlation between all the indicators that measure financial development (credit and monetary aggregates) and economic growth (Dushku, 2009). Meanwhile, in the short run, this double correlation is proven for developments in the credit performance.

To evaluate the cause-effect correlation between credit and economic growth, we may rely on test results based on the Granger Causality method, which serves to evaluate short-term developments of causality between the two variables.

In our application, the test includes two results for the direction of causality. The baseline hypothesis that economic growth does not cause credit is null because it has a probability at 7% (p-value=0.0713). Consequently, the alternative hypothesis that economic growth causes credit, is accepted. In relation to the second baseline hypothesis, credit does not cause economic growth, is again null (p-value=0.0812) and the alternative hypothesis that credit causes economic growth is accepted. These results confirm that there is a mutual correlation between economic growth and credit in Albania.

The procyclicality of credit and economic growth is closely related also to developments in its quality. The economic growth slowdown, following the global financial crisis, was reflected in a rapid deterioration of the non-performing loans ratio (chart 6).

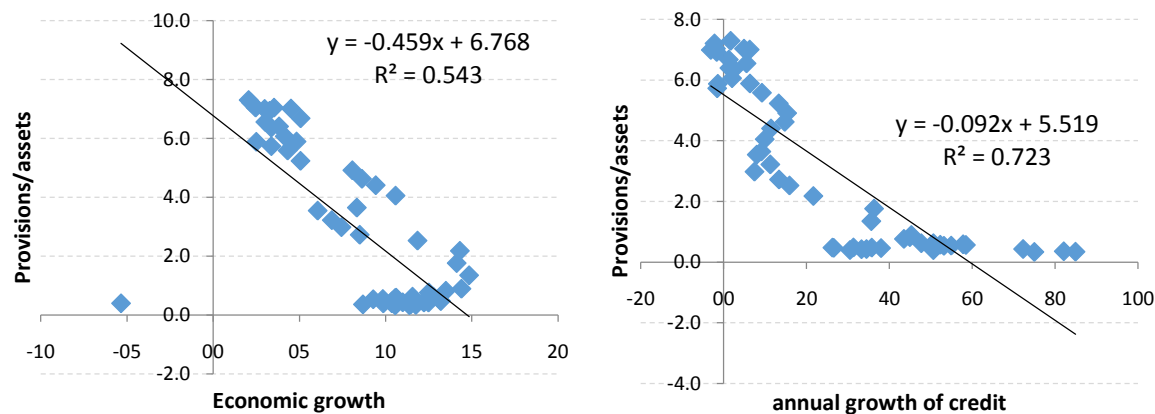
Chart 6. Developments in economic growth, annual credit growth, and non-performing loans ratio



Source: Bank of Albania, author's estimates

The materialization of credit risk through the increase in this ratio is reflected in the rapid increase in provisioning expenses, which, similar to other countries, increase during periods of economic downturn (Borio et.al 2001, Laeven et.al, 2003). This assessment is especially accurate for countries such as Albania, which require the banking sector to acknowledge losses as provisioning expenses, for the materialized credit risk, and does not include the concept of "expected losses" (Li, 2009).

Chart 7. Procyclicality of provisioning



Source: Bank of Albania, author's estimates

The ratio of stock for provisioning to banking sector assets reflects a strong negative correlation with developments in economic growth and annual credit growth (chart 7). The respective correlation coefficients are at -0.74 for the correlation of the provisioning stock with economic growth, which is statistically significant at 5% (p-value = 0.0), and -0.43 for the correlation of provisioning to credit growth, which is also statistically significant at 5% (p-value = 0.02).

3. Conclusions

Local financial market characteristics play significant role for the contribution of a specific element in procyclicality. Interventions through countercyclical instruments by the Bank of Albania have been clear, in an appropriate time of the cycle, and in harmony with the message that they aimed to transmit to both the banking sector and the economy in Albania. Constantly enriching and calibrating the matrix of these instruments remains the subject of the future activity of the Bank of Albania.

However, the elements addressed above are not the only ones that generate procyclicality effects on financial stability in Albania.

Prolonged periods of low-interest rates may be accompanied by premises for affecting stability due to their eventual changes in the long term. This makes it necessary to monitor developments in these markets and acts in advance with appropriate and timely interventions through supervision and macroprudential instruments. The application in practice of countercyclical instruments requires a determination by the regulatory authority, being overall not in line with short-term interests of the banking sector. The actual macroprudential policy addresses mainly the banking sector. But, it is time now for a similar policy to be projected also for the so-called "shadow banking", which is becoming increasingly important, especially in the sector of investment funds.

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BREXIT AND ITS POTENTIAL IMPACT ON THE ALBANIAN ECONOMY

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Dorina Ajasllari²

ABSTRACT

The historical decision that the Great Britain took on June 23rd 2016 referendum to leave the European Union has led to many uncertain and questions about the future of European Union (EU), affecting not only the member states but also those aspiring to be part of the European family, such as Albania. Even though, Brexit is a political shock, it has a significant impact also on the economy. There was a strong reaction from the financial market actors after the Brexit, which was reflected on the shock of the stock market prices and exchange rates that can be compared to the collapse of Lehman Brothers.

The objective of this paper is to explore some of the implications of the Brexit impact on the Albanian economy and integration in the EU. The methodology used for the purpose of this paper is based on the quantitative analysis of economic data such as exchange rate, export ratios, foreign direct investments and remittances. The source of data used in this paper include trustful economic information sources such as Bank of Albania (BoA), World Bank, Yahoo Finance, Bloomberg etc. We expect that the direct influence of Brexit on the Albanian economy to be moderate, due to small level of trade and investment between the two countries. Although, any reduction of the remittances from the UK, can have a significant impact, as they hold an 11% share of total remittances of the country. In our opinion, the indirect impact, which include a new Eurozone recension, Euroscepticism, market uncertainty and worries about the future of globalization, would cause a more significant impact on the Albanian economy and its European Integration objectives.

Keywords: *Brexit, European Union, exchange rates, remittances, Euroscepticism*

JEL Classification: *F15*

1. A brief introduction to the European Union and Brexit

The European Union (EU) is one of the most influential and important politic, economic, social and cultural realities in the world. Nowadays the EU is composed by 28 Member States³, which have relinquished part of their sovereignty to the European Union institutions, with many decisions made at the European level (European Union, 2017). After World War II, European integration was seen as an antidote to the extreme nationalism, which had devastated the continent. Even though the EU origins are from economic and industrial agreement⁴ between

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³ After the Brexit and after the Article 50 of Lisbon would be applied, there are 27 Member States left, which compose the EU.

⁴ The EU traces its origins from the [European Coal and Steel Community](#) (ECSC) and the [European Economic Community](#) (EEC), formed by the [Inner Six](#) countries in 1951 and 1958, respectively.

some of the most important western European countries, the European Union, in the dimension that we know it today, grew out of a desire for peace in a war-torn and divided continent. Moreover, currently the EU has fulfilled this objective as it has delivered more than 60 years of peace, stability and prosperity in Europe (EU, 2016). It has since grown to become a “single market” allowing goods and people to move around basically as if the member states were one country. It has its own currency, the euro, which is used by 19 of the member countries; its own parliament and it now sets rules in a wide range of areas, including on the environment, transport, and consumer rights etc.

There are seven institutions which work together to run the EU. These institutions are the 1) European Commission, which is responsible for proposing legislation, implementing decisions, upholding the EU treaties and managing the day-to-day business of the EU; 2) The European Parliament, which is the directly elected parliamentary institution of the EU; 3) The Council of the European Union, which holds the budgetary power of the Union and controls the intergovernmental areas of the EU; 4) The European Court of Justice, which is the highest court in the EU in matters of the EU law; 5) The European Council, which is in charge of defining the EU's overall political direction and priorities; 6) The European Central Bank, which is the central bank for the euro and administers monetary policy of the Eurozone, which consists of 19 EU member states and is one of the largest currency areas in the world; 7) The Court of Auditors, which is a professional external investigatory audit agency. Its primary role is to externally check if the budget of the EU has been implemented correctly (European Union, 2017)

One of the most important projects of the EU is the European enlargement, which means other European countries not part of the EU became part of the EU Member States. In order to do so, the enlargement countries have to fulfill a set of objectives and complete a set of reforms, where the key challenges are the overcoming of the economic crisis, social welfare, strengthening of the rule of law and public administration, freedom of expression and media and reconciliation, regional cooperation and bilateral issues in the Western Balkans (European Commission, 2015). However, while almost all eastern European countries aspire to be part of the European Union, one of the most important countries of the EU, the Great Britain, has decided to leave the EU after almost 60 years of membership. After decades of increased European integration with Europe's elites planning a future of “ever deeper union”, one of the largest member states has decided to exit from the European Union altogether. The exact impact that this development will have on the future shape of the EU is highly uncertain but the effects are likely to be profound.

In the past, the UK has chosen to opt out of some key EU decisions, like the single currency or euro and the Schengen Treaty, but when the possibility of holding a referendum to decide whether to continue to remain in the EU became a reality, it was a real shock. The United Kingdom's prospective withdrawal from the European Union is widely known as Brexit, an abbreviation of “Britain” and “exit”. In late February 2016, the then GB prime minister, David Cameron, announced that the GB was going to hold a referendum to decide on the continuance of the GB's membership on the EU. Just a few months later, in a historic referendum on June 23rd, the people of Britain voted for a British exit, or Brexit from the EU. The leave vote won by 51,9 % to 48,1%. The referendum turnout was 71,8 %, with more than 30 million people voting (Hunt & Wheeler, 2016). Leave voters base their support for Brexit on a variety of factors, from the global competitiveness of British businesses to the European debt crisis to concerns about immigration. Leavers tend to stress issues of national pride, safety and sovereignty, but they also have economic arguments, such as the fact that according to them the UK could save 350 million pound per week (Goodwin & Heath, 2016). Although the relationship of the UK and the EU was

a source of debate ever since it joined the EEC in 1973 the outcome was a surprise for most observers. It is worth noting that Brexit is very different from the Grexit, the potential exit of Greece from the euro currency zone made up of 19 of the 28 member countries of the EU. The GB is not part of the euro zone and so Brexit does not directly threaten the euro currency. However, the GB is the second largest economy in the EU so its potential exit could have important ramifications for the entire union.

For the UK to leave the EU it has to invoke an agreement called Article 50 of the Lisbon Treaty, which gives the two sides two years to agree the terms of the split. Article 50 is a plan for any country that wishes to exit the EU. It was created as part of the Treaty of Lisbon- an agreement signed up to by all EU states, which became law in 2009. Before that treaty, there was no formal mechanism for a country to leave the EU (European Parliament, 2016).

After 40 weeks of topsy-turvy politics since the referendum vote last June, the GB Prime Minister Theresa May will pull the trigger by invoking Article 50 of the Lisbon Treaty on March 29. Once the European Union is formally notified that the U.K. intends to leave the bloc, a two-year countdown will begin. During those two years, British government and EU officials will lock horns over the terms of divorce (Bloomberg, 2017). Questions have swirled around the process, in part because Britain's constitution is unwritten and in part, because no country has left the EU using Article 50 before.

2. Market reaction after Brexit

European stock markets are highly integrated. Investors can shift between markets easily and many companies have strong cross-border ties, both result in a steady co-movement of stock prices within Europe (Raddant, 2016). European equity markets have developed significantly since the advent of electronic trading over two decades ago, in terms of both the variety of execution venues and manner in which equities can trade (BlackRock, 2011). Stock markets are showing signs of convergence. Stock market returns of EU economies are showing signs of convergence. Correlations of stock market returns for EU countries compared to returns of the benchmark country have increased over time, showing that stock markets are becoming increasingly connected to each other (PwC, 2015). In equity markets, the introduction of the Euro eliminated exchange risk and thereby stimulated cross-border equity investments. Internationalization of equity issuance, more cross-border mergers and acquisitions and the consolidation of stock exchange have enforced cross-border activities. In addition, it is also evident that investor behavior has changed from country- based toward cross-border investments. The European Commission regularly monitors developments in the financial sector in the EU, and has been publishing annual reviews of its monitoring of financial market integration in Europe. As a response to the recent financial crisis, the EC created the annual European Financial Stability and Integration Report (EFSIR) in 2010, which has an additional focus on the stability of financial markets. Although national differences between stock markets remain with respect to market capitalization and the number of initial public offerings (IPO) these are probably more an indication of increased regional specialization and concentration of equity markets (exchange) in an integrated European market. However, due to the liberalization of capital markets and globalization, the market for wholesale financing has developed substantially and has become more integrated and competitive. It seems that larger companies in particular have access to

international financing markets, whereas only very small firms still depend on their local financial system (Financiere de l'Echiquier, 2014).

Even though the co-movement between the UK and the rest of the EU has been a little weaker than between other member states, the June 23 referendum's result severely affected markets worldwide, though in some cases the effects were short-lived. The European stock market indices were in a slight upward movement in the first half of 2016 until the beginning of June (Financial Times, 2016). After the Brexit vote, stock prices dropped by around 10 percent and have since then only slowly returned to mid-June levels (Raddant, 2016). Exchange rates also have a huge shock after the Brexit referendum result; as an example, the pound dropped to its lowest level in 30 years against the world's biggest currency the US dollar as it became clear the UK had voted to leave Europe. The pound was at the sharp end of market's reaction, with the currency at one point tumbling 11.1% to \$1.3229, its weakest level since the mid-1980-s (The Guardian, 2016). Its decline comfortably eclipsed that of Black Wednesday in 1992, when the UK left the Exchange Rate Mechanism. By the close of trading in New York, sterling had bounced from its low to trade down 8% at just under the \$1.37 mark. Even though, the impact of the first days after the referendum result was a total shock for the exchange rates, experts argue that the most influential currency from the Brexit leave vote is the GBP. On the day after the referendum the pound depreciated significantly, as it has lost its value by 8% against the euro and 10% against the dollar, while the euro depreciated against the dollar by 3,5%. After the initial shock, the pound was further weakened by a series of unexpected political developments and poor data releases (Expatica, 2016).

Below we will see a summarized analysis of stock index trends for a period of about 10 months after the Brexit referendum. The objective of this analysis is to provide a framework of the trends of some of the most important stock index through using historical data from June 23 2016 until March 2017 on a weekly base, in order to see the impact of Brexit leave vote to these stock indexes. We will compare the 10 months trends of these indexes with their first post referendum days reaction, in order to see if the impact was just a momentary shock or a long-term impact. The index, which will be subject of this analysis, are 1) DAX, which is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange; CAC 40 is a benchmark French stock market index, which represents a capitalization weighted measure of the 40 most significant values on the Euronext Paris; FTSE 100 which is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. We have taken in consideration these indexes because they represent the most important stocks of the largest economies in the EU, UK, France and Germany. In the table below (Table 1) we have shown some characteristics of the above mentioned indexes.

Table 1: Stock indexes summarized information

INDEX	COUNTRY	CURRENCY	AVERAGE PRICE	AVERAGE RETURN (*) (%)	STANDARD DEVIATION
DAX	Germany	EUR	10.957,45	0,57%	1,97%
CAC 40	France	EUR	4.625,88	0,45%	1,83%
FTSE 100	Great Britain	GBP	6.982,38	0,3%	1,4%

Source: Historical price dates are taken by Yahoo Finance. All calculations are made by the authors

A) DAX trends after the Brexit Referendum

As mention above, we have taken evidence of DAX historical data prices on a weekly basis using a trustful source such as Yahoo Finance. We have then calculate the average return and standard deviation and the result is that DAX index during the period 23 June 2016- 23 March 2017 has have an average return of 0,57% with a standard deviation of 1,97%. The first day after the Referendum result DAX had an decrease of about 700 points and about 6,82%, counting to the lowest price of €9,557.00 (Martin, 2016). As we see, from our calculations the average price of the index for the period taken in consideration has been 10.955,45, about 15% greater than the price during the first days after the Brexit shock. As we can see even from the chart below, the shock of DAX from the Brexit may be consider as a short- lived impact.

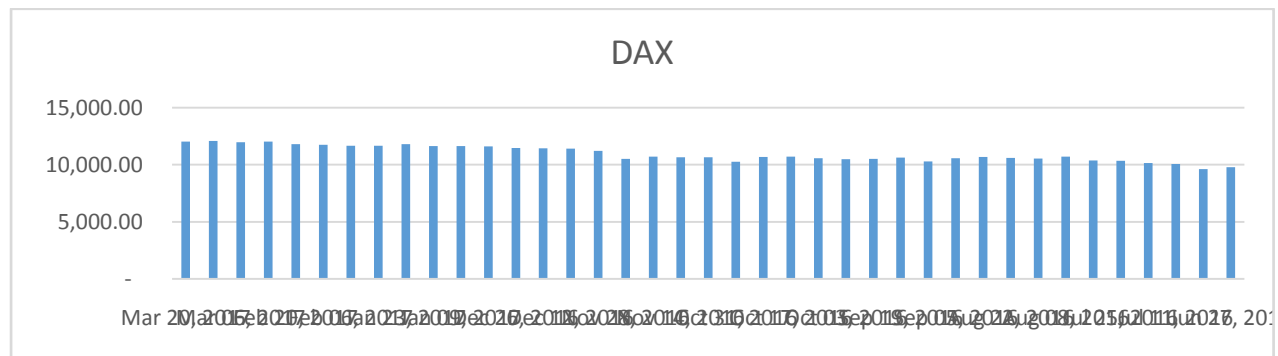


Fig. 1: DAX index historical price trends (June 2016- March 2017)

Source: Yahoo Finance. All calculations are made by the authors

B) CAC 40 trends after the Brexit Referendum

CAC 40 had a decrease of 350 points and about 7,84% after the referendum results, counting to a price of €4.115, 80. During the period taken in consideration, CAC has have an average return of 0,45% with a standard deviation of 1,83%. The average price of the period has been around 12% higher that the post referendum price (Martin, 2016). In our opinion, the index has been recovered by the shock of the first days after the Referendum result and the impact may be consider as a short- lived impact

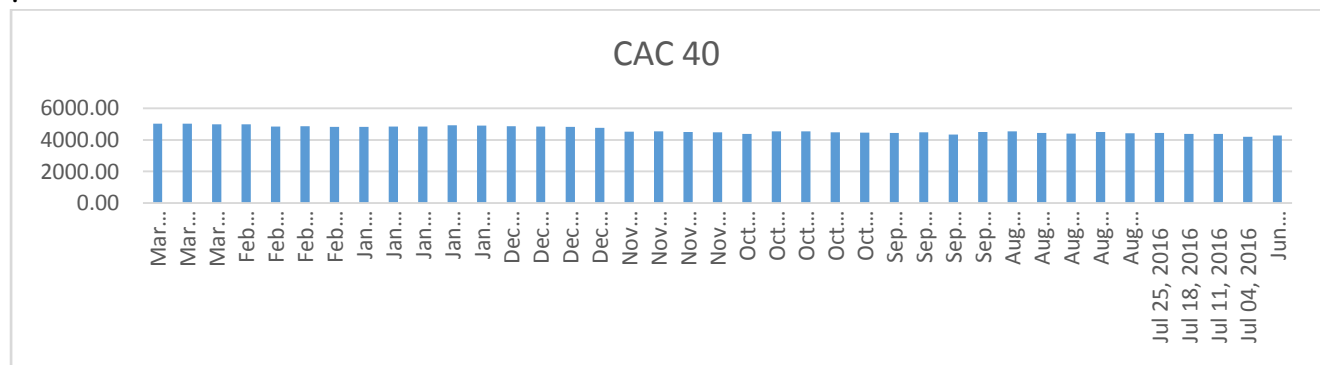


Fig. 2: CAC 40 index historical prices trends (June 2016- March 2017)

Source: Yahoo Finance. All calculations are made by the authors

C) FTSE 100 trends after the Brexit Referendum

The first days after the Referendum the FTSE 100 opened down by about 9% but recovered to the close to end trading down just over 3%, thanks largely to the high number of companies in the index which denominate their assets in dollars (Martin, 2016). The FTSE had a decrease of 204 points and about 3,22%, with a price of 6.134,00 GBP. According to our calculations, the average return for this period of the FTSE 100 has been of 0,3% (the lowest among the three indexes) with a standard deviation of 1,4%. The average price of the period is about 14% higher than the price during the first days after the Referendum. As we can see from the chart below, there have been ups and downs for the prices of this index, but we could not say that the strong impact of the first days has continued during all these period.

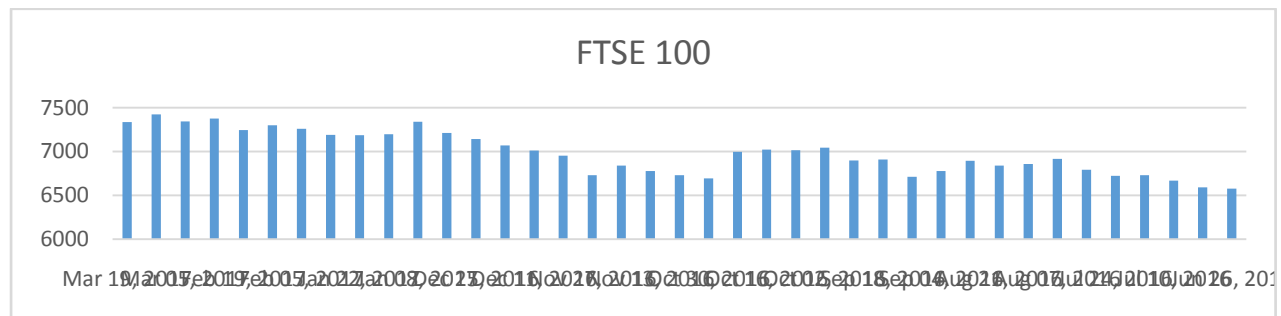


Fig. 3: FTSE 100 index historical prices trends (June 2016- March 2017)

Source: Yahoo Finance. All calculations are made by the authors

As a conclusion, we can mention that the Brexit vote had similar effects in Germany, France and the Great Britain. The stock prices declined sharply and returned close to their previous levels within about 3 week. But for the experts this recovery is only partial, furthermore in the case of the UK. For them, uncertainty about necessary changes in the future EU financial infrastructure remains, together with very pragmatic questions about the market access of the UK-based financial institutions to the EU. According to experts, the fact that the UK Prime Minister Theresa May has announced that the UK will pull the trigger by invoking Article 50 of Lisbon Treaty on March 29, 2017 led to a range of uncertainties about what the two year “divorce” process impact will be on the European financial markets. The uncertainty is even bigger taking in consideration that no other country has leave the EU according to the Article 50 before.

3. Albania's EU aspirations

Now day, Albania is a democratic and developing country in the Southeastern Europe, with upper-middle income economy. Albania became a Communist country after the World War II and remain so for 45 years long. As part of the eastern and central Europe movement, which led to the fall of the Communist regime in most of the Eastern European countries, even in Albania started the anti-communism movement. The popular protest, which began in 1989 led to the fall of the Communist regime in Albania between 1991 and 1992. After that, for Albania started the long period of political, economic and social transition. After the fall of communism the main objective of the Albanian people has been to become part of Europe, not only geographically, but also part of the European community and identity. The European integration has been one of the most important priorities in the political agenda of all the governments after the '90. Furthermore,

the Integration case of Albania into EU is one of the most debated cases into the political and public life of Albania. Albania's path toward EU membership has been similar to other Western Balkan nations. Although there are some key points, which have marked Albania's journey toward the EU association, which are listed below (European Commission, 2017):

- 1) In 1992 Albania and the EU signed a Trade and Co-operation Agreement and Albania became eligible for funding under the EU Phare programme.
- 2) In 1999 the EU proposed the new Stabilization and Association Process (SAP) for five countries of Southeastern Europe, including Albania.
- 3) Albania was identified as a potential candidate for EU membership during the Thessaloniki European Council summit in June 2003.
- 4) On 9 November 2006 the European Commission decided to start visa facilitation negotiations with Albania, and on 13 April 2007 the visa facilitation agreement was signed in Zagreb.
- 5) In 2009, Albania submitted its formal application for EU membership. In its Opinion on Albania's application (in 2010), the Commission assessed that before accession negotiations could be formally opened. Even though, Albania still had to achieve a necessary degree of compliance with the membership criteria and in particular to meet the 12 key priorities identified in the Opinion.
- 6) On 15 December 2010 visa-free access to the Schengen area entered into force
- 7) In October 2012, Commission recommended that Albania be granted EU candidate status, subject to completion of key measures in the areas of judicial and public administration reform and revision of the parliamentary rules of procedures.
- 8) In June 2014, Albania was awarded candidate status by the EU.

In order to become a member state of the EU, Albania has to fulfill all the criteria set by the EU for the candidate states. Those criteria cover a range of political and economic reforms, in order to meet the European standards regarding justice, freedom and security. The process of joining the European Union is a national objective, in view of the democratization and transformation of the Albanian society. Albania has done a lot of work in fulfilling these requirements, but a lot of work has to be done yet in matter of economic, political and social development.

4. Brexit potential impact on the Albanian Economy and integration to the EU

The United Kingdom was a great supporter of the European Union enlargement project in the South and Eastern Europe. In such case, the decision of the GB to leave the union may affect the process of enlargement and has economic effect in the countries, which are not part of the EU, but are in the process of negotiations to become a member state. Political changes have in most cases economic impact, which are transmitted in a chain reaction. Even though Albania is not part of the European Union, the economic impact of the Brexit may be transmitted even in our country, exactly for the fact that economic impacts are easily transmitted from one country to another. Our objective is to assess the impact of Brexit on the Albanian economy. We will take in consideration some economic indicators such as trade exchange, foreign direct investments, remittances, deposit and loan levels, exchange rates.

A) Trade exchange between UK and Albania

Trade relationship indicates the amount of exchange (buying and selling) of goods and services between two countries. Trade relationship is a very important indicator of the connection and dependence of two countries with each other. As for these reason, we have analyzed the level of trade relationship between Albania and UK for the last 25 years, in terms of exports and imports between the two countries. As we can see from the table below and also illustrated in the Chart 4, exports with GB hold an average of 0,22% of exports with European countries and 0,21% of total exports. As for imports, they hold an average of 1,53% of imports with European countries and 1,37% of total imports. As we can see, the trade exchange between Albania and UK is low even compering to other European countries and even compering to total trade exchange of Albania. This means, that possible changes and scenarios after the official Brexit of the UK may have no/or very low impact on the trade balance of our country.

Table 2: Export/Import between Albania and United Kingdom

AVERAGE RATE	%	EXPORTS WITH UK/ EUROPE	EXPORTS WITH UK/TOTAL	IMPORTS WITH UK/ EUROPE	IMPORTS WITH UK/TOTAL
		0,22	0,21	1,53	1,37

Source: Instat Albania. All calculations are made by the authors



Fig. 4: Trade Exchange between Albania and GB (1993- 2016)

Source: Instat. All calculations are made by the authors

B) Direct foreign Investments

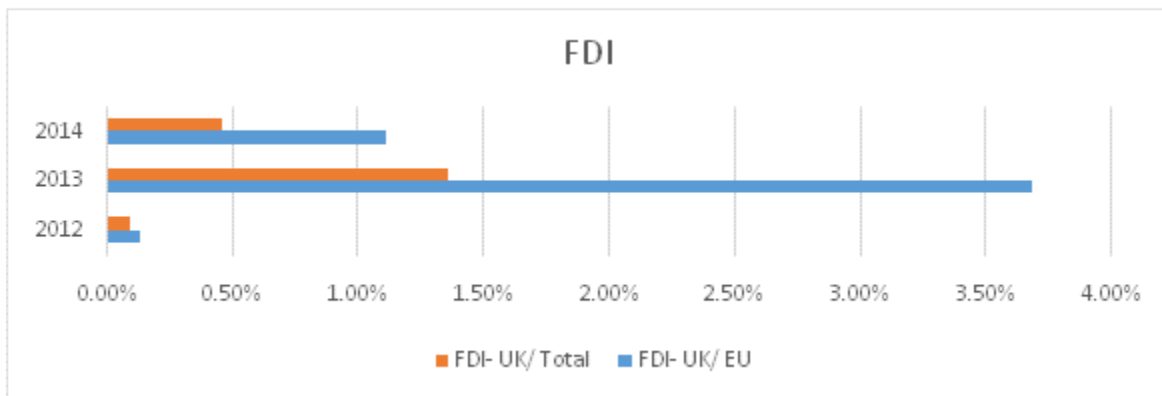
Foreign direct investment (FDI) is an investment made by a company or individual in one country in business interests in another country, in the form of either establishing business operations or acquiring business assets in the other country, such as ownership or controlling interest in a foreign company. FDI are also an important indicator of the relationships between two countries. If the level of the FDI from one country is high than it is of great importance the continuity of the bilateral relationships between the two countries, because any changes may have direct economic effects. In order to analyse if this is the case of Albania and UK we have taken in analyze the stock of FDI from GB origin to our country for three years 2012- 2014 (last update from BoA).

Table 3: FDI from UK

	2012	2013	2014	AVERAGE
FDI- UK/EU (%)	0,13	3,68	1,11	1,64
FDI- UK/TOTAL (%)	0,08	1,36	0,45	0,63

Source: Bank of Albania. All calculations are made by the authors

As we can see from the table above, the FDI from UK hold an average of 1,64% of the FDI from the EU in Albania and 0,63% of total FDI-s in our country. The stock of UK FDI in our country is very low comparing to other partners countries, (such as Italy, Turkey etc.) In these conditions, any changes regarding FDI- s after the Brexit may have no or low impact on the Albanian economy.

**Fig. 5: FDI from GB**

Source: Bank of Albania. All calculations are made by the authors

C) Remittances

Remittances refer to a transfer of money from a migrant worker to their families or other individuals in their home countries. In many countries, remittances constitutes a significant portion of the GDP. Furthermore, for devotement countries such as Albania FDI and remittances are very important financial sources for their economy. As for the specific nature of people movement terms between Albania and UK, the number of Albanians emigrants in the UK is low comparing to other European countries (Italy, Greece etc). According to BoA, remittances from Albanian migrants in UK to their hometown, hold 11% of total remittances, with an impact of 0,6% of the nominal GDP (Bank of Albania , 2016). This fact indicates that a decrease of the Albanian remittances from UK; as illegal immigrants may leave the UK or more strict immigrations rules may be apply in UK after the Brexit; the consume and the economic growth in our country may be affected. Nevertheless, the total stop of remittances from the UK is the worst scenario and it is not probable to happen.

D) Exchange Rates

The exchange rate indicates the price of a nation's currency in terms of another currency. Now, we will see the trends of the exchange rates between the Albanian Lek (ALL) and Great Britani Pound (GBP) during the referendum year, January to December 2016. From the table below we see that the average monthly exchange rate for the 2016 between the two currencies has been

168,1684, far above the normal exchange rate between these two currencies. The chart below, which indicates the trend of the exchange rate during the year, shows that during 2016 has been a decrease in the exchange rate between ALL and GBP, emphasized in the months following the referendum June- October 2016, influenced by the international exchange rates trends of the time. The pound depreciation has made cheaper loans in pounds, but has also have negative impact to deposits in pound. However, according to the BoA the loan in pound has not an important share of the loan portofolio in our country, holding 0,002% of the total loans (Bank of Albania , 2016). The same situation for the deposits in pound, which represent 1,17% of total deposits (Bank of Albania , 2016). The pound depreciation makes our imports cheaper and our export more expensive, even though the trade exchange between our two countries has not an important impact on the total trade exchange of Albania.

Table 4: Exchange rate between ALL and GBP 2016

	AVERAGE RATE	MAX	MIN
EXCHANGE RATE ALL-GBP	168,1684	183,1363 (January)	153,1385 (October)

Source: Bank of Albania. All calculations are made by the authors

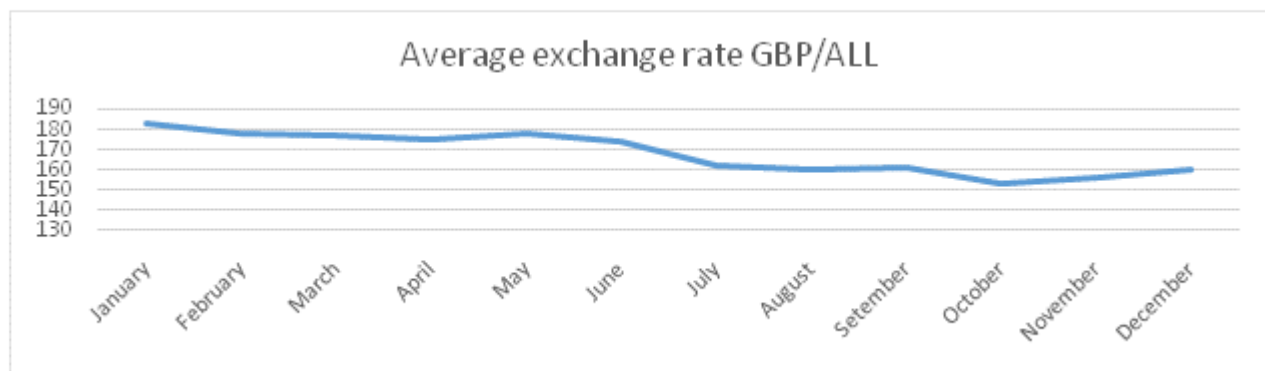


Fig. 6: Exchange rates between ALL and GBP for the year 2016

Source: Bank of Albania. All calculations are made by the authors

5. Conclusions

As a conclusion, in our opinion the impact of a negative scenario of the Brexit decision on the Albanian economy would tend to be low to moderate impact. We argue this opinion, taking in consideration the result of our analyze of some key factors for the economic stability and growth such as trade exchange, FDI, remittances, exchange rates, loans and deposits. In our opinion the fact that our country is not part of the European Union, has low trade exchange with GB, has a moderate number of immigrants comparing to other countries, and has a low stock of FDI from GB are the reasons why the possible impact of Brexit in the Albanian economy would tend to be low to moderate. Taking the consideration the fact that the GB has always have a different position from the rest of EU for some important issues for Albania, such as the free movement, the Brexit would not have any direct impact in the free movement of Albanian citizens.

In our opinion, most importance must be paid to non-economic indirect impact that Brexit may have in our country. The consequence of the Brexit is both structural- the ability of the EU to act

and integrate new members and normative- the ability of the EU to promote a particular type of democratic, consensus- oriented system of government. This directly affect the aspirations of Albania to become a member state. On the one hand the EU would spend time and effort for the Brexit negotiations, leading to less time to dedicate to the enlargement process and on the other hand the risk of increasing Euroscepticism, antiglobalization, anti-immigration, nationalism trends; directly affect the process of negotiations between our country and other aspiring countries and the EU. And of course that these non-economic impact, if happens to be true would have also a future economic impact in our country.

The uncertainty that Brexit produces makes prediction difficult. What we hope is that the European Union continue to be the democratic and peace keeper reality which is today and that soon our country Albania become part of this reality with full rights.

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THE ENVIRONMENTAL KUZNETS CURVE (EKC): AN ANALYSIS FOR THE BALKANS

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Erinda Guma²

ABSTRACT

The issue of relations between global climate change and the level of economic activity, lately, has occupied an important role in the field of research. The Environmental Kuznets Curve (EKC) hypothesis postulates an inverted – U – shaped relationship between different pollutants and per capita income. The shape of this curve represents the idea that as incomes rise, the environmental pollution initially increases up to a certain point and then begins to decline. Several studies confirm this behaviour to environmental degradation, but many others say that only some pollutants show the evidence of an EKC. Some countries may represent different shape of the EKC and/or different predicted turning point in income. The article aims to demonstrate, with an econometric model, the EKC for countries in the Balkan region using data from World Bank. As the countries of this region indicate changes in the political, social, economic and biophysics factors, is expected that they exhibit different behaviour of the relationship between environmental pollutants and income. Thus developing countries, applying the standards adopted by developed countries, can bring its environmental policies in accordance with the conditions prevailing in each country.

Keywords: *Economic growth, Environment, Environmental Kuznets Curve (EKC), Pollution, Turning point, Inverted U-shape*

JEL Classification: *Q, E, O*

1. Introduction

There has been a profound debate about the connection of economic growth to environment degradation for a long time. There are two different approaches on this topic. One of them supports the idea that economic growth brings an environmental degradation, whereas the other approach favours the fact that economic growth improves environmental quality.

Economists, in the early'90s, noticed a connection of economic growth to environment degradation, which was known as Environmental Kuznets Curve (EKC) and served as a support for economists further analysis on this field. Grossman and Krueger's first study (1991) proved that there was an interconnection of economic growth to environmental quality and this interconnection follows the inverted-U-shape. The curve shape shows that little attention is given to the economic growth and industrialisation effects on the environment during their first steps. For this reason, the extent use of resources and technology and excessive emission of pollutants increase the environmental pollution, which means its quality reduction. This stage is followed

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by another one that is economic growth which results in income increase and makes the individuals think about their living conditions quality, seeking a cleaner environment. Different studies, which take into account places and various environment polluters favour this curve form EKC, but many others, as Panayotou (1997), state that the relationship of economic growth with polluters is monotonic and positive.

The occurrence of curve different shapes EKC, in a certain way, is expected as far as the countries, taken into consideration, have experienced significant economic, social, political and biophysical changes. Different surveys conducted on EKC demonstrate that there are some factors which affect the shape of EKC. They are:

a) The income elasticity of environment demand

Increase of individuals' living standard through economic and income growth results in a greater environmental quality demand so it encourages structural changes in the economy which brings the decrease of the environmental degradation.

Dinda (2004) states that when income elasticity over environment quality is greater than one, the environmental cleaning and preservation are considered "luxury goods", but the majority of environmental degradation indicators have a linear increase, in which income elasticity is less than one and environmental degradation isn't just an income function.

b) The effect of economic scale, technology and structure

According to Bo (2011), the scale effect is related to the production increase which asks for a greater consumption of resources and energy causing such a pollution that deteriorates the environment quality. Along with the income increase, economic structure tends to alter by enhancing gradually clean-up activities, presenting, in this way, a structural effect. Technological effect is shown when old polluting technology is substituted by a new one which improves environmental quality.

c) International trade

Free trade presents two opposing impacts in the environment. In one hand, the trade between countries leads to the increase of the size of the economy that increases pollution and, on the other hand, the trade enables the transfer of the new and advanced technology through foreign direct investments.

2. Literature review

The first study of the relationship between environmental degradation and economic growth was conducted by Grossman and Krueger in 1991. Their panel data contains 42 countries for sulphur dioxide (SO₂), 19 countries for dark matter and 29 countries for suspended particles. The years of investigation are 1977, 1982 and 1988. The EKC was not confirmed in the case of SO₂ and dark matter which found to follow an N-shape pattern and suspended particles an inverted-U-shape.

Seldon and Song (1994) analyse a relation, in panel data, between growth and pollution indicators for three different periods of time: 1973-1975, 1979-1981 and 1982-1984. The pollutants are SO₂, nitrogen oxide (NO_x), carbon oxide (CO_x), and suspended particles. Panel data analysis with cross section, fixed and random effects confirm the validity of the EKC hypothesis.

A year after, Seldon and Song (1995) examine the validity of the EKC hypothesis, for 130 countries, between carbon dioxide (CO₂) emissions and Gross Domestic Product (GDP) for the

period 1951- 1986. The panel data analysis that they apply allows for fixed and country specific effects.

Shafik (1994) explored the relation between GDP and environmental degradation for 149 countries covering time period from 1960 to 1990. Panel data analysis based on Ordinary Least Square estimates show that from pollution indicators such clean water, urban sanitation, suspended particles, SO₂, dissolved oxygen, faecal coli forms in river, carbon emissions, municipal waste and deforestation, the EKC hypothesis is confirmed only for SO₂ and suspended particles.

The years and time periods in Grossman and Krueger (1995) study are 1977, 1982, 1988 and 1979 – 1990. This study was conducted for the reduced form relationship between per capita income and various environmental indicators such as urban air pollution, the state of the oxygen regime in river basins, faecal contamination of river basins and contamination of river basins by heavy metals. Panel data analysis with random effects confirms the validity of the EKC hypothesis.

Tucker (1995) used a panel data analysis for 137 countries to investigate the EKC hypothesis for the period 1971 – 1991. For the majority of the countries the findings shows that the EKC is confirmed.

In 1997, Moomaw and Unruch used a sample of 16 developed OECD countries for the period 1950 – 1992. They used a structural transition model to examine the relationship between CO₂ emissions and GDP in the panel data. The results confirmed the EKC hypothesis for the period under examination but with inverted-V shapes and not inverted-U shaped curve.

Stern and Common (2001) used an emissions database produced for the US Department of Energy that covers a larger range of income levels and includes more data points than any of the other sulphur EKC studies. In conclusion, the studies that used more globally representative samples of data find that there is a monotonic relationship between sulphur emissions and incomes just as there is between carbon dioxide and income.

We continued our study by describing the data and the methods we use in the analysis and later, with the estimation of panel models.

3. Model specification and data

To determine the nature of the relationship between environmental quality and economic growth in Balkans, the study draws model from both the EKC and the original Kuznets curve literature. The underlying hypothesis is that the relationship between economic growth and environmental quality is not monotonic and may change direction from upward to downward when a country reaches a certain level of income. The earliest EKCs (Grossman and Krueger (1991)) were simple quadratic functions of the levels of income in the following form:

$$(E/P)_{it} = \beta_0 + \beta_1 y_{it} + \beta_2 y_{it}^2 + u_{it}$$

Where E/P denotes the index of environmental pollution per-capita and y is per-capita real GDP. Moreover, i denotes countries, t is time, β_0 is constant and β_k is the coefficient of the k explanatory variables.

This model provides us to test several forms of environment-economic development/growth relationship:

- a) $\beta_1 = \beta_2 = 0$. A flat pattern or no relationship between (E/P) and y .
- b) $\beta_1 > 0, \beta_2 = 0$. A linear relationship between (E/P) and y with positive slope.
- c) $\beta_1 < 0, \beta_2 = 0$. A linear relationship between (E/P) and y with negative slope.
- d) $\beta_1 > 0, \beta_2 > 0$. A monotonically increasing relationship among the variables.
- e) $\beta_1 < 0, \beta_2 < 0$. A monotonically decreasing relationship among the variables.
- f) $\beta_1 > 0, \beta_2 < 0$. An inverted-U-shaped relationship.
- g) $\beta_1 < 0, \beta_2 > 0$. A U-shaped relationship.

To have a normal distribution for the GDP per capita and N_2O per capita data, we have transformed them in their natural logarithm. For this, the two econometric models are:

$$\begin{aligned}(CO_2)_{it} &= \beta_0 + \beta_1 \ln y_{it} + \beta_2 (\ln y_{it})^2 + u_{it} \\ (\ln N_2O)_{it} &= \beta_0 + \beta_1 \ln y_{it} + \beta_2 (\ln y_{it})^2 + u_{it}\end{aligned}$$

The empirical analysis considers panel data for eight countries of Balkans (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Macedonia, Romania and Slovenia) for the period 1995-2012. The independent variable $\ln y$ represent the natural logarithm of Gross Domestic Product per capita, which is calculated by dividing gross domestic product to mid-year population. Data are in current U.S. dollars. The independent variable $(\ln y)^2$ represent a proxy for later stage of economic growth. The dependent variables Carbon Dioxide (CO_2) and Nitrous Oxide (N_2O) emissions per capita are measured in metric tons per capita and represent a proxy for environmental degradation. The variable $\ln N_2O$ is the natural logarithm of N_2O emission. The variables are collected from the official website of World Bank.

4. Methods of data analysis and estimation techniques

In the econometrics model the methodology is based on data analysis that includes the selection of fixed or random effect model, unit root test, and co-integration test. All the analysis in the study was conducted using EVIEWS software.

The paper applied the Hausman effect test to check which model is appropriate, the fixed effect or random effect. The Pooled effect model is eliminated because this model suppose the homogeneity of these countries that is not conform to the reality. Table 1 shows the results for fixed and random effect, for both the pollutants.

Table 5: Fixed and Random Effect for CO_2 and $\ln N_2O$

Variable	Fixed Effect CO_2		Fixed Effect $\ln N_2O$		Random Effect CO_2		Random Effect $\ln N_2O$	
	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
C	-13.24513	0.0038	5.051735	0.0000	-12.43754	0.0066	5.070351	0.0000
LNy	4.074752	0.0003	0.755826	0.0076	3.832553	0.0007	0.749854	0.0080
LNy2	-0.220915	0.0014	-0.051349	0.0031	-0.203836	0.0028	-0.050910	0.0033

Independent variables $\ln y$ and $(\ln y)^2$ are significant for the dependent variables in both models. The coefficient for the variable $\ln y$ is positive and this of variable $(\ln y)^2$ is negative.

The Haussman test, with $p = 3.48\%$ for CO_2 per capita panel data and $p = 56.98\%$ for $\ln N_2O$ panel data shows that Fixed Effect Model is better for the first panel data and Random Effect Model is better for the second one.

Table 6: Unit Root Test

CO₂						
	Level			1 st difference		
	Intercept	Intercept Trend	None	Intercept	Intercept Trend	None
	Prob.	Prob.	Prob.	Prob.	Prob.	Prob.
Levin, Lin & Chu t*	0.0004	0.7324	0.5046	0.0000	0.0000	0.0000
Breitung t-stat		0.9976			0.0282	
Im, Pesaran and Shin W-stat	0.0349	0.8999		0.0000	0.0000	
ADF - Fisher Chi-square	0.0396	0.3100	0.8642	0.0000	0.0000	0.0000
PP - Fisher Chi-square	0.2086	0.5034	0.8221	0.0000	0.0000	0.0000
lnN₂O						
Levin, Lin & Chu t*	0.2375	0.0013	0.0107	0.0000	0.0000	0.0000
Breitung t-stat		0.7142			0.0000	
Im, Pesaran and Shin W-stat	0.3822	0.0875		0.0000	0.0000	
ADF - Fisher Chi-square	0.2714	0.1119	0.0596	0.0000	0.0000	0.0000
PP - Fisher Chi-square	0.0418	0.2024	0.0046	0.0000	0.0000	0.0000
lny						
Levin, Lin & Chu t*	0.0000	0.6578	1.0000	0.0000	0.0029	0.0000
Breitung t-stat		0.9989			0.3418	
Im, Pesaran and Shin W-stat	0.2797	0.2125		0.0001	0.5829	
ADF - Fisher Chi-square	0.2494	0.3370	1.0000	0.0004	0.2755	0.0000
PP - Fisher Chi-square	0.7677	0.9542	1.0000	0.0004	0.0701	0.0000
(lny)²						
Levin, Lin & Chu t*	0.0000	0.7626	1.0000	0.0000	0.0101	0.0000
Breitung t-stat		0.9989			0.4335	
Im, Pesaran and Shin W-stat	0.3531	0.2856		0.0002	0.6894	
ADF - Fisher Chi-square	0.3823	0.3913	1.0000	0.0010	0.3835	0.0000
PP - Fisher Chi-square	0.9244	0.9633	1.0000	0.0010	0.1361	0.0000

Unit root test is to ascertain for stationary of the variables. A variable is said to be stationary if it's mean, variance and auto-covariance remains the same no matter at what point we measure them. A number of tests are available in the literature to check the existence of the unit root problem both in the level of the variables as well as in their first difference. To test the unit root property of the variables, the paper employed different tests: Levin, Lin & Chu t*, Breitung t-stat, Im, Pesaran and Shin W-stat., ADF - Fisher Chi-square, PP - Fisher Chi-square. In all this tests the null hypothesis is that panels contain unit roots and the alternative one is that panels are stationary. Table 2 show that all the variables, at level are not stationary but they became stationary in their first difference, testing in the model with intercept, intercept and trend and no intercept or trend.

The concept of co-integration can be described as a systematic co-movement among the variables over the long-run. One of the most widely used approaches to test for co-integration is Johansen

co-integration test. We apply Pedroni method of Johansen co-integration test. Table 3 shows that the variables have a long run balance among them.

Table 7: Johansen Cointegration Test

	Model with CO ₂		Model with lnN ₂ O	
	Statistic Prob.	Weighted Statistic Prob.	Statistic Prob.	Weighted Statistic Prob.
	Intercept			
Panel v-Statistic	0.9020	0.9193	0.8307	0.8424
Panel rho-Statistic	0.0005	0.0072	0.0001	0.0001
Panel PP-Statistic	0.0000	0.0000	0.0000	0.0000
Panel ADF-Statistic	0.0000	0.0000	0.0000	0.0000
Group rho-Statistic	0.0742		0.0044	
Group PP-Statistic	0.0000		0.0000	
Group ADF-Statistic	0.0000		0.0000	
	Intercept and Trend			
Panel v-Statistic	0.9985	0.9989	0.9974	0.9975
Panel rho-Statistic	0.0179	0.1010	0.0293	0.0318
Panel PP-Statistic	0.0000	0.0000	0.0000	0.0000
Panel ADF-Statistic	0.0000	0.0000	0.0000	0.0000
Group rho-Statistic	0.3034		0.2153	
Group PP-Statistic	0.0000		0.0000	
Group ADF-Statistic	0.0000		0.0000	
	No Intercept or Trend			
Panel v-Statistic	0.5697	0.6254	0.3897	0.4622
Panel rho-Statistic	0.0000	0.0005	0.0000	0.0000
Panel PP-Statistic	0.0000	0.0000	0.0000	0.0000
Panel ADF-Statistic	0.0000	0.0000	0.0000	0.0000
Group rho-Statistic	0.0021		0.0007	
Group PP-Statistic	0.0000		0.0000	
Group ADF-Statistic	0.0000		0.0000	

5. Conclusions

This study aimed to verify the relationship between environmental degradation and economic growth in Balkan countries by questioning the existence of environmental Kuznets curve. Analyzing the study results that the pollutants carbon dioxide per capita and nitrous oxide per capita have both short-run and long-run balanced relationship with income per capita. The function of both these pollutants is a quadratic one, which shows that an increase in the income levels in a first stage implies a rise in both the pollutants but a decreasing trend for them in a second stage. The outcome is supportive of literature.

On the bases of this finding when other indicators remain constant, the future economic growth in Balkan countries can contribute positively for environmental improvement. To realize this argument the countries should has to sustain the current situation which projects increasing share of service sector in the economy, sustaining the current green economy targeted development policies, sourcing energy from climate resilient green energy and implementing the right environmental governmental and economic policies.

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AN ECONOMIC ANALYSIS OF TERRORISM AND OF COUNTER TERRORISM POLICIES AND LEGISLATION: THE PROBLEMATIC CASES OF THE EU AND THE US

Armando Memushi¹

ABSTRACT

In light of the important implications of terrorism, this contribution aims to provide a better understanding of the features of terrorism and to determine if/how far these elements have been taken into account in counterterrorism strategies until now. Based on a mix of a theoretical analysis built here and empirical results of previous research, this paper seeks to explain how the various agents behave and interact, the specific characteristics of terror as a 'product' and those of other related goods. Moreover, drawing upon insights from the (mainly) empirical work of various scholars, a macroeconomic analysis in search of the causes and determining factors of terrorism is conducted as well. These investigations help to find some weak links that ought to be targeted in the fight against terrorism, in order to enhance the efficiency of counterterrorism policies and laws in the future. Then, the discussion follows with the current policies and legal framework concerning counterterrorism, with a special focus on the EU and on the US. Keeping in mind the precedent examination, it is identified what is missing, ineffective or counterproductive in these strategies.

Key words: *Terrorism, Counterterrorism, Law and Economics, EU, US*

JEL Classification: *F52, H56, K14*

1. Introduction

Data from the two largest terrorism datasets, The Global Terrorism Database and International Terrorism: Attributes of Terrorist Events, show that during the last quarter-century the number of terrorist incidents globally has been generally lower compared to the previous 25 years (Sandler, 2015). Even though, the general perception in the public seems to be one of increasing terror. This may be due to at least two related phenomena. First, starting from the beginning of the 1990s, when the main stage saw the switch from left-wing organizations to religious fundamentalist groups, the terrorist attacks cause, in average, more casualties per incident (Gaibullov & Sandler, 2014). Second, due to the rise of a multimedia society – see, *inter alia*, the expansion of Internet, mobile communication and social networks – the echo of a single event is now stronger. This amplification (involuntarily) helps the terrorist organizations to achieve their goals, as it will be argued later on.

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The study of terrorism deserves a special attention not only for the important negative (material or non-pecuniary) effects of the terrorist activities *per se*, but also due to the indirect microeconomic and macroeconomic impact arising in the longer term from the distortion of the incentives and of the activity of economic agents, caused by this atmosphere of terror. In light of the important implications – from economic, psychological, sociological, and political viewpoints – this contribution aims to provide a better understanding of the features of terrorism and if/how far these elements are taken into account now, in order to reach more efficient counterterrorism laws and policies in the future.

Based on a mix of a theoretical analysis built here and empirical results of previous research, this study seeks to explain how the various agents behave, how they interact and which are the specific characteristics of terror as a 'product' and those of other related goods (in Section 2). Moreover, drawing upon insights from the mainly empirical work of various scholars, a macroeconomic analysis in search of the causes and determining factors of terrorism is conducted as well. These investigations could help to find weak points that may be targeted in the fight against terrorism. Then, the discussion follows with the actual legal framework and policies related to counterterrorism, with a special focus on the European Union and on the United States² (Section 3). Keeping in mind the precedent examination, the ultimate goal is to identify what is missing, ineffective or counterproductive in these strategies (Section 4).

2. Understanding terrorism: Root causes and determining factors

2.1. Definition and classification

Terrorism is a very complex and dynamic socio-political phenomenon and it is therefore of no surprise that there is no general agreement on an exhaustive definition of it. For example, it is worth mentioning that the consideration of several organizations as terrorist ones has been revisited, by other parties and/or in other times, and their leaders have even been awarded the Nobel Peace Prize.³ The definition adopted here is the one formulated by Enders and Sandler, because of its success in highlighting some key distinguishing features of terrorism – despite the various forms it may take in time and space – and, probably due to that, because of its success among scholars. The authors define terrorism as "*the premeditated use or threat of use of extra-normal violence or brutality by sub-national groups to obtain a political, religious, or ideological objective through intimidation of a huge audience, usually not directly involved with the policymaking that the terrorists seek to influence*" (Enders & Sandler, 2002, p. 145).

In this definition several aspects of terrorism are evidenced, which are worth to stress in order to make clear as much as possible differences to other related phenomena: premeditation, violence, sub-national level of the activity, a supported cause and a large audience. First, it will be assumed that all the actors involved are acting rationally⁴, while seeking with premeditation to achieve some prefixed goals. Second, organizations and terrorists use illegal violence and brutality for this, instead of taking other nonviolent legal paths. In addition, terrorism is linked to organizations and their supporters rather than to a whole country, which makes it different from a

² The US are probably the major target of terrorism, globally. Transnational attacks against US interests count for 35-40% of the total number (Sandler, 2015).

³ See, *inter alia*, the case of the South African *Umkhonto we Sizwe* and its cofounder, Nelson Mandela.

⁴ This may even hold, in a broad sense, in the case of suicide terrorists, if due sources of utility are taken into account (Pape, 2005). We will come back to this argument later on, in Subsection 2.2.

war.⁵ Furthermore, the activity is not seen as a goal *per se* or a means for profit by these actors, as it is the case for organized crime, but in function of the ideological, political or religious cause. Last, terrorism needs to affect a large audience to achieve its tactical and strategic objectives of influencing policymaking in favour of the cause. Hence, the directly targeted parties are just the instruments.

Based on the nationality of the perpetrators, that of the victims and the venue where attacks take place, terrorism is classified in two categories: domestic – the dominant one, both in terms of incidents per year and total casualties caused annually – and transnational terrorism (Sandler, 2015). The first category refers to terrorist acts in which perpetrators and victims – and usually, the targeted audience – come from the venue country, while the second one includes terrorist attacks in which perpetrators and/or victims hail from a country different from the venue one. Besides the general agreement on this classification, several scholars tend to argue about 'lone wolf' terrorism – the terrorist is not affiliated to any organization – and suicidal terrorism as having enough distinguishing features to deserve being considered separately, as two specific types of terrorism (Pape, 2005; Borum, Fein, & Vossekuil, 2012).⁶ Moreover, the ideological orientation of terrorism may be found in the relevant literature as an important criterion for another classification (Sandler, 2015). Based on this, one can distinguish among these major types: left wing, right wing, nationalist/separatist, and religious fundamentalist terrorism.

2.2. Theoretical analysis

The organization and its supporters: The terrorist organization rationally makes its decisions seeking to achieve as the ultimate long-term goals of its activity, *inter alia*, the maximization of political and economic power and influence for its movement: the organization and its supporters (Frey & Luechinger, 2004). In accordance with that, in a shorter timeframe it will tactically aim at politico-economic destabilization and damage, as well as at publicity for their cause (Schelling, 1991). As in the work of Frey and Luechinger (2003), the assumption is that the organizations have to choose a basket with two 'products': terrorist activity on one side and ordinary nonviolent political processes – such as political parties and elections or lobbying – on the other.⁷ The final choice of one single organization is determined by its preferences and by the budget constraint that it has to face.

Keeping in mind the framework set above, the 'utility' function to maximize would look like the typical one used in the neoclassical economic theory for the buyer choosing between two substitute goods. The organization may have an intrinsic predilection for the terrorist path, for the ordinary nonviolent solutions, or may be rather indifferent between the two ways.⁸ The budget constraint faced by the organization would look quite standard as well. The activity of the organization may be financed in two different ways: (monetary) resources coming from groups of supporters of the cause, and self-generated funds deriving from secondary activities of the

⁵ Moreover, we will abstain here from the cases of state supported terrorism, both from the one targeting foreigners and the one used against own citizens.

⁶ Consequently, these two categories will generally remain out of the scope of this work.

⁷ In reality, the organization may indeed engage to various extents both in the ordinary and in the terrorist processes. See, for example, the case of the national separatist movement in the Basque Country. An alternative approach would be to theorize a simple binary choice between the two.

⁸ This rationale seems to be consistent with the fact that frequently some groups (e.g., IRA) split up when moderates start to seek a compromise with the government (Miller, 2013).

organization – which may be *per se* legal or illegal⁹. Hence, with a given amount of money to be spent on seeking to maximize political and economic power, the optimal choice of terrorist activity – strictly from the organization viewpoint – will be greatly determined by the relative price of terrorism in terms of ordinary political processes.

Theoretically, the choice may be affected by several background (macro) factors. Among these, two major important groups can be evidenced in the relevant literature: economic and political factors, which may be interdependent in several dimensions (Schneider, Brück, & Meierrieks, 2010a). The first category includes 'absolute' economic conditions (e.g., income per capita), 'relative' economic conditions (e.g., income inequality), and 'international' economic factors (e.g., economic integration) that may as well affect the previous two. The second large category is comprised of 'national' and 'international' factors as well. This category includes, *inter alia*, openness of the political system (democratic, authoritarian, or partially democratic), political stability, quality of the institutions (e.g., of the judicial system) and political integration.

In general, worse economic or political conditions, in absolute or relative terms, would make nonviolent solutions either very costly or impossible for the organization and the supporters.¹⁰ Following this rationale, marginalized minorities (politically or economically) should have a relatively higher propensity to engage in or support terrorism. Therefore, relatively higher terrorist activity should be generated in countries/times with higher inequalities and a less open political system.

The terrorist: Apart from physical capital, the terrorist organizations rely heavily on the use of labour for the terrorist acts. As suggested in previous research (Miller, 2013), the rational would-be terrorist makes the decision whether or not to supply labour to the terrorist organization, aiming to maximize her/his expected net benefit from such activity. (S)he will compare the expected costs and benefits associated with the terrorist activity.

The benefits may be pecuniary, if the individual or her/his family receives financial payments or payments in kind from the organization, and non-pecuniary. The latter derive from actively supporting the cause – if the individual shares the same ideology with the one the terrorist activity is labelled with – or from simply being part of the organization as a social club, in the form of status, reputation, power and other psychological benefits, as well as friendship and solidarity links (Abrahms, 2008; Shimizu, 2011). On the other hand, the choice of engaging in illegal activities of the organization implies explicit expected costs for the individual. These are 'legal' costs – level of the legal sanction that the individual or her/his family would face multiplied by the probability of enforcement of that sanction (Becker, 1968) – and 'social' costs, related to possible social punishment, such as public shaming from community leaders. Apart from that, there are implicit costs as well, calculated as the lost benefits that would eventually derive from engaging in alternative legal activities.

Considering this framework, the decision may be influenced not only by exogenous elements¹¹, but also by various personal characteristics that directly or indirectly affect the

⁹ See, for example, the involvement of the Taliban and al-Qaeda in drug trafficking, extortion, ransom and human trafficking (Peters, 2009).

¹⁰ The analysis can be done both at a national and at a transnational level.

¹¹ See the 'background' factors in the part dedicated to the organization. For example, joining the organization in a country with an authoritarian regime may bring relatively higher benefits from supporting the 'just' cause against this regime, but the legal costs may also be relatively higher due to higher sanctions or higher probability of enforcement (e.g., more control and less concern for privacy).

benefits or the cost of the terrorist activity for the individual. By tautology, an individual with radical ideological or religious beliefs would gain (higher) non-pecuniary benefits by the terrorist activity and would be therefore more prone to join the organization and engage in such acts. A similar rationale would suggest a stronger tendency of individuals coming from marginalized groups/minorities to join as well. Apart from possible benefits related to the matching ideology (fighting against the 'oppressors'), the implicit costs should be relatively lower due to the difficulties to successfully access the legal job markets.

Due to the discrimination women face in many societies, probably the same argument would be valid for them, even though it is unclear if gender would be *per se* an influencing factor. In addition, assuming again that the would-be terrorist's costs and benefits are affected by the well-being of the family¹², the costs for unmarried individuals should be relatively lower, both in legal and in social terms. Individuals earning a higher income face higher implicit costs and should therefore be less prone to become members of the terrorist organization. Relatively higher levels of unemployment, which reduce the opportunity cost, are usually faced by the young part of the population, on the other hand. This should make these individuals relatively easier to attract for the organization.

More difficult seems to become the task with individuals having higher levels of education and/or professional expertise, *ceteris paribus*. Even though the organization would definitely prefer these persons in order to increase the probability of success for the terrorist acts (Bueno de Mesquita, 2005) – and would probably offer them (higher) monetary benefits – the implicit costs of abandoning the legal markets would be relatively higher. Moreover, these individuals may be relatively less vulnerable to indoctrination by extremist ideologies. Hence, they should have relatively lower levels of non-pecuniary benefits linked to the cause. Azam (2005) supports the dynastic family hypothesis for a different point of view: suicide terrorists may altruistically decide to sacrifice themselves for the probability of future generations to enjoy some public good (that will arise from succeeding with the cause) and the degree of altruism should be higher for above the average education (and wealth).

The state(s): Another stakeholder is represented by the state(s). While seeking to guarantee protection for citizens, the state will intervene as a regulator, trying to restrict the terrorist activity to an 'optimal' (efficient) level, up to the point where the marginal benefit of more counterterrorism would start to be lower than the marginal cost of having that. This optimality is controversial if compared to aiming at effectiveness, but necessary, even due to the trade-offs between various counterterrorism measures on one side and human rights and civil liberties on the other.

Counterterrorism activity of the state may be divided in two groups: (reactive) defensive measures and (proactive) offensive ones (Schneider, Brück, & Meierrieks, 2010b; Sandler, 2015). Defensive measures are usually adopted as a reaction to new techniques used in some successful terrorist attack, while proactive measures imply a direct attack of the state against the terrorist organization, its support groups or their interests. Defensive measures seek to make future attacks more difficult and more costly for the terrorist organizations, generally by protecting possible targets. Differently from that, proactive measures aim at pre-emption by attacking the resources and capabilities of the terrorist organizations and their supporters.

¹² Empirical results (Benmelech, Berrebi, & Klor, 2010) suggest that this hold true for, at least, an important part of such individuals.

The former measures – e.g., harsher legal sanctions for terrorism and related activities, more thorough controls in entry ports, physical barriers around embassies – are typically beneficial only for the local population and would result in negative externalities in the form of spillover effects for other venues/countries, since terrorist organizations would rationally divert their attacks toward the more vulnerable targets (Enders & Sandler, 2006). This would give rise to a continuous race among the different states and therefore it would result in the overprovision of such security measures (Arce & Sandler, 2005). Hence, the competition not to be the weakest link would lead countries to overspend in defensive measures compared to a possible efficient collaboration against the common enemy.¹³

The opposite would happen with proactive measures – e.g., confiscation of financial resources of the organizations and their support groups, decapitation of the organizations by killing their leaders (using drones, for example), pre-emptive or retaliatory military attacks– which are similar to public goods (Sandler & Siqueira, 2006). The benefits flow to the other jurisdictions as well, in terms of greater security, while the costs are borne only by the country implementing the policy (hence, positive externalities are present). Therefore, instead of collaborating with each other – which would result in the efficient equilibrium – countries would freeride on each-other's efforts and security spending. Hence, the Prisoner's Dilemma would lead once again to the worst equilibrium, globally. A country could even choose to accommodate the terrorist activity of an organization for a deal of no attacks in that country – a dominating strategy significantly coined "*paid riding*" by Lee(1988).

Moving away from a static analysis to the more realistic dynamic scenario, results do not seem to get better. It is true that the game will be repeated, but it will most probably be a finitely repeated one, as governments do see endpoints to their political terms (Enders & Sandler, 1995).¹⁴ Hence, the application of backward induction reveals that the equilibrium would be again one of no cooperation and free riding.

The 'product': Terrorism has the characteristics of a 'public bad': it is somehow a non-rivalrous and non-excludable product. Applied specifically to the case, one terrorist organization can eventually benefit from the (damage and destabilization caused by the) terrorist activity of another group, without bearing the burden of any cost for that (Frey, 1987). Standard economic theory suggests that the problem of freeriding leads to the underproduction of a public good, which would be in this case – from the society's perspective – a desirable result.

Moreover, as specified even in the definition of terrorism, this product needs an audience. It actually has a "symbiotic relationship" with media, which are also looking for sensational news to attract larger audiences (Frey & Luechinger, 2008). They will transmit and amplify the echo of any terrorist event, since 'bad news is good news'(Rohner & Frey, 2007). Hence, they will (involuntary) help the organizations to achieve their goals. According to Melnick and Eldor (2010, p. 972): "*The value of the media coverage of terrorist attacks [measured by the impact on stock market prices], which terrorist organizations receive free of charge, is of the same order of magnitude as the advertising budgets of some of the world's largest corporations*".

¹³ A similar logic would be valid as regards private defensive measures adopted by households or businesses (e.g., investment in security services), while it should not be the case at a country level in relation to measures against domestic terrorism (no externalities).

¹⁴ Actually, the argument holds true for democratically ruled countries.

2.3. Empirical evidence

Following the previous theoretical analysis, it is obligatory to continue with the reality check. As regards the typical features of a terrorist (if any), there are only a few studies due to the obvious difficulty of acquiring necessary data for that. Furthermore, data relate to a specific territory. This makes it rather difficult and risky to extrapolate useful results. Two studies show that it is more likely that terrorists are young individuals (Krueger & Maleckova, 2003; Krueger A. B., 2008), confirming the theoretical intuition in the previous section, respectively for the Israeli-Arab terrorism and for home-grown Islamic terrorism in the US. Even though women face unfavourable socio-economic conditions in many of the countries that generate terrorism, this is still predominantly a 'men's activity' (Jacques & Taylor, 2009). Anyway, the study evidences an increasing female participation. Regarding marital status, the results of Berrebi (2007) show a relatively higher likelihood of having to deal with an unmarried individual. This confirms again – at least, in relation to Palestinian terrorists – what predicted by the theoretical analysis.

Surprisingly, the contributions of Krueger and Maleckova (2003), Berrebi (2007) and Krueger (2008) find out that the individuals joining the terrorist organizations have relatively high levels of education, as compared to the average levels in the local population. This would suggest that the altruism effect argued by Azam (2005) with his dynastic family hypothesis might outdo the relatively high opportunity cost of abandoning legal markets. If this holds true, the results of Krueger and Maleckova (2003) and Berrebi (2007) regarding the income and living standards of the terrorists seem to be less unexpected. They find that it is more likely for members of the organizations to have relatively high levels of income, as compared to the average levels in the local population. Nonetheless, this may as well be due to a positive correlation between education and income.

Moving to an aggregate level, the empirical results generally confirm the theoretical analysis on the macro determinants of domestic terrorism. This type of terrorism is less likely to be present in countries with higher levels of income per capita (Krieger & Meierrieks, 2010) or in those experiencing higher economic growth (Caruso & Schneider, 2011). As regards the relative economic conditions, the presence of economically discriminated groups in the society makes domestic terrorism more likely (Piazza, 2011), while the implementation of stronger social welfare policies – which can reduce poverty and economic discrimination/inequality – has the opposite effect (Burgoon, 2006; Krieger & Meierrieks, 2010). Freytag et al. (2011) show that economic integration of the country – in terms of trade openness – has also a positive effect in reducing the likelihood of this type of terrorism. In relation to the political factors, domestic terrorism is positively related to political instability (Abadie, 2006; Bandyopadhyay & Younas, 2011) and negatively related to the quality of institutions in the country (Bandyopadhyay & Younas, 2011). Finally, the relation to political openness is non-linear, with partially democratic regimes suffering from the highest levels of such terrorist activity (Abadie, 2006; Bandyopadhyay & Younas, 2011). These mix regimes lack the advantages of both democratic regimes – in which ordinary processes are relatively cheaper – and authoritarian regimes – in which legal costs for terrorists are relatively higher.

The picture is more unclear regarding macro determinants of the origin of transnational terrorism (perpetrators' nationality). Some studies show that this type of terrorism is less likely to generate from countries with higher levels of income per capita (Lai, 2007; Blomberg & Hess, 2008). These results are opposed by other contributions that find no significant relationship between the origin of such terrorism and absolute economic conditions in the country (Krueger & Maleckova, 2003; Krueger & Laitin, 2008). Better economic integration and more social welfare

(Burgoon, 2006) may reduce the likelihood of a country being source of transnational terrorism. On the other hand, this likelihood is increased by political instability and state failure (Piazza, 2008a). Again, the relation to political openness is non-linear, with partially democratic regimes generating the highest levels of this type of terrorist activity (Abadie, 2006). Finally, Azam and Thelen (2008) find a positive effect of foreign aid: a reduction of the terrorist activity generated in the receiving country due to a probable improvement of the other economic and political indicators.

Contradictory results can be found also among the empirical evidence in relation to the target country of transnational terrorism (victims' nationality). Some contributions show that the likelihood of being a target increases with the level of income per capita and the rate of economic growth (Krueger & Laitin, 2008; Blomberg & Hess, 2008), while others find no significant relationship (Li, 2005; Piazza, 2006). A country is more likely to be targeted by transnational terrorism if it is characterised by stronger political instability (Piazza, 2008a; 2008b; Campos & Gassebner, 2013) or poor quality of institutions (Piazza, 2006; Krueger & Laitin, 2008). Finally, there are no clear results yet on how political openness of one country affects the likelihood of being attacked by transnational terrorism (Li, 2005; Krueger & Laitin, 2008).

In sum, one can observe some counterintuitive results and some that are contradictory as regards the importance and the direction of the impact of the same factor. This may be due to the fact that most of the work deals with the investigation of the effect of only one or a few factors and also does not inquire into possible reverse causalities – see the relation between terrorism and political instability – or into the interrelations between the influencing factors. Apart from the use of different and problematic methodologies¹⁵, data availability and reliability is also an important issue, considering that we are dealing with a very complex and dynamic (in time and space) phenomenon¹⁶. Moreover, this is an undercover activity that cannot be measured in its entirety, and data are gathered only on successful and some failed attacks, which may be only the tip of the iceberg. Finally, related to the last point, the datasets used are built on media reports and considering the problematic or absent media freedom in authoritarian regimes, there should be reporting biases in the direction of underreporting for those countries (Drakos & Gofas, 2006). Therefore, being confronted by this state of the art, the claims of empirical work in this field should be taken with caution.

3. Current counterterrorism legislation and security policies

Despite the presence of terrorism for a long time now, huge efforts have been notably made in the field of counterterrorism since the skyjackings of 9/11, both in terms of new legislation and new policies (Sandler, 2011). A thorough analysis of the entire legislation dealing in different degrees with terrorism – from United Nations' Resolutions and international agreements to national substantive Criminal Law and legal acts focused specifically on this crime – goes well beyond the limitations of this work. Hence, acknowledging the great variety, the analysis will concentrate mainly on the similar patterns that can be observed in the new legislation and strategies targeting terrorism that emerged in the aftermath of 9/11. The focus is especially on the approach of maybe the most experienced countries in the area, both in the European Union – like the United Kingdom, due to the long history of dealing with some infamous organizations like IRA, but also

¹⁵ Gassebner and Luechinger (2011) are very critical of the robustness of findings in precedent studies.

¹⁶ Recall the Nobel Peace Prize argument.

to an active participation in the 'war' against international terrorism following 2001 – and in the rest of the World – like the US, promoter of the 'war on terror'.

3.1. The situation in the European Union

In the European Union, terrorism is dealt with at the Member States level. EU institutions have introduced The European Union Counter-Terrorism Strategy (Council of the European Union, 2005) and the Revised Strategy on Terrorist Financing (Council of the European Union, 2008) as a framework and guidelines to the Member States, in order to improve their mechanisms and coordination. The Counter-Terrorism Coordinator monitors the implementation of the action plan and periodically suggests actions to be taken and changes to be made in that regard. Despite the variety of forms¹⁷, some similarities can be noticed in the legislation and policies implemented by the various Member States. Moving beyond the borders of harsher substantive Criminal Law, counterterrorism laws and measures have expanded toward stronger defence measures for potential targets, new harsher practices of investigation and detention, new practices of dealing with suspected foreign citizens and immigrants, changes in financial regulations and the use of military force.

First, harsher punishment is imposed for members of terrorist organizations independently from the committed crimes, both in terms of higher fines and longer (maximum) imprisonment sentences. Even before that, agencies are now collecting more data – from tracking and photographing via automatic number plate recognition systems to storing DNA in specific databases – either by using public resources or from private sources. Moreover, longer and harsher interrogations can be used against suspected terrorists or supporters of terrorism. The UK case is notorious, with the Terrorism Act of 2006 allowing for a maximum of 28 days of pre-charge detention¹⁸, and the Counter-Terrorism Act of 2008 allowing for post-charge interrogations before trials! Second, apart from the adoption of stronger immigration and asylum laws, it is not rare to observe longer and harsher procedures for foreign citizens. Epifanio (2011) shows that government agencies have been given the right to release control or detain orders for suspected international terrorists, and foreigners can be now expelled for the expression of personal views deemed to be in conflict with values of the host country.

Besides the members of terrorist organizations, all their collaborators are targeted by the aforementioned measures as well. This is done for each type of support, going from hate speech against terrorism victims to the provision of technological or financial resources. Apart from fines and imprisonment, confiscation of assets of such sponsors is applied, in an attempt to damage finances of the organizations. To prevent eventual monetary inflows, banks have to inform security agencies on international bank transfers of their clients. Last, proactive measures have taken a new form since several Member States (France, Germany, Italy, The Netherlands, Poland, Romania, Spain and the United Kingdom) have been involved in large-scale military attacks led by the United States against terrorists and their supporters, such as the war in Afghanistan started in October 2001.

¹⁷For example, during the first decade after 9/11, Spain did not implement any new legislation to target terrorism explicitly. On the contrary, the U.K. adopted at least six relevant new acts.

¹⁸The maximum period was later reduced to 14 days with the Protection of Freedoms Act of 2012. Spain has also a long maximum period of pre-charge detention of 13 days.

3.2. The situation in the United States of America

The 9/11 attacks made the United States both a symbol of the vulnerability to terrorism and a leading actor in what was coined 'global war on terror'. Besides the existing legislation, US institutions have adopted new laws and measures dealing principally with investigation and detention of suspected terrorists, terrorism finances and the use of military force. On one hand, similarly to the EU, the US apply now stronger defence systems to protect potential targets (especially in the aviation industry), harsher punishments for terrorists and their supporters, stronger financial regulations to prevent and restrict financing of terrorist groups, and stricter immigration and asylum procedures. US counterterrorism legislation and policy have been particularly aggressive in terms of investigation and detention practices – especially for foreign citizens – as well as regarding the use of military force and foreign aid against countries generating transnational terrorism.

Some of the core measures related to information collection policies are based on the implementation of the USA PATRIOT Act of 2001, its modified extension: the USA Freedom Act of 2015, and the PRISM Surveillance Program of 2007. While being reluctant to extend the pre-charge detention beyond 48 hours for own citizens, US legislation allows for foreigners suspected of terrorism a maximum of 7 days of such detention. Moreover, the rights of various agencies such as the Federal Bureau of Investigation, the Central Intelligence Agency and the National Security Agency have been significantly expanded as regards crimes related to terrorism. These authorities gather huge amounts of data regarding American and foreigner citizens, from public and private sources. Furthermore, they can apply harsher illegal interrogation procedures, such as the infamous extraordinary rendition practice, in the attempt to acquire relevant information.

On the other hand, the US have been continuously leading military operations targeting terrorist organizations and their support groups, such as those in Afghanistan, in the Philippines, in the Horn of Africa and in Iraq. Moreover, US institutions have supplied foreign aid to governments in countries that are sources of transnational terrorism, such as the aid to the Afghan government after the withdrawal of American military troops from the country. The US foreign aid has been either in the form of technological and human support for security policies or in the form of financial aid.

4. Conclusions, recommendations and limitations

Terrorism is a very complex and dynamic socio-political phenomenon in which perpetrators use premeditated violence to support a specific cause by targeting a large audience, which extends far beyond the immediate victims of terrorist acts. Differently from other crimes, terrorist activities have a strong ideological background and ultimate goal. In the end, terrorism is a political crime.

Each terrorist organization ultimately aims at the maximization of political and economic power and influence for its movement and can do that either by engaging in ordinary political processes – where possible – or by using terrorism. If the economic or political conditions faced by the movement get worse, the nonviolent solutions become either very costly or practically impossible. Hence, more terrorism is generated. The would-be terrorist makes his own decision to participate in terrorist activities or not following a cost-benefit analysis of pecuniary and non-pecuniary benefits on one hand and direct (legal and social) costs on the other. On the opposite side, states seek to efficiently reduce terrorism by implementing reactive defensive measures or proactive offensive ones, which give rise respectively to negative and positive externalities for

other countries. Terrorism itself is a 'public bad' that has a symbiotic relationship with media, due to the need of the former to reach large audiences and the desire of the latter for sensational news.

Empirical evidence related to terrorism is quite scarce, country-specific and contradictory and it suffers from various methodological problems. Nonetheless, it seems to suggest that, in average, a terrorist is more likely to be a young unmarried male with higher than average education and income. At an aggregate level, domestic terrorism is positively related to worse economic conditions, to the presence of economic discrimination in the society and to political instability. It is negatively related to the implementation of social welfare policies, to the economic integration of the country and to the quality of institutions. Finally, partially democratic regimes are more likely to experience terrorism compared to democratic and authoritarian regimes. The likelihood of a country to become a source of transnational terrorism diminishes with the presence of better economic integration and social welfare and it increases due to political instability and state failure. In relation to the targets of transnational terrorism, data show that political instability and poor quality of the institutions make it more likely for a country to be targeted.

Even after all the changes made in the aftermath of 9/11, legislators and governments continue to rely heavily on deterrence and defensive measures, while proactive measures have sometime been extreme. Such approaches may be useless, be not enough or be a source of perverse incentives and spillover effects. Therefore, changes should be made in the current legal framework and policies and new laws and strategies have to be adopted.

In sum, the final goal of counterterrorism ought to be to make ordinary political paths easier to access for the various groups in one society and the various countries at an international level. Hence, the approach should be to go to the roots of grievances that fuel terrorism instead of targeting their symptoms with a 'war on terror'. The promotion of economic and political integration, at a national or international level, could help to do that. Keeping in mind that there is not a 'one size fits all' solution, using a mix of flexible, proportionate multilateral policies specifically targeted on the right actors (e.g., using threats against the 'weakest link' or implementing benevolent measures to affect incentives instead of only using the 'stick') can help to achieve an efficient reduction of terrorist activities. After all, any counterterrorism law or policy comes with some consequences, either in economic terms or by taking the form of restrictions of human rights and civil liberties to make citizens feel safer. These trade-offs should be taken into account when choosing whether to allocate more resources to military attacks or to social welfare and when deciding how far can investigation practices go.

Despite the efforts to include all aspects which are relevant to the study of terrorism and consequently to the search for efficient counterterrorism measures, this work inevitably has some limitations. First, the analysis focuses on domestic and transnational terrorism, while generally leaving out the specific types of suicidal terrorism and lone-wolf terrorism. Moreover, this study does not deal with the increasingly present cyber-terrorism but only with 'traditional' terrorist activities. Second, the work here abstains from the cases of state supported terrorism, both from the one targeting foreigners and from the one used against own citizens. Third, this contribution is just one part of a research project that aims to propose new legislation and policies in order to improve the response to terrorism. To conclude, hopefully these limitations are not strong enough to limit severely the findings of this study and will be overcome in forthcoming follow-up research.

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PROBLEMS OF YOUTH UNEMPLOYMENT IN ALBANIA

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ABSTRACT

This paper intends to analyze the problems of unemployment, in particular Albanian youth unemployment. It is widely accepted that unemployment is a big problem for economy of any country, especially when unemployment comprises youth. Different authors stress the problems young people face when they are unemployed. Due to lack of experience, they find obstacles to enter the labor market compared to other group-ages.

This paper presents a general view of unemployment rate by group-age and unemployed jobseekers registered by gender and educational level for 2006-2015³. Young people, who have just finished school, face these problems: difficulty of finding work, lack of incomes, lack of work experience, social issues, loss of confidence, etc. Unfortunately, a lot of young people want to migrate to other countries for a better life.

Here are listed a number of factors influencing effectiveness of youth employment policy. It is very important to minimize the problems of youth unemployment because their contribution to the economy could be beneficial.

Keywords: *unemployment, problems of youth unemployment, labor market and migration*

JEL Classification: *E24, J01, J11*

1. Introduction

The phenomenon of unemployment is extensively studied by many leading economists, because of the problems unemployment brings. In this paper, we are focusing on the problems of youth unemployment. In the last years, the statistical data indicate that number of unemployed youth⁴ is huge. After terminating their studies, young people enter the labour market to find a job, however they do not usually find a job fitting their education background or vocational skills. Therefore they are constantly in search for a permanent job. During this period, they can work, continue their postgraduate studies or continue training to be better qualified for the work position they are applying.

2. Literature review

Many scholars have referred to the problems of unemployment and, in particular, to the problems of youth unemployment. So, Lippman and Mc Call (1976) analysed a model on the duration of

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⁴Youth means aged 15-29 years old

unemployment when people were not employed. The expected duration of unemployment depends on various offers individuals receive during this period of time, which indicates that the employment supply depends on factors such as education, professional experience, skills, and all such factors effect on employer. In addition, the model assumes the probability an individual accepts a job depends on the minimum wage which he/she agrees.

In the study of Blanch flower and Freeman (2000), the authors noticed that youth unemployment is related with business cycles. Youth unemployment is more sensitive and has the tendency to increase more during the recession period, compared with adult unemployment, and to the contrary, it decreases more during economic growth phase. Sackey and Osei (2006) argued that youth unemployment happens as young people have fewer skills in the labour market than adults. According to the International Labour Organization (ILO, 2011), the countries with a low rate of economic development and in which businesses are not stimulated, an increase of youth unemployed is noticed.

Anyanwu (2013) lists a number of factors prejudicing young persons in the labour market. Regarding the dismissal (being fired) from the job, it is noticed that employers have the tendency to dismiss more easily young workers compared to employees with a longer experience in the job. This happens because firing young workers has lower cost than the dismissing more skilled workers or who those have more working time.

In her study Buckley. P (2015), analyses the effects of youth unemployment. If young people enter late in the labour market, it may be translated into lower lifetime incomes. In addition, the author stresses that such situation is observed in countries with developed economy. Therefore such countries should focus more on appropriate policies to promote employment and benefit from the potential of young employees.

3. Youth unemployment in Albania

Albania has mainly faced with the problem of unemployment after '90s, but what is becoming a constant concern nowadays is youth unemployment. According to a recent study of European Commission, economic growth in Albania has brought some improvements in the labour market, but no significant benefits in employment outcomes⁵. Albania still continues to face low participation in the labour market, in particular *in women and youth*. High levels of informality are an obstacle both to economic growth and full participation in the labour market.

How is the situation of the Albanian labour market? Based on Labour Force Survey 2007-2015 (INSTAT), youth unemployment rate (aged 15-29 years old) is increasing compared to other group ages. The unemployment rate 015 for young people aged 15-29 years old is 33.2% (32.3% for males and 34.7% for women). Compared with 2014, youth unemployment rate has increased by 0.7 percentage points⁶.

⁵ Commission's Overview and Country Assessments. Institutional Paper, July 2016

⁶INSTAT. Labour Market 2015

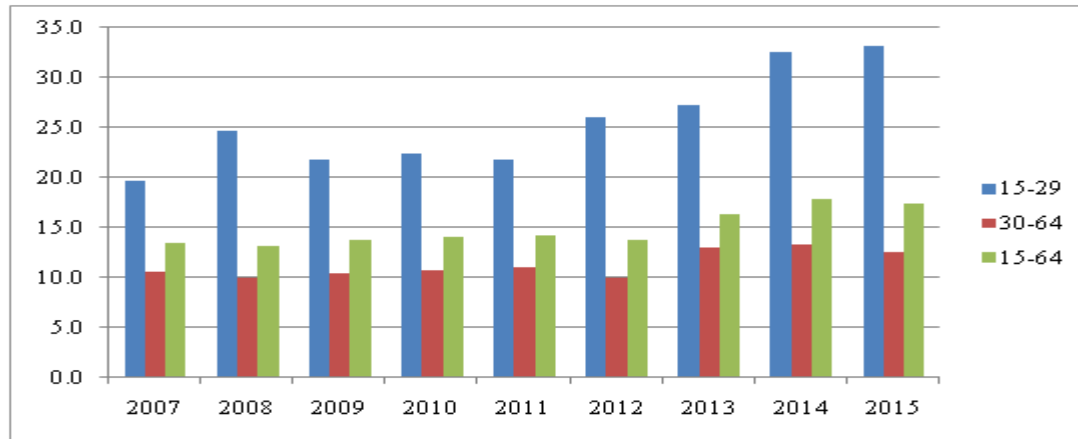


Fig 1. Unemployment rate by age group

Source: Labour Force Surveys 2007-2015 INSTAT

The table below gives information on job seekers registered as unemployed by gender and education level for 2006-2015. Based on a study conducted by the Economy, M. and Filipi, Gj., they noticed children activity is directly proportional to the level of parents' education. Thus, parents who had completed primary education had no great ambitions for the education of their children. They encouraged them to enter the labour market than to continue the studies. It is noticed that the work performed by these young people is work that does not require intensive skills, such as agricultural sector.

Table 1: Registered jobseekers by sex and education level 2006-2015

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Registered jobseekers	149.794	142.871	140.599	142.068	143.876	142.484	142.530	142.648	141.998	149.148
Male	77.643	73.050	71.279	70.817	71.019	69.541	69.240	68.952	69.531	73.184
Female	72.151	69.821	69.320	71.251	72.857	72.943	73.289	73.696	72.467	75.964
With primary education	81.273	77.009	74.962	76.056	77.503	77.749	77.870	77.816	76.929	78.400
With secondary education	65.148	62.531	62.046	62.249	61.284	59.558	59.025	58.885	56.926	59.001
With university education	3.373	3.331	3.591	3.763	5.089	5.177	5.635	5.947	8.143	11.747
16-19 years old	11.250	10.616	10.220	9.074	8.146	7.105	6.548	6.745	6.860	6.707
20-34 years old	60.111	55.940	52.590	52.560	50.045	49.249	48.478	48.915	47.860	51.258
35 years old and over	78.433	76.315	77.789	80.434	85.685	86.130	87.504	86.988	87.278	91.183

Source: Ministry of Social Welfare and Youth

The table/ graph, also, indicate that the largest number of job seekers in the labour market has lower secondary education and upper secondary education. But, it is also note that the number of graduated jobseekers has increased compared with previous years. The next section addresses the main issues faced by young people entering the labour market.

4. Problems of unemployed Albanian youth

Youth unemployment brings serious problems. The main problems such young persons, who have just finished school, mainly, are facing : difficulty in finding a job, lack of incomes, lack of work experience, social issues, loss of confidence, in case they do not find a job for a long period of time or as per their education background, etc.

The main obstacle young persons are facing is lack of experience, making it even more difficulty for them to find a job. If young persons do not find a job for a long period of time, there is no doubt that they will lose confidence in themselves, may fall into depression, and lose hope that in the future they may find a job.

Sometimes, not-finding the job young person want, discourages them, making them accept other jobs, which, in many cases, do not fit with their education background and with the skills they possess. Young people accept to take such jobs, notwithstanding lower salaries, until they find a better job. During this time, they try to be trained or get qualified, or continue undergraduate and graduate studies to create more opportunities to find a better job.

The impossibility of finding a better job or finding an underpaid job makes youth take wrong decisions entering into crimes, drugs, alcohol and gambling. These are social costs, which not only youth but all the society of our country has to face.

Theoretical studies have always analysed the negative effect of unemployment in economic growth. There is no doubt that the rate of youth unemployment has a negative impact on economic growth, as the maximum physical potential and professional all these young person's cannot be exploited. The difficulty of finding a better job is often associated with youth migration abroad.

According to a study of ILO⁷ the main factors affecting youth Albanian emigration are: employment, economic status and education level. In general, economic reasons make young Albanians to opt for migration in search of a better life. Young persons, mainly, with lower-secondary education are more likely to migrate (about 55%) than young persons with a higher education (34%). In addition, the category of unemployed persons are more likely to emigrate than those employed. The possibility for a better education motivates nearly 16% of young persons to emigrate.

5. Conclusions

Youth unemployment remains one of the main problems of our economy. Different studies reveal that the main obstacles of young persons to enter the labour market are compatibility of skills with the market needs and lack of experience. In discussed above thesis analysed the main problems of unemployed youth as the difficulty of finding work, lack of income, lack of work experience, problems in social circles, loss of confidence, etc.

⁷Youth employment and migration brief Country: Albania

Considering the vital strength, potential and talent of youth, it is indispensable to develop and implement incentive policies to integrate young persons in the labour market. In the National Strategy for Development and Integration, for example,⁸ strategic objectives⁹ promoting employment of youth are:

1. Promoting decent employment opportunities through more effective labour market policies
2. Ensure the provision of quality vocational education and training (VET) to youth and adults
3. Reducing the opportunities for informal employment and informal employment rate in non-agricultural sectors

For young persons to integrate more easily into the labour market, it is important to be trained or to have vocational traineeships during their education. For example, Bank of Albania provides internships opportunities supporting and assisting students' future.

In this regard, an indispensable role is played by businesses providing traineeships and employment for young persons, because of youth potential. By increasing the entrepreneurial skills of youth, their ideas and creativity will be brought to light.

In conclusion, developing strategies, policies of the government, minimization of informal markets, education and training of youth adapting to labour market needs and employers will make it easier for youth to transition from school to the labour market.

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⁸ National Strategy for Development and Integration 2015-2020

⁹ Part of indicators for development objectives established in the National Strategy for Employment and Skills 2014-2020

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12. National Strategy for Development and Integration 2015-2020 (Albania)

UNEMPLOYMENT IN THE CONTEXT OF ORTHODOX ECONOMIC POLICY

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ABSTRACT

After the armed conflict in Bosnia and Herzegovina (B&H) from 1992 to 1996 has already conducted two decades of orthodox economic policy which is a key objective of macroeconomic stability. Although in this respect the good results achieved, the level of unemployment remains extremely high and among the highest in Europe. Economic policy that is based on orthodox neo-liberal recipes prescribed by IMF failed to solve the problem of unemployment of the labor force in B&H as well as in other countries of the region. The signing of the Agreement on Stabilization and Association with the European Union causes problems for local agriculture. On the other hand these treaties prevent the application of measures to support the domestic industry that could create new jobs. There is almost no space for conducting domestic industrial policy. Economic policy that is focused solely on securing macroeconomic stability hinders solving the problem of unemployment. Therefore, it is necessary for all these countries with similar economic policies to search for new, alternative or heterodox economic policies that would implement the governments in order to re-industrialization of the national economy and creating new jobs.

Keywords: *Unemployment, ortodox economic policy, heterodox economic policy, reindustrialization*

JEL Classification: *E6, E60, E61, O25*

Introduction

In this paper, we deal with the problem of unemployment in B&H and the countries in the region. We're interested in economic policy and possible ways to overcome the acute problems of unemployment, especially of young people. Orthodox economic policy focused on achieving macroeconomic stability does not solve the problem of unemployment and at best will eventually solve it but in the extreme long term. Therefore, we emphasize the necessity of searching for unorthodox policies and solutions to give more effect to the plan of employing a vast number of unemployed labour force.

1. Unemployment in B&H

After the end of the armed conflict in B&H, with great financial support from multilateral financial institutions and the international community approached the reconstruction of the country, its infrastructure and economy. Much has been done in order to recover the economy and society in B&H. War, destruction and „revolutionary“ privatization of industrial enterprises has led to de-industrialization of the country and thus very slow recovery in industrial production. Inadequate privatization (incompetent new owners and speculative actions during the

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privatization) could not contribute to employment growth. The development of the private sector couldn't have impact so quickly on job creation that would substitute a number of closed jobs, as a result of privatization.

Unemployment rate in B&H is the highest in the region. Only Macedonia has such level of unemployment.

Table 1. Rate of unemployment by countries

	Unemployment (%) 2014 year	Work force (%)
Albanija	16	55
B&H	28	-
Croatia	17	-
Macedonia	28	28
Monetenegro	19	30
Serbia	22	33
Slovenia	10	38
Bulgaria	12	37
Romania	7	3
Hungaria	8	40
Greece	26	23

Source: World Development Indicators, World Banka, 2016

According to the records of official statistics in 2002 in B&H was 41.1% of the unemployed. After the monitoring methodology of unemployment changed and unemployment statistics monitored on the basis of surveys that anyone who is doing anything or is employed in the informal sector of the economy cannot be treated as unemployed. That's why in 2006, unemployment is 31.1%. A review of trends in unemployment can be seen from the following table.

Table 2. Rate of unemployment in B&H (%)

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Rate of unemployment	31,1	29,0	23,4	24,1	27,2	27,5	28,0	27,5	27,5	27,7	25,4

Source: Bulletin of the Central Bank of Bosnia and Herzegovina, no. 2, 2016.

Table 3. The structure of employees by activity :

Employees by activity in %	2013	2016
Agriculture	18,9	18,0
Industry	29,8	31,2
Services	51, 3	50,8
Total	100,0	100,0

Source: Bulletin of the Central Bank of Bosnia and Herzegovina, no. 2, 2016.

Although parts of the joint State in two entities B&H (Republic of Srpska and Federation B&H) which have their own responsibility for economic development situation is not the same in terms of the relative importance of specific economic sectors both in the overall economic potential and capacity for employment.

Employment structure by activities in entities gives the best picture of the structure of the economy.

Table 4. Structure of employment by sectors of economy

Employees by activity	Republic of Srpska				Federation B & H			
	2006	%	2015	%	2007	%	2015	%
Total	248 139	100,0	245 975	100,0	413 676	100,0	450 121	100,0
Agriculture	8 340	3,4	8 345	3,4	7 805	1,9	7940	1,8
Manufacturing industry	59 114	23,8	49857	20,2	81 383	19,7	86 428	19,2
Tourism and catering	16 730	6,7	11 602	4,7	17 180	4,1	20 636	4,6
Financial activity	2814	1,1	5 608	2,3	8 723	2,1	10 256	2,3
Professional, scientific and Technical activity	6 566	2,6	7 130	2,9	9 996	2,4	13 877	3,1

Source: Statistical Yearbook of the Republic of Srpska, in 2016. Statistical Yearbook of the Federation of BiH, in 2016.

In the Republic of Srpska 2006 were 144 106 unemployed whereby over 54 thousand of people were trying to find job for more than three years. In 2016, out of 135 585 unemployed persons 72 088 were seeking job for more than 3 years. Unemployment among young people in B&H is valued at around 60% and is again among the highest in Europe.

The average salary in the public administration and social insurance in 2016 is around 550 euros and in the manufacturing industry around 300 euros. Higher average salaries are only in the financial services sector and is around 630 euros.

2. Economic policy in service of employment

In B&H there is no own economic policies of constituent entities or State. Economic policies have been replaced with “Program of economic reforms”. (www.ekapija.com). In this way disclaims the need to maintain our own economic policy in the belief that the free market and the private sector will lead to full employment and general welfare. Faith in the free market was the starting point for the spread of globalization and the liberalization of all kinds (except freedom of labor flow).

In the world, the current inverse processes of globalization or in public discourse, are marked as *de-globalization*. This means that gradually comes to the reaffirmation of national state and national interests of the dominant economic interests and efforts that national states are starting to take more account of its own objectives and with the desire to increase the welfare of the nation.

Economic development and more intensive employment will be exclusively provided by industrialization of a country. New jobs can be opened only in the industry in which it is possible to increase productivity and hence national income. The development of modern industry is based on technological development and innovation.

The dominance of technology is related to science and economic theory innovation (Freeman c. (1982). Nelson and Winter (1982) emphasize competitive contest between innovators and imitators, the impact of government policy, which determines the nature of competition and the relationship between innovation and price performance in the industry. Lundvall B-A (1992,

2008) says that the national systems of learning and innovation are necessary regardless of the processes of globalization and innovation that make all states “little”. Justman M. & M. Teubal (1993) provide integral view of 'structuralist' prospects of economic growth and development. It is contrary to the current "mainstream" orthodoxy or views of neoclassic. The economic success of newly industrialized countries is based mainly on the adoption of technologies from developed countries. This was the necessary in entrepreneurship which was taking a risk, effective learning and innovation that what is framed in “theory of assimilation”. (Kim I. Nelson r. 2000. p. 2). The success of Asian countries is not just a result of investment in physical and human capital but it was the result of learning, entrepreneurship, and innovation which made them from copycats in the 60 's to innovators in the 90 's. Reducing the technological gap requires constant efforts on the supply side to adjust and improve the use of capital equipment and sequential development of various forms of tacit learning and growing, along with the transfer and acquisition of foreign technology. In addition to the expansion of employment, together with the growth of labor productivity related to the diversification of the economy, expansion of highly technological activities and export dynamism and, consequently, domestic and international demand.

Markets alone are not enough to their transition and switching from production of primary products towards products of higher stage of processing or new products. Markets alone cannot provide sufficient incentives other than short-term private profitability, in terms of the incentives that are needed for the productive continuation. Rodrik (2013. p. 138) believes that the latest entrepreneurial activities in the world have their *roots in the proactive* government intervention. None of the newly industrialized country or Asian Tigers did not achieve success without an extremely active state and its effective influence (Japan, China, South Korea, Taiwan) which were dedicated to economic diversification and able to empower its private sector.

All the domestic development process in B&H as well as in other countries of the region, is based on the orthodox macroeconomic stabilization policy, foreign direct investments that have *otherwise* been totally inadequate in relation to the expectations and endogenous development of the sectors of micro, small and medium-sized companies which help provide some of the many non-governmental organizations (no one knows how many are active in B&H but it is assumed that there are 12000 registered). The fact is that the countries in the region imposed or lifted the ability to created development policy and to freely use different strategies. Estimates of policies and institutions of the country which is under the supervision of international financial organizations leads to 'socially remains subordinated to economic imperatives of stability ', balance and encourage the private (and foreign) sectors' (Баг Бејенбејре, 2010. P. 120). Standard economic policies for transition economies of the European periphery, very effectively solves the problem of economic stability but does not solve the acute problem of unemployment. Such economic policy does not encourage economic growth. After the crisis rates of economic growth in B&H can range from negative growth rates in some years up to a rate of about 1% per year.

The role of international financial institutions, as the major 'producers of knowledge', that scientific value is „neutral”, that is, objective, identify, codify and transmit experiences related to the development of the whole world has made the ability to analyze the policies of countries with low income levels, and especially in our country, completely eroded. ([Gerard J. van den Berg](#), 2010. P. 125.). Our education is not helpful to overall economic and social development but rather leads, let us use the Eric Reinert phrase (2006, p. 68), in the direction of “technological dead end”. That, observed insolated, would not help to solve big, almost unsolvable,

developmental problems, at least in the short term. Since the domestic economy, for a variety of reasons, is almost completely de-industrialized that “surplus” university educated citizens are increasingly seeking job abroad with a prospect even more intense brain drain.

Unemployment is not solved by foreign investments. Domestic production and service sector can not absorb the labor force which is why almost the same unemployment rate are held twenty years after the armed conflict. Surplus labor necessarily emigrates to neighboring countries or countries where there is a demand for foreign labor. Countries of emigration become dependent on remittances which migrants send to their families. In addition to other problems such country is faced with the consequence that it could not develop such a structure of the economy that would employ all its citizens. In the long run this form stops the development of the country, because it does not encourage local elite to invest in economic structure that could employ all unemployed citizens. Instead, the development is uneven and does not deal with the problems that encourage workers to emigrate. " (Turner J. 2009. s. 459.). Remittances that in significant proportions come from abroad are again largely returned to the countries from which they come through the purchase of imported goods from Western Europe.

Regardless of the existence or non-existence of formal economic policy the Government always withdraws a number of moves and undertake different measures in the context of resolving the pending issues thereby becomes *an implicit policy* of presenting the result “of the final sum of the many policies and tools that no one group or organization does not understand, nor good controlled” (Fairbanks M Lindzej s. p. 179.). Good national strategy is based on the information, achieve a balance between the past and the future, require integration, opening up numerous opportunities and provide concrete choices. When States fall on those tests, there is confusion and gets the unpredicted results (Plakalović N. 2015.)

3. What are alternative measures of economic policy?

The problem of keeping economic and development policies in countries that are at a lower level of economic development or not industrialized countries is that they must unwillingly or willingly rely on *the mainstream* economic paradigm. These “theories” do not always correspond to, or better to say, cannot be sufficiently understood, respond and tolerate idiosyncratic character of individual national economy and serve the progress of these countries. Therefore, Dani Rodrik says that it is desirable to rely on local and experiential knowledge as an addition to economic theory. “The world will better serve syncretic economists and policymakers who can hold a lot of ideas in his head, then the 'one-armed' economists who promote one great idea, regardless of the context “(Rodrik, D.2013. p. 122.). Therefore, Rodrik goes on to and say that ' you become what you are producing' as the inevitable fate of Nations. If the country is specialized in raw materials and products of primary processing it will get stuck on the periphery of the world economy (Rodrik,D. p. 137). The country will thus be exposed to global price fluctuations and will suffer under the rule of local elites. If the country manages to break through the path to production of industrial products and other tradable goods has a chance to get closer to rich countries. This means greater resistance in world prices fluctuations and helps building a modern institutions which requires growing middle class instead of repressive that were used by elite to hide behind them (Rodrik, D. p.138.). Globalization intensifies problem for countries that are trapped in the production of raw materials and products of primary processing.

In order for the Government and local authorities act proactive need to, among other things, to apply and non-standard ways of implementing economic policies. This involves the application of various types of indirect measures to stimulate investment and development firms and sectors that show positive performance and which are estimated to be competitive on the international market. Domestic economic policy cannot rely on the standard support measures (subsidies and safeguards) sectors or industries ("infant industry"), which wants to develop.

The prospect of entering B&H to the European Union has led to the conclusion of an agreement with the Union (Stabilization and Association Agreement Process and the revised agreement) that B&H market opened for competitive goods coming from EU countries. Weak B&H market with a number of agricultural units is undefended and unprotected. Although the entry of B&H and Serbia in the EU considerable illusion (Đurković M. 2015). These countries are in a subordinate position and can't keep any of its own policies nor protect or encourage their economic activities. Signed the Stabilization and Association Agreement between B&H and the EU in its article 71 provides that State aid does not distort competition on the market. It is prohibited thus giving priority to certain companies or products to the extent that it may affect the trade between the Community and B&H. The abolition of customs duties, for example, for agricultural products from the EU, which are highly subsidized will make damage to domestic producers of milk and cattle breeders. In February 2017, is expected to import 4500 tons of milk from the EU that will be cheaper duty-free for 13 to 15 cents per liter. It is estimated that the damage caused to the domestic agricultural sector will be around 330 million euros. Import quotas will be from year to year steadily increases. (www.rtvbn.com 22.01.2017)

The Government must have full cooperation with the private sector and not only with companies that have new owners of former socially-owned property. Here we think primarily on companies that are formed endogenously, *de novo* (not from privatization) and of course firms from privatizations that have export performance and are competitive on the domestic market.

4. How some poor countries solved unemployment

South Africa in 1995 had a low rate of growth (about 2%) and unemployment is a huge labor force (young, unskilled and black population) with a rate of 26% and taking into account discouraged workers, the unemployment rate has reached a percentage of 40%. The choice was to pay fall to lowest levels or will be present high unemployment. The Government has chosen the high unemployment and relatively generous social welfare system. Government of South Africa, whose finance minister was well versed in the world "academic news", has provided consulting assistance of professor Dani Rodrik with his colleagues. Their proposal was an eclectic mix of politics (tighter fiscal policy that would leave the central bank room to cut interest rates and allow Rand to depreciate, the proposed temporary subsidies for jobs in order to reduce the cost to employers in hiring young people). Proposal of industrial policy was such that it probably would not conflict with WTO rules. The traditional approach is based on the selection of the sectors and support measures (customs protection, tax rebates, subsidies for research and development, cheap credit, industrial zones). Rodrik's approach was *process-oriented*. This means that they should reposition existing institutions, such as the Ministry of trade and industry or the Industrial Development Corporation, in the center of the dialogue between the business sector and the Government. The dialogue is supposed to identify bottlenecks and opportunities in industrial

activities, of which only some may be known in advance and to react quickly with different policies. (Rodrik in 2013. P. 157.)

Joseph Stiglitz (2004; p. 59.) lists examples of countries that with their smart economic policies have high economic growth, although they are categorized as poor countries (Botswana, Ethiopia). This means that such attempts may not be an impossible mission.

Some countries, however, after the collapse of socialism and the painful transition managed to recover and strengthen its economy under the baton of very active state. This is for example the case of Kazakhstan, which poverty rate since 1991 decreased from 47% to only 2.5%, the unemployment rate, from 13% to 5% and the GDP per capita rose from 302 dollars per capita to \$10,500 dollars. As a result of the comprehensive structural reforms were developed a completely new high-tech industry: petrochemical, automotive, railway engineering, information technology, production of artificial satellites. This is all the result of the successful implementation of the Strategy 2050 program of industrial innovative development. It was built and is building a large number of powerful infrastructure projects. (Kazakhstan-from poverty to 50 the most competitive country in the world, Politika 19.12.2016). The Government has made market reforms and program of diversification of economy which was basically dependent on oil and gas production (The largest exporter after the Russian Federation). The government implemented an interventionist strategy of diversification of industry and invested billions of dollars in industrial policy program with quality objectives and development priorities and potential resources for achieving diversified and competitive economy. (Wandell J. 2015. p. 97). It's about indirect industrial policy that is favored by Hausmann-Rodrick (2003) and Joseph Stiglitz. This policy is half way between the free market and rigid state dirigisme which forms the sectoral composition of economy on a balanced partnership between the public and private sectors. The role of the State was to facilitate, coordinate and risk-sharing tasks.

Dialogue between the Government and the private sector, whose base must be Rodrik's strategy 'stick and carrot', 'carries the risk of private sector activity in the direction of playing the game with the government with goal to get rents. (Bomol v. 2006. s. 55-63). On the other hand, the Government should get information in the dialogue with the business sector about major constraints on development of *certain* industries because the Government is not omniscient. On the other hand, since companies know that the government wants to provide assistance they may exhibit the initiative to perform the distortion of information in order to obtain advantages to achieve benefits from the government.

If we do not access the variant of policy reindustrialization, in a possible and acceptable form, we practically remain on the Easterly's (who does not believe in the effects of aid) development strategy that goes from the bottom (small and medium enterprises) and which is most desperate option that will take decades and decades of recovery and reaching some acceptable level of development.

In the book, in which he criticizes the policies and practices of the IMF and World Bank Joseph Stiglitz (2004; p. 267.) stands for a selective approach that should be followed by the World Bank. World Bank later moved on such way of providing development assistance to countries with lower levels of income. This means that the conditionality is replaced with selectivity where aid depends on already achieved results in a certain country. Countries that have achieved results in development could be assisted in such a way that they can *choose their own* development strategy. There is evidence that this approach can encourage growth and reduce poverty.

In the domestic industrial policy, certainly would be useful whether attention devoted to industry sectors that have already achieved market success with the aim of supporting successful industries and their intensive growth and job creation.

5. Conclusion

Orthodox macroeconomic policies successfully stabilize macroeconomics. However, they give a weak effect on reducing unemployment. The market itself does not provide reconstruction and development of the industry or and the country's economy reindustrialization. International multilateral institutions provide their credit support only if country conducts a strong stabilization policy. International agreements do not allow (IMF, WB, WTO, EU) any active policy of the state to support and increase the competitive advantage of domestic industry. International agreements open up the domestic market, failing to protect domestic production and create favourable conditions for foreign companies. Domestic economic policy makers must search for alternative solutions that would not be in conflict with international agreements and that will encourage and assist the industrial reconstruction of the country. These policies to some extent must be covert character. Assistance of international consultants are welcomed if they would be fund by domestic authorities and who will not work on behalf of international financial institutions.

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ESTIMATING THE EMPLOYMENT EFFECTS OF EDUCATION IN ALBANIA

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Raimonda Duka²

ABSTRACT

Unemployment in Albania is a serious concern, especially amongst women and youngsters. Education plays an important role on the empowerment and welfare of individuals and is considered as an important determinant of the success in the labor market outcomes such as earnings and employment. But, the transition from education to labor market is a decisive moment which gives rise to any of the inequalities encountered in the labor market. Therefore, the issue that we will be addressing at this paper is the effect of education in employment in Albania, using the latest Labor Force Survey data. We specify a probit model, which estimates the probability of being employed based on the level of education and other individual characteristics. The results of the analysis show that an increasing level of education, increases the probability of being employed. However, this effect of education on employment differs among individuals with different characteristics: age, marital status and gender.

Keywords: *education, labor market, employment, Albania*

JEL Classification: *I250, I260, J710, J640*

1. Introduction

The effect of education on the labor market is undoubtable and multidimensional, since it affects several key indicators such as: a) the probability of being employed; b) duration of unemployment; c) the employment sector; d) level of position employed; e) salary level.

Education as a key factor determining the human capital, is considered as one of the most important factors in determining the future of an individual in the labor market. Fasih (2008); Kuepie, (2006); Kostoris and Lupi (2002); Picchio (2008), argue that education has a positive effect on the probability of being employed. However, the literature suggests that different levels of education have different effects on the probability of being employed (Kuepie, 2006; Adjaye 2012), where higher education results in a higher return (Callan and Harmon, 1999).

It has been identified also that education affects the duration of being unemployed, where various studies achieve the same conclusion that with increasing years of education, unemployment period gets reduced (Riddell and Song, 2011; Psacharopoulos, 2007;). One of the biggest problems in the labor market, is working in the informal market and the literature suggests that education can be the key solution. Kuepei (2006); Baah (2007) have concluded that individuals with no or a minimal education are more likely to be employed in the informal market and this probability decreases with increasing levels of education.

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Education is considered as one of the best ways to exit poverty since it impacts positively the chances of being employed, as argued above. However, the return on investment in education is not the same for each level of education (Schultz, 2004). Developing countries exhibit a higher return on salary for elementary education, while return on tertiary education is higher in developed countries (Schultz 2004, Patrinos, 2006). Education level is often considered as an endogenous variable, given that studies have proven a correlation between the education level of an individual and family background and education quality (Mincer, 1974; Denny and Harmon, 2000, Brunello and Checchi, 20005; Checchi, 2008). Also, Di Pietro and Urwin (2003) and Scoppa (2009) concluded that the achievements of children in the labor market are determined by their parents' status.

Education plays an important role on the empowerment and welfare of individuals and is considered as an important determinant of the success in the labor market outcomes such as earnings and employment. But, the transition from education to labor market is a decisive moment which gives rise to any of the inequalities encountered in the labor market. Therefore, the issue that we will be addressing at this paper is the effect of education in employment in Albania, using the latest Labor Force Survey data. We organize the rest of the paper in the following way. In the next section, we realize a brief literature review on factors determining employment. In section 3 we give a background of Albanian labor market. Section 4 describes the methodology used and provides some descriptive statistics on data. Section 5 present estimation results and section 6 summarizes our findings.

2. Determinants of employment

Per Mincer (1974), almost half of variations in the level of employment and working hours are attributable to individual differences in the level of accumulated human capital. The main determinants and best possible proxy for human capital are considered education and experience. Meanwhile, the other part of variation is explained by other individual characteristics.

Productivity approach concentrates on the productivity of workers, workers with less experience are less productive, and thus the probability of being employed decreases (Becker, 1985). Often there are difficulties in measuring work experience. Mincer (1974) proposed that the experience to be calculates as: age minus years of education minus 6; but this proxy might bring problems in the evaluation. The magnitude of the cumulated investment is not observable, but is a concave function of experience. Hence, to expand the schooling model into a more complete earnings function, the linear schooling term must be augmented by a nonlinear, concave, years-of-experience term (Mincer, 1974)

Indicators of employment in almost all countries show that the level of employment in among youngsters is very low and the probability of being unemployed is much higher (Kostoris and Lupi, 2002; Barone and Mocetti, 2001), two or three times higher as estimated from Biagi and Lucifora, 2008.

Several studies have reached different conclusions regarding the effects of being married in the probability of being employed. Kostoris and Lupi (2002) estimations showed a negative relationship, while Picchio's study (2008) showed a positive effect. Effect of being married is expected to differ among women and men. The man being the head of the household and responsible for the economic stability of the family tends to seek work intensively and therefore

the probability of being employed is greater. Instead for a woman being married means more family responsibilities and childcare leaving her out the labor market.

Unequally economic and social development across the country requires the involvement of regional variables in the model. Probability of being employed is much higher in the economically developed regions (Picchio and Mussida, 2011). In regions where family ties are stronger and traditional, unemployment rate is higher (Alesina and Giuliano, 2007).

3. Albanian labor market background

Employment rates in Albania are the highest among the Western Balkans and higher than that of neighboring countries such as FYR Macedonia (39 percent), and the extremely low employment in Kosovo at 28 percent.

41.7 percent of the working age population in Albania is employed and youth (young male and female) being underrepresented on labor market. Looks that the situation is worse for women and especially for the young ones. Women were also more likely than men to work as an unpaid worker on a household farm or household business – 18.5 percent of female workers in 2012, compared to 9.3 percent of male workers.

Most businesses in Albania are small and medium enterprises, only 17% of the owners or managers are women. In Figure 2 is given the ratio of female to male labor force participation rate. Albania is better compared only with FYROM; while it is worse than other countries in the region and developed countries. From the region, Croatia is the one that has the best performance in the labor market regarding gender gap.

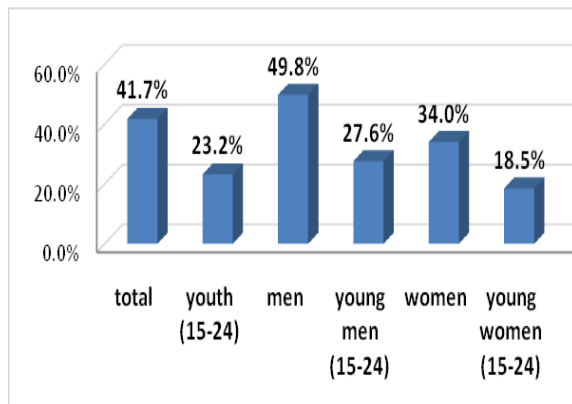


Figure 1: Employment ratio, 2016

Source: ILO, 2016

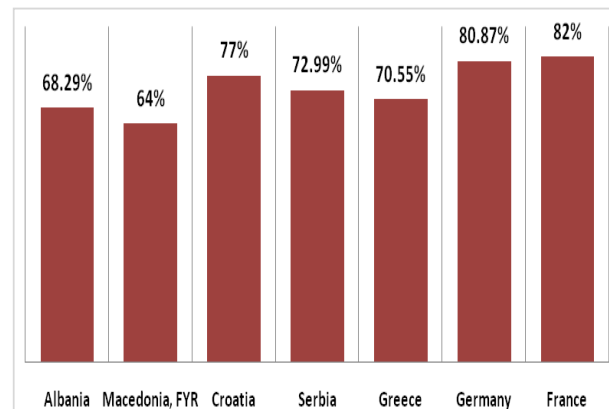


Figure 2: Ratio of female to male labor force participation rate

Source: World Bank, 2015

The differences on employment rate are not only due to gender differences, but also on regional ones. The most economically developed a region is, the higher the employment rate. North Albania is characterized by lower economic activities, lower GDP/capita and stronger family ties. All this factors lay the foundation for a higher unemployment on this region.

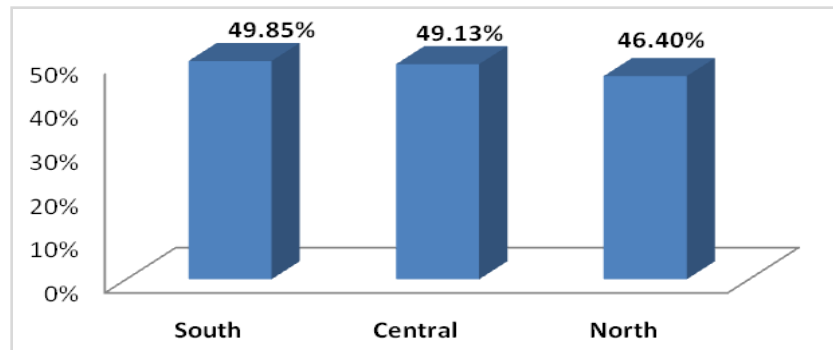


Figure 3: Employment rate by regions, 2016

Source: INSTAT, 2016

As stated earlier, education is one of the main characteristics effecting individual success on labor market. Being the best indicator of human capital, the higher the education level, the higher the probability of being employed, but his effect is gender biased. For the same level of education, there are more male than female employees (see figure 4.). The situation does not change for the years 2008 and 2012, and for each level of education. We can observe that the gender gap in employment is narrower between men and women that have a university degree. So, we can say that the labor market for jobs that require a certain level of education, gender discrimination is lower; while in jobs that do not require a higher education, men seem to be preferred much more than women. The same picture is repeated even if we look at salary rates for men and women with the same education level. For the same level of education, men are paid more than women. This gender gap in wage narrows between men and women that have a university degree.

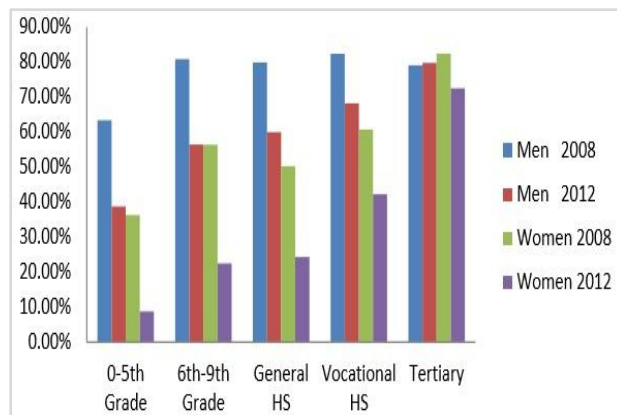


Figure 4: Employment rate by level of education, gender and year

Source: World Bank, 2015

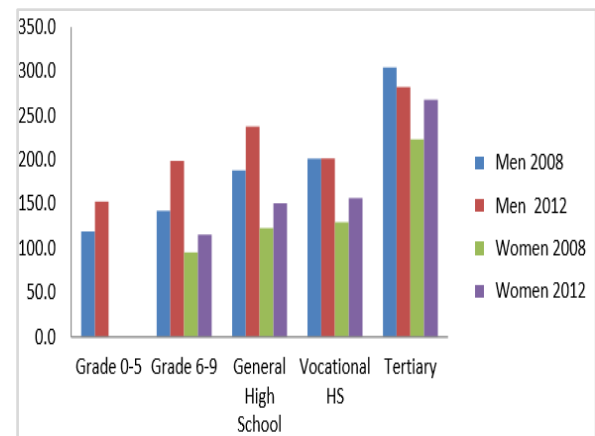


Figure 5: Hourly wages by level of education, gender and year

Source: World Bank, 2015'

4. Methodology and Descriptive Statistics

We aim at modelling the probability of being employed using the individual characteristics mentioned on the literature review. To do so, we will specify a probit model. Probit regression is used to model dichotomous or binary outcome variables. In the probit model, the inverse standard

normal distribution of the probability is modeled as a linear combination of the predictors. The probit link function:

$$\text{Probit}(EY) = \Phi^{-1}(p) = \Phi^{-1}(P[Y=1]);$$

is used to transform the expectation of this 0/1 dependent variable. Then, the probit of the mean is modelled as a linear combination of the covariates (regressors) X , i.e., we have a linear predictor $\text{probit}(EY)=X\beta$, where β is a vector of parameters.

The data used are provided by the Labor Force Survey (LFS) 2013. In table, A1(see appendix) we present all the variables that are used in the model, whereas in table 1 are given some basic descriptive statistics of each variable. The total number of respondents is 40 415, but about 48% of them have stated that they are not looking for work or otherwise are inactive in the labor market. These individuals, as well as those over 65 years are not included in the model, given that our focus is on the labor market. The number of observations to be included in the model is 20059.

The majority of the sample are men, who represent 55.04%, married, 74.6%, the average age is 44.98 and average experience 29.03 years. With respect to education, the majority of the respondent, 51.42%, has accomplished only primary education, about 34.07% have a high school level of education and only 14.51% has a university degree, of which 55.6% are women. 83% of the sample responded that they were employed at the time asked, where 53.4% of the employed respondents are men. Only about 3.2% of the sample has responded about the region where they are living and about half of them, 47.8%, are living in Central Albania, 26.2% in North and 26% in south.

Table 1. Descriptive statistics

Variable Name	Proportion
Number of observations = 20059	
Education	
Primary	51.42%
Secondary	34.07%
Tertiary	14.50%
Married	
Single	23.66%
Married	76.34%
Employed	
Unemployed	16.01%
Employed	83.99%
Female	
Male	55.04%
Female	44.96%

Regional Dummies (number of observations = 632)	
North	26.20%
South	26.00%
Central	47.80%
Quantitative Variables (mean and standard deviation in parenthesis)	
Age	44.98 (18.98)
Experience	29.03 (19.5)

Source: Author's calculations

5. Results

In this section, we analyze the results obtained from the empirical analysis. We did not include in the model regional and experience variables. Regional variables cannot be included in the model because there is no variation, all respondents who answered about the region where they live, are employed. The database had no information concerning experience. We generated a proxy of experience, evaluated as: age minus years of education minus 6, proposed by Mincer (1974). This proxy is used in the Albanian labor market analysis from Miluka (2014), but in our analysis, this variable and the square of experience resulted not significant. In table 2 are given the results of our analysis.

Table 2. Estimated coefficients, Employed-dependent variable

	Probit 1			Probit 2			Probit 3		
Variables	Coeff	Std. Err	Effect	Coeff	Std. Err	Effect	Coeff	Std. Err	Effect
Age	0.016	0.0069	0.36%	0.013	0.006	0.91%	0.0139	0.006	0.30%
Age2				0	0	0.00%	0	0	0.00%
Edu_primary	0.172	0.024	0.55%	0.167	0.024	3.80%	-0.0603	0.072	-1.38%
Edu_secondary									
Edu_tertiary	0.179	0.034	0.68%	0.623	0.102	11.10%	0.493	0.109	9.30%
Married	0.362	0.028	0.79%	0.459	0.078	11.70%	0.461	0.078	11.90%
Female	0.183	0.022	0.52%	0.273	0.044	6.20%	0.177	0.052	4.00%
EduP_fe							0.166	0.049	3.80%
EduS_fe									
Edu_Fe				-0.296	0.063	-6.80%	-0.199	0.07	-4.50%
Marr_Fe				-0.064	0.05	-1.47%	-0.066	0.05	-1.50%
Cons.	-0.286	0.049					-0.231	0.132	
Log Likelihood	-8282.5585			-8271.4755			-8265.8802		
Observations	20059			20059			20059		

Source: Author's calculations

Initially we estimated the probability of being employed depending on five individual characteristics and then, on Probit models 2 and 3 we added several interacting variables, to

highlight the existence or not of gender differences. Results show that age has a positive effect on employment, which is consistent with evidences of labor market that emphasize the difficulty of youth to enter the labor market. U shaped relationship with age is statistically significant, but age² effect is practically zero. Being married seems to increase the probability of being employed, but when control for different effects of this variable between different genders, it turns out that the probability of being employed decreases for a married woman, with increased responsibilities and duties for family care. Marriage turns out to have positive effect on men's employability, possibly because of increased financial responsibilities men become more demanding and insistent in the labor market.

The results of the estimation confirm the theory, education has a positive effect on employment, the higher the level of education the greater the probability of being employed. Our estimations speak about a 11% higher probability of being employed for those with a tertiary education. However, to control the variation of the effect of the level of education among women and men, we should be referred to the results of Probit models 2 and 3. In both these models can be identified gender differences to this effect. It seems that the biggest discrimination is between men and women with a university degree, where women have about 5% less probability to be employed than men with the same education level. This probably is due to the mismatch between the field of study and demand in the labor market since, female students usually choose areas of study which traditionally are considered as "women's work" and not those areas that are required in the labor market.

To evaluate more clearly the effects of education, we estimated a probit model, where the sample is sorted by education levels: primary, secondary, tertiary.

Table 3. Estimated coefficients. Employed-depended variable, sorted by edu3

	Probit 4			
	edu3 =1	edu3 =2	edu3 =3	Marg. Eff.
Variables				
Age	-0.028	0.022	0.227	0.046
Age2	0.0004	0	-0.002	0
Married	0.608	0.623	0.028	0.0059
Female	0.407	0.324	-0.148	-0.03
Marr_Fe	-0.125	-0.263	0.141	0.029
Cons.	0.466	-0.56	-3.7	
Log Likelihood	-3979.8	-3115.99	-1068.17	
Observations	10315	6835	2909	

Source: Author's calculations

The results show that young people have a higher probability to be employed only among individuals with primary education. This result can be explained by the fact that a considerable part of jobs where individuals with primary education are employed, are mostly jobs that require physical strength; therefore, we can expect young people to be preferred. Among individuals with tertiary education, access to the labor market for young people is more difficult.

The result obtained from the above estimations is confirmed at this analysis too. Being female reduces the probability of being employed among individuals with tertiary education and being

married has a positive effect on the probability of employment. Married women with tertiary education have a higher probability to be employed, while married women with primary and secondary have a lower probability of being hired. This phenomenon is explained not only by the increased family responsibilities, but also by the low level of social policies that could vanish this phenomenon: a) the existence of qualitative institutions for child care (nurseries, kindergartens) and b) the adoption and implementation of strong policies against discrimination.

6. Conclusions

Through the above analysis we aimed to evaluate the factors increasing of the probability of being employed. For this analysis, we used the data from the latest labor force survey.

Education proved to have a positive effect on the probability of being employed and this probability increases with education level. Analysis confirmed that the effect of education is different for men and women; the biggest differences are identified among men and women with a university degree, probably because female students usually choose areas of study which traditionally are considered as "women's work" and not those areas that are required in the labor market.

From analysis, we may conclude that age has a positive effect on employment, thus proving one of the biggest problems of the labor market, unemployment among youngsters. However, it turns out that young people have a higher probability to be employed only among individuals with primary education. This result can be explained by the fact that a considerable part of jobs where individuals with primary education are employed, are mostly jobs that require physical strength. This result is very worrying, because young people may be discouraged and do not invest in their education and development if the return on that investment is not satisfactory.

Being a country with strong and traditional family ties, it was not possible the marriage and the creation of the family not to have a strong effect on employment, but in this case, there are gender differences. As a traditional family, man is the head of the household and the main responsible for the family financial security, therefore the need for a job increases with raising a family. This effect affects women differently, since the creation of family increase the responsibilities and obligations inside the house, staving off a part of women from the labor market.

The intervention of the government in the labor market is necessary. This intervention should be multi-dimensional: 1) determining occupations for which there is the labor market demand and orientating student in those fields of study; 2) providing free and qualitative child care services for employed women; 3) Undertake measures and reforms to encourage institutions.

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Appendix

Table A1. Description of the variables

Variable	Description
Age	Quantitative continuous variable indicating the age of the individuals
Education dummies: <ul style="list-style-type: none"> • Edu_primary • Edu_secondary • Edu_tertiary 	Dichotomous variable indicating the level of education.
Employed	Dichotomous variable indicating whether the individual is working (1) or not (0)
Experience	Quantitative continuous variable indicating the experience of the individuals
Female	Dichotomous variable indicating whether the individual is female (1) or male (0)
Married	Dichotomous variable indicating whether the individual is married (1) or not (0)
Regional dummies: <ul style="list-style-type: none"> • North • Central • South 	Dichotomous variable indicating whether the individual is living in North, Central or South Albania.
Marr_Fe	Dichotomous variable indicating whether the individual is a married female (1) or not (0)
Edu_Fe	Dichotomous variable indicating whether the individual is a female with tertiary education (1) or not (0)
EduP_Fe	Dichotomous variable indicating whether the individual is a female with primary education (1) or not (0)

Source: Author’s notes

TO PARTICIPATE OR NOT TO PARTICIPATE? : UNFOLDING WOMEN'S LABOR FORCE PARTICIPATION AND ECONOMIC EMPOWERMENT IN ALBANIA

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ABSTRACT

The importance of increasing women's labor force participation has been taking center stage for some time now in many European countries. Albania is no exception, with its labor statistics showing significant disparity in labor market outcomes between men and women. This paper estimates determinants of female labor force participation in Albania distinguishing between urban and rural areas. It also estimates a model of enrollment for secondary education to determine the impact of household female labor force participation on secondary school enrollments. The primary source of data used for the analysis in this study is the 2008 Albanian Living Standard Measurement Survey (LSMS) conducted by the Albanian Institute of Statistics with technical support from the World Bank. The Albanian LSMS is nationally representative as well as representative for the urban and rural areas of the country. This paper uses a Probit model to empirically test the household and individual determinants of female labor force participation and its impact on secondary school enrollment for females in Albania. The study shows that education, uninterrupted work experiences, social support and infrastructure are crucial factors determining female labor force participation. Results reveal that rural women face a double challenge vis-à-vis men and their urban counterparts. Lastly, having a female member in the household who participates in the labor market is a very important determinant of school enrollment for girls.

Keywords: *labor market, participation, gender, equal opportunity, education and training, human capital*

JEL Classification: *J16, J21, J31*

1. Introduction

The importance of increasing women's participation in the labor market has been taking center stage for some time now in many European countries. Albania is no exception, with its labor statistics showing significant disparity in labor market outcomes between men and women. Low participation and lower life-time accumulation of work related benefits are linked to the feminization of poverty at old age. There is also growing concern over the declining labor supply

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in the face of population decline, reduced fertility rates and international out-migration. Between 1989 and 2001, Albania's population fell by 4 percent and rural population by 15 percent. Since 1990 approximately one fifth of the population has left the country and is living abroad (Carletto, Davis, et al, 2004).

Albania is a developing country that emerged twenty years ago from a harsh communist regime and remains in a protracted transitional phase. Compared to other countries in the region, Albania is unique in that it was the poorest and most isolated country of the communist bloc, and in that it adopted political and economic reforms later than the rest of the Central and Eastern European countries. Since the introduction of such reforms, it has achieved solid economic growth and significant poverty reduction. Nevertheless, it is evident from a review of labor statistics that women's labor force participation is far behind that of men, especially in rural areas, and has been in decline since the fall of communism and its policy of full employment.

The need to investigate determinants of women's labor force participation is therefore compelling. Determinants of participation, and moreover of employability, are of significant interest in economic literature, especially when such writing focuses on developing countries. Cross-national research has revealed a positive relationship between economic development and female labor force participation (Nam, 1991). However there is a notable absence of relevant empirical studies on female labor force participation in Albania.

Although there have been studies focusing on gender analysis, they have not focused on labor force participation. The focal point of the majority of these studies has been the impact of international migration in Albania. Studies from McCarthy et. al. (2009), Miluka et. al., 2010, Dabalen and Miluka, 2010, Stecklov et. al., 2008, mainly examine the impact of international migration on Albanian family farms, and on education, as well as considering shifts in the composition of migration and women's decision-making. Other studies by Azzari et. al., 2009 and Carletto et. al., 2009 touch upon labor market issues although the focus remains on return migrants. They consider labor mobility, return migrants and the impact of migration on female labor supply. Miluka, 2013 examines Albania's gender wage gap and its determinants. The rest of the literature is based on anecdotal evidence, reports, legislation, and outdated programs.

Given this paucity of pertinent research, the purpose of this paper is to analyze in-depth women's labor market participation in Albania and establish the determinants of that participation, distinguishing between urban and rural areas. The study also estimates a model of enrollment for secondary education to determine the impact of household female labor force participation on secondary school enrollments. In the remainder of this paper, section 2 provides a brief literature review. Section 3 follows with data and descriptive statistics. In Section 4 the econometric model is presented. Section 5 presents and analyses the regression results to conclude with section 6.

2. Brief literature review

Empirical and rigorous studies of female labor force participation and its determinants are almost nonexistent in Albania, although the issue is very relevant and pressing. These studies however are plentiful in economic literature. Various studies have looked at female labor force participation in general (Heckman, 1980; Mooney, 1967; Netz and Haveman, 1999; Rozenweig and Wolpin, 1980) and participation of married women in particular (Cain and Doley, 1976; Francesconi, 2002; Mahoney, 1961; Spencer, 1973). The focus of these studies as of many others in the

literature has been on the association between women's labor supply and non-market activities such as education, fertility, migration, marital status, family structure and economic status, and the like. Some of them have tested the modernization and world system perspective, by focusing on women's human capital through educational attainment (modernization hypothesis) and family economic status (world system perspective) captured by the occupational status and type of work of the male head of the household (Nam, 1991). Others have focused on the role of fertility, marital status, and family composition in determining female labor force participation (Cain and Dooley, 1976; Francesconi, 2002; Mahoney, 1961; Rosenzweig and Wolpin, 1980; Spencer 1973). Others yet have exclusively looked at the bias created when household characteristics are omitted as determinants of female labor force participation (Netz and Haveman 1999).

Theory shows that there is ambiguity in determining the effect of the size of the household and presence of children on female labor force participation. On one hand, having more children increases consumption needs for market goods, thus increasing the need for additional work outside the home. On the other hand, with an increase in the number of children, child care costs also increase, thus increasing the need for the mother to stay at home (Netz and Haveman, 1999). Additionally, as noted by Mahoney (1961), a bigger household can mean more adults present such as grandparents, or older siblings, who can take care of the younger children, thus reducing women's need to stay at home.

While there is ambiguity regarding the effects of the family size and number of children, studies show that having working males in the household decreases the likelihood of female labor force participation. Working males increase the marginal utility of home production, since they contribute less to it, as a result increasing the need for females to stay at home (Cain and Dooley, 1976; Netz and Haveman, 1999; Spencer, 1973).

There is also agreement in the literature that the expected effect of family income on female labor force participation is negative. An increase in family income apart from the earnings of females causes the marginal utility of consumption for market goods to decrease, and the marginal utility for home-production to increase, both of which will encourage females to work less, since the need for additional income is now less.

Lastly, education is seen as an investment positively related to potential earnings, therefore it increases the opportunity cost of economic inactivity. Education gives women, particularly younger ones, the needed qualifications that the changing economy demands. It also indicates income aspirations and expectation of women; therefore its influence on women's participation in the labor force is expected to be positive (Nam, 1991; Mahoney, 1961; Mooney, 1967; Spencer, 1973). In summary, empirical results show that female workers are more likely to leave the labor force if they have younger children to take care, if they don't have the needed education qualifications, and if they are not financially constrained.

3. Data and descriptive statistics: Women's employment in rural and urban areas

The primary source of data used for the analysis in this study is the 2008 Albanian Living Standard Measurement Survey conducted by the Albanian Institute of Statistics with technical support from the World Bank. The Albanian LSMS is a household questionnaire that also collects data at the individual level. The survey is nationally representative as well as representative for the urban and rural areas and at the four strata level, namely coastal, central,

mountain and Tirana. The survey collects data on 3,600 households and provides household and individual information on general characteristics, education, labor, migration, social capital and other information secondary to the analysis. Our sample is comprised of those individuals that are in the labor module between the ages of 15 and 64 for a total of 9,143 individuals, where 4,390 are males and 4,753 are females.

Turning to women participants versus nonparticipants in the labor market, as expected, those who participate have more education (9.92 years of education for participants versus 9.21 years of education for nonparticipants), more work experience (21.16 years for participants versus 18.99 years for nonparticipants), and are somewhat older (Table 1). In terms of household composition, participants have less household female labor, 1.98 for participants compared to 2.13 for nonparticipants. In addition, women participants in the labor market have fewer children under the age of 6. In terms of total consumption, nonparticipants show higher expenditures, however when adjusted for per capita consumption, there is no significant difference between the two groups.

Table 1. Overall Descriptive Statistics by LFP Status

Variables	Participants	Non-participants	Total	P-Value
education	9.92	9.21	9.60	0.000
experience	21.16	18.99	20.19	0.000
age	37.08	34.20	35.79	0.000
household male labor	1.57	1.56	1.57	0.748
household female labor	1.98	2.13	2.05	0.000
total consumption	494455.10	514439.60	503436.80	0.086
per capita consumption	107124.00	108607.80	107790.90	0.595
number of children under 6	0.31	0.36	0.34	0.064
married	74.06%	55.11%	65.54%	0.000
migrant household	27.17%	28.32%	27.69%	0.480
distance index	0.04	0.07	0.05	0.446
social capital index	-0.05	0.03	-0.02	0.032
Total Observations	2410	2343	4752	

Note: P-values in bold indicate statistically significant differences.

In the rural areas, the gap in education between women participants and nonparticipants closes. Women in rural areas have overall lower level of education (Table 2). Experience³ differences are larger between participants and nonparticipants in the rural areas. Women who are participating in the labor market in the rural area have over 3.5 years of experience more than women who are not participating in the labor market. Incidentally, nonparticipants have more children under the age of 6 years. The majority of the rural participants are married, which may point to marriage providing for some sort of social capital⁴; such expectation is in accordance to social and cultural norms in the country. Participants have less of both household male and female labor; therefore the substitution effect of male for female labor is less likely to occur in these households. Participants have 1.65 household male labor and 1.99 household female labor compared to 1.76 household male labor and 2.32 household female labor for the nonparticipants.

³Creation of variable is explained in the following section: Econometric Model.

⁴Creation of variable is explained in the following section: Econometric Model.

Although total consumption seems to be greater for non-participants households, per capita consumption shows no differences between the two groups. Participants belong to households that have on average larger number of plots; 2.60 plots for participants compared to 2.34 plots for the nonparticipants.

Table 2. Descriptive Statistics by LFP Status, Rural Areas

Variables	Participants	Non-participants	Total	P-Value
education	8.57	8.31	8.46	0.071
experience	22.02	18.71	20.64	0.000
age	36.58	33.02	35.10	0.000
household male labor	1.65	1.76	1.70	0.059
household female labor	1.99	2.32	2.12	0.000
total consumption	464521.80	505033.80	481334.40	0.003
per capita consumption	92185.70	91358.21	91842.29	0.729
number of children under 6	0.38	0.48	0.42	0.023
married	75.58%	54.60%	66.87%	0.000
migrant household	34.68%	31.96%	33.55%	0.290
distance index	0.31	0.36	0.33	0.360
social capital index	-0.07	0.03	-0.03	0.084
Land area in sqm	10225.28	9933.47	10104.18	0.859
hhplots	2.60	2.34	2.49	0.014
Total Observations	1198	1032	2230	

Note: P-values in bold indicate statistically significant differences.

Table 3, shows a different situation in urban areas. Education differences are larger between participants and nonparticipants in the labor market. Participant women in the labor market in the urban areas have over 1.5 years of education compared to nonparticipants, but there are no differences in terms of experience. The latter may be partly due to no significant differences in the number of children under the age of 6 years. Urban areas participants have on average more household male labor (1.48 for participants versus 1.38 for nonparticipants), which points to lack of substitution effect between male labor and female labor. On average about 18% of participants belong to households that have permanent migrants abroad compared to about 25% of nonparticipants. Lastly, participants live closer to bus stations, primary schools and public health facilities as captured by the distance index, therefore facilitating access and reducing distances.

Table 3. Descriptive Statistics by LFP Status, Urban Areas

Variables	Participants	Non-participants	Total	P-Value
education	11.57	10.04	10.83	0.000
experience	20.12	19.25	19.69	0.243
age	37.68	35.28	36.52	0.001
household male labor	1.48	1.38	1.43	0.015
household female labor	1.97	1.96	1.97	0.884
total consumption	530999.20	523043.50	527130.00	0.679
per capita consumption	125361.50	124386.50	124887.40	0.843

number of children under 6	0.23	0.25	0.24	0.440
married	72.21%	55.58%	64.12%	0.000
migrant household	17.99%	24.99%	21.40%	0.000
distance index	-0.29	-0.21	-0.25	0.009
social capital index	-0.03	0.02	0.00	0.243
Total Observations	1212	1311	2523	

Note: P-values in bold indicate statistically significant differences.

4. Econometric model⁵

This paper uses a Probit model to empirically test the household and individual determinants of female labor force participation and its impact on secondary school enrollment for females in Albania. The choice of dependent variables female labor force participation, and school enrollment, are binary response variable (participating in the labor force versus non-participating, and being enrolled in school versus non-enrolling). The female's individual decision regarding the labor force, and the household's decision regarding enrolling their children in school, is therefore discrete and may be evaluated using a discrete regression model. Probit models has been extensively used in the literature to measure labor market participation, union membership, choice of transportation mode to work, or choice to participate in welfare programs among others (Gerfin, 1996).

The probit model may be presented as follows:

$$y_n^* = x_n \beta + \varepsilon_n \quad (1)$$

$$y_n = 1 \text{ if } y_n^* \geq 0 \quad (2)$$

$$y_n = 0 \text{ otherwise} \quad (3)$$

where y_n is the indicator of the n th individual's response determined by the underlying latent variable y_n^* ; x_n is a $1 \times q$ vector of explanatory variables; β is a $q \times 1$ vector of parameters; ε_n is a random error term, and $n=1, \dots, N$

Let $F(\varepsilon / x)$ denote the cumulative distribution function of ε conditional on the event

$$x_n = x. \text{ Then } P(y_n = 1 | x_n, \beta) = F(x_n \beta | x_n) \quad (4)$$

F will be assumed to be the cumulative normal (probit model)

The dependent variable for the first model is *female labor force participation* defined as a binary 0 (for nonparticipation) and 1 (for participation), which includes all females who currently live in Albania, are between the ages of 15 and 64, who either have a job, or are able to start a job in two weeks, or have done part-time jobs outside of home in the last seven days. The choice of independent variable follow economic theory and a brief explanation of the independent variables follows:

Education, defined at the number of years of education completed. *Experience*, defined as age-years of education -6, where 6 signified the age at which formal education starts, and *experience squared*. *Male and female labor*, defined as the number of males/females in the household that are between the ages of 15 and 64 years old. *Number of children under the age of 6*, defined as the total number of children under the age of 6 that females currently have. *Marital status*, defined by a dummy variable taking a value of 1 if female is married, 0 otherwise. *Social capital*

⁵Source of data used in regression analysis: 2008 ALSMS, unless otherwise specified.

and *distance*, defined by social capital index and distance index respectively, are created through principal factor component analysis. *Household with permanent migrants* defined as a dummy taking a value of 1 if the household has any permanent international migrants, 0 otherwise. Although we are aware of the endogeneity issues of migration, as a control variable we are interested in seeing its trend. By no means will we attempt to explain causality or magnitude. *Land area* and *number of plots*, defined as land area in square meters in the possession of the households and number of household plots in which the land is divided. Lastly, *regional dummies*, include a set of dummy variables (1 if the individual pertained to a certain region, 0 otherwise) for the different regions in Albania, which include the Coastal, Central, Mountain regions and Tirana.

In the second model, the dependent variable is also defined as a binary variable taking the value of 1 for any individual between the ages of 14 through 17 being currently enrolled in school, 0 otherwise. The sample included only individuals of secondary school age between 14 and 17 years of age. The included independent variables are as follows:

Household female labor force participation defined as a dummy taking a value of 1 if the individual has a female of working age that participates in the labor market (except itself in the case of females), 0 otherwise. *Log household size*, defined as the total number of individuals in the household. In order to capture the household's demographic composition the log of the household size is included as an explanatory variable. *Log total consumption*, defined as log of total household expenditures. *Head's education*, defined as the total number of years of completed education by the head of the household. *Distance index*, defined as in the above model. *Regional dummies* defined as above to capture the different socio-economic effects of different regions.

5. Results

Results from the regression analysis in Table 4, reveal that education and work experience are very important determinants positively affecting female labor force participation. Education is especially important in the urban areas, where for every additional years of education, the probability of female labor force participation increases by about 4%. In the rural areas, the impact of education is very weak, which may be a result of the overall low levels of female education in the rural areas. Each additional year of education increases female labor force participation by about 0.1%. Work experience is a very strong determinant of female labor force participation, overall, and for each area. On average, each additional year of work experience increases female labor force participation by about 4.4%. This impact is stronger in urban areas about 6%, and about 4% in rural areas. As expected the impact of work experience increases at a decreasing rate as seen by the control variable experience squared.

Table 4. Determinants of Female Labor Force Participation.

Variables	All	Urban	Rural
Education	0.02172*** (0.003)	0.04256*** (0.004)	0.0093* (0.005)
Work experience	0.04430*** (0.002)	0.06210*** (0.004)	0.04126*** (0.003)
Experience squared	- 0.00093*** (0.000)	- -0.00137*** (0.000)	- -0.00083*** (0.000)

Male labor	0.00033 (0.009)	0.04632** (0.014)	-0.02247 (0.012)
Female Labor	0.02029* (0.009)	0.03786** (0.014)	0.00867 (0.013)
Children under age 6	-0.03454* (0.014)	-0.02632 (0.023)	-0.04701* (0.019)
Married (d)	-0.00841 (0.025)	-0.08454* (0.035)	0.00476 (0.039)
Migrant household (d)	0.03953* (0.018)	0.01718 (0.027)	0.04885 (0.026)
Distance index	0.01351 (0.007)	-0.04484* (0.018)	0.0073 (0.009)
Socialcapital index	-0.00339 (0.008)	0.01971 (0.012)	-0.02009 (0.012)
Coastal (d)	0.09073*** (0.025)	0.01427 (0.031)	
Central (d)	0.11073*** (0.025)	0.03884 (0.031)	-0.01395 (0.032)
Mountain (d)	-0.05332* (0.025)	-0.03221 (0.031)	-0.25962*** (0.029)
Land area (sqm)			0.00000 (0.000)
Number of household plots			0.03784*** (0.008)
Observations	4753	2523	2069

Note: Standard errors in parenthesis

*** significance at 1% level; ** significance at 5% level; * significance at 10% level.

Availability of male and female labor in the household act as complements in the urban areas, whereas it has no impact in the rural areas. This points to differences of the role of household composition between the two areas. Male and female labor is regarded as complementing each other in the urban areas. This may be a result of household dynamics as well as labor market characteristics in the urban areas. Females in the urban areas are highly educated thus the labor market in the urban areas rewards these characteristics increasing female labor force participation. The same does not hold for rural household, where the role of education is not as strong and where the vast majority of females are in unpaid family farm work. Unpaid family work is an important source of labor for the family, but it does little for women's labor force participation.

Marriage and little children have a negative impact on female labor force participation. For each additional child under the age of six, the probability of female labor force participation decrease on average by about 3%. The impact is more intensified in the rural areas, by about 4.7%. This result points to the importance of child care and may be indicative of the lack of child care in the rural areas as well as the role of women in child care in these areas. Whereas number of children under the age of six does not have a significant impact for urban women, being married has a strong negative impact for urban women reducing the probability of participating in the labor market by about 8%. One way of interpreting this result may be that it is not child care per se that reduces women's labor force participation in the urban areas, rather it is the overall increase in family responsibilities and perhaps the way marriage is viewed through employer expectations on worker's productivity in the urban labor market that leads to such strong negative impact.

Other control variables show that having permanent international migrants in the household has a positive impact in female labor force participation overall, but it has no impact

individually in the urban and rural areas. Distance has a negative impact on female labor force participation in the rural areas. This result points to the importance of infrastructure and public services for access to the labor market. It is also related to the role of females as primary care givers of their children since the distance index includes distances to primary schools and ambulatory services. Being in the mountainous region in the rural areas compared to Tirana, decreases female labor force participation by almost 26%. This encompasses the problematic of this region, which has the highest poverty rates in the country and a large reduction of population due to migration. Lastly, availability of land increases female labor force participation in the rural areas. However, this participation is linked to unpaid female family farm labor.

5.1 Determinants of secondary school enrollment

Besides the usual suspects such as years of education of the household head, per capita consumption, household size, distance index, as determinants of enrollment for secondary education, household female labor force participation has a strong positive impact. The purpose of these regressions is not to capture the determinants of school enrollment per se, rather to capture parents' expectations of labor market participation and its impact on enrollment. The focus is on the importance of female labor force participation, as an important factor in the formation of parents' expectations. If parents expect returns to their children's education in the labor market, they are more likely to enroll their children in school. As a result, labor force participation increases as education increases. This is expected to be even more significant for females, because female labor force participation affects parent's expectations first hand regarding school enrollments of daughters. In this respect, tables 5 and 6 show that household female labor force participation has a strong positive impact on school enrollment for individuals between the ages of 14 and 17. The impact is larger for females. Having females participating in the labor market in the household increases the probability of secondary school enrollments for females by about 22% compared to about 13% for males. The impact is even larger for rural females whose probability of enrollment increases by almost 35% compared to about 7% for urban females. These results show the large significance of female labor force participation in terms of school enrolment for household members in general and females in particular. Female labor force participation deserves special attention particularly in rural areas.

Table 5. Determinants on Enrollment (ages 14-17)

Variables	Male	Female
Household female labor participation (d)	0.12687** (0.041)	0.22424*** (0.036)
Education of household head	0.01807** (0.006)	0.02717*** (0.005)
Ln total consumption	0.25201*** (0.047)	0.21643*** (0.045)
Ln household size	-0.20291** (0.072)	-0.14319* (0.063)
Distance index	-0.05041** (0.016)	-0.03506** (0.013)
Coastal (d)	-0.11662 (0.088)	-0.19149* (0.08)
Central (d)	-0.1131 (0.085)	-0.10811 (0.08)
Mountain (d)	0.0682	-0.07301

	(0.08)	(0.069)
Observations	610	644

Note: Standard errors in parenthesis

*** significance at 1% level; ** significance at 5% level; * significance at 10% level.

Table 6. Determinants on Enrollment by Region (ages 14-17)

Variables	Urban Females	Rural Females
Household female labor participation (d)	0.06681* (0.031)	0.34903*** (0.054)
Education of household head	0.01097** (0.004)	0.02882** (0.01)
Ln total consumption	0.09513** (0.03)	0.23985** (0.081)
Ln household size	-0.11946* (0.051)	0.02308 (0.106)
Distance index	-0.01924 (0.014)	-0.01895 (0.019)
Coastal (d)	-0.00715 (0.034)	
Central (d)	0.00432 (0.031)	0.10041 (0.075)
Mountain (d)	0.03973 (0.024)	0.10850 (0.071)
Land area (sqm)		0.00000 (0.000)
Number of household plots		-0.03234 (0.017)
Observations	308	336

Note: Standard errors in parenthesis

*** significance at 1% level; ** significance at 5% level; * significance at 10% level.

6. Conclusions and policy recommendations

The empirical work presented in this paper, testing for determinants of female labor force participation in Albania provides important findings for policy making especially in rural areas. From the regression results it may be concluded that overall, women with higher education and work experience, with fewer children and close to public facilities are more likely to participate in the labor market. International migration is also seen as having an overall positive impact in female labor force participation. Education, uninterrupted work experiences, social support and infrastructure are therefore crucial factors determining female labor force participation.

The results unhide interesting differences between rural and urban areas. Work experience and number of children under the age of six exert a very important impact on females in rural areas. For urban women, being married, rather than presence of children, negatively impacts their probability of participating in the labor market, meaning for urban women, it is not child care per se that reduces their labor force participation, rather it is the overall increase in family responsibilities and perhaps the way marriage is viewed through employer's expectations. Furthermore, in urban areas, availability of male and female labor in the household act as complements, but this is not the case in the rural areas, pointing to different labor market characteristics between the two areas. Females in the urban areas are highly educated, and the labor market in the urban areas rewards these characteristics (Miluka, 2016), which in turn may increase female labor force participation, therefore acting as complements to male labor, and

vice-versa. The same cannot be said for rural areas, where education incentives are low and a large bulk of rural female employment is engaged in unpaid work.

There are a number of important policy implications. First, a general restructuring of the labor market in rural areas is needed as to provide activities other than farming. Rural non-farm activities would enable transitioning away from own family farm work into the formal labor market. In this way increased levels of paid employment for females may be achieved, and education incentives may be restored.

Given the low levels of education in rural areas, efforts to restructure the labour market needs to be accompanied by more education, and vocational training, however, training should move away from traditional female activities. In addition, information dissemination targeting rural audiences on labour market opportunities, such as job availability in rural and urban areas, market oriented skills is very much in need, and this points to a greater role that could be played by national employment services agencies.

Improving infrastructure and availability of public services such as transportation in rural areas would bring women closer to the labor market, and it would also alleviate women's time spend on household chores and child care responsibilities. Better infrastructure may also improve the general conditions for non-farm entrepreneurial activities. In this regard, fostering entrepreneurship in rural communities is an important strategy, especially if it is used to develop products and services, such as child care, that could assist women workers.

Education is an important determinant of female labor force participation, and having a female member in the household who participates in the labour market is a very important determinant of school enrollment, especially for girls of the household. This effect is significant in rural areas. As a result, more education and training is needed for rural females as to increase their labor force participation, which in turn will increase enrollment rates of next generations.

Finally, an important policy implication comes from the impact of children on women's labor force participation. Clearly, the costs of having additional children encourage women to stay out of the labor force, thus creating the need for the government to provide social assistance for women with many children, particularly by providing affordable day care, or day care at the work places. Similarly, work-family reconciliation policies need to be designed to adjust family responsibilities so that they do not impede women's labor force participation. This is especially important in urban areas. It is crucial to increase female labor force participation in a country wanting to achieve development and membership to the European Union. Such need is even more pressing for the rural areas, which have significant amount of catching up to do.

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EVIDENCE OF MINIMUM WAGE EFFECTS IN THE ALBANIAN LABOR

MARKET

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ABSTRACT

The minimum wage refers to the lowest wage foreseen by law. A minimum wage policy is intended to ensure a minimal standard of living, as well as to be used as an instrument for minimizing the shadow economy, especially in developing economies, as Albania. The main advantage of having an increasing minimum wage policy is that a several number of low-wage and low-skill workers retain their jobs and earn higher incomes. Meanwhile the main disadvantage is that low-paying jobs with low skills as a prerequisite, are the jobs most likely to decline with an increase in the minimum wages. Therefore studies also suggest that minimum wage policies reduce jobs.

Through this paper, we are interested to analyze how the minimum wage affects the overall level of wages, and the level of unemployment in the country. Literature often provides an important link between low level wages and the minimum one, while higher wages are less or not affected at all. The paper include an attempt to analyze the relation between the minimum wage, wages distribution and the level of unemployment. This is done through three statistical tools: Kaitz Index, Kernel distribution and a regression model. The findings i) show relevant considerations of the minimum wage in the Albanian economy, ii) show that the minimum wage serve as a shifter to the distribution of the general level of wages, highly affecting those close to the average and iii) show that an increase of the difference between the minimum real wage and real average wage has a positive effect on employment. In addition to this latter, an increase in the GDP per capita would result in a decrease of the unemployment rate. The authors have used secondary data to meet the above mentioned objectives. The elaboration is done in E-Views 7 program.

Keywords: *minimum wage, unemployment, labor policies*

JEL Classification: *E 23, D 31, J31*

1. Introduction

The minimum wage refers to the lowest wage foreseen by law. A minimum wage policy is intended to ensure a minimal standard of living, as well as to be used as an instrument for minimizing the shadow economy, especially in developing economies. One of the main benefits of an increase in the minimum wage is the positive effect it has in low income families. Meanwhile, it brings in the same time a high risk for these families, as the low paying jobs require low skills, so they face the risk of unemployment as the minimum wage increases (Neumark, 2014).

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Unemployment has been one of the main problems Albania faced in the after '90-s period and it still remains an issue. The level of unemployment is calculated at 17.6% for 2016³, showing a slight increase in our country. When analyzing unemployment we should consider two elements: *first*, the real level of unemployment is higher, if we take in consideration that many people are not registered as "job seekers" at the "National Labor Offices", because they are pessimistic about finding a job; *second*, the number of individuals registered as first time job seekers has increased compared to 2014. In 2015 the increase of first-time job seekers at 1.7% may explain the increase in unemployment for this year at approximately the same rate. As shown in the table below, unemployment rate has an increasing trend after 2009, coinciding with the impact of post 2007-2008 financial crisis. Nevertheless the increase continued similarly in 2015 and 2016.

Table 1. Unemployment rates for the period 2000-2014

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
16,8%	16,4%	15,8%	15,0%	14,4%	14,2%	13,9%	13,5%	13,0%	13,8%	14,2%	14,0%	13,9%	16,0%	16,1%

Source: INSTAT, 2017

The inequality of wages has been growing in continuation, referring to the difference between the minimum real wage and average real wage in following statistical analyzes. The same conclusions seem to have been presented in 2017 World Economic Forum 2017 (WEF, 2017).

The global crises made it possible for Albania to experience a significant decrease of the GDP growth to 3.35% in 2009 with a continuously decrease up to 1.11% in 2013, after a steady increase at about 6% from 1999-2007. The GDP growth had a slight increase in 2014, continuing in 2.6% in 2015 and then 3.2% in 2016. This improvement of the GDP growth is connected mainly with the increase in consumption, influencing the increase of the service sector. The Albanian economy has a modest improvement in almost all the financial and macroeconomic indicators. However, our economy continues to operate under capacity.

2. Literature Review

Literature is very confusing in regards to the impact minimum wage has on unemployment. Many researches, especially in their studies on developed countries, find this effect as minimal, or at around zero. Various studies for these countries find minimum wage mainly impacting wage inequality, not unemployment itself. Di Nardo et al. (1996) emphasizes that labor market institutions and tools, especially minimum wage, are as important as market forces in explaining changes in the wage distribution (on U.S wage distribution in the early 1980s). Di Nardo, Fortin and Lemieux (1996), Lee (1999) and Teulings (2000, 2003) concluded that a decrease in the real value of the federal minimum wage in the US in the 1980s could explain all of the rise in lower-tail wage inequality in that period. Manning and Smith (2010) argue that impact may be exaggerated, but nevertheless conclude that minimum wages do have a non-negligible impact on wage inequality. Autor, Katz and Kearney claim also that the decline in the real minimum wage is the primary source of the rising wage inequality over recent decades in United States (Autor et al., 2005).

Butcher et al. (2012) developed a model in which the minimum wage has an impact on wage inequality in UK, but no significant effects on employment. Moreover, they suggest that the introduction of the UK minimum wage in 1999, can explain an important part of the evolution of

³ INSTAT, Labor Statistics, 2017

wage inequality between 1998 and 2010. In summary there is growing evidence that under the influence of an efficient minimum wage policy, the difference between high and low wages becomes smaller in favor of the latter ones. The limited evidence from developing countries indicates that wage compression effect of the minimum wage is stronger than in developed countries (Lemos, 2009). The main issue in developing countries is that they are characterized by high level of informality, with an undisputed impact in the wages distribution. Similar considerations should be taken for Albania, as well since informality is one of the constant issues of the country's economy (National Business Forum, 2016). However, evidence from developing countries indicates that the minimum wage has a positive distributional effect not only in the formal sector, but also in the informal sector (Lemos, 2009; Cunningham, 2007; Maloney and Mendez, 2004; Neumark et al., 2006; Fajnzylber, 2001; Khamis, 2008). Furthermore, in their theoretical paper Fugazza and Jacques (2003) develop a model in which the minimum wage is efficient for reducing the informal sector and under the certain circumstances the wages in the regular and irregular sector move together.

Houller et al. (2012) emphasize that the main driver of the increase in inequality is the growing wage dispersion. Rising income inequality creates economic, social and political challenges (OECD, 2011). A study in Turkey confirms that the minimum wage has played the pivotal role in reducing wage inequality for both men and women wage earners between 2003 and 2005 (Pelek, 2013). A study in Thailand, found that large scale firms mostly comply with the minimum wage regulations, and that an increase in minimum wages brings as a consequence an increase in employment from this companies. Hence, as the minimum wage increases, these employers easily meet the regulation, and expand employment (Ariga, 2015)

Particularly when the economy is in a recession or operating below full employment, a minimum wage increase may also increase demand for firms' goods and services, offsetting the increase in employer costs. Since the minimum wage transfers come from employers (who generally have a high savings rate) to low-wage workers (who generally have a low savings rate), a minimum-wage rise could increase consumer spending. This increase in spending could potentially compensate firms for the direct increase in wage costs. Doug Hall and David Cooper (2012), for example, estimate that an increase in the minimum-wage from its current level of \$7.25 per hour to \$9.80 per hour by July 2014 would increase the earnings low-wage workers by about \$40 billion over the period. Several studies use Kaitz Index in an attempt to measure the effects of the minimum wage, by the ratio of this latter to the mean wage, considering adjustments by industry level coverage. However in time researchers have suggested to substitute the mean (average) wage to the median one, in order to avoid the effects of extremes (especially very high earnings). This has been suggested also because researcher argue that an increase in the minimal wage, does not certainly assures a proportional change in the average wage (Dolado, Ferguero, and Jimeno, 1997, Bazen, Martin, 1991). The unequal difference in changes for both wages, provides us with ground to use and discuss this variable in the analysis.

Several studies on the other hand show no relation between minimum wages and employment or unemployment levels. Most importantly Neumark and Wascher (1992) found statistically significant employment effects from lagged values of the minimum wage in time-series panel of state-level data. They continued to defend their arguments in their next publication in 1993. In latter studies they provide suggestions for a long period analysis – if looking for a possible effect of minimum wages in employment or unemployment (Neumark and Wascher, 2007). Meer and Waste have as well provided lately with evidence on the effect of minimum wage on net job

growth. Burkhauser, Couch and Wittenburg demonstrate that studies on minimum wages with no employment evidence are found to be inappropriate.

3. Data

Table 2. Summary table of paper data

	Nominal Average Wage	Nominal Minimum Wage	Dif (Real Minimum Wage – Real Average Wage)	GDP/Capita 000 ALL	Unemployment
2000	14,963	7,000	-7,628.55	163.74	16.80%
2001	17,218	7,580	-9,300.67	184.12	16.40%
2002	19,659	9,400	-1,0084.60	200.1	15.80%
2003	21,325	10,060	-10,893.46	222.97	15.00%
2004	24,393	10,080	-13,997.59	243.7	14.40%
2005	26,808	11,800	-14,702.17	267.03	14.20%
2006	28,822	14,000	-14,449.59	291.64	13.90%
2007	33,750	14,000	-19,146.21	325.09	13.50%
2008	36,537	17,000	-19,115.30	366.66	13.00%
2009	40,874	18,000	-22,066.42	390.75	13.80%
2010	43,625	19,000	-23,745.10	425.55	14.20%
2011	46,665	20,000	-26,216.15	447.75	14.00%
2012	50,092	21,000	-28,383.89	459.51	13.90%
2013	52,150	22,000	-29,591.08	466.07	16.00%
2014	53,025	22,000	-30,820.09	481.89	16.10%

Source: INSTAT, Authors calculation, 2016

The secondary data used in the analysis include representations for the time period 2000-2014. The data is taken from INSTAT online sources and include elaborated and raw data on unemployment, wage and GDP. In particular the authors have used the data on wages from the LFS for the period 2009-2013. The final data used in this paper are the GDP/capita in thousands ALL, unemployment rate, minimum, average and median wage. This three latter variables (in real and nominal terms) have been used to define more than one result from the statistical tools throughout the analysis. Data of the difference between real minimum wage and real average wage have been taking into consideration inflation levels for the period in discussion.

4. Methodology

This paper includes three different analysis in an attempt to review the relevance of minimum wages in the country and a possible relation of the minimum wage and unemployment levels in the country.

The *Kaitz Index*⁴ is a relative indicator which measures the impact of the minimum wage in the labor market. In its shortest expression method, this index is measured as a ratio of the minimum wage to the average one (adjusted by the industry level coverage – when such differences in minimum wages do exist) (Kaitz, 1970). In the latest studies there is an attempt to improve this index by substituting the mean (average) wage with the median wage for a specific period (year).

⁴ http://www.jstor.org/stable/41837841?seq=1#page_scan_tab_contents

The difference in both methodologies relates to the very high earnings of a small part of the population of a region or country. These earning levels are taken highly into consideration from the Mean, while is omitted from the Median.

Kernel distribution is an approach rooted in the histogram methodology, which estimates the density function at a point x using neighboring observations. It belongs to the so-known non-parametric density estimators. In comparison to parametric estimators, non-parametric estimators have no fixed structure and depend upon all the data points to reach an estimate. In the smoothed histogram presented from the Kernel distribution plots, we often estimate the probability density function explaining the probability of a value between x_1 and x_2 is the area under the curve between the two points (Hwang, Lay, Lippman, 1994). In this particular case we will try to find a possible spike around a vertical x line (referring to the minimum wage in a specific moment in time), analyzing the relation amongst this line and the distribution.

The time series regression model, as explained above include, as main data of the analysis for the period 2000-2014 minimum and average wages, GDP/capita and unemployment levels. Variables have resulted relevant and have provided a good regressive model⁵ in their *log* form with a satisfactory level of R^2 , explaining around 50% of the variability of the data. The dependent variable in the model is the *Unemployment Rate*, while the independent variables are the *GDP/Capita* and the *difference of the Real Minimum Wage to the Real Average Wage*. Statistical analysis have proven a normal distribution of remains and no unexplainable statistical concerns. In consideration of the stationarity arguments provided in the discussions above, the coefficients arisen by the model represent a positive relation between the natural logarithm of the absolute value of real minimum and average wage and natural logarithm of unemployment rate, and a negative relation between the natural logarithm of the GDP/Capita and natural logarithm of unemployment rate. The raw version of the model is presented in equation (1).

$$\ln(UR) = \alpha + \beta_1 * \ln(|MW - AW|) + \beta_2 * \ln(GDPCapita) + \mu_i(1)$$

5. Analysis

Kaitz Index

The graph presents the values for the Kaitz Index 2009-2013, using both median and mean of the wages for the full time workers in the country. As expected the Kaitz Index calculated with the help of the median wage, shows values almost the double of the index calculated with the mean wage. This comes as a result of omitting the extreme values, especially the high incomes effects on the mean wage. Nevertheless, in both cases a high level of the Kaitz index would indicate a higher importance of minimum wages in labor policies and higher impacts for the labor market. And while comparing the Kaitx values for Albania to the ones for some of the OECD countries (Table 1, Appendix), we can easily notice a slightly higher level of the Kaitz Index (Minimum Wage/Mean Wage), except for Slovenia which for the period 2010-2013 shows a relatively higher Kaitz level.

⁵The analysis is performed through the Eviews7 program.



Fig 1. Graphical presentation of the Kaitz Index levels in Albania

Source: Authors calculations

However the difference is notable when comparing the Kaitz Index calculated by Median Wage. Slovenia is the only country which overpasses the level of 0.5 from the countries taken into analysis. Albania, on the other hand, in this case shows values of Kaitz which varies from 0.73 to 0.84, indicating quite a relevance of the minimum wage in the labor market and economy.

Kernel Distribution

Kernel density plots for the period 2009-2013 are calculated using the respective data from the LFS, with the help of the Gaussian Kernel estimator for the weights of the function. This latter is widely used in similar analysis when a high number of observations are taken into consideration. Other estimators provide similar graphs, although through different levels of smoothness. Figure 2 shows a superposition of five group of yearly data on wages in the country and shows the slight differences from one year to the other. We notice changes in the display of the lines, especially in the years 2011 and 2013 and we certainly notice an increased density of the wages above the minimum wage. In the same time changes in the lines are seen in the left side of the graph as well.

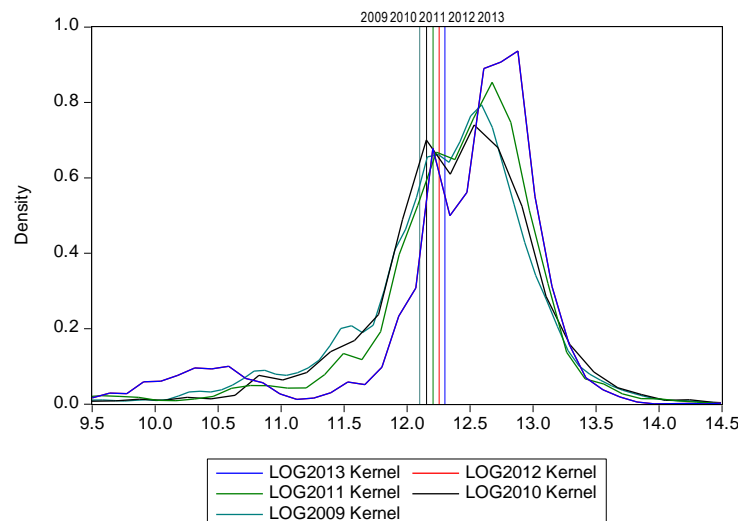


Fig 2. Kernel Density Plots for the period 2009-2013

Source: Authors calculations

Considering as a basis of the analysis Figure 3, we can easily state that there is quite an important share of fulltime workers who have subminimum earnings. The 'far lower wages' from the minimum one in the graph have a higher distribution for the year 2013 than 2009. We notice no spike around the minimum wage in 2009, giving no evidence of concentration of wages around the minimum wage. In 2013 line we notice a spike prior to the minimum wage level and a spike in a second part of the line, close to what is the mean wage for the period.

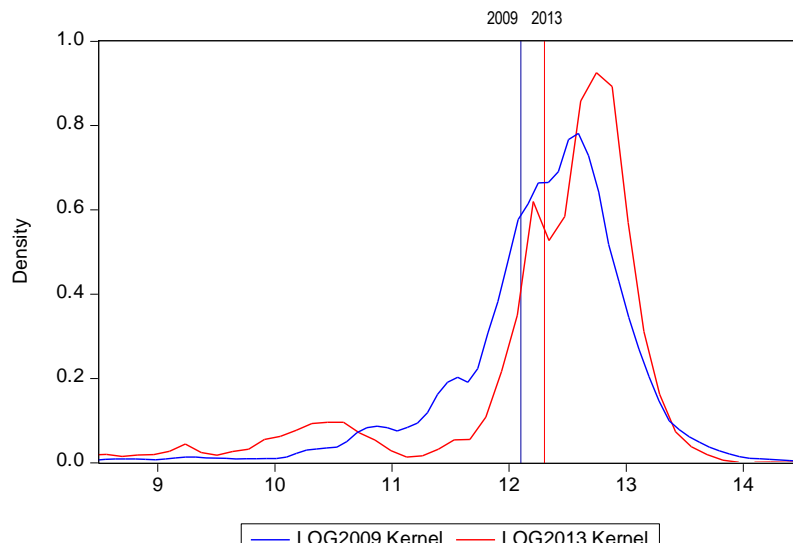


Fig 3. Comparison of Kernel Density Plots (years: 2009, 2013)

Source: Authors calculations

This gap between the two spikes seems to have been deepened throughout the years, since 2010. One of the main possible arguments for the existence of the spike close to the minimum wage, but not around it, is informality treatments in Albania, include returning part of the salary to the employer, diminishing therefore the earning of the individual. The graph does not show with certainty the enforcement of the minimum wage and this can be easily supported by the level of informality in Albania throughout the years. However the graph shows shifts of the lines and area under the line, when the minimum wage has increased. This provides an argument in support of the minimum wage policies.

Time Series Regression Model

Both above analyzed statistics offer the basis in support of minimum wage relevance to economic development. However it does not offer a relation of unemployment and minimum wage, to which we would like to come to a conclusion. Therefore, an analysis of time series has been realized to come to a regression model with variables of $GDP/Capita$, absolute value of real minimum wage with the real average one, and unemployment rate. The final regressive model is shown under equation (2).

$$\ln(UR) = -2.959 + 0.307 * \ln(|MW - AW|) - 0.345 * \ln(GDPCapita) + \mu(2)^6$$

The model presents a satisfactory R^2 of 54%, and an adjusted R^2 of 49%. Therefore the dependent variable is explained in 54% by the independent variables. Statistics in this first analysis ensure the importance of the model and of coefficients of the independent variables. Residuals distribution shows no statistical issue of interest and no sign of heteroscedasticity. Despite the lack of non-usual results in the explanatory indicators of the model, satisfactory results of the Fischer distribution, the time frame of the series and the natural relation of the variables (especially to the GDP) makes it possible for the model to show signs of multicollinearity. The model is proven to be cleaned from autocorrelation through tests in Eviews, although a positive line slope of the residuals graph (with a ρ approximately 0.3).

⁶Abbreviations: UR - Unemployment Rate in period t, MW – Minimum Wage Level in period t, AW – Average/Mean Wage in period t, $GDP/Capita$ – Gross Domestic Product per Capita

In overall the model is cleaned from statistical concerns and proves a relation of independent variables to the unemployment rate. More importantly, equation (2) shows there is a positive relation between the difference of real minimum wages to average wages and unemployment rate.

6. Conclusions

Minimum wage levels may affect the economy and different countries depending on how it fits in the labor market. The analysis in this paper demonstrates a relevant minimum wage in Albania, although not statutory. The Kaitz Index shows that minimum wage compared to other countries, affects a higher share of employees. The high levels of Kaitz Index, calculated through median wages shows a higher the share of employees affected by the minimum wage levels, and therefore a higher effect in the Albanian labor market.

Additional conclusions are derived from Kernel distribution, as it is noticeable that minimum wage existence has not avoided subminimum wage earners in the country. Distribution lines do not show us in this case a distribution of wages around the minimum wage: on the contrary, they show different spikes on lower and higher levels of earnings, demonstrating a graphical inequality. Nevertheless lower earnings spike close to the minimum wage levels, which in conditions of an informal economy, gives importance to a specified level of minimum wage, not allowing for the gap between wages to be higher. However the difference between minimum wage and average wage has proven to be relevant through the regressive model. Unemployment is expected to raise in an increased difference of real minimum and real average wage. We could state that an increased inequality of earnings could be a reason for an increased unemployment rate. An explanatory argument would be that in high unemployment rate conditions, the government would be obliged to not increase minimum wage, as a diffidence to business reactions in affecting furthermore unemployment. But, a constant nominal minimum wage, brings to a decreasing real minimal wage, increasing therefore the difference with the real average wage, and as a consequence raising unemployment. High difference discourage individuals in seeking actively a job, and this as well supports the positive relation discussed above. If we merely refer to the data used in the Table 2, we can notice a continuously increasing difference. This difference is stronger in the period 2010-2014, coinciding with a shaper increase in unemployment rates.

In Albania, an increase of the minimum wage would affect the decrease of the difference with the real average wage, decreasing also unemployment rates. In a well-functioning economy we would expect an increase of the minimum wage to increase average wages. However, in countries still under development, with a high level of informality, we do not expect the increase to be proportional (Dolado et al. 1996) or highly perceptible. As similarly drawn up by researchers in previous canonical and more alternative studies, the reasoning indicates that minimum wage can serve as an instrument to address unemployment issues and mitigate the phenomenon.

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Appendix

Tab 1. Kaitz Index for some of the OECD Countries (2009-2013)

Country	Series	2009	2010	2011	2012	2013
Czech Republic	Mean	0.32	0.32	0.31	0.31	0.31
Czech Republic	Median	0.38	0.38	0.37	0.36	0.37
Estonia	Mean	0.34	0.34	0.33	0.32	0.33
Estonia	Median	0.40	0.40	0.39	0.38	0.40
Greece	Mean	0.33	0.38	0.36	0.30	0.31
Greece	Median	0.48	0.48	0.52	0.44	0.46
Romania	Mean	0.32	0.32	0.33	0.33	0.35
Romania	Median	0.41	0.43	0.47	0.46	0.48
Slovak Republic	Mean	0.36	0.36	0.36	0.36	0.36
Slovak Republic	Median	0.45	0.46	0.46	0.45	0.46
Slovenia	Mean	0.41	0.48	0.49	0.50	0.52
Slovenia	Median	0.51	0.59	0.61	0.62	0.64

Source: OECD Statistics, Minimum relative to average wages of full-time workers, 2016

Tab 2. Regression Model

Dependent Variable: LOG(UNEMPL)

Method: Least Squares

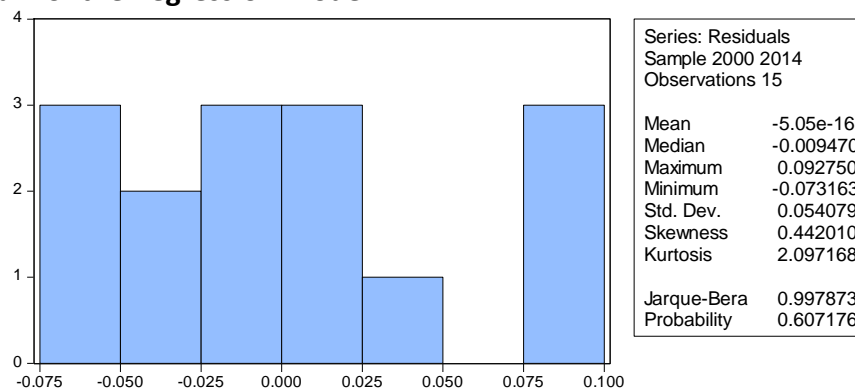
Sample (adjusted): 2000 2014

Included observations: 15 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.959141	0.587172	-5.03965	0.0003
LOG(ABSMW_AW)	0.307148	0.103057	2.980369	0.0115
LOG(GDP)	-0.345535	0.093824	-3.682795	0.0031
R-squared	0.538792	Mean dependent var		-1.918085
Adjusted R-squared	0.491924	S.D. dependent var		0.079631
S.E. of regression	0.058412	Akaike info criterion		-2.665726
Sum squared resid	0.040944	Schwarz criterion		-2.524116
Log likelihood	22.99294	Hannan-Quinn criter.		-2.667234
F-statistic	7.009316	Durbin-Watson stat		1.420767
Prob(F-statistic)	0.009625			

Source: Authors calculations

Tab 3. Histogram of the Regression Model



Source: Authors calculations

SCHOOL-TO-WORK TRANSITION: EVIDENCE FROM ALBANIA

Aseda Banushaj¹
Albana Hashorva²

ABSTRACT

A survey of school-to-work transition is a unique instrument that generates relevant labour market information on young people aged 15 to 29 years and serves as a unique tool for demonstrating the increasingly tentative and indirect paths to decent and productive employment that today's young men and women are facing.

Passing from school to work, includes an important phase in the life of youth. The purpose of this paper is to know in a more detailed way the process of this phase, focusing specifically in the case of Albania. The paper focuses in the study of passing from school to work, in the theoretical aspect also the practice one, through the empirical evaluation model.

This paper, estimates factors that influence, in terms of the first period of unemployment length, using the survival models. Individual factors like: age, level of education or family history, result as very important in the first job transition. The paper uses original data, taken from Living Standards Measurement Study (LSMS 2012). According to empirical evaluations, the best resulting model is the Weibull parametric model. The level of the individual education, results with a very important effect in the period toward the first job and the higher this level is, the possibility of reducing the length of unemployment grows. Despite the results, the process of passing from school to work of the Albanian youth, is complex and should be seen from many aspects.

Keywords: *transition, education, labor force, unemployment*

JEL Classification: *I21, I23, I26, J20, J24, J64*

1. Introduction

The successful passage from the completion of education to the labor market, is one of the most important efforts that people encounter in their lives. The more prepared individuals are entering the labor market, the easier will be the transition. The challenge of this transition depends on the general state of the labor market, the level of demand for labor force, the education system etc. But in most cases, the failure to make this transition lies in the lack of information or those supporting tools (employment offices, training processes for the job, policies) available to young people.

The transition from the education system to the labor market is very complex for Albania. The reasons for this are many. As a country in a transition, the reform process has been thorough, thus affecting how the educational system, as well as the labor market. The education system in the last decade appears inefficient, with deep gaps and still far from fulfilling its leading role as a

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catalyst in the relationship between the educated labor force, the potential of the local labor market, national or regional.

Secondly, more and more there is a mismatch in the labor market for young people between the level of education, skills and employment achievement. Moreover, formal cooperation between educational institutions and actors of society, is still absent in education strategies at the country level. Currently, the communication gap between youth and potential employees is filled by private business initiatives and youth organizations. However, this activity is not widespread and depends on the ongoing external financing, which makes it unstable. Also, the career service centers, to be included as an important milestone in any university, are almost inexistent.

Studies about the transition of the Albanian youth to the labor market are missing. For this reason, the following section will focus on an overview of the two institutions that play central role in the transition to the labor market: the education system in Albania and some labor market characteristics in relation to young people. In this section, we will see an overview of how the process of transition from education to employment system in Albania for young people is presented, focusing on youth unemployment indicators. How does the transition for them appear? What are the problems faced by young people in finding a workplace? Not an easy transition of young Albanians, from education to employment system, best reflected in increasing levels of unemployment rate for young people (15-29 year old). In this section we will focus more specifically on the case of Albania. Furthermore, we refer to the following data.

2. The education system in Albania

The process of transition from school to employment, begins with the end of compulsory education and achieving sustainable employment. So the initial link is the educational system. In literature, it is known the strong and positive relationship that exists between education level and labor market outcomes (viewed in terms of employment achievement). It is therefore important to look at the structure of the education system in Albania.

The educational structure includes three main levels: primary, secondary and tertiary. Compulsory education (nine year old), starts at the age of 6 and continues for up to 15 years. It consists of five years of elementary / primary and four years of lower secondary education. Upon completion of this educational level, the individual decides to be educated further or turn to the labor market. Secondary education (higher secondary) lasts up to four years and consists of: general education system, which prepares students for a higher education; professional system, which prepares students for a higher education, as well as the labor market; schools of foreign languages, art, sports and pedagogy.

Since 2009/10, vocational education is organized in three levels, offering students a general and vocational education (in theoretical and practical terms). Two-year programs in the first level prepare semi-skilled workers. Students are provided with a certificate-based vocational training and may address the labor market or pursue further education. Technical and vocational programs in the third level, give them the opportunity to go to higher education.

Since 2007, the education system of the third level is harmonized with the Bologna Declaration and consists of a three-year degree, a 1-2years master's degree and studies for a PhD. Regarding vocational education, it is one of the methods that young people use to improve their skills and to speed up the transition to the labor market. Easing the transition from school to work is a major

task of the education system and in this aspect vocational training aims to improve youth employability.

However, this system is still weak from the qualitatively as well as the quantitative perspective. According to official data, about 41% of individuals who participate in vocational education remain unemployed. In Albania there are about 40 professional schools, while there are 120 private licenses for vocational centers distributed in the country. But the quality of vocational training is at low levels and a very low percentage of young people attend vocational schools. Similarly, the private sector of vocational schools is weak and has similar characteristics to the public one. Young people without a proper professional training, have longer periods of unemployment and a less favorable position in the labor market (Scarpetta, Sonnet and Manfredi, 2010). Therefore, the education and training system are important factors in determining the opportunities for a successful transition into the labor market.

If we refer to the figures for the number of students enrolled in tertiary level education, there is a growing trend in the last decade. In a gender breakdown, women have a higher level of registrations compared to men. But despite the ever-increasing level of enrollment in universities, the youth unemployment rate remains very high.

The labor market with focus on youth

According to Ryan (2001), in their transition from school to work, the main aim is pleasing integration into the labor market, regardless of whether it refers to individual or specific aspects in accordance with the country. But achieving this transition, young people face unemployment rates, inactivity, etc.

For a better understanding of the labor market available to young people, we should see the main employment and unemployment indicators. If you see the number of employees sorted by educational attainment for the age group of young people (15-24 year old), it has a different distribution. The number of employed young people with an elementary education and an 8/9 year education has been volatile during the last years. The performance is not constant and the number of individuals employed with these educational levels is very low. Meanwhile, regarding people with upper secondary and tertiary educational level, there is an increase in the number of employed individuals. Of course, this kind of trend is explicable, given that the more educated the person is, the higher is the probability that he will find a job.

In the same aspect, we also focus on the number of unemployed youth, in a division by the educational level. Again it is noted that for those young people with elementary education and lower secondary, the number of unemployed youth fluctuate from year to year, but progress is incremental. This is understandable, given that this group of young people is most affected by the changes when they face the labor market. Among young people with upper secondary and tertiary educational level, there is also a growing trend in the number of unemployed. The most concerning fact is the increase of unemployed young people with tertiary education, since it is supposed that their education has been completed and they are better prepared than the young people with a lower education level, to deal with the needs of labor market.

One of the most important indicators for the transition of young people from school to the labor market is the unemployment rate. Also, the unemployment rate is often used as a measure of the difficulties that young people face in their search for work. The unemployment rate has been increasing for age groups (15-24 year old) and (15-29 year old). The unemployment rate for young people of the age group (15-29 year old), reaches its highest level in 2014 with 32.5 %. If

we observe youth unemployment, in a comparative perspective with the unemployment rate at the national level, youth unemployment results very high, almost double the total unemployment rate. These high levels of unemployment are not good indicators of the labor market and for young people.

The main indicator, connected directly with the transition from school to the labor market, is the rate of youth who are neither employed nor attending school, NEET rates. In 2014, young people of the age group (15-29 year old), who are not employed or attend school or vocational training, constitute 34.5% of the total youth. Among these young people, 36% are unemployed. While the rest are outside of the labor market, because: they are discouraged (23%), fulfilling tasks and family responsibilities (19.4%) or other reasons (21.4%).

If this indicator is observed, in a gender division, it is noticed that men are more active than women because 52.9% of them are looking for work and are willing to work, and for women, 21.2% of them do such a thing. Also, women have a much higher percentage than men in dealing with family responsibilities, 36.2% versus 0.5%, respectively. Discouraged, are also more women with 25.3%. While the rate of inactivity is almost the same for both sexes.

A problem often encountered in the labor market in Albania is the way to get a job. This makes the transition of young people into employment, even more difficult. Taking into account the LSMS (Living Standards Measurement Study) data, for the year 2012, about two-thirds of young people use friends and relatives as a means to find jobs. Figures show that young Albanians, rely on family connections to find a work place. A trend like this, shows that the labor market does not function on the basis of merit, but based on the recognition that individuals have. So, there is not a normal process of steps to be taken for testing and hiring an individual, in this case the youth.

The data show that the majority of young people, 69.5% find a job through friends and relatives. Meanwhile, only 20% seek employment offices and a very small percentage, 0.05% has a direct contact with the employer.

3. Methodology

3.1 Data

The paper uses the original data obtained from Living Standards Measurement Study (2012). The survey, is carried out every year by the Institute of Statistics and contains detailed information on the individual level, for many social and economic areas: education, employment, income, family etc. The survey includes a sample of 6671 households, scattered throughout the territory of Albania, according to the four major geographical regions division: central, coastal, mountainous and Tirana

The nature of the cross-section data, allows us to better understand the behavior of individuals. The main goal is to estimate how long is the duration from the completion of a certain level of education until finding their first job (or the first period of unemployment), for individuals aged 15-35 year old. Also, the impact that different individual factors have in making this transition is analyzed.

So a dependent variable in the model is the duration of the first unemployment.

The independent variables are: age, gender, level of education, education of the father and areas where individuals live (urban or rural)³ The empirical analysis is performed through the

³ See table 1 in Annex 1.

regression model Cox showing a proportional risk (survival models). Evaluation and getting results is made through STATA program.

The created database, involves a total of 7474 observations. Selection was based on the age of respondents, taking into account initially, only individuals aged 15-35 years. Then, based on the duration of the first unemployment, all those individuals who had a negative duration were excluded, an indicator of the fact that these individuals had begun to work without finishing school. The reason for this is that we consider seeing the duration of the period of time that the individual ends a certain level of education until they find a job.

Regarding the expected sign of the coefficient near explanatory variables, each of them has a different effect on the dependent variable. The level of education of the individual involved in the study, is expected to have a negative impact on the duration of unemployment, because the more educated the person is, it is assumed that they are more qualified and quickly adjusted with labor market needs. Economic theory indicates that there is an inverse relationship between education and unemployment - the higher the education level, the lower the unemployment rate (Schultz, 1963).

The level of education of the father also has a negative impact in the first period of unemployment. If the father of the surveyed individual has a primary education or less, it is expected that the individual will have a slower transition to work, compared to those individuals whose father has secondary education, ie a higher level of education. Biggeriet. al (2001), show that well-educated parents transmit to their children information about labor market conditions and skills valued in the workplace (communication, negotiation, etc.).

The variable on an urban or non-urban area, is expected to have a negative impact on the duration of unemployment. Young people living in urban areas, are expected to have a higher probability of leaving unemployment than those in rural areas, since the chances of finding and staying in work are higher (Ihlanfeldt, 1998).

4. Empirical results

Before the model results and interpretations are presented, we will see descriptive statistics for some of the explanatory variables. The gender variable is a binary variable and with the frequency presence, shows that from the total selection, 3589 surveyed individuals are women and 3885 are men.⁴ Taken from the for descriptive statistics table, the mean shows that about 52% of the chosen are men. (Male gender variable encoded 1).

The urban variable according to frequencies shows that 3779 individuals live in a rural area and 3695 in an urban.⁵ So distribution is almost uniform. This is confirmed by descriptive statistics, where the average election shows that about 49.4% live in an urban area (urban = 1). The variable education1 shows that 2605 individuals have a primary education or less, 264 individuals have secondary education and 1616 have a tertiary education.⁶ Meanwhile, descriptive statistics, except the number of observations (4485), does not give much useful information, given that we are dealing with a categorical variable. The variable educationfath1 shows that in

² See table 2, 3 in Annex 1.

³ See table 4, 5 in Annex 1.

⁴ See table 6,7 in Annex 1.

1842 individuals, the level of education of the father is primary or less, 447 have secondary education and 65 of them have a tertiary education.⁷

Regarding the age variable, descriptive statistics show that the average age of selection is 23.5 years, minimum age involved in the study is 15 and the maximum is 35. Meanwhile, findjob variable shows that about 20% of the elected have managed to find a job within the study period⁸ meanwhile, the rest, which is the largest part, remain unemployed.

The durunemp dependent variable, which indicates the period from the end of school until the beginning of the first work, shows that from the total selection, 109 individuals have a duration of unemployment less than 1 year; 124 individuals have a duration of unemployment between 1 and 2 years; for 133 individuals this period is between 2 and 3 years and the rest (1043 individuals) have a duration of unemployment more than 4 years.⁹ Meanwhile, the average duration of unemployment results 6.63 years.

Before the empirical model is estimated, the data must be defined that they are survival-time data. For this reason, the dependent variable is given as a combination of two variables: the duration of the unemployment period in years and the event variable that takes the value of 1 if the event occurred, in this case the individual has found a job and takes the value of 0 if at the end of the study period, the individual continues to be on the unemployment period. Then, seeing through a specific command in STATA, the rate of occurrence of the event, which results in 15%¹⁰

The empirical model, after evaluating the Cox regression with proportional risk reports, presents the results as they are shown in the table.¹¹ As it can be seen, based on the level of significance of 5%, statistically significant variables are: age and the level of education of the individual. Other variables such as: gender, education of father and urban, resulting statistically non-significant, given that $p > 0.05$.

The table provides information for risk reports associated with the independent variables included in the analysis. A risks report higher than 1, means a "high failure time", in the context of transition from school to work means a shorter duration of the first period of unemployment. A report risk lower than 1 means a longer period of unemployment. Risk Report, is the probability that if the event did not happen, will happen in the next time interval.

The age, gender and binary variable that indicates a secondary education of the father, have a risk ratio less than 1. This means that the growth of the individual's age, will tend to have a negative effect on the duration of unemployment, it increases the probability that the individual have a longer period of the first unemployment. The urban variable shows that individuals living in urban areas have a longer period of unemployment than people in rural areas. In fact, based on the theoretical aspects, it is expected that individuals in these areas to have a lower unemployment period. In the context of our country, this can be explained by the fact that a high percentage of the population resides in rural areas and employed in agricultural activities

Regarding the father's education, it is noted that individuals, whose father has a secondary education tend to have a longer period of unemployment, compared with those individuals, whose father has a primary education or less. This can be explained by the fact that the share of individuals who have father with primary education or less is much higher than the individuals with a different level of education. The variables of gender, level of education and the individual

⁷ See table 8,9 in Annex 1.

⁸ See table 10 , 11, in Annex 1.

⁹ See table 12, 13 in Annex 1.

¹⁰ See table 1 in Annex 2.

¹¹ See table 2 in Annex 2.

binary variable of a father with a tertiary education, have a risk ratio greater than 1. This shows that men have a "higher failure time", in a shorter period of the first unemployment compared to women. The level of education of the individual, secondary as well as tertiary, negatively affects the duration of unemployment, shortening the period from the end of education to first employment.

Similarly, if the level of education of the father is tertiary, this affects the decrease in the unemployment period, compared with the secondary and primary education.¹² However, before moving to the interpretation of the regression coefficients, it should be tested if the assumption of proportional risks is completed. Null hypothesis shows that the risk is proportional. The assessment shows that the null hypothesis is not true, then the risk is not proportional, because $\text{prob} > \chi^2 = 0.0036$.¹³ Since the assumption of risk proportionality is infringed, a parametric model must be used. The testing for the model specification was made by AIC criterion (Akaike Information Criterion). The best model is the one that has the lowest value of AIC. After calculating this criterion for different parametric survival models, the Weibull regression model was elected.

After evaluating Weibull regression results are presented as they are shown in the table.¹⁴ As in the regression proportional risk model Cox variables: age, educ02 and educ03, result statistically significant. The age variable and binary variables: urban and secondary education of the father, have a risk ratio less than 1. The other variables have a risk ratio greater than 1. The reasoning is the same as the in case of the former Cox regression

After receiving the risk reports, results are obtained for the coefficients near the variables.¹⁵ The coefficient at the age variable is (-0.1879). An increase of 1 year in the age, reduces the failure time, which coincides finding work or termination of the period of unemployment, with 17.2%. The gender variable has a coefficient of (0.0349). Because the variable coded 1 shows men, then men have a failure time 3.5% higher than women, so they can get hired and get out of the unemployment period quicker. Also, an increase of one unit in the gender variable, move the subject from female individuals to males.

The urban variable has a coefficient of (-0.0795). Again we are dealing with a binary variable that takes the value 1 if the individual lives in an urban area. The coefficient indicates that those individuals, who live in an urban area, have a failure time 7.6% lower than those who live in a rural area.

So, individuals who live in such an area, tend to have a short period of time of the first unemployment. Furthermore, we focus on the variables of the level of education. The coefficient near the binary variable indicates whether the individual has a secondary education (0.328). This indicates that the individuals with a secondary education have a failure time about 38.9% higher than the individuals with a primary education, which is the reference category. So these individuals tend to have a shorter duration of unemployment. Meanwhile, the coefficient near the variable that shows the individuals that have a tertiary education is (1.5116). These individuals have a failure risk 53.4% higher than the individuals with a primary education. So, the level of education has a very important effect in the period towards the first job and the higher his levels, the possibility of reducing the duration of unemployment increases.

¹² See table 2 in Annex 2.

¹³ See table 3 in Annex 2.

¹⁴ See table 4,5 in Annex 2.

¹⁵ See table 6 in Annex 2.

In the same way, it is argued for the father's education level. The binary variable that indicates the secondary education of the individual's father has a coefficient of (-0.0754). Individuals, whose father has a secondary level education, have a failure time 7.2% lower than individuals, whose father had a primary education. This result is incompatible with theoretical aspect, given that the more educated the parents are, it is expected from them to transmit a positive influence on their children, on the education aspect but also employment. However, the result is somewhat stable and in line with the Albanian reality.

Meanwhile, the variable that shows the father's tertiary education has a positive coefficient (0.278). Given the risk report, individuals, whose father has a tertiary education, have a failure risk 32% higher than the individuals, whose father has a primary education. So those people whose father has a higher education level, will have a shorter duration of unemployment. This result is consistent.

Risk form, can be assessed through the parameter $p = 1.812 > 1$. This shows that the risk increases over time, so it does not remain constant as in the case of Cox regression. Another problem that must be taken into consideration is the unobserved heterogeneity. Many features of individuals, such as motivation, ambition, etc., are very important factors for their chances in the labor market. But these qualities are not observed and it can lead to heterogeneity, which then brings relocated results for the dependence of duration.

To control the unobserved heterogeneity, frailty models are used with gamma¹⁶ distribution. Coefficients of this model, do not have significant differences from those of the model when there is no control for heterogeneity. So, the conclusions for the duration are not skewed.

5. Conclusions

The transition of young people from the education system towards the entry into the labor market constitutes a stage very important in the life of the tires that outline the path to future. However, in the case of Albania, proper studies regarding the transition from school to work are missing. Using survival models, this paper is an attempt to study the factors affecting the first period of unemployment for young Albanians who complete a certain level of education and addressing labor market.

Based on empirical estimations, the best model resulted the parametric model, Weibull. Coefficients of the explanatory variables have the expected sign and the variables of age and the level of education, resulted statistically significant. The age variable and binary variables: urban and the secondary education of the father have a risk ratio less than 1. This means that these variables affect negatively the first period of unemployment. While other variables have a risk ratio higher than 1, and their influence is positive, so the first period of unemployment is lower.

Regarding the interpretation of coefficients, the results are compatible with the theory. For the age variable, an increase in the age by 1 year reduces the failure time, which coincides with finding a job or the termination of the period of unemployment, with 17.2%. The gender variable shows that men have a failure time 3.5% higher than women, so they can get hired and get out of the unemployment period quicker. Meanwhile, individuals residing in an urban area, have a failure time 7.6% lower than those who live in a rural area. So, individuals residing in such an area, tend to have a shorter period of the first unemployment.

¹⁶ See table 7 in Annex 2.

The level of education of the individual has a very important effect in the period towards the first job and the higher this level is, the possibility of reducing the duration of unemployment increases. Individuals with a secondary education, have a failure time about 38.9% higher than individuals with a primary education, which is the reference category. So these individuals tend to have a shorter duration of unemployment. Meanwhile, individuals with a tertiary education have a failure time 53.4% higher than individuals with primary education. Similarly, the level of the father's education has a negative impact on the duration of the first unemployment.

Despite the results, the transition from school to work for young Albanians, is complex and should be seen in light of many aspects. High rates of youth unemployment and the difficulties of young people to integrate into the labor market are indicative of an uneasy transition. Also, it is needed a proper attention through policy development and implementation to address precisely this phase of life of young people, the most uncertain period of their life. The future's perspective remains to be carried by more out in-depth and comprehensive studies.

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Annex 1

Table 1. Description of variables included in the model

Variables	Description
Age	Actual age of surveyed individuals (year 2012)
Education1	Level of education divided into three categories
Educationfath1	Level of father's education divided into three categories
Gender	Gender; binary variable 1 if surveyed individual is male and 0 for female
Urban	Binary variable; 1 for living in urban area and 0 for rural
EDUC1	Binary variable; 1 if surveyed individual has primary education or less and 0 otherwise
EDUC2	Binary variable; 1 if surveyed individual has secondary education and 0 otherwise
EDUC3	Binary variable; 1 if surveyed individual has tertiary education and 0 otherwise
EDUCFA1	Binary variable; 1 if father's surveyed individual has primary education or less and 0 otherwise
EDUCFA2	Binary variable; 1 if father of surveyed individual has secondary education and 0 otherwise
EDUCFA3	Binary variable; 1 if father of surveyed individual has tertiary education and 0 otherwise
Findjob	Binary variable: 1 if surveyed individual has a job and 0 otherwise
Durunemp	Dependent variable which the period from the end of school until the beginning of the first work

Table 2. Output for descriptive statistics of variable *gender*

summarize gender

Variable	Obs	Mean	Std. Dev.	Min	Max
-----+					
gender01	7474	.519802	.4996412	0	1

Table 3. Output for frequency of *gender*

tabulate gender

male=1; |

female=0 | Freq. Percent Cum.

-----+			
female	3,589	48.02	48.02
male	3,885	51.98	100.00
-----+			
Total	7,474	100.00	

Table 4. Output for descriptive statistics of variable *urban*

summarize urban01

Variable	Obs	Mean	Std. Dev.	Min	Max
-----+					
urban01	7474	.4943805	.5000019	0	1

Table 5. Output for frequency of *urban*

tabulate urban01

urban=1; |

rural=0 | Freq. Percent Cum.

-----+			
others	3,779	50.56	50.56
urban	3,695	49.44	100.00
-----+			
Total	7,474	100.00	

Table 6. Output for descriptive statistics of variable *education1*

summarize education1

Variable	Obs	Mean	Std. Dev.	Min	Max
-----+					
education1	4485	1.779487	.9448335	1	3

Table 7. Output for frequency of *education1*

tabulate education1

Education level with 3 |

groups | Freq. Percent Cum.

-----+				
Primary education or less	2,605	58.08	58.08	
Upper secondary	264	5.89	63.97	
Higher education	1,616	36.03	100.00	
-----+				
Total	4,485	100.00		

Table 8. Output for descriptive statistics of variable *educationfath1*

summarize educationfath1

Variable	Obs	Mean	Std. Dev.	Min	Max
-----+					


```
educationf~1 | 2354 1.245115 .490266 1 3
```

Table 9. Output for frequency of *educationfath1*

```
tabulate educationfath1
```

```
Father education with 3 |
```

```
groups | Freq. Percent Cum.
```

```
-----+-----
```

```
Primary education or less | 1,842 78.25 78.25
```

```
Secondary education | 447 18.99 97.24
```

```
Higher education | 65 2.76 100.00
```

```
-----+-----
```

```
Total | 2,354 100.00
```

Table 10. Output for descriptive statistics of variable *age*

```
summarize age
```

```
Variable | Obs Mean Std. Dev. Min Max
```

```
-----+-----
```

```
age | 7474 23.48234 5.913604 15 35
```

Table 11. Output for descriptive statistics of variable *findjob*

```
summarize Findjob
```

```
Variable | Obs Mean Std. Dev. Min Max
```

```
-----+-----
```

```
Findjob | 7474 .199224 .3994435 0 1
```

Table 12. Output for descriptive statistics of variable *durunemp*

```
summarizedurunemp
```

```
Variable | Obs Mean Std. Dev. Min Max
```

```
-----+-----
```

```
durunemp | 1409 6.639815 4.712985 0 22.33333
```

Table 13. Outputipërfrekuencat e *durunemp1*

```
. tabulate durunemp1
```

```
Duration of |
```

```
unemployment |
```

```
recoded | Freq. Percent Cum.
```

```
-----+-----
```

```
durunemp<1 | 109 7.74 7.74
```

```
1<durunemp<2 | 124 8.80 16.54
```

```
2<durunemp<3 | 133 9.44 25.98
```

```
durunemp>4 | 1,043 74.02 100.00
```

```
-----+-----
```

```
Total | 1,409 100.00
```

Annex 2**Table 1.**

```
stsum
```

```
failure_d: Findjob == 1
```

```
analysis time _t: durunemp
```

```
| incidence no. of |----- Survival time -----|
```

```
| time at risk rate subjects 25% 50% 75%
```

```
-----+-----
```

total | 9355.5 .1504997 1408 2.75 5.75 9.583333

Table 2. Output for regression with Cox proportional hazards model

stcox age gender01 urban01 EDUC02 EDUC03 EDUCFA2 EDUCFA3

failure _d: Findjob == 1

analysis time _t: durunemp

Iteration 0: log likelihood = -8818.8456

Iteration 1: log likelihood = -8330.9666

Iteration 2: log likelihood = -8327.3607

Iteration 3: log likelihood = -8327.3604

Refining estimates:

Iteration 0: log likelihood = -8327.3604

Cox regression -- Breslow method for ties

No. of subjects = 1408 Number of obs = 1408

No. of failures = 1408

Time at risk = 9355.5

LR chi2(7) = 982.97

Log likelihood = -8327.3604 Prob> chi2 = 0.0000

```
-----+-----
_t | Haz. Ratio Std. Err. z P>|z| [95% Conf. Interval]
-----+-----
age | .7987265 .0066882 -26.84 0.000 .7857249 .8119433
gender01 | 1.044473 .0635639 0.71 0.475 .9270334 1.176791
urban01 | .9646328 .0585843 -0.59 0.553 .8563802 1.086569
EDUC02 | 1.549312 .2267719 2.99 0.003 1.162918 2.064091
EDUC03 | 5.874925 .4954125 21.00 0.000 4.979932 6.930766
EDUCFA2 | .9681849 .0944895 -0.33 0.740 .7996239 1.172279
EDUCFA3 | 1.44341 .3058857 1.73 0.083 .9528055 2.18663
-----+-----
```

Table 3. Output for testing proportional- hazards

estatphtest

Test of proportional-hazards assumption

Time: Time

```
-----+-----
| chi2dfProb>chi2
-----+-----
global test | 21.15 7 0.0036
-----+-----
```

Table 4. AIC criteria for different parametric models

Parametric models	AIC criteria
Weibull	2948,401
Log-normal	3561.109
Log-logistic	3327,537

Table 5. Output from Weibull regression

Weibull regression -- log relative-hazard form

No. of subjects = 1408 Number of obs = 1408

```

No. of failures =    1408
Time at risk   =    9355.5
                LR chi2(7)   =    802.37
Log likelihood = -1465.2004    Prob> chi2   =    0.0000
-----
_t | Haz. Ratio Std. Err.   z  P>|z|   [95% Conf. Interval]
-----+-----
age | .828674 .0063748 -24.43 0.000   .8162734   .841263
gender01 | 1.035586 .0629566  0.58 0.565   .9192608   1.16663
urban01 | .9235243 .0559271 -1.31 0.189   .8201644   1.03991
EDUC02 | 1.389245 .2026559  2.25 0.024   1.043782   1.849046
EDUC03 | 4.534035 .3621744 18.92 0.000   3.876963   5.302468
EDUCFA2 | .9273018 .0905672 -0.77 0.440   .7657488   1.122938
EDUCFA3 | 1.320523 .2788531  1.32 0.188   .8729691   1.997529
_cons | 4.523669 .8848686  7.72 0.000   3.083106   6.637326
-----+-----
/ln_p | .5948688 .0220222 27.01 0.000   .5517061   .6380314
-----+-----
p | 1.812793 .0399216          1.736213 1.892751
1/p | .5516349 .0121482          .5283315 .5759663
-----

```

Table 6. Output for Weibull regression with coefficients

Weibull regression -- log relative-hazard form

No. of subjects = 1408 Number of obs = 1408

No. of failures = 1408

Time at risk = 9355.5

LR chi2(7) = 802.37

Log likelihood = -1465.2004 Prob> chi2 = 0.0000

```

_t | Coef. Std. Err.   z  P>|z|   [95% Conf. Interval]
-----+-----
age | -.1879285 .0076927 -24.43 0.000   -.2030059   -.172851
gender01 | .0349671 .0607932  0.58 0.565   -.0841854   .1541196
urban01 | -.0795582 .0605584 -1.31 0.189   -.1982505   .039134
EDUC02 | .3287604 .1458748  2.25 0.024   .042851   .6146699
EDUC03 | 1.511612 .079879 18.92 0.000   1.355052   1.668172
EDUCFA2 | -.0754763 .0976675 -0.77 0.440   -.266901   .1159485
EDUCFA3 | .2780279 .2111687  1.32 0.188   -.1358552   .691911
_cons | 1.509323 .1956086  7.72 0.000   1.125937   1.892709
-----+-----
/ln_p | .5948688 .0220222 27.01 0.000   .5517061   .6380314
-----+-----
p | 1.812793 .0399216          1.736213 1.892751
1/p | .5516349 .0121482          .5283315 .5759663
-----

```

Table 7. Output of controlling unobserved heterogeneity

Weibull regression -- log relative-hazard form

Gamma frailty

No. of subjects = 1408 Number of obs = 1408

No. of failures = 1408

Time at risk = 9355.5

```

LR chi2(7)   = 802.37
Log likelihood = -1465.2005      Prob> chi2   = 0.0000
-----+-----
 _t |   Coef.   Std. Err.      z    P>|z|   [95% Conf. Interval]
-----+-----
age | -1.879247   .0076929   -24.43   0.000   -2.030025   -1.72847
gender01 | .0349657   .060794    0.58   0.565   -.0841882   .1541197
urban01 | -.0795486   .0605591   -1.31   0.189   -.1982422   .0391451
EDUC02 | .328758    .1458766    2.25   0.024    .042845    .6146709
EDUC03 | 1.511591    .0798802   18.92   0.000    1.355028    1.668153
EDUCFA2 | -.0754791   .0976687   -0.77   0.440   -.2669063   .1159482
EDUCFA3 | .2780109    .2111723    1.32   0.188   -.1358793   .691901
 _cons | 1.509225    .1956114    7.72   0.000    1.125834    1.892616
-----+-----
 /ln_p | .5948608   .0220231   27.01   0.000    .5516963   .6380252
 /ln_the | -17.11207  388.4889   -0.04   0.965   -778.5363   744.3121
-----+-----
p | 1.812779   .039923          1.736196   1.892739
1/p | .5516394   .0121488          .5283347   .5759719
theta | 3.70e-08   .0000144          0          .
-----+-----
Likelihood-ratio test of theta=0: chibar2(01) = 0.00 Prob>=chibar2 = 1.000

```

TOURISM AND EMPLOYMENT IN ALBANIA – IS THERE A STRONG CORRELATION?

Leida Matja¹
Brunilda Liçaj²

ABSTRACT

Tourism is undoubtedly a driving force for Albanian Economy. The fast pace growing industry which provides 19.3 per cent of the total employment and contributes more than 20 per cent on Albanian GDP is considered strategic for the future development of the country. Statistics provide figures that show a correlation between the number of visitors and the number of people employed in the industry that is one of the reasons why this industry is quickly growing. But there are no evidences, nor empirical measures that prove a correlation between the overall country's employment and the number of foreign visitors arriving in Albania every year. The objective of the paper is to measure the contribution of Tourism to the economy of the country with emphasis on wellbeing of Albanians. The methodology of the research varies from desk research to empirical tests in order to test the correlation between the overall country employment and number of foreign visitors arriving annually in Albania. This way the results will show theoretically and empirically how strong Tourism economy is linked to almost every strategic sector of the country giving Tourism not only a strategic and important weight in the GDP but proving that it has a multiplier and stimulating effect on the whole Albanian economy and especially on the welfare of Albanian citizens.

Keywords: *tourism, employment, welfare, VAR model*

JEL Classification: Z320

1. Tourism Importance Overview

For decades tourism industry growth has been a major contributor to increased economic activity throughout Albania. and the world. It has created jobs in both large and small communities and is a major industry in many places. It is the dominant economic activity in some communities. According to the World Travel and Tourism Council³, the Travel & Tourism continued to show its resilience in 2016, contributing direct GDP growth of 3.1% and supporting 6 million net additional jobs in the sector. In total, Travel & Tourism generated US\$7.6 trillion (10.2% of global GDP) and 292 million jobs in 2016, equivalent to 1 in 10 jobs in the global economy. The sector accounted for 6.6% of total global exports and almost 30% of total global service exports. For the sixth successive year, growth in Travel & Tourism outpaced that of the global economy

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³ WTTC Report 2017

(2.5%). Additionally in 2016, direct Travel & Tourism GDP growth not only outperformed the economy-wide growth recorded in 116 of the 185 countries covered by the annual economic impact research (including in major Travel & Tourism economies such as Australia, Canada, China, India, Mexico and South Africa), but it also was stronger than the growth recorded in the financial and business services, manufacturing, public services, retail and distribution, and transport sectors.

Most people think of tourism in terms of economic impacts, jobs, and taxes. However, the range of impacts from tourism is broad and often influences areas beyond those commonly associated with tourism. Leaders as well as residents who understand the potential impacts of tourism can integrate this industry into their community in the most positive way.

1. Economic
2. Environmental
3. Social and cultural
4. Crowding and congestion
5. Services
6. Taxes
7. Community attitude

Each category includes positive and negative impacts. Not all impacts are applicable to every community because conditions or resources differ. Community and tourism leaders must balance an array of impacts that may either improve or negatively affect communities and their residents. Leaders must be sensitive and visionary, and must avoid the temptation of glossing over certain difficulties tourism development creates. Tourism leaders must also balance the opportunities and concerns of all community sectors by working against conditions where positive impacts benefit one part of the community (geographic or social) and negative impacts hurt another.

Conversely, community sensitivity to tourism means avoiding undue burdens on the industry that could thwart its success. Local leaders should not expect tourism to solve all community problems. Tourism is just one element of a community. While creative strategic development of tourism amenities and services can enhance the community or correct local deficiencies, tourism, like all business development, must assure that its products (attractions and services) attract customers. Overbearing rules and restrictions, and overburdening taxes can make tourism businesses less attractive or competitive.

2. Tourism and Employment in Albania

It is a well known fact that Tourism undoubtedly contributes substantially to income and employment generation in Albania. Travel and Tourism are major contributors to GDP and Employment.

In the WTTC Report⁴ "Travel and Tourism Economic Impact" 2017, Albania it is stated that the direct contribution of Travel & Tourism to GDP was ALL127.7bn (USD1.0bn), 8.4% of total GDP in 2016, the total contribution of Travel & Tourism to GDP was ALL393.0bn (USD3.2bn), 26.0% of GDP in 2016. In 2016 Travel & Tourism directly supported 85,500 jobs (7.7% of total employment)..

⁴WTTC: Travel and Tourism Economic Impact 2017, Albania

In 2016, the total contribution of Travel & Tourism to employment, including jobs indirectly supported by the industry was 23.9% of total employment (267,000 jobs). This is expected to rise by 3.2% in 2017 to 275,500 jobs and rise by 2.9% pa to 368,000 jobs in 2027.

From the figures above we may deduct that undoubtedly Tourism is one of the major sectors of economy providing employment to a large number of population. The induced and satellite effect of Tourism make that the number of employees working in industries closely related to tourism activities are almost one quarter of the entire active workforce of Albania. Consequently Tourism may induce employment to other sectors.

But the aim of this paper is to verify how large such effects may be extended for the Albanian economy. Is the development of Tourism in Albania linked closely with employment or it does not substantially influence in the overall situation of country's employment. The method choosed to verify the connection between two factors in the VAR method.

To start the analysis of the correlation we have examined two variables Number of visitors arrived and employment in time series. The data are provided in time series and specifically are shown in the tables below.

Table 1: Number of Tourist arrivals and total employed in Albania⁵

Years	No. of Tourist arrivals	No of Employed in Public Sector, Non agricultural and agricultural private sector
2000	317,149	1,068,190
2001	354,000	920,569
2002	470,574	920,144
2003	558,057	926,225
2004	645,409	931,217
2005	747,837	932,102
2006	937,038	935,058
2007	1,126,514	939,000
2008	1,419,191	901,708
2009	1,855,634	905,088
2010	2,417,337	904,210
2011	2,932,132	925,242
2012	3,513,666	959,227
2013	3,255,988	916,916
2014	3,672,591	925,262
2015	4,131,242	972,621
2016	4,735,511	1,042,810

⁵Source: INSTAT

The increase in the number of tourist over 17 years of time has been indicated in the following table. As we see there was always a positive trend with a substantial increase from 2008 and on. Indeed the 2008 years coincides with the first international spot for Albanian Tourism which is broadcasted by Euro News and CNN. We do not have means to measure the impact of the spot but only we put in evidence the fact that the increase of the tourist number might be increased in this year and in the following years due to substantial promotional efforts of Albania as a tourist destination.

Figure 1: Number of Tourist arrivals in Albania ⁶

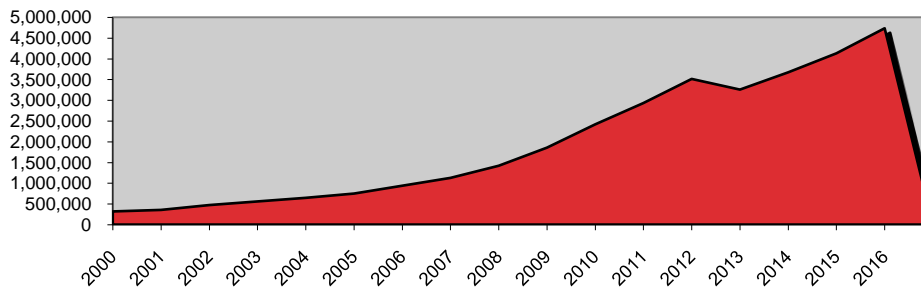
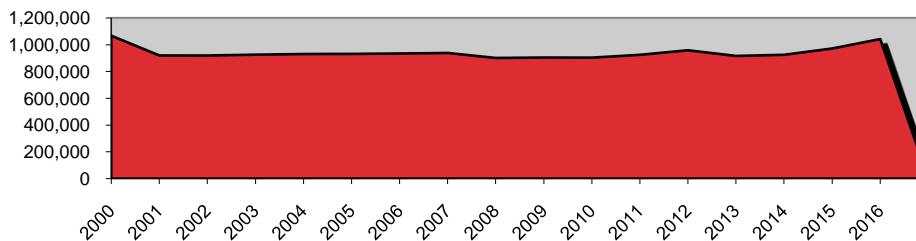


Figure 2: Number of Employed People in Albania



3. Literature Review

Many authors have thoroughly studied Tourism in all its dimensions. The Phenomena Tourism causes multiple economic and social reactions to a country or even multiple countries since the globalization has increased the chain effects of Tourism.

The tourism industry is as well seen as one of the key sectors that enable the creation of jobs in the local economy. However, though tourism is seen to be very important for the economy, rigorous empirical evidence on the contribution of tourism to the local economy is limited.

Several investigations have showed that tourism development has the possible effect of promoting economic growth, creating jobs and generating revenue for the government. Referring to the Tourism Led growth hypothesis which is an analysis of the probable relationship between tourism and economic growth supports a bidirectional relationship between tourism and economic growth. Moreover, tourist spending is regarded as an alternative form of exports which provides much needed foreign exchange earnings for an economy which are used to import capital goods to produce goods and services, which in turn may foster economic growth in host countries.

⁶ Source: INSTAT

The employment creation aspect of tourism is another vital contributor to promulgating economic growth and development of the host country. For instance, the tourism industry employs local citizens in hotels, restaurants, and entertainment and tourist services which cater directly for tourists or through the multiplier effect.

Crucially also, many developing countries are dependent on the tourism sector as a major source of foreign exchange; even more so since such foreign exchange revenues often serve to contribute towards improving the host countries balance of payments (Belloumi, 2010). In this vein also, Robu and Ballan (2009) suggest that a growing national tourism sector contributes to increased national income and employment which effectively leads to an improved balance of payment situation.

ILO Global Dialogue Forum on New Developments and Challenge (2010) reveals that the travel and tourism industry is the largest and most dynamic industry. Global economy is expected to generate about 9% of total GDP and provides more than 235 million jobs in 2010 representing 8% of Global employment. According to ILO report prepared for the Forum International Tourism was affected by the global economic and social crisis and expecting the tourism sections global economy to provide 296 million jobs by 2019. Tourism has the potential to become a major generator of job.

Ajala.O.A. (2008) in his work on “Employment and Income Potentiality of Tourism Development in Amhara region Ethiopia” examined the role of tourism development in socio-economic development of the region, generating foreign exchange, reducing unemployment and in improving the living standard of the people. The author has focused on Hotel industry, Souvenir, Tour guide, and water transport business.

JagmohanNegi(2008)inhisbook

“Internationaltourismandtravel,conceptandprinciples”discussedabout scope and composition of tourism and travel, types and characteristics of Tourism, tourism marketing policy, job structures in travel trade, tourist accommodation and tourism transportation facilities etc.

Stephen J page, Joanne Connell (2006) in his book “Tourism A Modern Synthesis” identified the potential of tourism industry in Employment generation and examined the various determinants of employment creation in tourism, particularly the types of tourism.Resort Development will create variety of new jobs but may not always benefit more the local people.

Kim et al study (2006) examines the casual relationship between tourism expansion and economic development. This study reveals that tourism expansion and economic development have a reciprocal relationship in Taiwan.

Mckercher et al studies (2005) have conducted a study to examine the nature of relationship between tourism and cultural heritage management in Hongkong. The result of this study shows the positive relationship between tourism and cultural heritage management.

Lim and McAleer study (2005) critically examined the management practice, problems and challenges faced by two ecotourism attractions located in the Gold Coast and Brisbane in Queensland, Australia. The study focused on two case studies of best practices of ecotourism management and pro active Sustainable tourism stance of an eco resort and wetland reserve and concludes that sustainable tourism could make significant contribution to the quality of environment, economic development and well being experience for the visitors and tourists. The study shows that both resorts have demonstrated a commitment to environment of the communities apart from generating lot many employment opportunities.

Tourism is seen to generate important externalities to other sectors of the economy, thereby generating significant benefits to the local economies. This can be explained by the fact that

while tourists visits a particular country, the demand for local goods and services increases, mainly by direct spending as well as indirectly through the multiplier effects. Finally, an increase in employment as a result of tourism development has the potential to reduce the level of poverty and increase the welfare of the population in the country. Hence, there might result in an increase in income thereby improving the quality of life mainly for those down the income ladder.

4. Methodology and Objectives

The study will be conducted by simple VAR method which puts into correlation the number of tourist arrived and the total number of employed people in Albania. The independent variable is the number of tourist arrived and we will see if the overall employment depends substantially from this factor or not. We have not examined other variables since we would like to check only the potential of tourism over the total employment in the country.

Thus hypothesis of the study is:

1. *There is positive correlation between tourism development (measured only by the number of tourist arrived) and employment in Albania.*

The main objective of the study is to understand how Tourism development is related to employment and income generation of population in our country.

We will not make the correlation between no of tourists and number of Tourism or Tourism satellite jobs but the number of the overall jobs in Albania which also measures the induced potentials

5. VAR Model for Albania

The anova elaboration of the data provided the following figures.

	± .482	critical value .05 (two-tail)
	± .606	critical value .01 (two-tail)

Regression Analysis					
	r ²	0.040	n	17	
	r	0.201	k	1	
	Std. Error	46891.908	Dep. Var.	No of Employed	

ANOVA table					
Source	SS	df	MS	F	p-value
Regression	1,391,803,287.4316	1	1,391,803,287.4316	0.63	.4387
Residual	32,982,765,144.0978	15	2,198,851,009.6065		
Total	34,374,568,431.5294	16			

Regression output						
variables	coefficients	std. error	t (df=15)	p-value	95% lower	95% upper
Intercept	930,459.4319	19,114.1203	48.679	6.28E-18	889,718.6491	971,200.2148
of Tourist arrivals	0.0063	0.0079	0.796	.4387	-0.0105	0.0231

The correlation shows that there exist a weak connection between variables due to $R=0.201$.
The regress equation would be:

$$Y = 930459 + 0.0063 x$$

Therefore there will be 930459 employed people even if there are no tourist arrivals. Only four percent of changes can be explained with the change of tourist numbers, the other changes are as result of other factors that were not subject of the study.

6. Conclusions:

The empirical test proven that the hypothesis of the study is not fully verified.

The weak correlation between the number of employees and the number of tourist arrivals might prove that the boom of tourists has not contributed properly to the development of the country in general. The pace of tourist number increase should contribute to a major number of employed directly or indirectly in Tourism sector. The reasons for this weak correlation might be:

1. Insufficient and staggering tourism offer

Albania is a country with scarce tourism offer from the superstructure point of view. Family hotels with limited capacities does not allow for increases in the number of guests and an extensive role of tourism in specific regions or communities. Though a country where a variety for of tourism might take place the reduced number of hotels and scarce capacities does not allow for big groups of tourists which in their spur might induce the communities a more proactive approach to Tourism and Tourism related activities.

2. High Seasonality

Many hotels, especially those along the seashores of Albania are built early solely as beach hotels. They do not offer other opportunities for groups that want to spend days out of summer season. They have not diversified the offer and therefore they can not employ people out of the season. The seasonal workers either are not often registered at all, or are registered as part time employees without any effect on the overall employment of the country. Furthermore the seasonal workers often do not see their careers in Tourism industry, which is a factor why Tourism might be not strongly connected with the employment in the country.

3. Circulation of working power

Circulation of working power mainly due to evasion and seasonality is now a well known phenomenon of the Tourism industry. Hotels or agencies often employ people for the probation period of three months which makes this sector quite vulnerable and not a highly attractive sector concerning jobs, especially for front line ones.

4. Low level and inadequate services

Due to the factors mentioned above also the lack of inadequate technical high schools the level of services is low. The seasonality makes the income generation for the Tourism employers even worse. Therefore the level of services remains low and it is not a factor contributing to the increase of the specific wage of this sector in the Albanian economy.

5. Government has not given Tourism the needed importance

Though with an increase number of visitors every year and steadily increased visitor exports, Tourism still has not been given the needed importance and priority from Government. Lack of attention is resulted in scarce promotional efforts, scarce investments and other infrastructure interventions. Therefore to Tourism lack the Governmental support technical and financial wise. The efforts so far are scarce for the attention that should be given to this important sector and its role in the Albanian economy as a whole.

6. Lack of major investments public or private

Tourism lack major investments being public or private in Tourism sector. The investments should contribute to increase the accommodation capacities or improve the existing ones. There are areas without any investment which might be of an enormous potential concerning tourism development. The increase of investments and capacities will bring not only to more employed in Tourism sector but will develop other sectors which heavily depend on Tourism. They will also make that some communities develop Tourism as their priority and not other activities which are at present without any interest or that provide scarce incomes for the families living in such places. For instance north of Albania has many areas where Tourism is not developed at all and the communities are in the edge of their existence, whereas proper investments and a major supports for Tourism related activities will bring to the fast development and substantial incomes.

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THE EUROPEAN INTEGRATION PROCESS IN THE «AGE OF SECULAR STAGNATION» - NECESSITY OF CONCEPTUAL CHANGES IN ECONOMIC POLICYMAKING

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ABSTRACT

The paper focuses how the current economic and social problems in EU, including worsening in the position of the average citizen in many EU member states and deterioration of the social justice, in the “age of secular stagnation” affect the process of European integration and what should be changed in the policymaking and institutional arrangements, on the national, as well as on the EU level. These problems could be discussed as results of systematic imbalances between liberalization and social regulation due to decades of the neoliberal dominance in economic policymaking, followed by the processes of deregulation and intense globalization. Among other things these features had an impact on changing the original economic goals of the European integration process (in EEC and EU) summarized in: promoting economic growth, increasing prosperity, reaching full employment and promoting welfare state. After decades of successful economic and social progress in the EU, including EU enlargement, the last global economic crisis (2007-09) and the post-crisis slow recovery imposed decreasing support for European integration process everywhere in Europe. In the European countries (both EU and non EU) many citizens lost their faith in future economic and social progress within the EU. That is why in many EU countries politicians appeal for changing policies, in the way of controlling the borders, protecting national industry and increasing economic sovereignty of the member states, as well as reconsideration of the common European policies. The paper argues that instead of such right-wing nationalistic populism, the European economies need conceptual changes of economic policy which should include a new social consensus by taking into account interests of all social groups and kind of a “new deal” between capital, labour and government, not only at national levels, but also at the level of the whole EU. Fulfilling the goal of full employment today is achievement which guarantees not only economic stability and prosperity, but also the maintenance of political stability and democratic order in the European countries.

Keywords: *EU, economic policy, secular stagnation, social consensus*

JEL Classification: *E61, F02, F15*

1. Introduction

Current economic and social problems that face the European economies seriously put the European integration process (related to the EU) into the questions – its motivations, assumptions and limitations. That process started long ago in specific global circumstances – after the WWII

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in the era of “Cold War“, with significant geopolitical tensions between Eastern and Western block. The European integration was originally motivated to avoid unilateral and destructive policies of the European countries, not only in the area of economic policy conducting. In that way the policy of “beggar-thy-neighbour” as the essence of economic nationalism and protectionism which was predominant characteristic during inter-War period should be avoided by building common European policy.

The founding document, so-called the Schuman declaration (May 9, 1950), proposed “only” the European Coal and Steel Community (ECSC), according to which the first institutional template of European integration was founded in 1951, among six countries: France, West Germany, Italy, Netherlands, Belgium and Luxemburg. After that, in 1957 the Community for civil atomic energy and the European Economic Community were established (the Treaty of Rome), as the base for future European Community and the European Union (the treaties of Maastricht (1992) and Lisbon (2009)). Today the EU includes 28 countries², as successful project of international cooperation between sovereign state members within a supranational organization.

The path of the European integration process went in parallel with the changes that have occurred in the economic policymaking, reflecting changes in modern macroeconomics. Development of modern macroeconomics has affected the economic policy goals of the EU, as well as the instruments for the implementation. Similar consequences could be found from the influence of economic trends and macroeconomic indicators (rate of growth, unemployment, inflation, etc.) on the economic policy making at the EU level, as well as of the member states. Economic trends influenced the changes in speed and degree of integration, also. As well, important political events affected the integration process, among this distinguishes fall of the Berlin Wall and the collapse of the Eastern Bloc. For the European integration a new set of goals were imposed – integration of new countries (former socialist countries). Such achievement required additional efforts, given that these countries originally did not have adequate institutional framework (both economic and political), while their economic integration also required the certain convergence to the economies of “old” EU member states.

In accordance to the mentioned issues, the latest global economic recession (2007-09) appeared to be very important for the European integration. The recession was unexpected not only for the economic policymakers all around the world, but also for the people and academics. The recession has actualized important macroeconomic questions, which had been thought to have been resolved long before – relating to the role of government in stimulating economic activity when the global aggregate demand is insufficient (structure and scope of fiscal stimulus), the roles of monetary policy and central bank, especially in maintaining financial stability (Prascevic, 2012). The return to the Keynesian concept of policymaking happened during the recession not only in the US, but in the EU, also. Nevertheless, a significant fiscal stimulus which has been taken as response to the recession in many economies imposed fiscal imbalances, as well as problems of public debts (sovereign debt crisis). An extensive package of fiscal incentives, together with obvious mistakes made in conducting economic policy during pre-recession period, led to a significant increase in the budget deficit, along with financial crisis. After the recession, slow and long process of recovery put average citizen in many EU countries in bad position. These issues have brought back the classical approach in economic policymaking with primary goal of balancing the state budgets by implementation of the austerity measures. Some of the European economies fell into serious economic and social troubles (for

²After the referendum, the UK remains a member of the EU until the process of withdrawal negotiations ends.

example, Greece, Portugal, or Spain). In some of them these problems still remain with certain deterioration of the social justice.

The problem of long-term economic stagnation affecting the global economy in the post-crisis period (in the “age of the secular stagnation”) made the process of European integration even more complicated since relations between actors of political life of the EU (governments, voters, bureaucrats and interest groups) became even more complex due to change in their goals and preferences. Same could be found for critics of the European integration process which include wide range of arguments. For supporters of the integration, political and economic crisis which shakes the EU today is consequence of institutional incompleteness of the integration (“half-build house”, for example monetary union without fiscal union, or banking union). On the other hand, the opponents of the integration insist that integration process has gone too far bringing political and economic motivations of the supranational policymakers different from the motives of the European people. Also in the post-recession period the main problem of the political economy of integration – how to make trade-offs between costs and benefits from economic and political unification among European heterogeneous populations, became even more insolvable.

2. The Free-Market Capitalism and European Integration Before the Global Recession

The process of building European integration started within the framework of Keynesian economic policy conducting with the concepts of full-employment capitalism and of welfare state, according to which the government plays a key role in promoting well-being of all citizens. However the shift in the macroeconomics happened in late 1970s and early 1980s, with the collapse of the concept of full employment in economic policymaking (the “laissez-faire revolution”) which affected the economic policy of the European economies, members of the European Community. Such change in economic policy conducting implied giving primal role to the market-liberal approach on the expense of social regulation and welfare-state development. At the same time such approach made the economic dimension of the European integration more important than the political dimension of the process.

Undisputed success of the free market macroeconomics in European economies and “intellectual monopoly” in the form of radical anti-Keynesianism, until the recent global recession, has been contributed primarily by the fact that business cycles on average became weaker in intensity of economic decline during the recession, and thus reduce the cyclical fluctuations of employment all over the world. At the same time the process of European integration has been successful for long period implying that the free-market capitalism, along with processes of deregulation and intense globalization, provided framework for uninterrupted economic growth and social prosperity. The European integration process contributed to getting-off competition between European economies in times of globalization (Seikel, D. 2016).

That appeared to be true also for the EU enlargement, since before the global economic crisis and the post-crisis slow recovery, support for European integration process recorded significant intensity everywhere in Europe. In addition, paradoxically the success of neoliberal approach in EU was supported and even boosted by the collapse of the Soviet bloc and the processes of economic transition and political democratization in the former communist European countries. For many citizens in these countries the concept of free-market capitalism was a synonym for freedom (economic and political), and joining the EU became a primer goal which will ensure economic prosperity. That is why citizens from former socialist countries relatively easily

accepted painful process of market deregulation, liberalization and privatization. For citizens from those countries that became new members of the EU benefits from provision of common public goods and policies at the EU level appeared to be greater than costs. On the other hand, for citizens from “old” EU countries benefits from EU enlargement came primarily from securing political control over a large part of the Europe, including defence and security, as well as from the large common market.

However, implementation of free-market capitalism represented not only the abandonment of the goal of full employment as a legitimate objective of economic policy in capitalism, but also a radical change in the relationship between labour and capital, which is in the heart of capitalist system, representing the basis for determination of income distribution in market economies. It was also an ideological shift in managing the capitalist system, which meant to diminish the importance of labour (i. e. the working class), which had grown during the post-war development of the Keynesian welfare state. Capitalism then returned to the capital as the most important factor of production in capitalism. Instead of full employment capitalism the concept of free-market economy was promoted, in which market solutions were the only answers to the situation of high unemployment, while the concept of full employment was considered as a key source of unjustified wage growth at the expense of profits, leading to labour market inflexibility, inefficiency of economic agents and reducing the propensity to invest which ultimately caused the problems with persistent and rising inflation, poor economic growth, and ultimately of high unemployment. Reducing the variability of economic activity and reducing inflation were considered as the most important consequences of changes in modern macroeconomics before the last global recession. The global economic recession (2007-09), however, as the longest and most severe recession in the post-war period, with the largest drop in income, consumption, investment and rising unemployment put the dominant macroeconomic theory and economic policy into the question. The same could be found for the poor post-recessionary macroeconomic development which could be defined as secular stagnation with important features of low interest rates in long period, low inflation and very low economic growth and with constant threat of starting a new recession.

3. Challenges of the European Integration Process in the “Age of Secular Stagnation”

Two parallel tendencies could be found in development of European integration from the beginning. One is connected with advocacy for tighter links between European countries not only in economic fields, but also in the political – including political unification (federalization of the EU). The second insists on remaining power of national governments (based on national sovereignty of state members). These approaches affected building the institutional framework of the EU in divergent directions, making the European integration path complicated. The supporters of the tighter integration with goals to eliminate national borders and international conflicts between European countries are in accordance to the functionalism (transferring certain “functions” to supranational institutions, including political integration). On the other hand, their opponents insist on intergovernmental approach (intergovernmentalism) according to which the national governments should stay in charge of the European integration process and for the EU policy (including economic policy) in order to pursue the interests of their domestic constituencies (Spolaore, E. 2013).

The latest global recession appeared to be the biggest challenge for the European integration process. That includes questioning economic policymaking on the level of the EU, but also of the member states, institutional frameworks including political and economic institutions, especially monetary union without fiscal unification (the eurozone debt crisis which imposed significant risk to the European banking system), and the issues connected with further enlargement of the EU or exiting from the EU. However, the post-recession slow recovery imposed even greater problem than the recession by decreasing support for European integration process everywhere in Europe.

The concept of secular stagnation which was originally proposed by one of the most famous American Keynesians – Alvin Hansen (Summers (2014)) could be implemented for explaining current state of the global economy, including the EU economy, still trapped in prolonged episode of slow growth. The concept focuses several issues. First is connected with ineffectiveness of monetary policy due to liquidity trap and low real interest rates which however will not affect the increase in sustainable investment. Second, a weak investment growth has been recorded due to insufficient aggregate demand resulting among other factors from the income distribution problems within society, when the income distribution goes in favour of profits rather than wages and in favour of the rich people (Prascevic, 2016). These are reasons for conclusion that the fiscal policy still matters and the state have a crucial role in economic policymaking, in a way for boosting economic activity and growth, oppositely to the “austerity measures” approach.

Problem of high and persistent unemployment singled out as one of the most obvious all around the Europe Union. After almost a decade from the beginning of the crisis growth prospects of the European economies still face considerable problems (table 1) with persistent employment gap, high unemployment (in January 2017 unemployment rate in EU-28 was: **8.1%** and in euro area EU-19 the unemployment rate was: **9.6%**³), high long-term unemployment (4.5 % of the labor force in the EU-28 in 2015 had been unemployed for more than one year; more than half of these, 2.8 % of the labor force had been unemployed for more than two years), growing dominance of part-time employment, job insecurity and stagnant real wages. European economies still face the questions: how to ensure and improve optimism of the investors and people for the future and how to overcome the unemployment challenges? The relationship between investment and innovation is the answer for creating long-term growth.

Table 1: Real GDP growth in the EU, 2005–2015 (%)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average (2005-2015)
EU-28	2.1	3.3	3.0	0.4	-4.4	2.1	1.7	-0.5	0.2	1.5	2.2	0.9
Euro area (EU-19)	1.7	3.2	3.0	0.4	-4.5	2.1	1.5	-0.9	-0.3	1.1	2.0	0.8

Source: Eurostat

In circumstances of unfavourable prospects for macroeconomic development the questions of justification of the process of European integration are again reopened, together with the questions of the role of national governments in reaching national economic goals. Institutional architecture of the EU shows significant weaknesses with the collapse of the European social

³Compared to other economies unemployment in the EU is still important problem - In January 2017, the unemployment rate in the United States was 4.8 %, up from 4.7 % in December 2016 but down from 4.9 % in January 2016.

model and the lack of solidarity between European nations. That is especially evident in the EU economies faced with the recessionary effects due to applied austerity measures which resulted in worsening social status of the majority of the population (table 2).

The “European social model” (combination of economic growth, high living standards and good working conditions) has been called into the question in several elements by implementing these severe austerity measures. The European citizens in these countries faced weakening of public service provisions – healthcare or education, but also of basic supply of electricity or gas. Such unfavourable developments made clear that the EU do not ensure delivery of basic public services for all European citizens, no matter in which member state they live. These member states by implementing the austerity measures became less social, mainly through changing taxation, social benefits, wages and employees’ rights. These measures are meant to ensure macroeconomic stability but also to increase national economic competitiveness of these member states. Unfortunately, this has been done at the expense of social and labor standards affecting the majority of population in these countries. Austerity measures that had been imposed in several countries contributed to the rise of tensions and differences between the EU member states, due to the lack of solidarity among the member states. Among these economies only the economy of Ireland fully recovered (table 3).

Table 2: Economic and social consequences of the austerity measures in several EU economies

Country	Start of the austerity	Components of the austerity measures	Economic consequences	Social consequences
Ireland	September 2008 (several packages)	Raise in taxes (VAT), pay cuts and layoffs for public-sector workers, civil service reform, increasing work week, spending cuts for capital investments and cuts of welfare cuts.	Austerity measures had a strong recessionary impact: rise in unemployment rates, decline in GDP growth, decline in domestic consumption; improvement of the current account balance since lower wages improved competitiveness of the Irish economy.	Negative social consequences of the austerity due to cutbacks in the social welfare, health care and education systems; a rise emigration (especially of young Irish people). Significant protests against austerity measures didn't happen.
Greece	February 2010 (several packages)	Raise in taxes, public-sector spending cuts: cuts in public-sector employment and wages, pensions, equalization of men's and women's pension age limits, reduction in the number of public-owned companies and municipalities, etc.	Austerity measures had a strong recessionary impact: rise in unemployment rates, decline in GDP growth, decline in domestic consumption, rise in public debt/GDP ratio.	Dramatic social consequences which led to social unrest and political protests against government and “Troika”. In 2015 Greek election resulted in a new government led by the Syriza party with main goal to end the austerity policy but that did not happened.

Spain	May 2010 (several packages)	Raise in taxes, spending cuts (at state and local levels), increase of the retirement age (to 67), public-sector spending cuts, education cuts, energy cuts and increase in electricity prices, hospital privatization, infrastructural cuts, labor market reforms.	Depressing effects of the austerity policies on the Spanish economy: Continuous increase of the unemployment rates including youth unemployment, decrease in the wages not resulted in a lower unemployment rate, increase in exports and decrease in imports not resulted in a lower unemployment rate.	Social dissatisfaction due to cutbacks in the social welfare, health care and education systems; a rise in suicide and depression rates; rise in social unrest (anti-austerity protests).
Portugal	May 2010 (several packages)	Raise in taxes (on income and capital gains), public-sector spending cuts: cuts in public-sector employment and wages, cuts in higher pensions; privatization in energy sector, naval and defense construction, air transport, communications, media etc.; deregulations in land use and home rentals; a labor market reform.	Depressing effects of the austerity policies on the Portuguese economy: Continuous increase of the unemployment rates and decrease in the rate of economic growth, increase in exports and decrease in imports not resulted in a lower unemployment rate.	Enormous social costs of the measures due to cutbacks in the social welfare, health care and education systems; a rise in suicide and depression rates; rise in social unrest (anti-austerity protests) when it became clear that austerity failed to deliver its promises (“reform fatigue”).

Table 3: Real GDP growth in several EU countries, 2005–2015 (%)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average (2005-15)
Ireland	5.8	5.9	3.8	-4.4	-4.6	2.0	0.0	-1.1	1.1	8.5	26.3	3.4
Spain	3.7	4.2	3.8	1.1	-3.6	0.0	-1.0	-2.6	-1.7	1.4	3.2	0.4
Portugal	0.8	1.6	2.5	0.2	-3.0	1.9	-1.8	-4.0	-1.1	0.9	1.5	-0.2
Greece	0.6	5.7	3.3	-0.3	-4.3	-5.5	-9.1	-7.3	-3.2	0.7	-0.2	-2.1

Source: Eurostat

In the European countries (both EU and non EU) many citizens lost their faith in future economic and social progress within the EU. They don't believe that their children will have a better life than their own. It is especially true from a worker-oriented perspective due to several reasons. European citizens are in general dissatisfied how the EU institutions handle the problems of social inequalities (within the EU and within the state members) and unemployment. It is not surprising that in 2016 people in the UK voted to leave the EU (“Brexit”). The “Brexit” appeared to be one of the most important challenges for the future of EU by inducing significant political, financial and economic risks.

4. Prospects for the Future Integration and Economic Policy

Although the European integration has been inspired by the ambitious goals among which is to create the preconditions for transnational solidarity in the EU, as well as to provide social and democratic well-being of European citizens, that did not happen completely. However, the latest

recession is not only reason for such bad development. The reason is more complicated and it goes back to the period of free-market revolution (in early 1980s) when abandoning of the socio-democratic dimensions of the European integration started. Soon after that the EU's institutions and policies have become dominated by technocrats and bureaucrats, with some undemocratic elements in policymaking, often at the supranational level (Seikel, D. 2016).

The middle class in the EU has been most affected by unfavorable economic trends during and after the recession. Although for long period - during the whole capitalistic development, just the middle class has been the backbone for the European societies and their economic progress. The current problems facing the middle class are related to slower economic growth and increasingly unequal distribution of income, eroding the essence of the social contract in the European countries. In fact, economic growth has long represented a substitution for sensible social cohesion policies. Without it many citizens have lost faith in any kind of social justice provided by institutions and policies of the European Union (Archick, K. 2017).

Along with economic and political pressures the EU currently faces a range of problems connected with ongoing migrant and refugee crisis which includes several dimensions. First of all it is connected with serious threat to security of the EU (due to possible terrorism threat) which calls into question the existence of the Schengen area of free movement (individual countries have at times reintroduced border controls within the Schengen area). The migrant crisis is connected also with financial and economic problems (many of them are economic migrants), and of course with social and cultural dimensions (foreign migrants came mostly from Muslim majority countries of African and Asian regions). Citizens of the European Union perceive the newly arrived migrants as a threat to their economic and social position, as well as for the values on which the EU is based such as "four freedoms": free movement of goods, services, people and capital within a single market. There is also fear connected with protection of the European identity, with respect to large cultural and religious differences of the migrants.

That is why in many EU countries politicians (and voters) appeal for changing policies, in the way of controlling the borders, protecting national industry and increasing economic sovereignty of the member states, as well as reconsideration of the common European policies. This would generate results that are just supposed to be avoided by the European integration process – nationalism (including economic nationalism) and different conflicts (economic and political) on the European continent.

Such rise of populist and often right-wing political parties with intensive anti-EU sentiments in the member states could be devastating not only for the future of the EU, but for the whole European continent – its political and economic stability and prosperity, and even worse for its security. That is why instead of such right-wing nationalistic populism, the European economies need conceptual changes of economic policy which should include a new social consensus by taking into account interests of all social groups and kind of a "new deal" between capital, labour and government, not only at national levels, but also at the level of the whole EU. Only the significant economic growth could help to overcome the current challenges facing the EU. That is why the agenda of sustainable development is vital for standing the EU as the unique international partnership and as foundation of European stability and prosperity. This agenda can not be founded on neoliberal economic approach, and further insistence on such approach in economic policymaking could have devastating consequences for the whole European project. Fulfilling the goal of full employment today is achievement which guarantees not only economic stability and prosperity, but also the maintenance of political stability and democratic order in the European countries.

The new political agenda for the European integration process should include macroeconomic, social, distributional, educational and environmental dimensions. This process doesn't include only further enlargement, but also organized effort to stop further abandonment of the European Union (for example "Frexit"). Although the EU remains open for further enlargement (especially for Western Balkans countries that fulfill criteria for membership), economic and political conditions, along with the rise of populist and euroskeptic parties in the EU states do not give much cause for optimism.

5. Conclusions

The multiple crisis (economic and political) currently facing the EU, along with geopolitical issues in the "age of secular stagnation" represent a threat to the existence of the European Union as well as for the process of European integration and enlargement of the EU. It could not be seen only as a consequence of the latest global economic recession, but also as the result of mistakes in economic policymaking which were made due to neoliberal domination in mainstream macroeconomics, as well as consequence of inadequate institutional framework of the EU. Beneficial reforms in the EU should include changes in the EU institutional arrangement, but also changes in the economic policymaking, including fostering economic growth and achieving the goal of full employment. The original economic goals of the European integration process (promoting economic growth, increasing prosperity, reaching full employment and promoting welfare state) should be reaffirmed in the new global context with the focus on providing more social justice and solidarity among the EU.

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SARBANES OXLEY ACT (SOX) DISCLOSURE, EXECUTIVE COMPENSATION, INTERNAL CONTROL DISCLOSURE AND FINANCIAL REPORTING IN CORPORATE GOVERNANCE (CG).

Ph.D. Rezart Dibra¹

ABSTRACT

Corporate governance (CG) is the system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community. After a prolonged period of corporate scandals involving large public companies from 2000 to 2002, the Sarbanes-Oxley Act was enacted in July 2002 to restore investors' confidence in markets and close loopholes for public companies to defraud investors. The act had a profound effect on corporate governance in the United States. The Sarbanes-Oxley Act requires public companies to strengthen audit committees, perform internal controls tests, set personal liability of directors and officers for accuracy of financial statements, and strengthen disclosure. The Sarbanes-Oxley Act also establishes stricter criminal penalties for securities fraud and changes how public accounting firms operate their businesses. Internal control is a process conducted by the company's board of management, the management, and other personal designed (1) to give certainty about the effectiveness and efficiency of the company's operation, (2) the reliability of financial statements, and (3) the obedience towards the law and regulations (Ghosh & Lubberink, 2006). The internal control is also needed in generating the financial report so that it reflects the company's real operation. The assurance of the effectiveness of the company's internal control is an obligation for the company which stock is traded at the capital market. An effective internal control system will benefit the company, especially to attract the market. (Shon & Weiss, 2009). This is a theoretical study based on SOX disclosure and the effect of internal controls on executive compensation according to the theoretical standards as an important part of corporate governance (CG).

Keywords: *internal control disclosure, financial report, executive compensation, timeliness*

JEL Classification: *M12, M41, M42*

1. Introduction

Internal control is a process conducted by the company's board of management, the management, and other personal designed (1) to give certainty about the effectiveness and efficiency of the company's operation, (2) the reliability of financial statements, and (3) the obedience towards the law and regulations (Ghosh & Lubberink, 2006). The internal control is also needed in generating

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the financial report so that it reflects the company's real operation. The assurance of the effectiveness of the company's internal control is an obligation for the company which stock is traded at the capital market. An effective internal control system will benefit the company, especially to attract the market. (Shon & Weiss, 2009).

The effort to increase the internal control's activities will cause an increase in significant cost for the manager. The manager needs more cost for their efforts to reach an effective internal control system, compared to the benefits that the company will receive. Hence, the incentive is very much needed to reach this benefit. The company will adjust the compensation contract to motivate the managers to create an effective internal control system (Shon & Weiss, 2009). The result of Shon & Weiss (2009) had proven that there existed a positive relationship between the executive compensation and the effective control system. Also, with the study result of Leng & Ding (2011), they had found that the internal control disclosure at the company's financial report was related with the executive compensation. The same was also concluded from the study by Balsam, Gordon, Li, & Runesson (2012). The result of their analyses had strongly supported the relationship between the obligatory disclosures regarding the executive's compensation, because the obligatory disclosure will motivate the management to increase the control and responsibility. The internal control system is considered an important mechanism in assuring corporate governance quality because it improves monitoring action of the independent audit committee, increases the responsibility of senior managers on the reliability of financial statements, helps the board and management to better control internal and external company's risks, makes more effective the external company's risks, makes more effective the external auditor activities and certifications (Power, 1997; Spira & Page, 2010). In response to recent corporate scandals in major developed countries, governments required companies to strengthen their internal control systems and to demonstrate this commitment through a personal certification of senior managers (CEO and CFO) (Cunningham, 2004; Healy & Palepy, 2003). The new rules in the U.S.A. (Sarbanes Oxley Act of 2002) and other countries, attempt to restore stakeholders' confidence and to increase firm's disclosure on risk management, by monitoring and controlling the reliability and efficiency of business processes. The rationality and credibility that firms have in designing, implementing and assessing the international control systems are publicly disclosed in order to demonstrate the reliability of their business model.

The sole external certification that financial reporting has been prepared according to correct accounting principles and faithfully represents firms' economic and financial capital is not sufficient. The demands for accountability push firms to demonstrate they have full control over all business processes (operative and financial) that determine the reliability of financial statements. An effective internal control system can be a tool for owners to manage business risks by mitigating agency costs. It appears not sufficient to equip executives with experience and professionalism, resources and power, on the assumption that the responsibility for the results alone would be enough to solve the problems of agency (Riccaboni, 1999). The recognition of the possibility of huge personal gains through rich stock option plans has not always produced the expected effects (Culpan & Trussel, 2004). Since executives are personally accountable for the internal control system, as they must personally certify its effectiveness bearing a penal responsibility (Sarbanes-Oxley Act Section 404), then it is likely that they are willing to manage firms with ineffective internal control systems only if owners recognize them higher compensations. This assumption is logically sustainable given the fact that executives bare more personal risks and consequently, are willing to assume more risks only by negotiating higher compensations. On the other side, if owners do recognize the internal control as a monitoring

system, they will “disinvest” in other substitute mechanisms, likely lowering the compensation level (Gillan,2006).

2. Sarbanes Oxley Act (SOX): Regulation of Internal Control Disclosure & Financial Reporting.

The Sarbanes–Oxley Act of 2002 (Pub. L. 107–204, 116 Stat. 745, enacted July 30, 2002), also known as the "Public Company Accounting Reform and Investor Protection Act" (in the Senate) and "Corporate and Auditing Accountability, Responsibility, and Transparency Act" (in the House) and more commonly called Sarbanes–Oxley (https://en.wikipedia.org/wiki/Sarbanes_Oxley_Act). The Sarbanes-Oxley Act of 2002 (the Act) was passed in response to these financial scandals to reinforce corporate accountability and professional responsibilities, and to rebuild investor confidence. The SEC has issued more than 20 rules to implement provisions of the Act. Other professional organizations (AICPA, AMEX, Conference Board, NASDAQ, NYSE) have issued standards and corporate governance guiding principles to restore public trust in corporations, the capital markets, and the financial reporting process. Sarbanes-Oxley requires public companies to assess how effective their internal controls over financial reporting are at preventing misstatements that could be material to the financial statements. While public companies have long been required to maintain effective systems of internal controls, pursuant to the Foreign Corrupt Practices Act of 1977, SOX requires them to annually evaluate their financial internal controls and to disclose the results of that assessment. This includes whether there were any weaknesses that may not prevent or detect a material misstatement in the financial statements. In a effective corporate governance (CG), Sarbanes-Oxley greatly expanded the responsibilities of audit committees. SOX required the boards of companies listed on US stock exchanges to establish audit committees made up solely of board members independent from management. Because of SOX, audit committees, not management, are directly responsible for the appointment, compensation and oversight of the work of external auditors, who are charged with evaluating whether the financial statements prepared by management are fairly presented in accordance with the relevant financial reporting framework. To facilitate its oversight of a company's financial reporting, SOX required companies to provide audit committees with the resources and authority to engage independent counsel and advisers to help them carry out their duties. SOX also required audit committees to establish procedures for receiving whistleblower complaints regarding accounting, auditing and internal control irregularities and to provide for the confidential and anonymous treatment of employee concerns regarding such matters. In addition, SOX enhanced the external auditor's required communications with the audit committee to include the following: •A discussion of all critical accounting policies and practices used by the company •All alternative accounting treatments that have been discussed with management, the ramifications of the use of alternative disclosures and accounting treatments and the accounting treatment preferred by the audit firm • Other material written communications between the auditor and management. These reforms significantly empowered audit committees and they began to take a more active role to carry out their increased responsibilities. For example, audit committees for the S&P 500 companies met on average five times a year in 2001. The average number of annual meetings has nearly doubled to nine today. Audit committees also are exercising ownership of the relationship with the auditor. Sarbanes-Oxley Act is one of the most important corporate reforms in the U.S.A., comparable to the Securities and Exchange Acts

of 1933 and 1934 in the regulation of financial markets. In the wake of scandals that staggered the business community and accounting profession at the verge of 2000, the act introduced several measures to strengthen corporate accountability, improve transparency of financial accounting and struggle against accounting fraud (Romano, 2005, Healy & Palepu, 2003). The result of Shon & Weiss (2009) had proven that there existed a positive relationship between the executive compensation and the effective control system. Also, with the study result of Leng & Ding (2011), they had found that the internal control disclosure at the company's financial report was related with the executive compensation. Other major developed countries have followed different paths within the scope of regulating firms' internal control systems. The rules established in the U.S.A. by the Sarbanes – Oxley Act (SOX) of 2002 have helped to exert some influence on the corporate law at the international level (OECD, 2009). Nevertheless, in the European countries has prevailed the “comply-or-explain” approach on which basis the firms may adopt a code of practice or they may chose not to adopt such code if they justify the reasons of such conduct. The SOX sections dedicated to the effectiveness of internal controls (404 & 302) are among the shortest of the act, but also those that generated the most controversy debate both within the U.S.A. and internationally (Ramos, 2006). The SEC has determined that the company's annual report must contain : a declaration by which top management takes direct responsibility for the development and maintenance of an adequate internal control over financial statements of the company (ICFR); a statement identifying the framework used by management to evaluate the effectiveness of internal controls related to the most recent fiscal year clearly indicating an overall positive or negative conclusion by identifying any material weaknesses in internal controls; a statement by the external auditor containing its opinion on the effectiveness of internal control. The SEC has clarified that the declaration of effectiveness and report only relate to internal controls over financial statements. Management is not required to consider other aspects such as internal controls for efficiency and operational effectiveness, but must identify the risk that threaten the reliability of the assertion implied in the financial reporting and must check, document and evaluate the design and operational effectiveness of controls in place to mitigate risks, in order to prevent and promptly correct risky situations. According to the interpretation of the SEC, the term ICFR includes all policies and business practices that : ensure the accuracy of the accounting records in faithfully reflecting the operations of management and company assets; are designed to provide reasonable assurance that transactions are recorded in a timely and appropriate manner for the preparation of financial statements in accordance with generally accepted accounting principles and that the revenues and expenses are earned or incurred, under the authorization of the managers and directors of the company; prevent or timely detect unauthorized transactions that could have a material impact on the financial statements.

With regard to the approach in conducting the evaluation of the effectiveness of internal control, the SEC has emphasized the ICFR as a management process (SEC, 2007). By these means, SOX involves a detailed structure of internal controls in which the internal auditors play a key role in supporting the operational management and interfacing with the external auditors (Roth & Espersen, 2003). The implementations of the regulation for the management are very important. The demand for formal proof of effectiveness of internal control over financial reporting produces a cascade effect throughout the entire organizational structure that involves all the executives (Green, 2004). On the one hand, the new rules allocate more responsibility on the CEO and CFO and consequently to all management, but on the other hand, a strong internal control system lowers the personal risk, by assuring the management on the accuracy of the operations and financial statements (Wagner & Dittmar, 2006).

Internal controls over financial reporting are processes that provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. These include policies and procedures that : 1.Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer 2.Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the registrant 3.Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the financial statements. The requirements to conduct the assessment and provide the related disclosures have widely been credited with improving public companies' systems of internal control and have also given investors additional insights and confidence with respect to a company's financial reporting.

3. Research issues raised by Sarbanes-Oxley Act

Several studies have analyzed the impact of SOX both generally and specifically with regard to effects on the behavior of firms and markets resulting from the regulation of internal controls. In particular, prior theoretical and empirical research on internal controls over financial reporting has focused on four main areas of research; the costs of compliance to SOX 302 and 404 (O'Brein, 2006; Zhang I.X., 2007); its effects over markets with particular regard to the relationship between the disclosure of internal control weaknesses (Beneish,Billings,& Hodder,2008;Li,Pincus&Rego, 2008; Jan&Rezaee, 2006;Elbannan, 2009).

The better evaluate the impact of SOX it has to be analyzed both costs of implementation of the act and benefits from firm and market side (Mulherin, 2007).However, given the current implementation of the Act, only some studies have given evidence on the realized effects of SOX. (Waver, 2010).Others have examined and predicated the expected outcomes of the act.(Ribstein, 2002).

4. The Extent of the Disclosure and the Timely Reporting of the Financial Report

Referring to the regulation no. 104 Sarbanes-Oxley Act 2002 regarding the obligation to disclosure the internal control system, the consequence for the company is, that it must be able to timely identify the internal control problem. With a timely information presentation, it is hoped that the company can have a reliable financial report that will increase the confidence of the investors. However, due to some reason, the obligation to disclose the weakness of the internal control will not always result in a presentation of a timely financial report (Ghosh & Lubberink, 2006). The weakness of the internal control system of the company influences the ability of the company to begin, to note, to process, and to report the financial data. The weakness of the material internal control happens if there is a lack at one or more of the useful components of the company's internal control which is useful to detect and to avoid one of the materials in its timely financial report. A previous study related to the timely financial statement report was conducted by Karim, Ahmed, & Islam (2006), who had conducted a study about the timely financial

reporting in Bangladesh, and its result indicated that there was no improvement in the timely reporting after the government regulation regarding the delivery of the financial reporting.

5. Executive Compensation and Internal Control System in CG system.

Executive compensation and internal control system are very important in corporate governance system. The separation of ownership from control (Berle and Means, 1932) is the primary source of agency conflicts where the decisions are made by managers and the ultimate costs or benefits of these decisions are borne by investors (Fama and Jensen, 1983). In the principal-agent framework, both the principal (shareholders) and the agent (managers) are assumed to follow their own interests. This implies that corporate resources may not be used entirely to increase shareholder value, but instead may be used for the benefits of corporate insiders (Demsetz and Lehn, 1985). Hence, the agency problem arises as the result of conflicts of interests between the agent and the principal (Jensen and Meckling, 1976). In order to alleviate the negative consequences of this problem, agency theory describes the need for monitoring and contracting arrangements (Fama and Jensen, 1983; Jensen and Meckling, 1976).

Information asymmetries and conflicts of interest between contracting parties are considered important reasons for the commitment to increased transparency and higher quality financial reporting (Healy and Palepu, 2001). As argued by Armstrong et al. (2010, p.179) “the information environment plays a central role both in determining the extent of these conflicts and in designing the mechanisms to mitigate them.” In particular, detailed information about firms’ operating systems, financing, and investing activities, is essential for the efficiency of contracting arrangements. Accounting is a fundamental part of contracting mechanisms since it provides information for designing and evaluating contracts. This implies that certain contractual arrangements are more efficient than others in reducing agency costs, depending on the accounting numbers that are used in contracts (Watts and Zimmerman, 1986). The role that corporate financial reporting and disclosure plays in mitigating agency costs has been considered to be an important area of governance research in the accounting literature (Bushman and Smith, 2001).

Earlier studies, have defined the agency problem in terms of degree of separation between the ownership and control (Jensen & Meckling, 1976; Ros, 1973; Fama F., 1980; Fama & Jensen, 1983). Because the interest of principals (equity holders) and agents (executives) differ, the agency problem is to determine the optimal contract for the agents’ service. A classic agency problem in case of incomplete information is the unobservable agent behavior which leads the principals to two possible options. On the one hand, to control agent’s behavior the principal can purchase the information on agent’s behavior and give rewards consequently, requiring surveillance mechanisms (i.e. internal control system) (Eisenhardt, 1985). On the other hand, the risk can be transferred by aligning the agent’s outcome to firm’s performance (pay for performance). Thus, the central issue in the agency theory is the tradeoff between the cost of controlling agent behavior and compensation costs (Devers, Cannella, Rielly & Yoder, 2007). In an extensive review of compensation research, Gomez-Mejia and Weiseman (1997) reframe and categorize the compensation design in three dimensions:

- (1) criteria used in determining compensation (e.g. firm performance, firm size);
- (2) consequences of the executive (e.g. the level of compensation and the risk of pay);

(3) mechanisms used to link the compensation criteria to the compensation consequences. New certification requirements have been determined under the responsibility of CEO/CFO in the form of a SEC-order and SOX 404 (Geiger & Taylor, 2003). The SOX of 2002, Section 302. CEO/CFO annual and quarterly report assurances, internal control assurances for financial reporting; disclosure controls and procedures assurances; and disclosure to the audit committee and external auditors of material weaknesses in internal controls and fraud. Section 404. CEO/CFO assessment of internal control over financial reporting in the form of an internal control report filed with each annual report and a separate requirement that external and independent auditors issue an attestation report on management's assessment of internal controls.

6. Conclusion

Corporate governance is a term that is frequently used by researchers, practitioners, the media, regulators, and the general public focusing on control mechanisms. While common definitions of corporate governance typically take into account the means to mitigate conflicts of interest between managers and investors (see Bushman and Smith, 2001), it has not been possible to find a complete general agreement on the definition of corporate governance. Internal control relating to financial reporting is based on a control environment that includes the organisation, the decision-making process, authority and responsibility and which has been documented and communicated in management documents. An example of this is the division of responsibility between the board and the chief executive officer as well as instructions for authorisation rights, and accounting and reporting instructions. The internal auditors and external auditors of the organization also measure the effectiveness of internal control through their efforts. They assess whether the controls are properly designed, implemented and working effectively, and make recommendations on how to improve internal control. Corporate governance concerns, including independent boards of directors and efficient executive compensation contracts, are subject to extensive debate in many countries. In Europe, there has been an increased focus on enforcing strong legal institutions for better investor protection, introducing corporate governance codes for improving governance practices, and promoting more transparency and shareholder oversight on executive compensation. Therefore, it is of contemporary significance to examine how these recent reforms in corporate governance affect the transparency and governance of corporations. An increased transparency, higher quality of financial reporting, and effective corporate governance system are at the center of attention of practitioners, regulatory bodies, and academics. In particular, the above discussion shows that there is a close connection between efficiency of contracts, information transparency, and governance mechanisms. Referring to the regulation no. 104 Sarbanes-Oxley Act 2002 regarding the obligation to disclose the internal control system, the consequence for the company is, that it must be able to timely identify the internal control problem. The costliest part of the Sarbanes-Oxley Act is Section 404, which requires public companies to perform extensive internal control tests and include an internal control report with their annual audits. Testing and documenting manual and automated controls in financial reporting requires enormous effort and involvement of not only external accountants, but also experienced IT personnel. The compliance cost is especially burdensome for companies that heavily rely on manual controls. The Sarbanes-Oxley Act encouraged companies to make their financial reporting more efficient, centralized and automated. The Sarbanes-Oxley Act changes management's responsibility for financial reporting significantly. The act requires that

top managers personally certify the accuracy of financial reports. If a top manager knowingly or willfully makes a false certification, he can face 10 to 20 years in prison. If the company is forced to make a required accounting restatement due to management's misconduct, top managers can be forced to give up their bonuses or profits made from selling the company's stock. If the director or officer is convicted in securities law violation, he can be prohibited from serving in the same role at the public company. The effort to increase the internal control's activities will cause an increase in significant cost for the manager. The manager needs more cost for their efforts to reach an effective internal control system, compared to the benefits that the company will receive. There was a relationship between the extent of the disclosure of the internal control with the executive compensation and the timely publication of the company's financial report. This means that the more extensive internal control disclosure the higher compensation received by the executive. The more extensive disclosure of the internal control indicated a good executive performance so that it could push the effective internal control. The good executive performance will push the compensation higher. The result of this study was in accordance with Shon & Weiss (2009), which had proven that there was a positive relationship between the executive compensation and the effective internal control system and Financial Reporting as a important parts of corporate governance. Therefore, it can be concluded that the efforts to increase the internal control effectiveness will cause a significant increase in cost for the managers. The managers need more cost for their efforts to achieve an effective internal control, compared to the benefits that the company will receive. Hence, incentive is very much needed in their effort to reach that benefit. The company will adjust the compensation contract to motivate the managers in creating an effective internal control (Shon & Weiss, 2009).

Finally good corporate governance creates a transparent set of rules and controls in which shareholders, directors and officers have aligned incentives. Most companies strive to have a high level of corporate governance. For many shareholders, it is not enough for a company to merely be profitable; it also needs to demonstrate good corporate citizenship through environmental awareness, ethical behavior and sound corporate governance practices.

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USE OF TECHNOLOGY IN HERITAGE CURRICULA TO FURTHER DIALOGUE IN UNIVERSITY AULA

Dorina Xheraj-Subashi ¹

ABSTRACT

Objective: This paper is going to evaluate the role and the approach of several usage of technology as an effective tool that enhance the knowledge in some aspects of culture heritage and archaeology, but that also create a diverse dialogue and critical thinking among students. We are going to analyze the practical function of technology as an important tool that serve to improve several skills during a lecture and as a creative tool for generating ideas and deepen dialogue.

Data and methods: The case study will be based not only in the theoretical meaning about the applied technology in human sciences like heritage sites, museum practices, archaeological surveys, lifelong learning platforms, by understanding its practical impact in our university aula. The use of comparative data about the role and implementation of technology in other academic institutions especially in heritage curricula will define the achievement of other institutions in this regard, and also will help to evaluate its implementation among students during their research activities.

Results: The possible expectation will sum up the practical work difficulties, innovation ideas, funding issues, in order to evaluate in what measure we have to introduce digital platforms in the future. By using the quantitative questionnaires and the practical work of the students we will be able to think about how to propose in the future interesting lectures for heritage curricula.

Conclusions: We expect to understand the relationship of students with technology and its benefits by choosing digital tool to enhance their experience.

Keywords: *cultural, heritage, technological change, interpretation*

JEL Classification: Z10 Z13 O31

1. Introduction

Digital curation is essential not only for the sciences but also for preservation of culture heritage materials as well². We all are awareness about the role and the influence that technology does in our lives. Otherwise, its usage has been common to our reality from different times, since we use it in economy or digital media by creating relative apps, but as far as we are involved in class lecturing we are not confident making technology an attractive tool while lecturing, by using digital platforms that enhance the experience and the collaborative learning between students. The application to be equipped with scientific and technological knowledge was also one of the

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² Tibbo, R. H; Duff, W. *Toward a digital curation curriculum for museum studies: A North American Perspective*, 2008 Annual Conference of CIDOC, Athens, September 15-18, 2008, pg.2

European Parliament and Council recommendations since 18 December 2006³. Taking in mind the power of internet, the question raised goes to the advantages that might create the use of technology in humanity sciences by implementing this reality to improve the quality of lecturing in auditoriums as a new perspective and alternative that enrich curricula value's, the diversity of imagination and the critical thinking. The technology is the tool where we all rush to get application, but if a percentage of time we pass in Internet would be used in qualitative way from our student; the knowledge and its application shall take broader dimension in improving the quality of lectures.

2. Methodology

We have to admit that already most of universities has began implementing the diversity of lectures not only in the narrative and descriptive approach in a specific topic but bringing in classes real examples of comparison between objects (past-actual), videos, theatrical recreations to different aspects of life or even by using timeline format. One of most effective way we have implemented in some key topics in our aula has been asking students to navigate and make research in their own digital phone devices: and in this cases their interest and astonishment has been immediate. By provoking this alternative way it was easy to capture attention and developing the critical thinking in a special topic. These are not unknown experiences elsewhere. Many universities and especially to those faculties when tourism or human sciences are studied have already experienced in these issues like:

<http://www.pomui.unimore.it/site/home.html>⁵; www.imago.rimini.unibo.it;
<https://pastel.hypotheses.org/>; <http://www.digicult.info>.

Each of these websites has create e database of information divided in several areas of study that comprise various aspects of social history, scientific patrimony to finally create a university heritage network that enhance communication and valorization of heritage.

Involving students in these initiatives provide them responsible role, new skills and deepen information by making student specialized in a certain field, by influencing also in inclusion and education. The use of any of them has its advantages, because not only attract the interest among students but develop further the analytical and critical thinking.

3. Results

In addition of this we start implementing technology in course assignment made by the student Igli Bego, where in collaboration lecturer and student, made this assignment valuable not only in the academic experience but led him to collect information and then assembled in a small digital project for the education of other alumni. In his assignment it was asked him to create a Google

³<http://eur-lex.europa.eu/eli/reco/2006/962/oj>, [accessed 17.03.2017]

⁴Corradini , E; Campanella, L. *The Italian University Museums Network for the Guidance of the Scientific Culture, Museum Education and Accessibility: Bridging the Gaps Proceedings* , Edited by Dr. Giuseppe (Pino) Monaco, Smithsonian Center for Learning and Digital Access, 2016, ICOM-CECA, pg.91

⁵Corradini , E; Campanella, L. *The Italian University Museums Network for the Guidance of the Scientific Culture, Museum Education and Accessibility: Bridging the Gaps Proceedings* , Edited by Dr. Giuseppe (Pino) Monaco, Smithsonian Center for Learning and Digital Access, 2016, ICOM-CECA, pg.91

Map and then identifying there different countries where works of art and culture heritage sites were stealed or damaged after the Word War II. To do that I asked him to extend the data only for three countries that we previously had extra information (satellite coordinates, country, period and place, name of work of art stealed) with the help of Interpol database and news.culturecrime.org. These two links were very helpful for us, but this was a demanding process. To accomplish the information the images were supplemented with a brief description and an image. In this case we wanted to share with other students some facts: first giving them the location of the country where this happened by connecting the place of origin and a little history of the work of art missing. We are conscious that all data collected and implemented were made by a person and this course assignment had not many choices but we consider this as the first step in implementing digital technology in a heritage course.

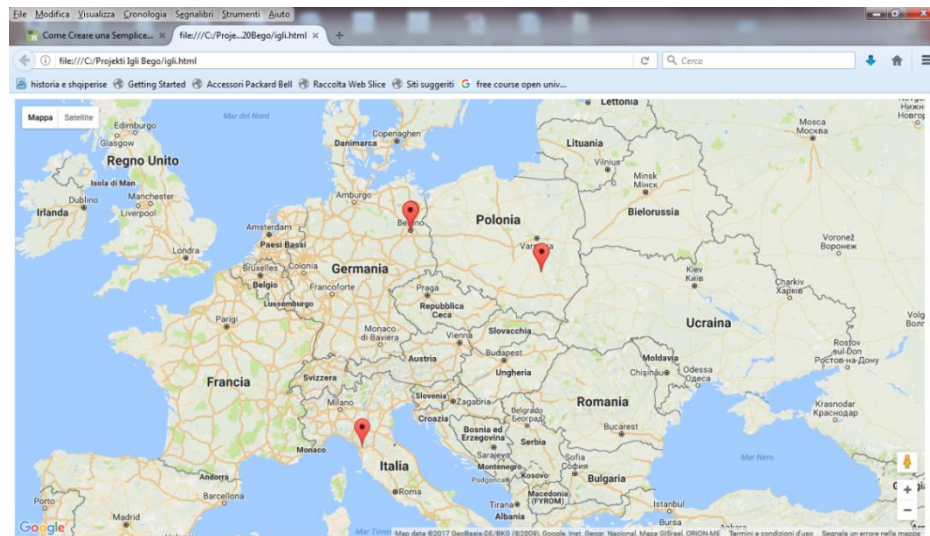


Fig.1 Google map. The location where are lost the art works.

Source: Course assignment by Igli Bego

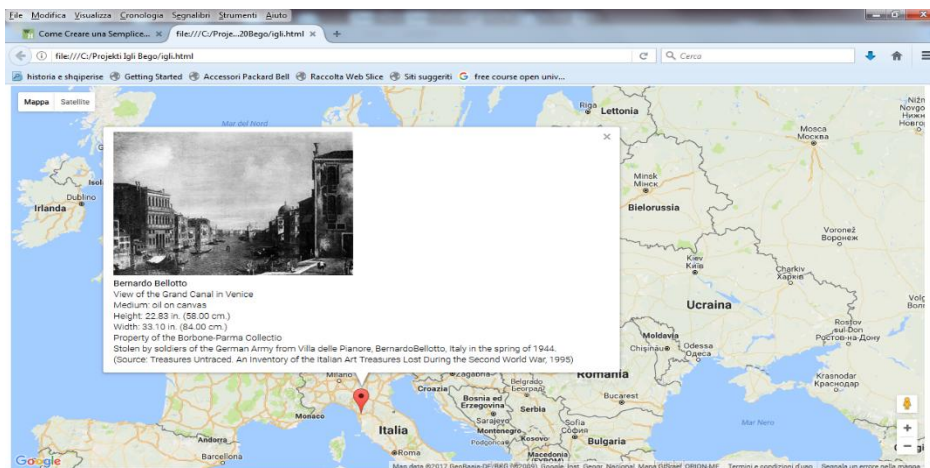


Fig.2. Description of the lost art work.

Source: Course assignment by Igli Bego

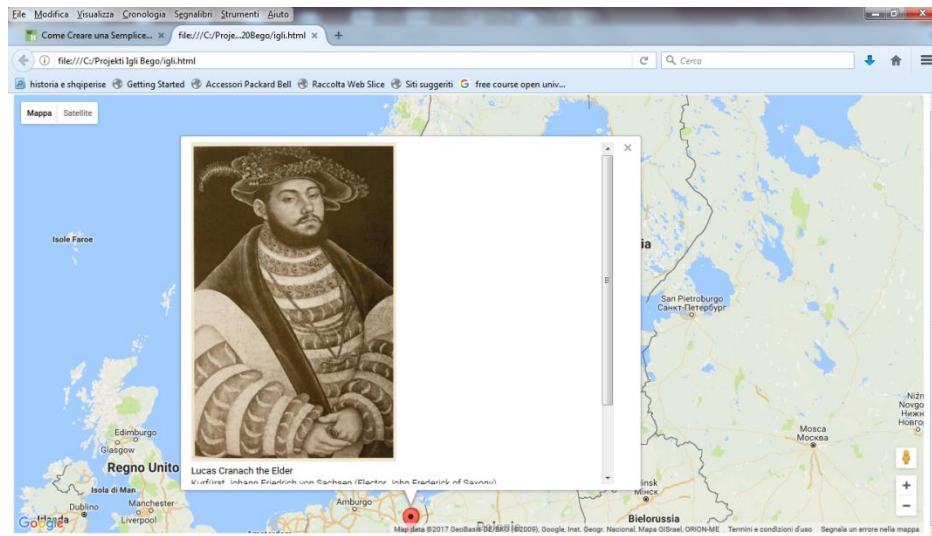


Fig.3. Information about the missing art work.

Source: Course assignment by Igli Bego

4. Conclusion

Initiatives in digital humanities have demonstrated a paradigm shift in how cultural heritage materials can be searched, mined, displayed, taught and analyzing utilizing digital technologies⁶. In doing this my intention has been so far gathering and sharing digital videos, timeline, virtual exhibition that helped students have a broad and comparative idea about the small funds that this initiative requires to be developed. Just motivation and serious engagement to participate, and this is a precious first step. To achieve this they need orientation and a motivated supervisor. I am of the opinion that the creation of a blog not only will emphasize the reputation of institution, but might change the evaluation of the local territory. By enriching it with updated and scientific data, images, information that shall pass into a cataloging, this research process than, led the valorization of tangible and intangible heritage, and as a consequence empower the values of a certain territory. In this context students will be the real actors in term of collecting, selection and peers of used histories guided by a lector for each field, to finally enhance their collaboration with other universities by sharing stories, knowledge improve education for their common heritage.

A preliminary framework of this blog/database might include these topics:

Tangible heritage:	<i>Archaeology</i>	<i>Architectural Buildings</i>	<i>Contemporary Buildings</i>	<i>Drawings, Work of Art</i>	<i>Worships Monuments</i>
Intangible heritage	Storytelling	Oral history	Traditions	Customs	Photos
Environment	Landscape	Territory	Road Map	Maritime Map	
Technology	Re-creation	3D modelling	Videos		
Industrial Heritage					

Source: Author D.Xheraj-Subashi

⁶<http://www.asist.org/events/webinars/introducing-cultural-heritage-informatics-into-the-curriculum-of-lis-education/>, last access 25.03.2017

Technology has a broader meaning and in this context we should not be limited to create a heritage blog/virtual laboratory/virtual database, that might be valuable to anyone, and student may have access in any time and in doing so we give to them an effective tool that improve their studies. We believe that creating and get involved in such initiative might be a valuable possibility for tourism students and led them to gain new practical skills, improve access and practice to cultural heritage, as well the use of heritage to an effective communication even in social context. In addition of this they also provide possibilities to develop also projects for virtual exhibition, digital collection and environment. Forwarding we could include opportunities to participate in projects that develop 'ambient intelligence' services and applications, allowing them to be among the first to attract on-site and online visitors with compelling new cultural experiences⁷.

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⁷ The Future Digital Heritage Space An Expedition Report Thematic Issue, Guntram Geser and John Pereira (eds.) 7 December 2004, pg.5

INNOVATIVE THINKING ROLE IN SUSTAINABLE GROWTH

Ina Keçi¹

ABSTRACT

The main purpose of this paper is to discuss and evaluate the innovative thinking role in sustainable growth by identifying and conceptualizing a theoretical model. Sustainable growth represents a priority topic for business that faces with growing demands of environmental challenges. By the other hand, innovation is at the center of the European Commission 2030 Agenda for growth, specially innovative thinking is a priority for each company, institution and personal level. As innovation is the key to meet sustainable development challenges, the main objective of this paper is to examine how innovative thinking development leads to sustainable growth. Research on the links between sustainability and innovative thinking have much in common thus determining reasonable the effort to build a strategic model that describes this relationship. By drawing upon existing literature is addressed the question of which are the factors of innovative thinking that affect sustainable growth. The paper provides a revised conceptualization that ends by building a theoretical framework spectrum.

Keywords: *sustainable growth, innovation, innovative thinking, strategic model, creation of shared value, global partnership*

Jel Classification: *A13, O32, O33, O35*

1. Introduction

According to the awareness raised by the 2030 Agenda of European Commission creativity and innovation are emphasized as key drivers of personal, social and economic development. The terms of creative solution and innovative practices are defined as a catalyst to the growth and well-being for the European Union regions and countries (European Commission, 2015).

The concept of sustainability is first identified and originated from the World Commission on the Environment and Development, in the 1987 report "Our Common Future", which brought an absolute case for linking the natural environment with the global economy. In this report the World Commission argued about the serious economic consequences from environmental neglect, by advocating the adoption of sustainability as a framework for interpreting development processes (World Commission 1987).

The basic logic that explains the importance of studying sustainable development is based on the on the close connection of economic activity with people's material standard of living, resource use, consumption, production and quality of life. Relying on the fact that economic activity is largely founded on the operation of markets, the debate about sustainable economic development is correlated with the extent to which markets could produce sustainable economic development. Referring to the sustainability point of view, three are the main elements affected and involved from the interaction and operation of markets to achieve growth: the use of resources, environmental impacts and social change. Ensuring sustainable growth, increased

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income must come about in a way that does not reduce the ability of the environment to keep providing at least the same level of income into the future.

In the context of these arguments it emerges the role of innovative thinking and innovation contributing to sustainable development. According to UN Millennium Project (2005) innovation plays several roles in general development and in sustainability transition in particular. Based on the fact that the competition of developing countries can be driven by trying to offer low-priced goods and leading to declining prices, innovation can be a way to sustain economic growth. Another contribution of innovation is that it can reduce hunger and poverty by helping to increase agricultural productivity, thereby lowering food prices. Finally, innovation can promote sustainability by offering new environmentally-friendly modes of economic production and consumption. Advancing a nation's capacity in innovation and its effective application in economic activities are, therefore, essential factors for expanding people's capabilities and achieving sustainable development.

2. Deriving from innovative thinking to sustainable development

The main role that innovation as a result of well implemented innovative thinking, plays in driving economic growth is well known from the work of Robert Solow². According to Solow: "An especially easy kind of technological change is that which simply multiplies the production function by an increasing scale factor" (Solow, 2007). This statement describes fairly clear that technological advance defines a significant part of economic growth. Relying on the conclusions of the work of this author we can confirm that policies aiming to promote the technological developments create the opportunity to promote economic growth and ensure a simultaneous confronting to the challenges in the competitive environment.

Arguments of other authors in convergence with Solow's thinking line follow the same logic and refer to technological developments with the term of technological innovation. Researcher like Uzunidiz (2009) claims that technological innovation plays an ambivalent role in a sustainable development context: first as the source of the problem (for the ecological side) and second representing hope for a solution. Also Hartmann (2007) relying on the Neo-Schumpeterian analyses argues that technological innovation has a more pronounced role than a multiplicity of innovation forms emphasized by Schumpeter (Hanuschet.al. 2007).

Porter et al (2011) has studied the role of innovation in the sustainable development through the shared value strategy hypothesis. The researcher through this hypothesis argues that, it is possible for a company to create simultaneously social and economic value through technological innovation. Thus the value created to solve a social problem enables a parallel creation of an economic value. If a business achieves an innovation that can be used for the solution of a social problem, its competitive advantage will increase. Isada et al. (2015) claim that the management strategy followed by a firm for solving social problems, helps in structuring long-term organizational capability thus offering a sustainable asset for long term competitiveness.

Anadon et.al, (2015) along with identification of the importance of technological innovation have also described the imbalances arising from the innovation systems, driven primarily by markets and the most highly-resourced states, so that the needs of marginalized populations and future generations are not adequately met.

²Nobel Prize Laureate in Economics in 1987

Innovation is not only as a driving force for sustainable industrial development, but also a tool for poverty reduction, for economic growth and competitiveness. Morssy (2012) represents innovation as a form of added value and underlines the innovation role as a risk management tool improving the chances to deal successfully with local or change, incurred by social, economic or sustainability pressures.

In the context of sustainable development, the products or services created through innovative thinking and creativity must accomplish a very important condition. They should be designed and provided in such a way that would provide a path to examine the economic, environmental and social results of decision-making, thus serving as an important tool for ensuring that long-term impacts are not ignored at the expense of short-term benefits. The main debate according to researchers is the uncertainty regarding how to best promote sustainable change and the impacts of policies and mechanisms taken towards sustainable development (Elliot, 2013).

The concept of strategic alliances is also advocated by authors as a link between innovation and sustainable development. According to Hart et al., (2013) sustainability is a keyword in shareholder value which leads human beings to a sustainable society. A company is successful as long as its value is continuously created to the satisfaction of the main stakeholders. Spekman et al., (1998) argues that strategic alliances are close and long-term, and there is a reciprocity between plural partners in terms of sharing resources, knowledge and capabilities with the aim of strengthening each partner's competition status.

According to Hamel et al., (1998) the aim of a strategic alliance is the creation of three values: they are co-option, co-specialization and learning. Co-option relates to gaining the majority position in the industry and catching a defacto standard. Co-specialization is the acquisition of external managerial resources, positioning, skill and knowledge. Learning is studying the skills performed excellently by those in the companion company. That is, learning mutually is important when seeking to increase presence in a market. Badaracco (1991) claims that, a strategic alliance is divided into product links and knowledge links. Generally, product links are formed in many cases in order to fill gaps in the product portfolio of a company.

Inkpen (2010) states that, if a strategic alliance is managed appropriately, it can become a powerful method for creating new organizational knowledge. According to Badaracco (1991), in catching the essence of the strategic alliance as knowledge links, knowledge is divided into two types: migratory knowledge and embedded knowledge. Migratory knowledge it is knowledge which can be expressed clearly, it is knowledge with easy transfer. On the other hand, the transfer of embedded knowledge is slow and it is a knowledge which exists in a complicated social relationship. So again identifying creative thinking as a form of new knowledge, contributes to sustainable development by referring to the approach that strategic alliances.

The Green Growth (GG) concept supports the development of green industries, jobs and technologies, whilst allowing for a smooth transition into a green economy. The overall objective is to integrate economic development, environmental sustainability and social equality into all levels of decision making – ranging from the government, industry, right down to the consumer. Green Growth can be defined as “economic progress that fosters environmentally sustainable, low-carbon and socially inclusive development”, whilst utilizing fewer resources and generating fewer emissions in meeting demands for food production, transport, construction, housing and energy. It integrates key aspects of economic performance, such as poverty reduction, job creation, social responsibility, whilst also improving a nation's environmental performance through the mitigation of climate change and biodiversity loss, as well as the security of access to clean water and energy (Morssy, A.2012).

Nidumolu et.al (2009) describes that by treating sustainability as a goal today, early movers will develop competencies that rivals will be hard-pressed to match. That competitive advantage will stand them in good stead, because sustainability will always be an integral part of development. Authors propose a model of five steps at company level to be followed to ensure sustainability advantage: (1) viewing compliance as opportunity - in addition to legal standards, enterprises feel pressured to abide by voluntary codes; (2) Making Value Chains Sustainable- companies must develop sustainable operations by analyzing each link in the value chain; (3) Designing Sustainable Products and Services- redesign existing products or develop new ones; (4) Developing New Business Models- requires exploring alternatives to current ways of doing business as well as understanding how companies can meet customers' needs differently; (5) Creating Next-Practice Platforms- to develop innovations that lead to next practices, executives must question the implicit assumptions behind current practices.

The presented model from Nidumolu et.al (2009) through the fifth phase of "Creating Next-Practice Platforms", it enables us to conclude for a mutual and reciprocal relationship between the innovative thinking and sustainable development. This kind of interactive relations is also evidenced by the previous scholars. Hockerts (2003) suggests that sustainable development drives innovations. Other authors of the study in the sustainable development field, have developed approaches for linking sustainability to advancing management tools for the creation of new markets through environmental innovation (Fussler, 1996; Cohen et al., 2008).

3. The European 2030 Sustainability Agenda and Innovation role

The 2030 Agenda for Sustainable Development builds on the experience of Millennium Development Goals (MDGs), which have made an enormous contribution in the fight to end poverty. The Agenda itself consists of 4 sections: (i) a political Declaration (ii) a set of 17 Sustainable Development Goals (SDGs) and 169 targets (iii) Means of Implementation (iv) a framework for follow up and review of the Agenda (European Commission, 2015).

The sustainable development goals are global and universally applicable, taking into account national realities, capacities and levels of development and specific challenges. All countries have a shared responsibility to achieve the SDGs, and all have a meaningful role to play locally, nationally as well as on the global scale. In addition, the 2030 Agenda integrates in a balanced manner the three dimensions of sustainable development – economic, social and environmental. The 2030 Agenda is also indivisible, in a sense that it must be implemented as a whole, in an integrated rather than a fragmented manner, recognizing that the different goals and targets are closely interlinked. The 2030 Agenda is based on the concept of *global partnership* (European Commission, 2015).

The role and importance of the innovation as an essential component of the impact on growth and sustainable development are also stated in the preceding strategies of European Commission. The approach of EU 2020 Agenda for growth is identified through three complementary objectives of "smart, sustainable, and inclusive growth" built upon seven flagship initiatives. A number of these flagship initiatives with a focus on resource efficiency (Resource Efficient Europe, Innovation Union) and industrial policy (An industrial policy for the globalization era) have potential relevance to the innovation topic (European Commission, 2010).

Smart growth involves finding new ways of solving old problems, and implies tapping in to resources of creativity that exist in the workforce and in the population at large. *Creativity* is seen

as a key resource in the new economy, underpinning the more specific concept of the *creative economy*, a dynamic sector of the macroeconomy centred on the creative industries. The concept of the creative economy covers a wide range of industries where creativity is an important input. In its broadest interpretation, the term creative industries covers a wide range of industries including those relying on scientific and technical creativity such as software and industrial design.

One way of fostering smart growth is to encourage the development of the creative economy. The targets of the Europe 2030 initiative innovation union include: *strengthen the knowledge base by promoting the education and skills development*; get good ideas to market by creating better access to finance for enterprises and creating a single innovation market; increase social and territorial cohesion.

4. Conclusions

From the examination of the arguments by literature and by comparing them with the general content of the 2030 European agenda for development we can distinguish some convergence for innovative thinking role and its involvement in the context of sustainable growth. Concepts through which this convergence is evidenced are: creativity, creative economy, global partnership, green growth, global partnership, shared responsibility. In each of them innovation as a synonymous of innovative thinking expressed in the form of creativity, technological developments or technological innovation, or new knowledge or arisen as a result of the strengthening of knowledge or skills translated into new products or services, appears as a very important catalyst for generating sustainable growth.

The following theoretical framework presents schematically this convergence and the interactive relation of innovative thinking and sustainability, where each of them serves as a catalyst in a mutual relationship.

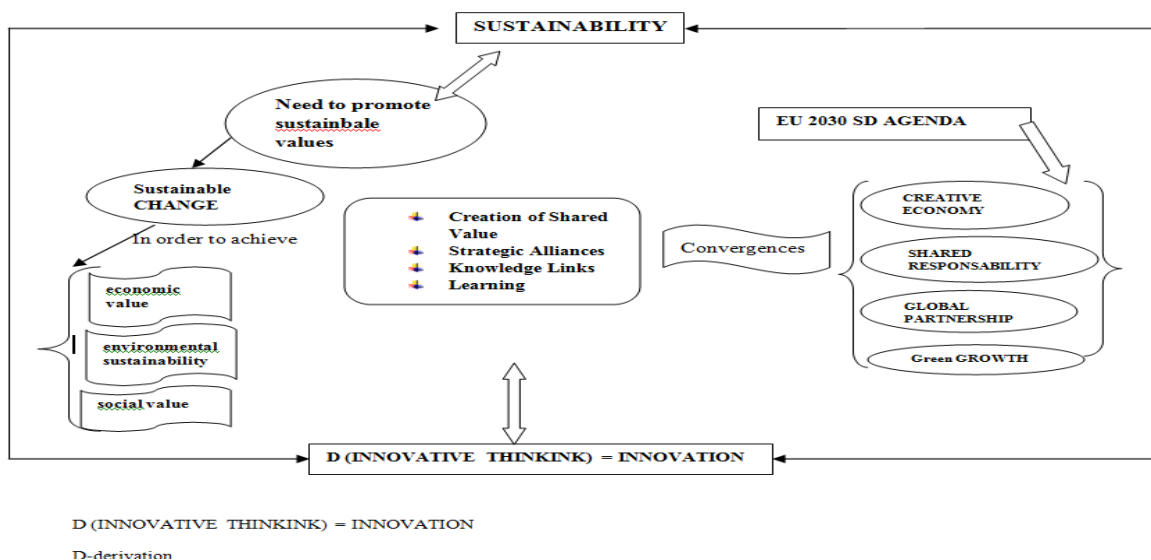


Figure 4. Theoretical Framework

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NEW BUSINESS OPPORTUNITIES BASED ON SUSTAINABLE INNOVATION

Maja Levi Jaksic¹

ABSTRACT

The paper deals with sustainability driving forces of new business opportunities. The objective is to investigate sustainability driven innovation as an entrepreneurial opportunity and to further develop the concept of sustainable innovation based on the two main domains of technological and business innovation. Based on the analysis of successful innovative company practices and performance results in the world today, it is found that the sustainable innovative power is the driving force of their success. The dual character and interplay of push-pull relations of sustainable technology/business innovation is argued to be the entrepreneurial opportunity recognized within the new business organization that has led to its competitiveness and success. The analysis also shows that there is a rising number of companies from the less developed, emerging economies among the most successful and innovative companies in the world that recognize business opportunities based on sustainable innovation. Base of the Pyramid (BoP) considerations point to the mass markets needs not yet served by adequate technology products, services and processes that present a challenge and at the same time a business opportunity potential not yet recognized nor exploited to its full capacity.

Keywords: *business opportunity, sustainability drivers, dual innovation*

JEL Classification: *O35, L21, O33*

1. Introduction

Sustainable technology and business innovation, a central pillar of sustainable entrepreneurship, is one of the main forces of sustainable development (SD). In this paper sustainability goals and principles, embedded in sustainable technology and business innovation of an organization, are argued to be the driving force of new business opportunities, firm growth and development. At firm level, it is necessary to reconcile sustainability aspects, simultaneously fulfilling all the stakeholders' needs while reaching profitability and respecting the diversified demands of social goals fulfilment (Adams, 2014; Epstein & Roy, 2001, Levi Jakšić, 2015).

SD is most commonly defined as “the development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (Brundtland Report, 1987). There is evidence of a rising interest of researchers and practitioners in sustainable technology and business innovations, especially dealing with technology innovation embedded in a business environment that contribute to developing sustainable economies and societies. (Boons & Ludeke-Freund, 2013; Bocken et al., 2014; Rainey, 2006).

Sustainable entrepreneurship deals with the complex sustainability aspects of the main contingencies: business opportunity, technology and business model innovation and organization.

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The remainder of the paper is organized in the following manner: Section 2 explicates the aims of the research with an elaboration of the basic concepts and contingencies of sustainable technology entrepreneurship. It brings into attention the assumptions and the main hypothesis of the research and points to its relevance for Base of the Pyramid (BoP) economies. Section 3 presents the results of theoretical and empirical research of SD dimensions, sustainable business goals and sustainable technology and business innovation principles. It gives argument for sustainable innovation presenting a driver for business opportunity. Section 4 deals with concluding remarks, indicates limitations as well as elements of future research. At the end the References are presented.

2. Theoretical background

2.1. Research framework

The aim of this paper is to investigate the character of sustainability factors influencing strategic and operational changes of doing business at the company level.

The basic premise and starting point of the research is that sustainable development of the economy and society is creating an environment where only the sustainable businesses will pertain, succeed and develop.

Following this premise the following assumptions are used in this paper: companies play a central role in achieving sustainable development, indicating high relevance of the research in sustainable business growth and development factors, and sustainable technology entrepreneurship leads to the growth and development of firms.

Based on the listed assumptions, and focusing sustainable goals as entrepreneurial opportunity, the research is oriented at two main research hypothesis and goals:

1. the crucial dimensions of sustainable development are translated into sustainable business goals and principles of sustainable business and technology innovation, and
2. sustainable innovations are the drivers of new business opportunities and are of special significance for BoP economies.

2.2. Technology and innovation Entrepreneurship

The definitions of entrepreneurship vary in scope, focus, research objectives and domains. Entrepreneurship is described by terms “new, innovative, flexible, dynamic, creative and risk taking” (Coulter 2001, p.3). Special significance and emphasis is given to the perspective of creating new business organization. (Dollinger 1999) and on creativity centred on four issues: 1. the creation of new ventures and organizations, 2. creation of new combinations of goods and services, methods of production, markets and supply chains (Schumpeter 1934); 3. creative recognition of new and existing opportunities; 4. creative (cognitive processes, behaviour and modes of action) to exploit new and existing opportunities. (Meyer et al., 1999)

Emphasizing risk, entrepreneurship is also defined as “an ability to recognize and a risk-willingness to exploit entrepreneurial opportunities”. (Ulhoi 2005)

Technology entrepreneurship focuses technology innovation as the competitive force. It is oriented at building strong links between scientific results, new technologies, learning and bringing new value to the customer in the form of advanced products and services brought to the market. Technology entrepreneurs have a task to bring together the technical world and the business world in profitable way. (Byers et al, 2011, Etlie, 2000)

Sustainable technology entrepreneurship is strategically related to the aims of decreasing and diminishing the harmful influence of business operations on the environment while simultaneously fulfilling the economic and social goals, more specifically translated into the fulfillment of the needs of all the stake-holders. (Rainey 2006)

A business model is a conceptual tool to help understand how a firm does business and can be used for analysis, comparison and performance assessment, management, communication and innovation (Osterwalder & Pigneur, 2005). Also, a business model is used as a plan which specifies how a new venture can become profitable (Boons & Ludeke-Freund, 2013) and it describes “how companies create and deliver value to their customers and how they get rewarded for doing that” (Mendelson, 2014; Callon et al., 2007). The relevance of business model innovation in delivering greater social and environmental sustainability is increasingly recognized (Bocken et al., 2014). In this paper a business model is defined by three elements: value proposition, value creation, and delivery and value capture (Sempels & Hoffman, 2013; Boons & Ludeke-Freund, 2013).

Technology innovation is approached by adopting the OECD definition: “Technological product and process (TPP) innovations comprise implemented technologically new products and processes and significant technological improvements in products and processes. A TPP innovation has been implemented if it has been introduced on the market (product innovation) or used within a production process (process innovation)”. Following this definition, ‘product’ comprises not only manufacturing output, but also services (Cetindamar et al., 2009). Business model and technology innovation are inseparable as briefly stated by Chesbrough (2014) “Innovate the business model, not just the technology” and in this paper it is argued that sustainable technology innovation is inseparable from sustainable business development. (Levi Jaksic, 2015).

2.3. BoP considerations

In recent works special attention is given to Base of Pyramid (BoP) and transition economies with focus on a set of specific aspects of sustainability that are critical to their efficient and effective development.

The new business model is rapidly being developed in emerging economies (e.g. well known example of Gramen bank, or Tata Motors of India with Nano – the world's cheapest car). Technological innovation driven by «frugal use of resources through a new combination of existing component technologies created a new modular product to achieve the unique price-performance requirements demanded by the BoP.» (Ray&Ray, 2011)

In circumstances of «limited economic resources, scarce employment opportunities, abundance of unskilled labour, low levels of technological know-how and insufficient governmental capabilities» (Bardy& Massaro, 2013., p. 140) present in BoP economies, it is the logical response to these circumstances to address all the listed problems and search for solutions by integrating the economic, social and ecological dimensions and goals. It is in the context of «developing economies in the world of emerging nations» where the sustainability issues are beginning to play an increasingly significant role. (Bardy& Massaro, 2013)

The BoP mass consumer needs can be satisfied by low performance technology as «firms often add features (speed, power, etc) to products faster than customers' capacity to absorb them.» (Schilling, M., pp. 58). It is argued that while both the trajectory of technology improvement and trajectory of customer demands are ‘upward sloping’, the former is steeper and often requires learning on how to use new features and adapt their work and life styles.

Introducing concepts of market segmentation as high-end and mass market it is shown that the mass market is very often not served in the situation of steep high performance technology trajectory improvements. This gap (Figure 1) clearly shows an open space for adapting technological innovation serving the mass low-end market needs. Sustainable technological breakthroughs noted in emerging economies is addressing these market segments and the orientation at serving the mass market needs in frugal circumstances has already shown results. These innovative, sustainable solutions represented by the sustainable technology trajectory B (Figure 1), oriented at frugal innovation have shown potentials for the high-end market in view of their sustainability capacity. «The overlooked, undeserved and seemingly profitable end of the market can provide fertile ground for massive competitive advantage». (Grove, 1999, p.11) The same is true for the new, innovative, sustainable business models.

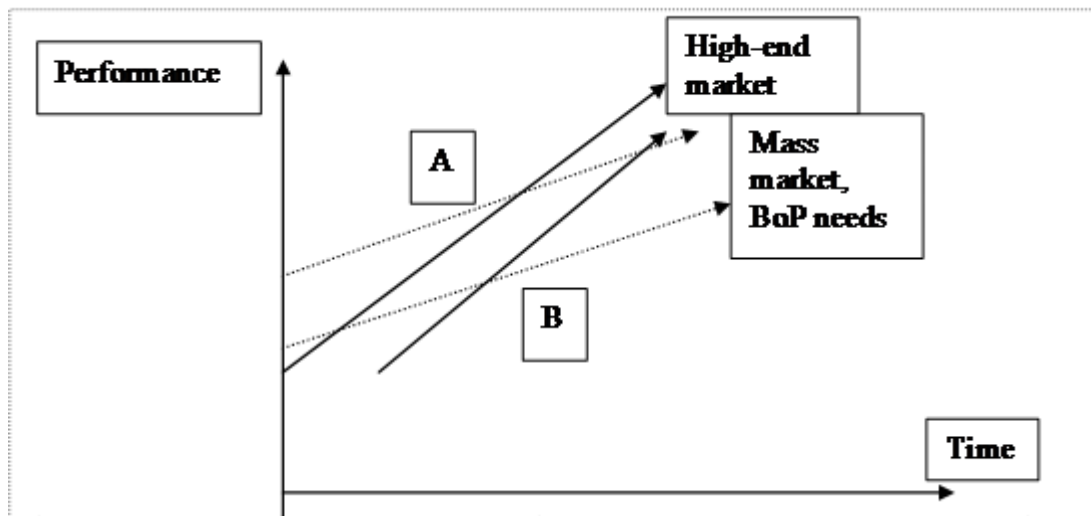


Figure 1. High performance Technology A and Sustainable technology B intersecting Mass market trajectory serving the BoP needs (Adapted from M. Schilling, pp 58)

3. Results

3.1. Sustainable business goals and principles of sustainable innovation

Sustainable business competitiveness means the achievement of a set of different goals – economic and non-economic – of the firm. Based on complexity, dependency and contingency theories, much effort is made to identify and select priorities by relevance criteria attributed to factors influencing the concrete business and the specific situation of different firms.

Tables 1, 2 and 3 show the results of the theoretical and empirical research analysis as the first research hypothesis and goal in this paper, in identifying sustainable development dimensions, sustainable business goals and sustainable technology and business innovation principles, respectively (Levi Jakšić, et al, 2016).

Table 1. Sustainable Development Dimensions

Sustainable Development Dimensions	Description
Circular economy	Defined by the rule of transforming 'waste' into a productive resource and transformation from linear to circular flows in the economy, cited as the "new industrial system that replaces 'end/of life' concept by restoration and regeneration by intention and design" (Sempels & Hoffman, 2013).
Substitute with renewables, alternatives and natural processes	Preserve the natural environment and reduce the exploitation of scarce natural resources.
Minimize consumption	Overall change of attitudes and behaviour of all the actors in the economy and society, based on a new philosophy of economic and social relations. It is also defined as solutions actively seeking to encourage sufficiency based business models reframing the value proposition to better address the broader range of stakeholders (Bocken et al., 2014).
Maximize social and environmental (S-E) benefit	Establishing S-E benefit/cost relationship, with efforts at maximizing S-E benefits and minimizing S-E costs based on rethinking and reconsideration at a global scale the principles and models that have been developed in the traditional approaches and applied in practice.
Positive work experiences enhancing creativity & innovation	Enhancing human creativity and skills is emphasizing the satisfaction of working population as the driving force of creativity and innovation.
Collaboration and sharing	A new model replacing aggressive competition as a quest for more integration and cooperative solutions in the activities of the agents in the economic system. It means strategic orientation towards the BlueOcean strategy (Sempels & Hoffmann, 2013).
Factor 4	Described as a new form of progress - resource productivity, the concept introduced by Von Weizsacker, Lovins and Lovins (1997, 1998) stating that the amount of wealth extracted from one unit of natural resource can quadruple. It is defined as a strategy of halving resource use and doubling wealth. (Bardy & Massaro, 2013).

Source: Original work

Table 2. Sustainable Business Goals

Sustainable Business Goals (SBG)	Description
Max. material and energy efficiency	Enhancing material productivity, resource efficiency and waste reduction.
Create value from waste	Waste is eliminated by turning waste streams into useful and valuable input to other production and making better use of underutilized capacity.
Zero waste & emissions	A goal that sets high business operations quality management standards and procedures
Deliver functionality rather than product ownership	A strategic goal to provide services that satisfy users' needs without having to own physical products (Bocken et al., 2014)
Stakeholder satisfaction	A goal that identifies the interests of firm's various stakeholders and articulates the specific goals and strategy to satisfying these goals.

	(Adams, 2014, Epstein, 2011)
Reduce costs	A general goal reducing all the costs: direct, indirect, hidden, external and publicly imposed (Rainey, 2006).

Source: Original work

Table 3. Sustainable Technology and Business Innovation Principles

Sustainable Technology and Business (T&B) Innovation principles	Description
Open, agile T&B innovation platforms	Open models of technology and business in literature often cited as frugal, lean, sustainable, eco innovation and business models. Open innovation models (Chesbrough, 2003, 2006, 2014) integrate a significant number of players across multiple roles in the innovation process expanding beyond the limits of a single organization.
Cradle-to-cradle	Also referred to as the “idea to idea” and complete “life cycle assessment- LCA” principle (Sempels & Hoffmann, 2013), rests upon a holistic and continuous perspective of innovation.
Use-oriented Product-Service Systems	Based on the transition from products to use- oriented services aimed to redefine the relation with 'tangible' goods, by making them available without transfer of ownership: hiring, leasing, pooling, shared consumption.
Reuse, Recycle	Also referred to as re-manufacture, up-cycle or down-cycle, aimed at reuse of non-renewable materials including fossil fuels, waste and emissions are either avoided or up-cycled. (Bardy & Massaro, 2013)
Eco-efficiency, Eco-design	In a broad manner, for companies means applying the principle of ‘doing more with fewer resources’ and it applies to both products and services. It comprises “reconsideration of the design of a product, a service or a process in order to decrease its environmental impact” (Sempels & Hoffman, 2013)
Value constellation platforms	Reframing the company activity considering the stakeholders in the value constellation instead of the value chain alone (Sempels & Hoffman, 2013).
Decouple product from revenue	Decouple revenue generation from raw materials and energy consumption based on the approach 'guarantee of result' instead of the sale of the means to reach that result, as transition from product to result based integrated solutions (Sempels & Hoffman, 2013).

Source: Original work

3.2. Sustainable innovation drivers of new business opportunities

Sustainable solutions found in the practice of the most successful innovative companies today gives rise to a series of questions concerning the specific nature of sustainability built in their practices. The second research hypothesis and goal oriented at scrutinizing the extent to which new business opportunities are based on sustainable innovation led to the research analysis performed on a sample of 100 most innovative companies registered in the available global company lists (FastCompany, 2015, FastCompany, 2016).

Analysing the innovative companies' reports, the character of business and technology innovations was examined related to their sustainability features, that had contributed to their company's overall success and had brought them on high positions within the ranking lists of the world's most innovative companies. Based on the model developed by Boons & Ludeke-

Freund (2013) a new expanded model relationship for sustainable innovation is used and the results of the analysis are shown in Table 2.

Table 4. Technology and Business Model Innovation: percentage of existing, new and sustainable solutions in the selected sample

		Business model		
		Existing	New	Sustainable
Technology	Existing	0%		17.53%
	New	5.15%	14.43%	17.53%
	Sustainable	13.40%	4.12%	20.62%

Source: Levi Jaksic, M. et al, 2016.

Table 4 indicates that 45.68% of business model innovations, and 38.14% of the implemented technology, possess sustainability features, while 20.62% innovative companies possess both sustainable technology and business models. Sustainable innovations in the companies add up to the score of 73.20% of the sample when the percent of the companies having at least one sustainable innovation (technology or business model) are added up with those that have both. The results point to the high relevance of sustainability goals embedded in technology and business model innovation.

4. Concluding remarks

The leading role of entrepreneurship in the next world economy decade is pointed out and this is a critical issue «confirmed by various experts for many times. (Mortasavi & Bahrani 2012)

Based on Schumpeter's definition of the entrepreneur as an innovator who “creatively destructs” and Drucker's definition of the entrepreneur as “someone who maximizes opportunity”, it is argued that entrepreneurial opportunity is based on sustainable innovation of technology and business models.

Sustainable open innovation plays a central role in the entrepreneurial process and is a means to exploitation of opportunity. The relation between opportunity and open innovation is twofold: opportunity is the input for the innovation processes, opportunity being the starting point for ideas on technology and business innovation, and technology and business innovation represent entrepreneurial opportunity.

In this paper research results are presented in the form of listing the main SD dimensions, business goals and sustainable technology and business innovation principles adding to the current research in sustainable business development factors. The research results point to the special role of sustainable business and technology innovation as driving force of business opportunity with special considerations and new perspectives for BoP economies.

Relevance of the research contribution is found in the fact that the research of sustainability at the micro economic level, to the best of our knowledge, had not been given sufficient attention in the current literature. Limitations of the present research and, at the same time, the path of future research, is seen mainly in the domain of using more direct, field measures and conducting a wider empirical research to test and support the main research hypothesis and goals.

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COMMUNICATING THROUGH MUSIC:

ASPECTS OF INTEGRATIVE AND INTERCULTURAL EDUCATION

Vittoria Bosna¹

ABSTRACT

Intercultural education, by activating a training integration process, enhances in various ways different cultures of belonging: musical culture is just one of these. Music is a very interesting language, capable of integrating diversity, create a sense of belonging and orient life projects. In the rhythms and songs, there are representations very close to reality, such as those of anger and calm, strength and balance, as well as other moral qualities; this is proved by the fact that listening to certain music, because of their nature, we feel a soul transformation. In view of this, it seems clear that music can have ascendancy on the soul's character and that is why we should bring the music to young people and educate them about it.

We should never stop wondering what exactly is the content of music, this intangible reality that manifests itself only through the sound. We cannot define it as something that has only a mathematical, poetic, or sensual content. In fact, it has a connection to the human condition because it is written and performed by human beings who express their innermost thoughts, impressions, feelings and observations. This applies to all music, regardless of the period in which the composers lived and their obvious differences in style. Bach, for example, who lived three hundred years ago, has created worlds that we, as listeners, make contemporary; the fact that music can not be put into words does not mean that it has no content that may be articulated only through sound, and any verbalization is nothing but a description of our subjective reaction to any musical composition we heard.

Keywords: *integration, education, music*

JEL Classification: *Z11*

1. Introduction

The educational world is plenty of methods that may be applied in various contexts, but it is possible to tailor the teaching to each individual way of learning by adopting differentiated teaching strategies. Today, teachers pertaining to a wide variety of fields are called to be updated and especially to ask themselves how they can activate a formative integration process, capable of enhancing in various ways different cultures of belonging. One of these ways is through cultural music. It is a language capable of integrating diversities, create a sense of belonging and orient life projects.

In the rhythms and songs, there are representations very close to reality, such as those of anger and calm, strength and balance, as well as other moral qualities; this is proved by the fact that

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listening to certain music, because of their nature, we feel a soul transformation. In the rhythms and songs, there are representations very close to reality, such as those of anger and calm, strength and balance, as well as other moral qualities; this is proved by the fact that listening to certain music, because of their nature, we feel a soul transformation.

2. From thought to practice: teaching music in a pluralistic modern society

Pedagogy is the science and practice of “well-education” that tries to explain in a practical way how to achieve good teaching in different environments, which is not for granted. Teaching becomes truly productive when it succeeds in its goal to achieve a change, a sort of “added value” that did not exist before or that has not yet been realized. Every person has its potential, whether it be an adult, a teenager, a parent or a teacher, who may be prepared and constructive in the school environment².

The educational world is plenty of methods that may be applied in various contexts, but it is possible to tailor the teaching to each individual way of learning by adopting differentiated teaching strategies. Today, teachers pertaining to a wide variety of fields are called to be updated and especially to ask themselves how they can activate a formative integration process, capable of enhancing in various ways different cultures of belonging. One of these ways is through cultural music. It is a language capable of integrating diversities, create a sense of belonging and orient life projects.

In the rhythms and songs, there are representations very close to reality, such as those of anger and calm, strength and balance, as well as other moral qualities; this is proved by the fact that listening to certain music, because of their nature, we feel a soul transformation.

Wondering about similarities and differences between music and language has always been a more or less conscious need of the Western musical thought. The encounter between words and intonation in voice, reading, theatre acting, and poetry, has rendered the language a code allied to music. From the educational point of view, language and sound communication belong to humankind as words and everyday gestures are necessary to survive. The effectiveness of these forms of experimentation contributes to the interchange between different ways of expression; further, the use of differentiated strategies allows tailoring the teaching and learning of each individual. The educational world is plenty of various methods, coming from different sources, applicable in educative contexts.

Think of the fact that music teaching was based on oral tradition long before its massive spread by the press. Think about Pestalozzi, Swiss pedagog operating between late '800 and early '900: he reports about some recommendations regarding music teaching, which were applied in his schools. For example, in the Stans institute, reserved for orphans and the poor, he manages to bring the child in contact with sounds without rotational mediation, but only using an active and conscious listening. He separates perception and rhythmic production from that melodic and expressive, therefore emphasizing his idea ever founded in practical implementation first of all.

Democratic currents of the first '900 moved in the name of principles of peace and unity for the common good. There is no musical learning that does not involve an education to integrate diversities or that does not orient everything to sharing common goals. Therefore, it is significant referring to the research of activism in Europe to affirm that authors like Claparède, Cousinet e

²H. Heinrich Eggebrecht, “Musica come linguaggio (1961)”, in: *Il Senso Della musica: Saggi di Estetica e analisi musicali*, Il Mulino, Bologna, 1987, pp. 27-67.

Freinet, just to mention some of them, have offered their decisive commitment with studies, practical applications in laboratories and interest in “other” cultures. In particular, we can recall the work of Freinet³ in the music field; in fact, recognizing the importance of music's ethnomusicology and anthropology, he gave cultural dignity to popular interests and, in particular, to children's interest⁴. At the same pace, after World War II the cognitive sciences have nurtured the creative research of musical vanguard, meaning that there was an attempt to bring out a match between practice and theory, which determined a real treatise on new musical languages⁵. Unconventional sounds started to be accepted and placed outside the category of 'noises'; it was an important and decisive change referring to the sounds of the African cultures. All of this, in connection with integration policies orientated toward an openness and equality between cultures, and becoming an opportunity to diversify even, and especially, teaching strategies along with communication skills.

Music in this case is one of the most significant experiences aimed at creating links among diversities. The challenge is to foster a spirit of human solidarity and tolerance on the part of the hosting community, such as teachers, students and supporting staff⁶.

From what said above, it is clear that the success of educational variables about music, although not difficult to detect are still easy to handle and manipulate in view of educational success. The goal to be reached is the success in integration; there are different methods for doing so, but a good teacher always knows the right ways to achieve it.

3. Sound – music communication: a welcoming tool

The musical language has an intercultural communicative value because it constitutes an important vehicle for integration not only between people of various cultural backgrounds but also of different ethnicities. Music is an inclusive activity par excellence, involves the body over the mind. It allows retrieving from memory traces of sounds associated with life events that in turn, provide a further recovery: that of one's own identity.

It is an additional communication channel beside the verbal one, full of opportunities for expression and socialization for everyone in general, and especially children.

Currently, the musical repertoires are enriched with messages of freedom compared to the rules of the tonal system used in the past; contemporary hearing provisions are more tolerant given the variety of ethno-geographic music. What is needed is the attempt to re-establish the technique by using the music, without asking the students hours of study with arpeggios and metronome, but asking for their own interpretation: music should become a functional tool for communication.

In this way, the reception of foreign students, particularly those with a culture very different from the Western one, takes a path that includes the demonstration of skills already possessed. Secondly, there is an effort to change the situations unfavourable to child's integration through

³ C Freinet, *Le mie tecniche*, Nuova Italia, Firenze, 1969.

⁴ C. Montedoro (a cura di), *La personalizzazione dei metodi di insegnamento e di strategie didattiche*, ISFOL, Franco Angeli, Milano,

⁵ G. Borio, (a cura di), *L'orizzonte filosofico del comporre nel ventesimo secolo*, Bologna, Il Mulino, 2003, pp. 241-322.

⁶ G. Rouget, *La musique et la transe. Esquisse d'une theorie generale des relations de musique et de la possession*, Gallimard, Paris, 1968.

the use of individualized educational interventions or with laboratory work involving small groups⁷.

Finally, it is possible to activate a series of “educational projects” also in collaboration with other schools integrated with educational disciplinary proposals; the goal is to create new social situations and new training opportunities. Activities are cross between the various disciplines, to be held in some cases even in extra-school hours, including music courses. At this point the education to the ground and music becomes one of the winning instruments: music is an important language capable of integrating diversities, create a sense of belonging and orient life projects.

4. Conclusion

We should never stop wondering what exactly is the content of music, this intangible reality that manifests itself only through the sound. We can not define it as something that has only a mathematical, poetic, or sensual content. It is all these things together and much more. The fact that music can not be put into words does not mean that it has no content that may be articulated only through sound, and any verbalization is nothing but a description of our subjective reaction to any musical composition we heard.

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AVIATION FUEL EVOLUTION: A REVIEW

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ABSTRACT

Aviation covers a significant role in environmental impacts, as it accounts for 2% of global carbon dioxide (CO₂) equal to more than 33 Gt emissions. Due to the progressive increase in air traffic, aviation polluting emissions are growing by approximately 5% by year and double each 15 years. The road map of aviation sustainable development program is ambitious; the objective is to stabilize CO₂ emissions by 2020 and afterwards to reduce them by 50% in 2050 compared to 2005 quota. Governments, manufacturers, airlines and international transport organization to ensure aviation greater sustainability, largely are aware the promotion of bio-jet fuel use.

This paper aims to describe aviation fuel evolution particularly with regard to bio-jet fuel, based on data related to civil and military flight tests from 2006 up today and on national and international references and technical reports of international organizations such as IPCC, (Intergovernmental Panel on Climate Change), ICAO (International Civil Aviation Organization), IEA (International Energy Agency) and IATA (International Air Transport Association). The study identifies typologies and features of bio-jet fuel available on the market, focusing on feedstock used and conversion processes applied to their production, reporting related environmental impacts and issues. The final purpose is to highlight strengths and weaknesses related to bio-jet fuel production and use, in terms of market and environmental implications.

Keywords: *sustainability, air transportation, biofuels, air pollution, renewable resources*

JEL Classification: *Q56, L93, Q16, Q53, Q20.*

1. Introduction

Aircraft engines emit various pollutants, of which CO₂ influences climate change (European Aviation Safety Agency, European Environment Agency, Eurocontrol, 2016) and aircraft transport has a direct impact on the depletion of the Earth's ozone layer (Kisska-Schulze & Tapis, 2012). The world's airlines carry over three billion passengers a year and 50 million tonnes of freight (Air Transport Action Group, n.d.-e). Future scenario for aviation industry estimates a growth of 5% per year doubling the traffic within 15 years based on 2012 year (Nygren et al.,

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2009; Chiaramonti et al., 2014). Due to these “fugures” aviation, since the last decade, is investing, researching and testing sustainable alternative fuels. In 2009, Air Transport Action Group (ATAG) Board agreed on three environmental targets, which included improving fuel efficiency by an average of 1.5% per year from 2009 to 2020, stabilizing emissions from 2020 with carbon-neutral growth and reducing net emissions from aviation by 50% by 2050 compared to 2005 levels (Air Transport Action Group, n.d.). During the same year, the first International Conference on Aviation and Alternative Fuels (CAAF), organized by International Civil Aviation Organization (ICAO), encouraged Member States to establish policies that support the use of sustainable alternative aviation fuels (International Air Transport Association, 2016). Aviation has considered its activities and the related increase of environmental impacts and in the last decade it has invested in the research and testing of sustainable alternative fuels. Given the above, this paper aims to describe aviation fuel evolution particularly with regard to bio-jet fuel, based on data related to civil and military flight tests from 2006 up today, national and international references and technical reports of international organizations such as IPCC, (Intergovernmental Panel on Climate Change), ICAO (International Civil Aviation Organization), IEA (International Energy Agency) and IATA (International Air Transport Association). The study identifies typologies, properties and costs of bio-jet fuel available on the market, focusing on feedstock used and conversion processes applied to their production, reporting related environmental impacts and issues. The final purpose is to highlight strengths and weaknesses related to bio-jet fuel production and use, in terms of market and environmental implications.

2. Biofuel generation

The continuous evolution of research on sustainable fuel has led to identifying four generations of biofuel. The first generation is based mainly on oleaginous plants, such as corn, soybean, rapeseed, sunflower and palm, which is in competition with food industry. The second generation uses inedible energy crops, in particular camelina, jatropha and switchgrass as well as feedstocks resulting from lignocellulosic biomass (woody and agricultural residues), used cooking oil, animal fat, industrial and municipal wastes. The second one is receiving growing attention on large-scale market. The third generation includes microalgae and halophytes, often genetically modified. The interest in these microorganisms is due to the fact that they can be cultivated on arid and/or marginal land and also in salt water, they have a very high growth rate and they have lower carbon output compared with other feedstock (Schmitigal & Tebbe, 2011). The last generation considers bacteria, microbes and yeasts but this option is still at laboratory stage. Based on the feed-stocks used, bio-jet fuels can be classified in four main categories: Alcohol-To-Jet (ATJ), Oil-To-Jet (OTJ), Gas-To-Jet (GTJ) and Sugar-To-Jet (STJ). Different technology pathways are used to obtain them. Table 1 summarizes different categories and technology pathways both approved than in the course of approval. Up to date, only five (bold style) have been approved by American Society for Testing and Materials (ASTM) International and, among them, HEFA technology using vegetable and waste oils represents the only conversion pathways that are ready for large-scale production. For each different pathway, considering the limitations imposed by feedstock composition, pre-treatment and conversion steps, the conversion efficiency rate (from feedstock to liquid hydrocarbon fuel) ranges from less than 20% up to more than 80% (Wormslev et al., 2016).

Table 1. Bio-jet fuel conversion processes

Category	Technology pathway	Feedstock
Alcohol to Jet (ATJ)	Alcohol to Jet Synthetic Paraffinic Kerosene (ATJ-SPK) or Isobutanol to Jet (ITJ)	Cellulosic biomass, starch, sugar
Gas to Jet (GTJ)	Fisher-Tropsch-Synthetic Paraffinic Kerosene (FT-SPK)	Agricultural waste, coal, biomass, municipal waste, natural gas
	Fischer-Tropsch Synthetic Kerosene with Aromatics (FT-SKA)	Agricultural waste, coal, biomass, municipal waste, natural gas
Oil to Jet (OTJ)	Catalytic Hydrothermolysis (CH)	Animal fat, recycled oil, vegetable oil and any other bio-oil containing tri-glycerides
	Hydroprocessed Esters and Fatty Acids (HEFA) or Hydroprocessed Renewable Jet (HRJ) or Bio-Synthetic Paraffinic Kerosene (Bio-SPK)	Algal oil, animal fat, recycled oil, vegetable oil and any other bio-oil containing tri-glycerides
	Hydrotreated Depolymerized Cellulosic Jet (HDCJ) or Hydrogenated Pyrolysis Oil (HPO)	Agricultural waste, lignocellulosic biomass, municipal waste
Sugar to Jet (STJ)	Direct Sugar to Hydrocarbons (DSHC) or Synthetic Iso-Paraffin (SIP)	Any fermentable sugar
	Hydro-Deoxygenated Synthesized Kerosene (HDO-SK) [Catalytic Upgrading]	Starch, sugar, cellulosic biomass
	Hydro-Deoxygenated Synthesized Aromatic Kerosene (HDO-SAK) [Catalytic Upgrading]	Starch, sugar, cellulosic biomass

Sources: Lang & Elhaj, 2014; Radich, 2015; Toop et al., 2014; Wang et al., 2016; Wormslev et al., 2016.

Jet fuel (conventional or bio) has to meet many specifications and basic qualities in order to ensure safety and efficiency of flight. They have to comply with standards and specifications established by national and international institutions or organizations such as: ASTM International and United Kingdom Defence Standard (DEF STAN) of United Kingdom Ministry of Defence. ASTM International standard specification D1655, for instance, fixes two types of jet fuels for civil use: Jet A and Jet A-1 (Zhang et al, 2016). The ideal bio-jet fuels must meet the technical official standard and in the same time has to be available and suitable to be used in existing engine technology. Researches and studies in this field are aimed by the same and common interest, that is to develop the so-defined “drop-in” fuels intending a bio-jet fuel “... *that is completely interchangeable and compatible (can be mixed over a range of percentages) with a particular conventional (typically petroleum-derived) fuel, it does not require adaptation of the fuel distribution network or the vehicle or equipment engine fuel systems*” (Blakey et. al, 2011). In September 2009, a “bio-standard” for bio-jet fuels, the ASTM D7566, was approved as drop-in fuel specification. Table 2 compares civil conventional ASTM D1655 standard with bio-one ASTM D7566. Data recorded in table 2 shows that bio-jet fuels certified by ASTM D7566 standard meets ASTM D1655 one allowing them to be seamlessly integrated into the current aircraft and infrastructures (Zhang et al., 2016).

Table 2. Civil conventional ASTM D1655 and bio jet fuel ASTM D7566 main peculiarities and properties.

	ASTM D1655	ASTM D7566 (Bio-jet fuel)		ASTM D1655	ASTM D7566 (Bio-jet fuel)
Composition			Combustion		
Acidity, total (mg KOH/g)	0.1, max	0.1, max	Net heat of comb. (MJ/kg)	42.8, min	42.8, min
Aromatics (vol %)	25, max	25, max	Smoke point (mm)	25, min	25, min
Sulfur, total (wt %)	0.3, max	0.3, max	Smoke point and naphthalenes (vol %)	18 (min), 3 (max)	18 (min), 3 (max)
Volatility			Thermal stability		
Distillation temperature:			JFTOT Delta P @ 260 °C (mm Hg)	25, max	25, max
10% Recovery (°C)	205, max	205, max	Tube deposit rating (Visual)	< 3	< 3
Final BP (°C)	300, max	300, max	Conductivity		
Flash point (°C)	38, min	38, min	Conductivity (pS/m)	50-600	50-600
Density @ 15 °C (kg/m ³)	775-840	775-840	Lubricity		
Fluidity			BOCLE wear scar diameter (mm)	0,85, max	0.85, max
Freezing point (°C), max	-40 Jet A; -47 Jet A-1	-47			
Viscosity @ -20 °C (cSt)	8, max	8, max			

Sources: Iakovlieva et al., 2013; Wang & Tao, 2016

Starting from bio-standard (ASTM D7566) approval, FT bio-jet fuels production become compliant to ASTM D7566. Subsequently, other four bio-jet fuels obtained by other feedstock and technology pathways were qualified to be used and blended in different percentage with conventional jet fuels. Approval data and blend percentage of five bio-jet fuels are describes in table 3.

Table 3. Data of bio-jet fuel standard

	ASTM D7566 (Bio-jet fuel)				
	FT-SPK	HEFA	SIP	FT-SKA	ATJ-SPK
Approved	September 2009	July 2011	June 2014	November 2015	April 2016
Blend Percentage	up to 50%	up to 50%	up to 10%	up to 50%	up to 30%

Sources: Bi et al., 2015; Federal Aviation Administration, 2016; Greenair Online, 2016; Holladay et al., 2014; International Civil Aviation Organization, 2011

3. Environmental impact

Bioenergy is often considered carbon neutral, because is assumed that the CO₂ absorbed during plant growth compensates emissions released during combustion phase. First generation biofuels, such as corn-based ethanol, tend to emit more greenhouse gas (GHG) emissions than second and third generation ones, as corn cropping requires higher use in fertilizer and pesticide. The United States Department of Energy claims that use of sustainably produced biofuel reduces life-cycle CO₂ emissions by 50 to 80% compared to conventional petroleum fuel (International Air Transport Association, 2016). Several studies and researches have been carried on life cycle assessment GHG emissions related to production of bio-jet fuel,

The GHG emissions of jet fuels derived from various categories are illustrated in Fig. 1, using kgCO₂/GJ basis.

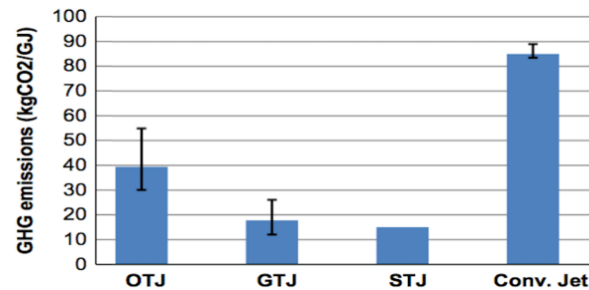


Fig. 1 Greenhouse gas emissions (GHG) of jet fuel from various pathways

Note: For OTJ pathway, the higher and lower end uncertainties represents GHG emissions of rapeseed and palm oils, respectively. For the GHG emissions of OTJ and GTJ pathways, without land use change is considered. For GTJ pathways, switch-grass is selected as the feedstock; without soil carbon sequestration is considered.

Sources: Authors personal elaboration on data: Wang et al., 2016; Wang & Tao, 2016

GHG emissions are reduced when using the bio-jet fuels and STJ pathway has the highest reduction and depending primarily by the farm input, land use change and biorefinery processes. Life Cycle Assessment (LCA) is a useful tool to evaluate environmental impacts associated to each bio-jet fuel. LCA of aviation sector, also known as well-to-wake (WTW) analysis, has two phases: well-to-tank (WTT) and tank-to-wake (TTW). In the first phase, kind of feedstock, land use change and conversion pathways influence GHG emissions, while in the second one the emissions derived from burning jet fuels are the most significant issue. The WTW GHG emissions from conventional jet fuel are reported to be approximately equal to 87.5 gCO₂e/MJ, of which 14.3 gCO₂e/MJ are linked to WTT steps and 73.2 gCO₂e/MJ to TTW ones (Wang & Tao, 2016). Alternative jet fuels based on fossil fuels emits more GHG emissions than sustainable ones. Actually the data related to bio-jet fuel derived from biomass does not consider the additional emissions caused by land use change and these are direct (DLUC) or indirect (ILUC). According to Blakey et al. (2011), some researches demonstrated that land use change linked to the cultivation of biomass has the potential to release significant emissions, as the GHG emissions resulting from biomass cultivation is largely dependent on previous land use. Consequently, indirect land use change reduces or cancels any greenhouse gas savings from biofuel production based on energy crops (Popp et al., 2014). GHG emissions could increase of 40–800% compared with conventional jet fuel when accounting for land use change (Wang & Tao, 2016). HRJ fuel has GHG emissions 62–92% higher than FT Biomass to Liquid, due to fertilizer and chemical use. GHG emissions from the FT BTL process are 92–95% less than those of conventional jet fuel, also because 48% of the energy consumed for the conversion processes is obtained by the biomass itself (Wang et al., 2016; Wang & Tao, 2016).

4. Bio-jet flight evolution

The first flight with biofuel was realized near Edwards Air Force Base - California by United States Air Force (USAF) in September 2006 with a B52 Stratofortress bomber. The flight test involved running two of the bomber's engines on a synthetic fuel, made from a 50-50 blend of traditional crude oil-based fuel and a FTfuel derived from natural gas, while the jet's other six engines ran on traditional JP-8 jet fuel (United States Air Force, 2006). Table 3 illustrates the flight trials according to the type of bio-jet fuels, and their feedstock. Most of the flight tests were carried out with various blend percentages of bio-jet fuel and conventional aviation fuel. In few

cases aviation has carried out flight tests with 100% biofuel. To date bio-jet fuels certified are blended with conventional jet fuel up to 50%.

Table 4. First biofuel flight tests

Feedstocks	First Fly in	Percentage (%)	Aviation	
			Civil	Military
Natural gas	September 2006	50		x
Used cooking oil	October 2007	100	x	
Coconut oil and babassu oil	February 2008	20	x	
Soy and animal fat	November 2008	100	x	
Jatropha	December 2008	50	x	
Algae and Jatropha	January 2009	50	x	
Camelina, jatropha and algae	January 2009	50	x	
Camelina	November 2009	50	x	
Animal fat	April 2010	50		x
Algae	June 2010	100	x	
Used cooking oil and algae	June 2010	50		x
Animal fat and natural gas	August 2010	50		x
Chicken tallow and beef tallow	March 2011	50	x	
Camelina, jatropha and animal fat	July 2011	50	x	
Jatropha and halophytes	July 2011	30	x	
Camelina and brassica carinata	April 2012	50	x	
Cellulose	June 2012	50		x
Corn oil and used cooking oil	June 2012	50	x	
Sugarcane	June 2012	50	x	
Used cooking oil, jatropha and camelina	June 2012	50	x	
Brassica carinata	October 2012	100	x	
Palm oil and used cooking oil	April 2013	n.d.	x	
Isobutanol	December 2013	50		x
Green diesel (vegetable oil, used cooking oil, waste animal fat)	December 2014	15	x	
Tobacco without nicotine	July 2016	30	x	
ReadiJet (yellow grease, used cooking oil, brown grease)	September 2016	100		x

Source: Personal elaboration by authors

The first 100% biofuel flight was carried out by old military trainer aircraft, L-29 Delfin. The Green Flight International-owned L-29 took place on October 2007 from Nevada's Reno-Stead airport and the biodiesel supplied for testing was made from recycled vegetable-derived cooking oil (Coppinger, 2007). During February 2008, Virgin Atlantic, one of the world's leading long-haul airlines, flew a GE-powered 747 jumbo jet on biofuel from London Heathrow to Amsterdam, becoming the first airline in the world to fly on renewable fuel, composed of babassu oil and coconut oil (GE Aviation, 2008). Honeywell made history in Paris Air Show in June 2011, landing its Gulfstream G450 jet at Le Bourget after the first transatlantic flight using biofuel (camelina) from the New York-area Morristown Airport, burned a 50/50 blend of "Honeywell Green Jet Fuel" (Harrison, 2011). It was also the first intercontinental bio-jet fuel flight. In 2011, KLM Royal Dutch Airlines was the first airline in the world to carry passengers,

using bio-jet fuel. The Boeing 737-800 carried 171 passengers on June 29, burning a 50/50 blend of used cooking oil from Amsterdam to Paris (Paur, 2011). Actually, already in November 2009 KLM had made a demonstration flight with guest passengers. The U.S. Navy successfully flew an EA-18G Growler on 100% renewable jet fuel on September 1, 2016, flying out of Naval Station Patuxent River – Maryland and completed the first of nine test flights as part of the military specification certification for the ReadJet® fuel's operational use (Oldham, 2016).

5. Conclusion

The Intergovernmental Panel on Climate Change (IPCC) has concluded that, in the absence of fully committed and urgent action, climate change will have severe and irreversible impacts across the world (International Energy Agency, 2015). The use of biofuels could play an important role limiting the consumption of fossil fuels, reducing greenhouse gas emissions and environment protection; developing new policies aiming at sustainability and preservation of biodiversity. Moreover, fuel is one of the biggest operating costs for the aviation industry estimated in 2012 and for all airlines, in approximately \$47 billion (Wang & Tao, 2016). Forecasts on bio-jet fuel use highlights a progressive growth and, as a matter of the fact, International Air Transport Association (IATA) expects 30% contribution of bio-jet fuel for the jet fuel use by 2030 and European Union (EU) has been set the target of 2 Mt of aviation alternative fuels by 2020 (corresponding to 4% of annual aviation fuel consumption) (Chiaramonti et al., 2014; Hari et al., 2015). Worldwide, aviation can have a significant influence in fostering the promotion of sustainable biofuels. Now all aviation actors are aware that there is the need to implement new actions and solutions to achieve the ambitious goals that Governments and Organizations have fixed by to improve climate change. Current efforts are dedicated in trying a bio-jet fuel production based on sustainable and feedstocks, no competition with food production, more environmentally friendly and with minimal effects related to the direct and indirect land-use change. Feedstock has to be also cheap, it is estimated that it is the largest cost item of bio-jet fuels production ranging from 45% to 90%. Considering the different technologies, its influence is highest for HEFA pathway, lowest in FT (waste residues) and medium in ATJ and SIP (International Air Transport Association, 2015). The technology and policy play a key role improving respectively process efficiency and increase in bio-jet fuel commercialization. Aviation industry members are encouraging to produce and use cleaner technologies and bio-jet fuels, thanks to the agreements that are signed at international level. Also the passengers, choosing “bio-jet fuels flights”, confirm their interest in environmental issues and make much more “active” the market of “green fly”.

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REAL EXCHANGE RATE VOLATILITY AND INTERNATIONAL TRADE: THE CASE OF ALBANIA

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ABSTRACT

Albania during the last two decades has made considerable efforts aimed to accelerate the globalization process. And one of the most impacts of globalization is trade liberalization which stimulates economic cooperation between countries. Based on the theory, there are various factors affecting international trade such as gross domestic product, exchange rate, terms of trade and price. The objective of this paper is to evaluate the impact of exchange rate volatility in the volume of international trade flows of Albania. It is supposed that an increase in exchange rate volatility leads to decrease in the volume of international trade and economic welfare. The data analysis will be based on some economic indicators during 2005 – 2015 periods such: real exchange rate (RER) as the independent variable, and the Gross Domestic Product (GDP), inflation rate (CPI), the Export Level (EX), money supply (MS), foreign currency lending (FCL), Net foreign Assets (NFA). The findings of the study are relatively in line with those of the recent literature consequence of the fact that the exchange rate in Albania is almost in equilibrium level with lower deviations. Based on findings of the study we have made our predictions of the performance trade flows, economic growth of Albania in the short and as well as the paper is concluded with some recommendations.

Keywords: *real exchange rate volatility, economic growth, international trade, export*

JEL Classification: *F1, F2 F31, F62*

1. Introduction

Generally speaking, trade liberalization or trade openness refers to changes in government policy affecting the reduction of "distortions" of trade flows caused precisely by government interference. These changes include:

- prices of instruments such as tariffs, customs duties, taxes and additional expenses,
- non-tariff limitations; quotas, prohibitions, licenses etc.

The liberalization is a systematic process of reduction and elimination of all tariff and non-tariff barriers between countries as trading partners with each – other (Madeley & Solagral, 2001). But on the other hand, trade restrictions aimed at protecting domestic products, because of their reduced imported products become cheaper competing domestic ones. The lower prices of

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domestic goods have an impact on the depreciation of the exchange rate. Theoretical literature suggests that the real exchange rate (or its equilibrium level) which is consistent with the establishment of internal and external equilibrium, differs from the "shock" of economic factors with which it is associated. Among these factors is the opening trade. When a landlocked country of small liberalizes its trade increases the demand for imports and reduces the demand for tradable products, in this case, a real devaluation may establish internal and external equilibrium.

The balance of the exchange rate

The importance of calculating the equilibrium exchange rate and assessment of basic economic factors associated with have become important issues studied in recent years for several reasons³:

- ❖ Firstly, some countries (especially those of Central Europe which have recently acceded to the European Union) have necessary to recognize the right course of exchange for entering the euro zone.
- ❖ Secondly, the volatility of some important world currencies, has caused debate on the issue that these fluctuations represent a movement based footing and are assessed to the exchange rate, or they are avoided?
- ❖ Thirdly, the important issue is that of dis-balances observed globally and implications that have brought these imbalances in exchange rates.

When discussing his footing on the exchange rate one of the important points to consider is the time frame anticipated and necessary to achieve this equilibrium. In the context of exchange rates are determined in the course consistently in the foreign exchange markets by demand and supply of foreign currency; it will always be at its equilibrium value.

According to Mundell (1971) for a country with a small economy, and a set of trading conditions, the equilibrium exchange rate is expressed as the relative price of international goods to domestic goods which simultaneously establish equilibrium in the monetary market. The concept of equilibrium exchange rate is expressed in terms of indicators of domestic economic base raises some important issues for discussion such as its existence, optimization, determination, evaluation at different times, and it is often important to discuss the dis-equilibrium exchange rate⁴.

The exchange rate regime in Albania

In a country with an open economy, the exchange rate is regarded as a key variable in terms of it's interaction with other internal and external economic variables. The focus remains quite high to the role played by the exchange rate in the country's economic factors because these variables have a mutual connection with each - other and affect the country's economic performance and because empirical studies show that the dynamics of the impact of exchange rate of these economic factors is long-term⁵. Usually in countries with developing economies, as well as

³ (Dias, P., & MacDonald, R. (2007) *"Behavioural equilibrium exchange rates estimates and implied exchange rate adjustments for ten countries"*. Washington DC: Peterson Institute.

⁴ (Cassino, E., & Oxley, D. (2013). *"How does the exchange rate affect the real economy? A literature Survey"*. New Zealand Treasury Working Paper.

⁵ (Mirzaeenezhad, M. R., Mohammadi, T., & Tabas, H. M. (2012). "The effect of the real effective exchange rate fluctuations on macroeconomic indicators (Gross Domestic Product, Inflation and Money Supply). *Interdisciplinary Journal of Contemporary Research in Business*, 4 (6), 1079-1103.

Albania, many transactions in foreign currencies carried out in a more free market than through official channels to exchange⁶.

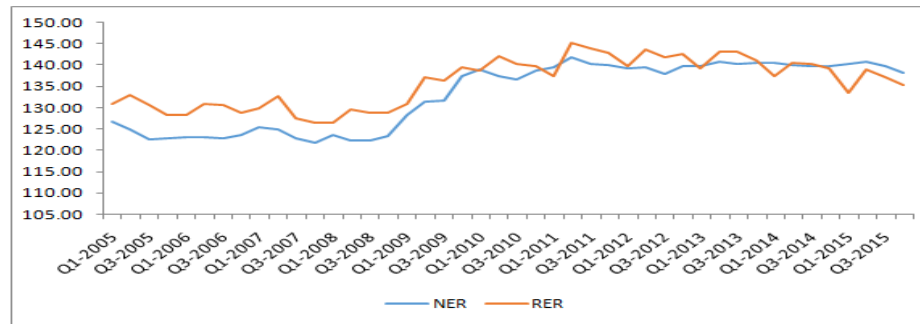


Figure 1: The dynamics of nominal and real exchange rate Lek/Euro.

Source: Statistical Database of the Bank of Albania and author's calculations

According to Figure 1 the real exchange rate has had the appreciating and depreciating fluctuations relatively stable against the European currency. For the period 2005 to early 2009 average exchange rate was 1 euro = 130 Lek. Bringing appreciation of the domestic currency as in nominal terms and in real terms reflects the macroeconomic stability in the country, deepening the difference between interest rates and inflation levels comparable with key partners⁷. This appreciation of the lek against the euro during this period, as well as against the US dollar, and the growth rate has followed the level of domestic exports has affected the stability of the index of the nominal effective exchange rate. In real terms the domestic currency appears more appreciated than in nominal terms. While during the period 2009 - 2013 Lek received depreciating positions against the euro standing at an average rate exchange rate of 1 euro = 140 Lek. According to the central bank during this period the national currency depreciated on average by 7.6 percent against the European currency causing increased imported inflation, an important indicator for our country because it influences the formation of the inflation rate in the country. During the years 2013 - 2015 the national currency's performance is characterized by light value appreciation and depreciation against foreign currencies. Also lek has appreciated more in real terms, slightly depreciating in nominal terms indicating a marginal contribution to broadcasting in the country of foreign inflationary pressures⁸.

Export performance and trade balance

Economic theory suggests that between exchange rate and trade balance exists connection to depreciation of the currency Lek versus foreign currency Euro (or rising exchange rate), makes the price of imported goods to rise in the domestic market and lowering the price goods exported to foreign markets. Under this framework, when these exported goods are more competitive in foreign markets, it will bring an incentive to increase the volume of exports and improve the country's trade balance. Of course, the opposite effect, that of domestic currency appreciation (or

⁶Muço, M., Papapanagos, H., & Sanfey, P. (1998). "The determinants of official and free-market exchange rates in Albania during transition".

⁷Banka e Shqipërisë. (2007). "Deklarata e Politikës Monetare të Bankës së Shqipërisë për 6-m e dytë të vitit 2007". Tiranë: Banka e Shqipërisë, p. 20.

⁸(Banka e Shqipërisë. (2015). "Raporti i Politikës Monetare për 3-m e katërt të vitit 2015". Tiranë: Banka e Shqipërisë, p. 54.

a reduction in exchange rate) would have an adverse impact on exports and trade balance in the country. According to the authors (Salko, Beci, & Kodra, 2014) this so tight connection is expected to happen at a time when competition is perfect, but at a time when the Albanian exports have a low weight and low competitive level in foreign markets, fluctuations in the exchange rate Lek / Euro will not affect the same intensity in the trade balance in the country. An essential component to assess of our country competitiveness in foreign markets is the level of performance of exports. The structure of Albanian exports by commodities and destinations has changed significantly during the period 2005 - 2015. In addition to the contribution of processed goods and those of other crude, were added to the positive contribution to the growth of mineral fuels and mineral raw materials.⁹ At the same time, Albanian exports began to move from their main destination BE - here, to the CEFTA member countries and other emerging markets¹⁰. Dynamics of Albanian exports has been growing and their contribution to improving the trade balance is estimated to be insufficient compared with the annual level of volume of goods and services imports.

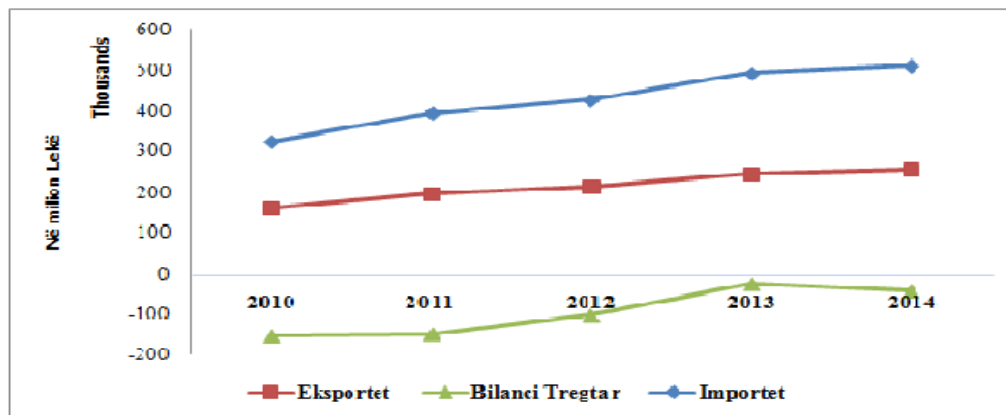


Figure 2 - The performance of the trade balance, imports and exports

Source: INSTAT statistical database

Figure 2 shows a brief overview of three important indicators of foreign trade, the level of exports, imports and trade balance in the last period from 2010 to 2014 shows that there has been an improvement in the trade balance to narrow its deficit. This improvement is observed more in 2013 more significant reduction of the level of imports and an improvement of the level of exports. However, the EU market remains remains the main destination for export of Albanian products although its share has declined in recent years by concluded the results in the paper of Mitre (2013) who prove the level from 89% in 2005 to 76% in 2012. While TCI index¹¹, which answers the question of whether an exporting country start to produce new goods for export to a given country or must expand in existing markets as exports has shown an upward trend from

⁹ Based on the index of metal prices published monthly by the IMF During the period 2005-2011, this index recorded a substantial increase, on average by about 18% in annual terms, by quoting the (Mitre, 2013 p. 110)

¹⁰ Mitre, O. (2013). "The performance of exports in Albania during 2005-2015: CMS approaches". Bank of Albania Bulletin. Tirana.

¹¹ TCI: Trade-Complementarity Index is an indicator that helps in assessing and geographical orientation of exports. It measures the extent to which the model of country exports coincides with the pattern of imports of another country.

41.7 in 2005 going to 54.2 in 2012. The level of this indicator shows a consistent increase in the structure of Albanian exports to the structure of the EU exports.

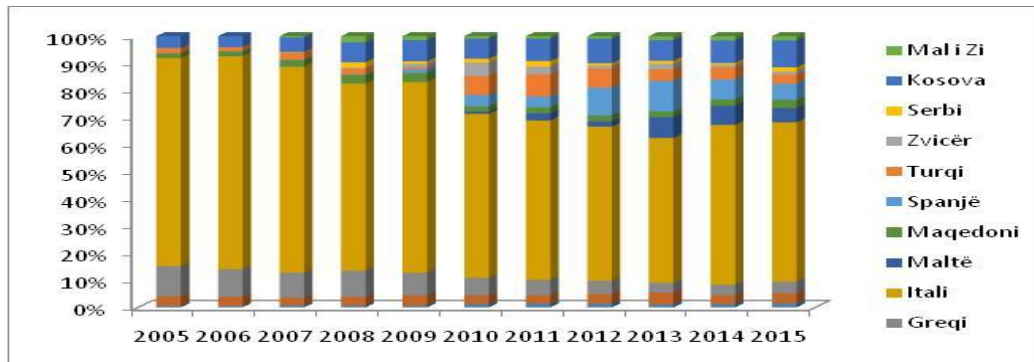


Figure 3 - Geographical distribution of domestic exports to European Union markets

Source: INSTAT statistical database

The selected partner countries in the study are Italy, Greece, Germany and Spain, the details of which are representatives on the level of our exports with foreign partner countries. The volume of exports to these countries during the last decade, marks the value 1.2 billion, accounting for about 73% of the total volume of exports to Europe and about 68% of the volume of Albania's total exports worldwide, during the period 2005 - 2015. as shown graphically, Italy is the leading country in which export, and then into the lower levels, but the upward trend of volumes to these countries from year to year, are Greece, Spain, Turkey, Kosovo, Germany, etc.

2. Methodology

The study is based on empirical examination of the impact they have economic factors in determining the equilibrium of the exchange rate and in turn influence that the real exchange rate in essential economic and financial factors for a period of more than 10 years (2005-2015). In building the models we included a series of panel data for each of the indicators necessary to build the indicators timely basis. The sources of these data are numerous and different according to the nature of the economic factors involved and in order to achieve the study purpose.

The main research question:

What is the impact of exchange rate fluctuations in the level of international trade in the country as well as in several other economic indicators? Is this a positive or negative impact during the study period 2005 - 2015?

The main hypothesis that supports scientific research question is:

H_0 : The real exchange rate has no statistically significant impact on the level of exports

H_a : The exchange rate has a statistically significant impact on t on the level of exports

To prove this hypothesis we rely on the following statistical analysis.

3. Data collection and basic tools for data analysis

Measuring the impact assessment carried out by the relationship between real exchange rate and an economic factor - financial. As such, this analysis included six economic factors that for each

collected data in the form of time series with three-monthly frequency. In data processing are performed all statistical tests, determination and evaluation of the model have been realized in this case.

Econometric Model Specification

Given what the literature suggests that a regression analysis explains the effects of the independent variable change in the dependent variable. RER assessed to be in the form of an independent variable and the economic factor as the dependent variable, thus assessed whether RER has a statistically significant impact or not, and key hypothesis is proved or refuted. Macroeconomic factors that will be included in this model are: real exchange rate (RER) as the independent variable, and the Gross Domestic Product (GDP), inflation rate (CPI), the Export Level (EX), money supply (MS), foreign currency lending (FCL), Net foreign Assets (NFA) as independent variables.

The basic form of simple regression equation with two variables will apply to any established links: $Y = \alpha + \beta X + \varepsilon$

Descriptive analysis of time series

Table 1 summarize the main statistical indicators reflected the variabave involved in the study.

Table 1 - Descriptive Indicators series taken in the study

	Minimum	Maximum	Mean	Std.Dev.	J-B test	Prob (J-B)
RER	126.52	145.32	136.05	5.71	3.71	0.156
PBB	203699	346476	270417	38932	1.8	0.405
CPI	253.22	335.25	294.1	24.48	3.21	0.2
EX	1.36	4.42	2.74	9.86	4.44	0.108
MS	1543666	3628540	2722677	675836	3.63	0.162
FCL	183641	1067983	785165	286706	7.45	0.024
NFA	365970	1072309	667428	183360	1.3	0.521

Source: Author's calculations

Forty fourth observations for each variable were analyzed. According to the table we see that, according to test Jarque - Bera¹² probability of each time series (ie, the value of its statistical significance) is greater than 0.05, it indicates that every time series has normal distribution.

More specifically about testing the connectivity, Exchange rate – level of Exports

Analyzing the stationarity of these two variables test result according to Philip Peron to be stationary at first difference, while Johansen suggested to us that there are cointegration vectors between them. Theoretically depreciation of the national currency increased exports and decreased imports by contrast, and then the trade deficit improves. The real exchange rate, as the indicator that best expresses our country's competitiveness in international markets, the dynamics of its limited during this period of study, has had a significant impact on improving the level of exports. The main indicators that lead us test the statistical significance of the model appear summarized in the following table:

¹² According to test Jarque - Bera Output Indicators have normal distribution to two degrees of freedom.

Table 2- The dependence of the level of exports from the exchange rate

The variable	Coefficient	Std. error	t - stat	Probability
LnRER (1)	-5.09	1.01	-5.02	0.000
LnRER (2)	-2.67	1.16	-2.28	0.03
LnRER (3)	-2.31	0.89	-2.57	0.016
C	0.072	0.016	4.4	0.0002
R²	0.70	Average of DV		0.022
R² adjusted	0.57	Stand.Dev. of DV		0.086
S.E.of regres	0.056	Akaike criteria		-2.67
ShKM	0.081	Schwarz criteria		-2.48
Log likelihod	62.75	Dur-Wats. criteria		2.2
Statistika F	5.55	Prob. (stat. F.)		0.00016

Source: Author's calculations according to Eviews 9.5

From the model results can also build regression equation with two variables that expresses the relationship between two variables, exports (Y) and real exchange rate (X):

$$Y = -12.74 + 7.47 * X$$

This means that if the exchange rate will be 1 then there would be a fall in exports to the extent of (-12.74 %) ¹³

While (7,47 * X) indicates that if the exchange rate will increase by 1%, which means a devaluation of the national currency, then the level of exports will grow at 7,47 %. Based on important statistics like that of Prob (t-stat) resulting smaller than 0.05, we can state with high confidence that RER affects exports difference with one to three time delays, and it is an indication statistically significant. This result leads to acceptance of alternative hypothesis, as well as the collapse of basic hypothesis raised about the impact of RER at least one economic factor included in the model. Regarding the coefficients sign they are negative, as well as theoretical literature shows that connections between RER and exports, it means that the collapse of the real exchange rate, ie the local currency appreciation against her foreign level exports will decrease. While the growth of RER favors export growth, promotes the competitiveness of domestic products to foreign markets, aims to upgrade the country's trade balance. According to Table 1 and other statistical important as indicators, among which R2 (coefficient of determination) of adjusting the value 0:57 shows that the independent variable RER explains the 57% variability of the dependent variable, exports for the period under review in 2005 - 2015. Normally, this is a simple regression model with two variables and therefore fluctuation in the level of exports affect many other factors that are not included in this study. Statistics Fisher 5.55 and Prob (stat.F) 0.00016 indicate that this model is statistically significant total, the independent variable is statistically different from zero.

Also Durbin Watson criterion 2.2 is only slightly greater than two, and the result is good, then it means that the model built to test the relationship between variables does not suffer from autocorrelation.

¹³ If the exchange rate would be equal to one means that we are in terms of purchasing power parity when the relative consumer prices between countries are the same.

4. Summary of the macro-level analysis of the impact of exchange rate fluctuations on several economic factors

In summary analysis estimate that the fluctuation of the exchange rate has not had an impact on all the factors involved in the study as GDP, inflation, exports, money supply, loans in foreign currency and net foreign assets, this impact can be measured best by setting appropriate statistical models depending on the level of integration and correlation of variables between them.

Evaluation of the local currency against the currencies of the partner countries with which we cooperate more, seems to have given her more impact on the national level affecting exports and domestic trade balance. According to the analysis RER has affected exports to three times delay with a confidence level of 95%. Also, it is estimated that the RER affects the performance of the country's economic development because the depreciation / appreciation of the domestic currency powering the main economic actors precisely in improving financial climate. While the two variables, money supply and credit in foreign currency, the impact of RER dynamics of change has not been a significant level of significance 5% but 10%. In this case the impact is less important and the level of reliability 95% got that from the beginning, this result accepts the null hypothesis.

And the level of inflation or the consumer price and the level of net foreign assets, fluctuations RER there was no impact for the period of study. This deviation level of RER has not been substantially higher to convey in this country's economic indicators.

5. Conclusions

The empirical results show that the exchange rate in Albania over the period 2005 - 2015 has been fluctuated / deviated from its equilibrium level. By RER evaluate the method of bringing the exchange rate equilibrium turns out that this course has consistently been the underestimation and overestimation period but the level of evasion has not passed 2% from the current exchange rate level. the highest divergence towards this level in 2007 marked periods, 2011-2012, 2015, a period that marked these events or difficult economic situation in the country

In the second model, the survey results show that the exchange rate had statistically significant impact (with a 95% confidence level) on two factors: the total production in the country and the level of exports of goods and local products. While a 10% level of significance exchange rate has had a significant impact on the level of money supply in the market and the level of lending in foreign currency from the banking sector.

6. Suggestions

The model analysis remains limited to the number of economic factors included in the model. As well as the validity of the results remain only in the context of these factors, as well as studying the period covered in the study. Model suggested apply including other macroeconomic factors as may recommend: remittances, market interest rates, foreign investments, etc.

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DEFINITIONS OF SMALL FIRM FAILURE SIGNS AND FINANCIAL DISTRESS

Rudina Lipi¹

Ilirjan Lipi²

ABSTRACT

The enterprise crisis is an inherent phenomenon of the enterprise itself. Firms may encounter unknown situations during their existence just as any other organism and if they do not manage properly, firms will show the first symptoms of the crisis, which are as diverse as the causes of crisis. In this study, which is part of failure symptoms studies of small and medium privately owned firms, mainly in the form of Sole Proprietorship and low scale are explored and described some definitions of an organizational phenomenon in an financial approach in terms of symptoms and financial criteria of the firm failure.

The symptoms of a small firm crisis can signal financial disequilibrium problems of the company that can alert you to a potential enterprise crisis, certainly accompanied with symptoms and other factors³. What matters to me as an economist is to understand the financial causes and symptoms of SMEs failure, but we must first distinguish between firm failure⁴ and bankruptcy which is the legal declaring of the company's failure. If we manage to discern the failure of the firm prematurely through signals we may save it without leading up to bankruptcy and a legal matter, being aware that bankruptcy does not always satisfy all creditors and stakeholders of the firm and that failure is also a social bell for some SMEs around which many stakeholders' interests rotate .

Keywords: *small firm crisis; insolvency firm, bankruptcy; small scale firm*

JEL Classification: *L20, M10, G33*

1. Introduction

Generally or conventionally speaking, the enterprise crisis from a financial aspect of symptoms is defined by a financial imbalance which implies the lack of funds and lack of liquidity reserves to meet firm liabilities. So the financial difficulty of the firm is a symptom of the small enterprise crisis, which is obviously a cause for the failure of small enterprises, despite the fact that firms have their own cycle of life, which besides the financial perspective also requires a healthy management perspective. Although the financial crisis of the company is implicated even by many external and internal factors, however this study reveals only a few definitions and aspects of the definition of the company's failure that will be part of a more comprehensive and interdisciplinary study in the future.

Theoretically and empirically speaking, the SMES crisis and the failure of the company are shown in similar perspective:

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³ Internal and External Factors

⁴ And its types

So according to Lipi: Odipo and Sitati 2008 have described that firms failure can be displayed as bankruptcy or insolvency, where the latter implicates the case when firms fail due to the fact that it is impossible to comply and liquidate their short term liabilities. This situation occurs when the firm's current liabilities are greater than current assets or in other words when the firm has a negative working capital and the failure signal starts to appear since the falling trend of working capital. While bankruptcy, which in most cases means a legal status of the company, implicates the case when the firm's total liabilities are greater than the fair value of its assets, so in order for the management to consider the firm's financial position and performance, it should normally compile and utilize the financial statements (2014, pp.2).

Following, Lipi (2014, pp.3) also explains that: If we refer to the experiences of different countries, we will say that the failure of firms is not a phenomenon that belongs to only a few countries, but is likely to be part of firms operating in developed countries and even more in developing ones. However, the reasons that push firms toward failure and financial difficulties differ in different countries, referring especially to the economic environment conditions, or political environment and with regard to their financing structures and methods (Ijaz, Hunjra, Hameed, Maqbol, & Azam, 2013).

Golin (2001) states that sufficient finances are necessary and essential for the survival and success of the firm (as cited in Seeletse, 2012), resultantly even for the failure and its regression. Although there is not only one single definition to the firm crisis and failure, whether we see the crisis only in financial perspective, the enterprise crisis will be comprehended as insolvency and bankruptcy, which are conventionally defined as:

The Difference between Insolvency and Bankruptcy is that Insolvency is essentially the state of being that prompts one to file for bankruptcy. An entity: a person, family, or company becomes insolvent when it cannot pay its lenders back on time. In general, this occurs when the entity's cash flow in falls below its cash flow out. For individual debtors, this means that their incomes are too low for them to pay off their debts. For companies, this means that the money flow into the business plus and its assets are less than its liabilities (The Difference between Insolvency and Bankruptcy, n.d.).

Bankruptcy is a legal declaration of one's inability to pay off debts. When one files for bankruptcy, one obliges to pay off what is owed with the government help. In general, there are two main forms of bankruptcy, reorganization and liquidation⁵ bankruptcy. Under reorganization bankruptcy, debtors restructure their repayment plans to make them more easily met. Under liquidation bankruptcy, debtors sell certain assets in order to make money they can use to pay off their creditors (The Difference between Insolvency and Bankruptcy, n.d.).

While Fatoki (2014) has explained that according to Titus (2008) a firm fails if it does not fulfill its liabilities to employees, suppliers, customers and owners.

In this case Fatoki (2014) explains that according to Pretorius (2009) business failure is a challenging theoretical issue for which there is more than one single definition. Pretorius (2009) research shows that based on the literature about the failure of the business and its definitions, it can be concluded that:

A venture fails when it becomes involuntarily unable to attract new equity or debt funding to reverse decline; consequently, you can't continue to operate under the current ownership and management. Failure is the endpoint at discontinuance (Bankruptcy) and when it is reached, operations cease and judicial proceedings take effect (as cited in Fatoki 2014, pp. 296).

⁵The Difference between Insolvency and Bankruptcy, Greenwaybankruptcy.com, Accessed in 15 November, 2015, prej <http://www.greenwaybankruptcy.com/articles/the-difference-between-insolvency-and-bankruptcy/>

By reading the first symptoms of the crisis makes you understand it at an early stage what may provide an opportunity to turnaround, not only for the firm but also for creditors, employees, public finance, as well as for other companies which firm interacts with and the whole entire economic and social network.

The role and potency of SMEs in the economy is generally known, especially in a country in transition, so small and medium enterprises have also an important role in the Albanian economy through economic growth and employment, by METE (n.d.) "The contribution of SMEs is more than 73% in GDP and more than 71% in employment (2011)".

Moreover, the potency and role of SMEs in the Albanian economy is best reflected in the statistics, so: "Statistical Register of Companies at the end of 2015 counts 152,288 active companies. Trade⁶ enterprises represent 35.3% of total enterprises, while enterprises by "information and communication" economic activity represents only 1.6% "(INSTAT, 2015). Also it shows that about 37.3% of active companies were recorded this year at the end of 2015⁷ (INSTAT, 2015).

Referring to active companies in 2015, it is noted that about 99.9% of the enterprises are those with 1-49 employees (INSTAT, 2015), which makes even clearer the importance of this study, which will introduce SMEs failure as an important issue in the Albanian context as well. Also about 68% of active companies are those in the legal form of physical person (INSTAT, 2015), enterprises which are regulated and controlled by the tax authority simpler than large businesses, rating so the fiscal authority as the first agent that can reveal the first symptoms of the small firm crisis, identify its financial difficulties and the failure risk or bankruptcy of the firm.

The problem of the firm failure and financial distress is not an issue that has the same phenomenology in all countries, as the economic context of the country is a key factor for the development stages of the company, including its failure thereof, especially for SMEs in developing countries. Another important issue that should not be forgotten is the uniqueness of small business in relation to big business, especially with regard to matters such as financial management, and even the firm the failure referring mostly by a financial perspective. Therefore, it is necessary to refer again what the theoretical definitions of small business failure are, as well as the causes, signs and factors that affect the firm's crisis and how they vary referring to literature about this optic. When we refer to small business we generally refer to small scale business, that according to Cole (1971) is defined as: "is a business that is owned, managed, controlled by one or two persons, is firmly influenced in decision making, has an undifferentiated organizational structure, has a relatively small share of the market and employs less than 50 people" (as cited in Chidinma, pp.20).

It is clear that, even theoretical and empirical studies about companies in developing countries and developed countries, draw out a set of definitions for small business failure.

Out of the multitude of literature and studies about this issue, we have selected some of the definitions that sound closer to the development of small business failure according to the perspective of firms in developing countries and developed countries too.

In many studies and theories of firms in developing countries is reviewed that:

- 1- "Business failure is defined as a situation in which firms cannot meet their liabilities and hence cannot conduct economic activities any more" (Honjo, 2000:559, as cited in Dias, 2014, pp.3).
- 2- "Business failure occurs when a decline in revenue and/or increase in expenses are of such magnitude that the firm becomes insolvent, and is unable to attract new debt or equity funding.

⁶Referring to the economic activity

⁷While according to the statistical register of enterprises in 2014 counted a total of 112,537 enterprises.

Consequently, the business cannot continue to operate under the current ownership and management” (Shepherd *et al.*, 2009:134; as cited in Dias, 2014, pp.5).

While the two definitions below are extracted from studies of firms in developing countries, where it is indicated that:

- 1- Failure can be the inability of a business to meet its financial obligations or the discontinuation of a business – that is, the entrepreneur no longer has the managerial capacity or the desire to continue operating, and the small business is not attractive enough to attract a purchaser to continue the operations (Engelbrecht, 2005:464; as cited in Ntema, 2014, pp.4).
- 2- Venture failure is seen as the opposite of success (Pretorius, 2006:226; as cited in Ntema, 2014, pp.4).

Generally speaking, it seems that key words around which the semantics of the firm failure vary around, is more or less about the most critical or acute issues like: can't meet liabilities, decline precedes failure, firm insolvency, and or signs of lack of success.

Jusino and Tengeh (2015, pp.571) have explained the factors that determine the failure of small enterprises referring to several studies by proving that:

Nemaenzhe (2010) defines small business failure as any small business that freely closes or is forced to, because either the owner's lawful right has been lost or it is no more profitable. Dasgupta and Sanyal (2010) argue that a small business failure rises in a gradual sequence of small particles of failures to a final failure (as cited in Justino & Tengeh, 2015, pp.571).

Referring to these definitions to the failure of small companies, it implies that the failure of the firm is a condition that can be avoided and managed if managers will be able to manage and care for the risks related to their business (Justino & Tengeh, 2015). Tengeh (2011) has listed a number of factors that are associated with the failure of the firm, such as: “lack of business knowledge, lack of capital, less market share and so forth that can be overcome with the entrepreneur's positive attitude to success and minimum effort” (as cited in Justino & Tengeh, 2015, pp.571). Despite the fact that good business practices are a very important factor to avoid the risk of failure, however, this key does not remain a determinant factor for its success (Hendrikse & Hendrikse, 2004; as cited in Justino & Tengeh, 2015).

In the literature summary that many researchers have conducted, it is also noticed a classification of a few definitions that relate to the early definitions of the crisis or its final stages, moderated with another term called turnaround, which means an opportunity to return to the business route and avoid the road to failure, especially the legal one named as bankruptcy, e.g. in his study, Pretorius (2009) after reviewing many studies has defined and quoted (pp.10-11):

Decline – A venture is in decline when its performance worsens (decreasing resource slack) over consecutive periods and it experiences distress in continuing operations. Decline is a natural precursor in the process to failure.

Failure – A venture fails when it involuntarily becomes unable to attract new debt or equity funding to reverse decline; consequently, it cannot continue to operate under the current ownership and management. Failure is the endpoint at discontinuance (bankruptcy) and when it is reached, operations cease and judicial proceedings take effect.

Turnaround – A venture has been turned around when it has recovered from a “decline that threatened its existence” to resume normal operations and achieve performance acceptable to its

stakeholders (constituents) through reorientation of positioning, strategy, structure, control systems and power distribution. Return to positive cash flow is associated with achievement of “normal operations” (Pretorius 2009, pp.10-11).

2. Literature Review

2.1. Signs of financial distress and reasons of small business failure

Watson (2003) gives an extensive explanation of the concept of SME failure; he has summarized failure as (as cited in Fatoki, 2014, pp.924):

- (1) Bankruptcy which is defined as discontinued operations with resulting losses to its creditors.
- (2) Discontinuance which is defined as prevention from further losses.
- (3) Not ‘making a go of it’ is the most subjective reason as it is based upon personal goals not being reached, and (4) Retirement due to bad health (as cited in Fatoki, 2014, pp.924).

Titus (2008) points out that failure occurs if a firm fails to meet its responsibilities to the stakeholders of the organization, including employees, suppliers, customers and owners.

From this point, a business failure is the termination of an entrepreneurial initiative that has fallen short of its goals. In addition, failure happens when there are significant losses in the capital of the business that ultimately lead to business discontinuance. Honjo (2000) observes that a number of firms continue to trade while earning low rates of return (as cited in Fatoki, 2014, pp.924).

Fatoki (2014) also explains that if we refer to business failure from the perspective of return, he has summarized and classified business failure according to some other Criteria (pp.924):

- (1) Earnings Criterion: A firm has failed if its return on capital is significantly and consistently lower than that obtainable on similar investments.
- (2) Solvency Criterion: A firm has failed if the owner, to avoid bankruptcy or loss to creditors after such actions such as execution, foreclosure or attachment, voluntarily withdraws, leaving unpaid obligations.
- (3) Bankruptcy Criterion: A firm has failed if deemed to be legally bankrupt. Bankruptcy is normally accompanied by insolvency and/or liquidation.
- (4) Loss cutting criterion: A firm has failed if the owner disposes of the firm or its assets with losses, in order to avoid further losses (Fatoki, 2014, pp.924).

Also Fatoki (2014) explains that the researchers argue that there are many reasons why small businesses fail, as shown in the study of Mudavanhu et al. (2011).

Pratten (2004) argues that one line of research developed by Stinchcombe (1965) suggests that the liability of newness is an important reason for the failure of new SMEs. This viewpoint proposes that new organizations fail from a combination of internal and external factors. The liability of newness framework identifies problem factors which inhibit new venture success (as cited in Fatoki, 2014, pp.924).

So if we need to make a distinction between the internal factors and external factors, we must remember that internal factors are factors that the firm keeps them under control, against organization external factors which firms cannot have under control.

2.2. Signs of firm financial failure and poor financial management

Generally, the firm failure has two forms regarding to how it is displayed, and that is precisely classified as technical insolvency or bankruptcy. So in general, according to Danilov (2014):

A technically insolvent firm has more assets than liabilities on its balance sheet, but is unable to meet current obligations as they come due. If the company were to be liquidated, in theory there would be at least enough proceeds generated by the sale of assets to repay all of the creditors in full. Despite the fact that there may be net equity on the balance sheet, there is not enough cash to meet current financial obligations such as interest expenses or trade payables. In contrast, a "bankrupt" firm has a true value of assets that is less than its liabilities; its net worth is negative, and creditors would not be repaid in full if the company was liquidated. Either type of financial failure must be resolved by either a renegotiation with creditors or through formal bankruptcy proceedings ("bankruptcy" as defined in the legal sense), which may result in a reorganization or a liquidation of the firm (as cited in Danilov, 2014, pp.10).

3. Literature findings on poor financial management and small business failure

According to Peacock (2000) Berryman in his studies (1983, 1994) reviewed the literature and studies about small business failure, concluding that three factors that bring thus the failure of the firm are: "management inefficiency, behavioral aspects of owner-managers, and characteristics of the firm "(pp.9).

Based on references and studies review, Berryman has shown that 76% of causes of small business failure are attributed to management inefficiency (as cited in Peacock, 2000, pp. 9). According to Peacock (2000, pp.9) Berryman has revealed that:

The predominant aspect of management inefficiency (76% of references) responsible for failure was financial management in 45% of references. Within the finance function, accounting was the biggest problem (13% of references in 1983 and 5% in 1994), because of 'inadequate or no accounting records' and 'deficiency in accounting knowledge'. Other key aspects of the finance function ranked in order of importance were:

1. Credit management;
2. Inventory control;
3. Cash flow analysis / liquidity;
4. Lack of initial capital;
5. Control of accounts payable;
6. Administration of fixed assets;
7. Lack of finance (as cited in Peacock, 2000, pp.9).

So generally, business failure is conventionally considered as financial distress, which according to studies it generally "can mean liquation, deferment of payment to short term Creditors, deferment of payment to interest or principal on bonds or the omission of a preferred dividend" (as cited in Memba & Job, 2013, pp.1186). However, a major problem that appears in literature about studies about the prediction of financial distress or failure is the standard or different criteria that the authors use to prove financial distress (Jamshed, 2012).

According to these Criteria is defined that "financial distress occurs when a firm is not able to meet its obligations" (Pandey, 2005; as cited in Membe & Job, 2013, pp.1186). Memba and Job (2013) also prove that according to Adeyemi (2011) financial distress is defined "as a situation in which an institution is having operational, managerial and financial difficulties" (pp.1186). While according to Jahur (2012) financial distress is considered "as the inability of a firm to pay its current obligations on the dates they are due" (Memba & Job, 2013, pp.1186).

4. Conclusions

Despite different definitions and criteria to describe small business failure by theoretical studies, literature or by the empirical studies reviews is pointed out that small business failure is mainly defined as the inability of small firm to meet its obligations. The failure of small business is a phenomenon that does not belong to the firm only, for the impact it has on the domestic economy, thereof the definition of this phenomenon and clarification of the underlying causes and symptoms is an important issue even if in a theoretical context. The failure of small business is an issue that should be explored theoretically and empirically as well, so researchers, business owner-managers, policymakers, accounting professionals, business advisers and even universities have to be aware of the impact that they have in shaping the entrepreneurial culture. Studies on small enterprises failure should be on the focus of many business stakeholders for the fact that there is a very slight difference between failure and bankruptcy of the firm, which means that the recognition of this phenomenon will help diagnose this situation before the firm enters the crisis stage.

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FOOD INCUBATORS: INNOVATION FOR MODERN RURAL ECONOMIES

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ABSTRACT

The paper presents an innovative economic model for promoting entrepreneurship in rural areas and thus support sustainable and competitiveness rural development. This model represents one of the outcomes of the project “FITR – Food Incubators Transforming Regions”, which seeks to forge an effective and replicable model to provide the learning and strategic structure to develop food incubators as enterprise, training and support drivers at regional level.

In rural development entrepreneurship is the most fundamental feature. Activities typical for these areas are pushed into the background by non-traditional economic activities. In the case of services such as traditional food or local products production can be recognized significant shifting from the local/regional traditions. From this point of view, food incubators have the unique potential to spur productive, inclusive & sustainable economic development. They provide a strong foundation for the creation and expansion of food businesses and jobs by helping communities to revitalise underutilised buildings into powerhouses of food sector learning, innovation and production. At a time of rising social inequality, food incubators also offer the prospect of expanding employment in the growing food sector through educational opportunities for disadvantaged populations.

The project Food Incubators Transforming Regions (FITR), founded by European Commission through the programme Erasmus+, aims to fulfil following objectives:

- Establish 4 sector focused 4 Regional Partnerships to study and capture best practice in the development of food incubators.
- Create and publish a “The Essential Toolkit to developing a Regional Food Incubator” to facilitate the replication of both the Regional Partnership and the Food Incubator across Europe.
- Create and publish a course curriculum, guiding VET practitioners on the topics and skills most needed to establish and manage a Food incubator.
- Develop an intensive blended learning “The Essential Toolkit to develop a successful Food Incubator” course based on open education resources.

Keywords: *food incubator, agriculture, sustainable development, innovative curriculum*

JEL Classification: *Q01, R11, L26*

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1. Introduction

Food and drink represents the largest manufacturing sector in the EU and encouragingly has sustained positive growth (EC, Food and drink industry, 2015). Even during the economic downturn, levels of employment in the food and beverage service activities remained quite stable. It is a fragmented industry with 1 519 thousands enterprises employing 7 806 thousands people (Eurostat, 2013). Based on the statistical data (Eurostat, 2013) more than half (55,3 %) of all the enterprises within the EU-27's food and beverage services sector were classified as belonging to the restaurants and mobile food services subsector. Moreover, small and medium enterprises (SMEs) account for 99 % of companies operating in this industry and, often, are part of highly fragmented and complex food chains (Smith & Barling, 2014).

From this point of view, food incubators have the unique potential to spur productive, inclusive & sustainable economic development. They provide a strong foundation for the creation and expansion of food businesses and jobs by helping communities, VET bodies, development agencies to revitalise underutilised buildings into powerhouses of food sector learning, innovation and production. At a time of rising social inequality, food incubators also offer the prospect of expanding employment in the growing food sector through educational opportunities for disadvantaged populations.

The project Food Incubators Transforming Regions (FITR), founded by European Commission through the programme Erasmus+, aims to forge an effective and replicable model to provide the learning and structure to develop food kitchens and incubators as enterprise (FITR, 2015). This in return will spur productive and sustainable economic development through an increase in available resources to start small businesses and creation of jobs in this sector.

The project undertakes a process of revitalisation at a local community level through the development of food incubators in dilapidated buildings. These buildings are an economic drain in communities and through FITR they can be turned into a hub for economic prosperity, by establishing food incubators in communities who provide training and workspace for these emerging food entrepreneurs.

2. Food Incubator as a model for food entrepreneurship

Food incubators are dedicated food grade production units. They also include the shared use commercial kitchen business model that culinary entrepreneurs can rent by the hour or block of time in order to commercially produce food products. Their availability makes it financially feasible for small and home-based food businesses to take advantage of a professional and licensed kitchen facility to develop and grow local enterprises without the onus capital investment of their own production kitchen.

The need for food incubators stems from the fact that in many places it is illegal to run a food business out of a home/domestic kitchen. In many jurisdictions food products may only be prepared for wholesale or retail in a commercial kitchen that is licensed by the proper local or state regulatory agencies. Even in areas where certain products may be legally produced from home (per cottage food laws), many products still require a licensed facility depending on their risk categorisation. In addition, when home-based food businesses grow, the residential kitchen is often no longer appropriate to accommodate large scale production with quality control and safety standards required to mass market products to consumers.

In many cases, entrepreneurs who need licensed commercial kitchens do not have enough capital to invest in their own commercial kitchen and cannot develop their full potential. Kitchen incubators are notoriously expensive to develop (second only to the healthcare manufacturing environment). Entrepreneurs are often very creative and rent space from a restaurant after hours, use a church basement kitchen, or seek any other type of kitchens that may be available. Often these facilities are not ideal due to a lack of flexibility of when the space is available, inconsistent access, expense, and a lack of adequate equipment. Kitchen incubators/accelerators and shared-use kitchens seek to fill this gap and provide facilities for these entrepreneurs.

Food businesses are among the riskiest forms of enterprise not least because of the high levels of innovation needed to succeed in the marketplace and the high capital set up costs. At the same time, many people want to start a food business based on their passion for food. To help determine the goal of the food incubator, it is important to set out the different types:

- a food incubator offering independent food production units to start up or growing businesses;
- a shared use incubator kitchen where established small businesses can cut their operating costs;
- an accelerator training programme for people looking to change careers by becoming a foodpreneur;
- a combination of the above e.g. a shared use community kitchen which can be used for start-up food;
- enterprises and for training provision for the food and catering sector. A shared use community kitchen is an important component within the offering of a food incubator and will provide valuable rental income.

The concept of establishing multi-tenant food incubators has been enthusiastically progressed in the United States. Local communities and municipalities play a leading role in setting up commercial kitchens as part of their local economic development strategy.

Where food incubators provide a shared use kitchen, they offer two important benefits to start-up and existing food businesses:

1. The construction and equipping of a shared use production kitchen provides entrepreneurs with time-share access to production facilities and the opportunity to start and expand specialty food and catering businesses without the prohibitive cost of building their own commercial kitchen.
2. Such facilities offer a true “incubator approach”, offering start up food entrepreneurs access to business support services & training and technical assistance through the provision of food technologist (if resources permit) or by linking up with a third level institute or government agency who will then provide this technical assistance to the food enterprise tenants on a third party basis - essential ingredients to the success and growth of any start-up business.

For example, the successful food incubator The Food Hub, Drumshanbo, Co. Leitrim, Republic of Ireland (FoodHub, 2016) offers the following:

- provision of quality production facilities for growth orientated food business,
- incubation Units,
- shared Use Community Kitchen,
- onsite training facility for the long term unemployed to gain skills and employment in the hospitality industry,
- industry training – online and classroom based.

Moreover, established food incubators have also benefited their host communities by:

- Creating the employment opportunities that accompany successful small food business start-up and growth strategies.
- Creating food products that celebrate what is unique and best about a community – its local produce, ethnic traditions and creative populace – while keeping a greater percentage of food income circulating in the local economy.
- Providing new markets for local agricultural products and establishing rural-urban links.
- Help remove restrictive barriers of high cost capital investment associated with leasing or purchasing a kitchen and kitchen equipment;
- Allow specialty food businesses like processors, farmers, caterers, food cart vendors, and mobile food trucks the opportunity to start from nothing and grow.
- Reduce the risk of failure by removing additional start up barriers associated with no, or low skills in the areas of managing and maintaining a commercial kitchen.
- Can provide shared and value added resources related to distribution, branding, marketing account, insurance, and financing mechanisms.

While the concept of a shared-use commercial kitchen is not new (Topaloff, 2014), (Hour Kitchen, 2017), (NEOEDD, 2012), (Conover, Rubchinuk, Smith, & Cortez, 2015) the recent batch of kitchen incubators demonstrates diversity and creativity of approaches and models. The mix of value added services provided should be based on the needs of the local businesses and partners as well as on space availability and a robust cost benefit analysis.

More than being just rental space, food incubators can offer full-service business assistance whereby participants have access to information and training regarding all aspects of starting a business. They can help would-be entrepreneurs with understanding the food business, navigating licensing and other regulations, and making connection with both suppliers and customers.

3. Building a regional partnership

A partnership is an agreement to do something together that will benefit all involved, bringing results that could not be achieved by a single partner operating alone, and reducing duplication of efforts. A successful partnership enhances the impact and effectiveness of action through combined and more efficient use of resources; promotes innovation; and is distinguished by a strong commitment from each partner. One key motive for implementing local and regional partnerships is the belief that working together is more effective than working in isolation. Partnerships – an effective way of working together – operate under different local conditions, depending on the detailed nature of the problems, the institutional environment, political factors, experiences and culture.

The following are the major steps in the process ((FITR, 2015)):

- planning the process,
- audit and analysis (zero-measurement),
- resulting in a 'Business case',
- establishment of Partnership.

Slovakia FITR Regional Partnership

The one of the first activities realized at the very beginning of the project lifetime represents the establishment of the Regional partnership and development of the Action plan. Slovak University

of Agriculture in Nitra and New Edu, n.o. in these consequences tried to find answers on following questions - What we can understand under a term “food incubator” in conditions of Slovak republic? What are the national and regional policies? What are industry policy and developments? What are the key stakeholders and what is their position? What are opportunities, benefits, and synergies for creating a FITR Partnership in Slovak republic?

For the Slovak Republic is very typical problem of higher unemployment rate on the countryside compare with the cities. The traditional way of farming - cooperatives in the form of alliances - and a new system of independent management are still not very common. Lot of people from rural areas are clueless - they have land, they desire to do something, but do not know how.

Therefore is very important to have communities and contact points that help to potential entrepreneurs and/or farmers with the selling of their products, advise them how and where to start, help them with marketing and so on. Moreover, it is essential to establish an effective link between agriculture and rural tourism, which open possibilities for tourists to buy domestic and agriculture products.

The main aim of the Slovak Regional Partnership is to create business and job opportunities for the people from rural regions via establishment of food incubators. The mission of the partnership will be not only to support creation and activities of food and catering companies, but pointed on the possibilities that rural area open for commercial activities.

Planned activities can be defined as follows:

- Supporting of small and family farmers and rural tourism:
 - o To realize Need analysis - natural and climate conditions, what there should grow, feed, the intention of small landlords to use their fields/gardens/orchards, agro touristic potential of region and its potential of for development of region.
- Education:
 - o To prepare learning modules for small and family farmers and beginners in agro business focused on the development of practical skills and knowledge about production of high quality products. Main topics of the learning modules: marketing, communication and presentation, IT technologies (online marketing), rural tourism.
- Common activities
 - o To establish a system of cooperation - networking.
 - o To establish a structure of Food Incubator as an organization/municipal enterprise that will manage and coordinate activities.
 - o To identify and modify the space, where they will prepare/distribute/sell/store food/agricultural products. The most important factor that has to be consider is compliance with hygiene standards.
 - o To close agreement between local producers and Food incubator managers and secondly to find contact with relevant restaurants and food shops.
 - o To process a marketing system – agreements with end users like as restaurants, schools, offices and presentation of products.

The overall objectives of the FITR Slovakia Regional Partnership aim to bring innovative business model of incubator acting in rural areas to Slovakia and leads to improvement competitiveness of enterprises and labor market in agriculture sector. This aim is based on two basic pillars:

1. Building Prosperity:

- Competitiveness – support of establishment of food incubators and support of start-ups & spin-offs in the rural areas across region will significantly increase the competitiveness of regions extraordinary depended on the agriculture.
- People and skills – agriculture is not sector where is evident support of start-up companies, that's why the Partnership aims to teach stakeholders - using developed tools and learning materials (FITR, 2015) - how to support agri business.

2. Strengthening the Region:

Based on the Eurobarometer report (2012) 37% of Europeans would like to be their own boss. More self-business means more jobs, better employment, more innovation and a more competitive region. Entrepreneurship 2020 Action Plan (EC, Growth, 2017) emphasizes the crucial role of education in fostering the entrepreneurial spirit amongst youths. In this document, start-ups and incubators play a considerable role and FITR Slovakia Regional Partnership aims to support entrepreneurship via Network structure of food incubators and plans to contribute to following Europe 2020 Strategy pillars:

- First pillar - Innovation by improving the framework conditions to transform ideas into marketable products or services – innovative business model, decision-support tools and learning materials.
- Second pillar - the priority area on the competitiveness of enterprises will improve the business environment, especially for SMEs.
- Third pillar - inclusive growth as it reinforces the human capital. This will be complemented by better functioning of the macro-regional labor market. It also emphasizes the fight against poverty, especially against the marginalized communities.

4. Conclusion

The paper presents an innovative economic model for promoting entrepreneurship in rural areas and thus support sustainable and competitiveness rural development. This model represents one of the outcomes of the project “FITR – Food Incubators Transforming Regions”, which seeks to forge an effective and replicable model to provide the learning and strategic structure to develop food incubators as enterprise, training and support drivers at regional level.

One of the main outputs of the project represents Slovakia Regional Partnerships which aims to study and capture best practice in the development of food incubators.

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ANTI-CRISIS MEASURES IN THE BANKING SYSTEM IN THE BALKAN REGION. THE REVALUATION OF CAPITAL ADEQUACY RATIO.

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ABSTRACT

The macroeconomic environment under which Central Banks of the Balkan region are operating now days is faced with many challenges and threats significantly impacted from financial indicators such as the Capital Adequacy Ratios. As the effects of the last economic crisis of 2008 still continue to impact the banking system causing a high credit risk due to non-performing loans, the question arises if banks have implemented through the years efficient anti-crisis measures and if they were capable of preserving their financial stability. Under these conditions, does the banking system of the Balkan Region have a sufficient capital in order to cope with deteriorated scenarios such as the increase of interest rate by central banks or unemployment? This paper aims to identify the topical anti-crisis measures taken by the banking systems in the Balkan Region since 2010 and examine their effects in the financial sector. The applied methodology is based on the literature's review on anti-crisis measures whereas quantitative data on financial indicators such as CAR are collected by annuals report of the Central Banks for the period 2010-2016. As per regulatory frameworks of the Central Banks, the assessment of capital adequacy ratio ranges from 12 to 15% which is deemed to be reasonable. The focus of this paper shall fall into evaluating whether the minimum CAR set by Central Banks is appropriate and in the case of variation what could be the impact in each economy under assessment. Additionally, the recovery and resolution plan determined by second tiers Banks as one of the preventive anti-crisis tools that a Central Banks monitors on a regular basis. The reasonability of the CAR ratio in association with monetary policies as their related impact on the fiscal and social policies would be as one of the alternatives to be considered as anti-crisis measures in the banking system in the Balkan Region.

Keywords: *Central bank, banking system, financial stability, non-performing loans, capital adequacy ratio, economic crisis*

JEL Classification: *E5*

1. Introduction

As the effects of the latest economic crisis of 2008 still continue to impact the banking system of the Balkan region, associated with a high credit risk, the most common instrument for determining whether credit risk is well managed by second tier banks is the capital adequacy

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ratio. Such ratio measures if the banks and the banking system are sufficiently capitalized and may cope with deteriorated scenarios such as increase of interest rates, inflation and unemployment rate. Central banks, in accordance with the framework presented by Basel III, have implemented a minimum capital adequacy ratio for each country. However, since the capitalization capability of each bank of the banking system is different from one country to another, questions may arise on the reasonability and appropriateness of such minimum set. The purpose of this paper is to identify the effects of the financial crisis in the banking system in the Balkan region composed of countries such as Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Bulgaria, and Montenegro. The methodology of this paper consists in the review of literature related to the effects of the financial crisis, measures undertaken by second tier banks and the leverage of capital adequacy ratio. The period under assessment will be from 2010 to 2016, which comprise the period for which the banking system was more sensitive towards the financial crisis. The limitation of this paper is the inclusion of only six states comprising the Balkan region which are located entirely in the region and a lack of information on specific measures taken by second tier banks for the management of the credit risk.

The first chapter will present the main effect of the economic crisis in the banking system of the Balkan region and the measures taken by second tier banks for managing the high credit risk. The reasonability and appropriateness of the capital adequacy ratio will be presented in the second chapter and the conclusion will be presented in the third chapter.

2. Effects of the financial crisis in the banking system of the Balkan region and measures taken by second tier banks

Starting from the year of the latest global economic crisis of 2008, second tiers banks are faced with many challenges that comprise managing a high credit risk of their portfolios. Even though they have implemented several changes in their policy for managing such risk, it is the obligation of Central Banks to establish and coordinate comprehensive policies in order to obtain a financial stability of the banking system.

The economic crises initially started in the U.S but were expanded in many countries by putting in jeopardy financial institutions and their portfolios as well. The effect in the European countries as in the Balkan region started to be more visible in the latest 2009, due to the presence of foreign capital. Since banking systems of the countries in the region are faced with a concentration of capital from certain countries, they may be exposed to the risks associated with the economy of these countries (Baleta T. & Selami Xh., 2001). According to statistics of ECB, over 60% of second-tier banks in the Balkan region are composed of foreign capital or branches, affiliates and representative offices of foreign banks.

Under these circumstances, there is no doubt that the banking system of the countries in the Balkan region would be affected by the international economic crisis causing them a financial instability. According to a study published by IMF (Claessens S. & Van Horen N., 2014), the main effects of the economic crisis in the banking system of 2008 are as follows:

1. Decline of funds for investments

Banks were more reluctant in lending to firms and consumers due to a lack of liquidity, especially for businesses taking risky investments. Therefore, there was a decrease investment financing and of consumable expenditure for consumers. The effect of a lower investment may cause up to 20% decrease of the aggregate demand so it has a significant impact on the economy.

For the Balkan region composed by Albania, Bulgaria, Bosnia and Herzegovina, Kosovo, FYR Macedonia and Montenegro the GDP growth rate from 2010 varies from (1%) for Albania to an increase of 4% for Bulgaria, while there are no significant changes for Macedonia or Montenegro.

2. Negative multiplier effect

Investment tends to be quite cyclical, therefore a fall in investment levels causes lower economic growth, a lower demand, a thus lower initiative for financing new investments. The reduction in economic growth causes job losses in many sectors such as retail or production which are more relevant for countries in the Balkan region.

3. Confidence in the banking system

A financial crisis, especially when is spread across the countries quickly, will have an impact on general economic confidence by the “bank customer”. News about a banking crisis and the actual effect will tend to make people more risk-averse, thus they will prefer to increase savings and reduce spending. Also if they fear savings are not safe in a bank, they will also switch from savings account to cash saving, which causes a lack of liquidity to banks.

4. Unemployment

Due to the decrease of the economic growth, lack of investments and decrease in demand, it is naturally that unemployment rate will increase. For the Balkan region the statistics of World Bank Group show that for the period from 2010 to 2016, the Balkan countries have increased employment by creating roughly 300,000 jobs, from an estimated 5.5 million in 2010 to 5.8 million in 2016. However, this rate of job creation is not enough to address the many challenges confronting Balkan labor markets. Unemployment was estimated up to 200,000 people, from 23% to 21% (The World Bank, 2017), but inactivity remains high, especially among women, the low-educated, and youth. In addition, informal employment and long-term unemployment remain a significant challenge in the region.

Table 1 Unemployment rate as a % of total labor force.

	Gender (%)			Age (%)			Education (%)		
	Total	Male	Female	15-24	25-54	55-64	Low	Medium	High
<i>Albania</i>	-2.4	-4.9	0.9	-36.4	-9.5	67.1	-12.9	0.2	34.0
<i>Bosnia & Herzeg.</i>	-5.0	-3.4	-7.6	-13.2	-10.1	32.4	-23.2	-2.8	10.1
<i>Kosovo</i>	-1.5	-4.2	6.4	-16.9	-2.4	20.6	-12.8	-5.0	20.2
<i>Montenegro</i>	6.2	1.6	12.2	24.6	0.7	24.0	4.9	-7.0	45.1
<i>FYR Macedonia</i>	12.5	11.4	14.3	-14.1	10.6	39.8	-9.6	11.6	40.4
<i>Bulgaria</i>	-2.3	-2.6	-2.0	-36.8	-2.9	11.4	-19.8	-6.7	15.3

Source: World Bank Data, Year: 2017 (The World Bank, 2017)

For the countries in the Balkan region, the entry of foreign capital in the banking system was crucial for increasing the profitability of the sector until 2009.

“The high profitability in the banking sector in the Balkans and the increasing profit-orientation of EU banks has been the major cause of this credit growth, which was mainly driven by the rising indebtedness of the household sector. Furthermore, the rise in domestic loans has been accompanied by an increase in cross-border lending by the Balkan countries” (Cetkovic, 2011).

During the increase of lending activity, banks were engaged in risky lending practices, accompanied by a fast credit rate growth and an inability to appropriately assess the risk of borrowers. As the financial and economic crisis was spread to the Balkans, these risky loans turned into bad loans. Bosnia and Herzegovina were the most representative of the increase NPL

rates by being tripled from 2008 to 2010. In Croatia, bad loans have doubled, and Montenegro had an 18% rate of NPL. With the outbreak of the recent financial and economic crisis and the increase in bad loans, banks reduced their lending, particularly lending to private households, which led to a slowdown in credit growth rates.

Based on the statistics of WWB for the year 2016, the rate of NPL to gross loans for the period from 2010 to 2016 has varied from a reduction of 2% for FYR Macedonia to a 6% increase for Albania. The highest rates were pointed out for the year 2013 and 2014 with the highest ratio of 23.5% in Albania (composed by 16 commercial banks).

Followed by such deteriorated macroeconomic indicators and a weak banking sector, the recovery rate is deemed slow for the Balkan region. Since the countries in the Balkan region are sensitive towards the financial stability and their development is due to the increase of the banking sector, it is important for second tier banks and the central banks to establish measures and take actions for recovering from such deficiency.

Credit risk is the most representative indicator for evaluating the deficiency of the banking system. Credit risk refers to the risk that a borrower may not be able to repay a loan and that the lender may lose the principal of the loan and the interest associated with it. Such risk arises because borrowers expect to use future [cash flows](#) to pay the current debts and the repayment capacity of the borrower cannot be measured with a full assurance.

Credit risk is associated with other challenges that second tier banks are facing nowadays. Banks in Balkan region have even a greater responsibility since such sector has a direct impact on the economic development of the countries. Based on the Financial Stability Report of the Bank of Albania (Bank of Albania, H1, 2016) the banking system is faced with several risks such as liquidity risk, market risk, reputational risk, business risk, systemic risk and moral hazard.

Different types of risk have a different approach in different countries. For example in Albania the credit risk, lack of liquidity and the operational risk are the most representative of the challenges faced by the banking system, whereas for Bulgaria and Montenegro are sensitive also to the risk of moral hazard and reputational risk. On the other hands, banks in FYR Macedonia and Bosnia and Herzegovina are also vulnerable to the operational risk.

Second-tier banks have implemented different measures throughout the period under assessment for reducing the credit risk. The measures are related to more rigid evaluations of the potential borrower and the collaterals subject to loans, and risk assessment in order to identify all internal and external risks associated with the client which determine whether his repayment capacity is appropriate for the bank. Such measures were initially induced by the parent companies or decisions by Shareholder's assembly due to previous experiences of foreign banks. This started as a necessity of the banks to precede the risky borrower and to establish a more prudent policy towards their objectives.

On the other hand, banks did not stop their activity, but they continue to diversify their portfolio, by including different categories of the customer based on the risk assessment performed and offering different types of loans which comply with the customer needs. Commercial banks offered several services including payroll, ease of conducting payments for consumers which were translated to commission fees and diversified income sources.

The main objectives of second tier banks are related to the implementation of new policies and strategies for maintaining a sufficient capital adequacy ratio. They aim to preserve their financial stability in the market and to maintain a sufficient capital in order to cope with deteriorated scenarios of the economy.

Except the measures taken by the bank itself, the central bank has also implemented several policies for preserving the financial stability. The reduction of base interest rate, increase of monetary policy, the reduction and preserve of the inflation rate, increase of the legal reserve are measures provided by the Central banks for the financial stability. Also the central bank have implemented several changes in its policy and guidance for second tier banks, obliging them to perform several procedures and implement policies and the establishment of structures or department which will control the performance of financial indicators of the bank and will evaluate its capability to cope with deteriorated scenarios such as volatility of interest rate, inflation rate, increase of unemployment etc.

3. The appropriateness of the Capital Adequacy Ratio

Capital adequacy ratio is the most common tool used by the Central Banks to control the performance of financial indicators of second tier banks. The capital adequacy ratio (CAR) is a measure of a bank's capital. It is expressed as a percentage of a bank's risk-weighted credit exposures. Also known as capital-to-risk weighted assets ratio (CRAR), it is used to protect depositors and to promote the stability and efficiency of financial systems comprising the banking system (Basel Committee on Banking Supervision, 2015).

As per regulation of the Bank of Albania, which is in line with the framework provided by the Basel Committee, the purpose of determining the CAR is to define the criteria for the calculation of such indicator and to set the minimum of the ratio. Banks shall calculate the capital adequacy ratio between the amounts of regulatory capital to the amount of risk weighted exposures (assets), expressed in percentage, on an individual and consolidated basis (Bank of Albania, amended in 2017).

The minimum required of CAR in accordance with Basel III is 8%. So a bank with a CAR of 8% means that capital would meet all minimum criteria required, but would have a zero conservation capital for deteriorated scenarios, therefore it would be necessary to reallocate the capital and to make strategic decisions for the portfolio diversification (Basel Committee on Banking Supervision, 2015). CAR for countries under assessment as of 2016 are Albania of 12%; Bosnia and Herzegovina of 12%; FYR Macedonia of 8% and Kosovo of 12%; Bulgaria of 4,5% based on backtesting programs and Montenegro of 10% (Bank of Albania, H1, 2016).

The variance of the ratio is not significant between the countries and the method of evaluating such ratio is similar. The evaluation is conducted through stress testing performed individually by second tier banks and also by the central bank during the evaluation of the banking system.

The financial indicators and hypothetical scenarios used for performing the stress tests may be different, based on the economy of each country. However, the regulatory framework of Basel III has determined the main analysis to be performed in a stress test in order to identify whether the banks are capitalized above the minimum ratio and if the banking system itself has a sufficient capital to cope with deteriorated scenarios.

As summarized in the report of the Financial Stability of the Bank of Albania, CARs of each country of the Balkan region are higher than the minimum set by the framework. Therefore the banks are deemed capitalized and the banking system is considered to have a sufficient capital for maintaining its financial stability.

However, by taking into consideration the fact that the Balkan region is in continuous development and subject to rapid changes, does the financial indicators fairly represent such

conditions? Is it necessary to reevaluate the minimum set of the capital adequacy ratio for second tier banks or is it appropriate for all banking systems?

The banking system of each country is quite dynamic and composed of banks of various size and complexity. Therefore, even if the banking system is considered fully capitalized since the CAR is above the minimum set, there may be banks which are not capitalized as required by the central bank. In this case, it would be necessary to undertake measures for preventing a financial instability of the bank suffering a lower CAR compared to the others. If the bank has had a lower CAR for consecutive years, it means that the bank does not have a sufficient capital for facing hypothetical scenarios and cannot manage the credit risk. A higher credit risk is translated to an increase of liquidity and reputational risk (Cetkovic, 2011).

Under these circumstances, a bank with a lower CAR cannot be evaluated and treated by the central bank in a similar way as a bank which is fully capitalized. The increase of the minimum set of CAR would affect the way the bank manages its capital and thus manages the credit risk (R., 2012). The main effects of an increase of the minimum level of CAR up to 14% estimated as an average of the capitalization rate of second tier banks under assessment are as follows:

1. The decrease in available funds for the lending and/or investing activity;
2. Use of a more prudent strategy for the lending activity by increasing the procedures of risk assessment process and the evaluation of the repayment capacity (including collaterals);
3. Better efforts for the diversification of the portfolio;
4. Use of automated controls other than judgmental analysis, for identifying whether there are non-performing loans and why;
5. The increase of provision for clients which are considered risky.

Such effect may not be considered favorable for banks which are capitalized and have a balanced capital adequacy ratio. However, it would be favorable in a long term for banks which are not fully capitalized and suffer from a low CAR. An increase of the minimum CAR would be necessary for evaluating the banking system in real terms, therefore if the banks individually are capitalized, then the banking system would be considered as such.

4. Conclusions

The macroeconomic environment under which Central Banks of the Balkan region operates is faced with many challenges and threats which are impacted from financial indicators such as the capital adequacy ratio. The economic crisis of 2008, which was expanded quickly in the Balkan region, was associated with a higher credit risk for second tier banks, a decrease in the economic growth of the countries, increase of unemployment rate and a lack of confidence in the banking system.

Such deteriorated indicators have caused a financial instability of the banking system for the period from 2010 to 2016. However, there is improvement of the financial indicators throughout the period due to measures were undertaken by banks due for their internal purposes and central bank for preserving the financial stability of the banking system. Such measures include risk assessment procedures, a proper evaluation of the repayment capacity of the client, reduction of interest rate, etc.

The capital adequacy ratio is used by the central bank for evaluating whether the banks and the banking system itself have sufficient capital in order to cope with deteriorated scenarios and whether banks are capitalized in accordance with the regulation set by the central bank.

As presented in the report of the Financial Stability of the Bank of Albania for countries of the Balkan region, the banking system is fully capitalized. However, there are banks within the banking system which are not fully capitalized or have a significantly lower capital adequacy ratio compared to other banks. Therefore, it would be necessary for several banks to implement new policies for achieving the proper rate of capitalization. Under these circumstances, in order to evaluate the banking system based on real observations, the reconsideration of the capital adequacy ratio would be appropriate. An increase of the minimum CAR up to 14% would decrease the available funds for investing and lending purposes, but it would be a more prudent approach for the use of available funds, diversification of the portfolio and preserving the financial stability of the banking system of the Balkan region.

The optimal level of CAR is one of the main issues of a central bank for maintaining a balanced banking system. The leverage of CAR may be determined by different factors which differ from one country to another; therefore the determination of the appropriateness of CAR would be one of the biggest challenges of the future for the second tier banks and other financial institutions as well.

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RISKS AND YIELDS IN NOT LISTED BANKS:

THE MATTER OF THE REPRICING GAP

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ABSTRACT

The concern relates to the repricing gap has to be analyzed in function of interest rates risk, that is reliant on variation of market rates Δi_M , with resulting repercussions on the interest margin³. This work aims at analyzing the management of the repricing gap, in order to define as well as possible the future interest margin, MI, of a bank by acting on its possible variations ΔMI . The rates risk mainly affects three factors: such as different maturities, the imbalance of the structures between assets and liabilities, and the different incidence on the lending and deposit rates variation Δi_a e Δi_p .

Interest rates risk can be observed according to the price risk or to the re-investment risk, the repricing gap serves to control the last one. In this work we have therefore studied the different methodologies to evaluate gap, in presence of maturities or of intervals related to assets and liabilities, that are sensitive to market fluctuations, with the ability to change maturities in order to ensure a better assessment of the interest margin. Finally it's suggested a weighting of the marginal gaps, which takes into account the remaining time to maturity and the value of the same according to the market cost.

Keywords: *Not listed banks, Interest rates risk, repricing gap, interest margin, Yield risk*

JEL Classification: *G12, G21, E43*

1. The repricing gap

The repricing gap aims, in terms of profitability, at rectifying the prospective analysis of the interest margin depending on Δi_M , using the gap that is created between financial assets and liabilities, that are market-sensitive

$$G_t = AS_t - PS_t \Leftrightarrow G_t = \sum_{j=1}^n as_{t,j} - \sum_{i=1}^m ps_{t,i} \quad [1]$$

Where G_t is the Gap for the period under review, while AS_t and PS_t are respectively sensitive assets and liabilities or rather those which expire or which are subject to review interest rate during the period t . $as_{t,j}$ represents instead the j -nth sensitive asset and $ps_{t,i}$ means the i -nth sensitive liabilities.

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³³ Egea (2008)

The overall interest margin, related to activity of credit intermediation, is as the difference between the interests of financial assets, IA , and the interests of financial liabilities, IP

$$MI = IA - IP \Leftrightarrow MI = i_a A - i_p P \Leftrightarrow MI = i_a (AS + ANS) - i_p (PS + PNS)$$

from which

$$\Delta MI = \Delta i_a AS - \Delta i_p PS$$

The variation ΔMI is based on the simple consideration that the Δi_M produce effects on interest rates or yields of the bank i_a and i_p , and consequently the Δi_M produce effects even on the AS_t and PS_t .

In the first part of this study we consider for convenience

$$\Delta i_a = \Delta i_p = \Delta i$$

we will have

$$\Delta MI = \Delta i (AS - PS) \Leftrightarrow \Delta MI = \Delta i \left(\sum_{j=1}^n as_{t,j} - \sum_{i=1}^m ps_{t,i} \right) \Leftrightarrow \Delta MI = \Delta i \cdot G_t$$

From this last formula we know how the variation of the interest margin can be considered as *function* of the gap factors and Δi , so we have $\Delta MI = \varphi(\Delta i, G_t)$.

We can then synthesize the first impressions on the changes of the interest margin in dependence of its variables

$$\Delta MI = \Delta i \cdot G_t \Leftrightarrow \Delta MI : \begin{cases} > 0 \Leftrightarrow \begin{cases} \Delta i > 0 & e & G_t > 0 \\ & o \end{cases} \\ = 0 \Leftrightarrow \Delta i = 0 & o & G_t = 0 \\ < 0 \Leftrightarrow \begin{cases} \Delta i > 0 & e & G_t < 0 \\ & o \end{cases} \\ & \Delta i < 0 & e & G_t > 0 \end{cases} .$$

2. The maturity adjusted gap

The maturity adjusted gap starts from the conception that the change in interest rate is fully active only in the period of the time to maturity, that is the time between the sensitive date and the end of the gapping period. In particular, in the case of any sensitive assets j -*nth*, that yields an interest rate $i_{a,j}$ at maturity s_j , it will produce a loan rate related to the next year

$$Ia_j = as_j \cdot i_{a,j} \cdot s_j + as_j (i_{a,j} + \Delta i_{a,j}) (1 - s_j)$$

It is noticed how the yield of a sensitive assets is separable into two components, one certain, that is $as_j \cdot i_{a,j} \cdot s_j$, and one uncertain, or $as_j (i_{a,j} + \Delta i_{a,j}) (1 - s_j)$, that represents the expected value in relation to the market. Therefore is natural to infer that the variation of loan rates is determined exclusively by the uncertain component

$$\Delta Ia_j = as_j \Delta i_{a,j} (1 - s_j)$$

and considering all the n assets of the bank, it turns out that

$$\Delta IA = \sum_{j=1}^n as_j \Delta i_{a,j} (1 - s_j)$$

likewise for the liabilities we will have

$$\Delta IP_i = ps_i \Delta i_{p,i} (1 - s_i)$$

and for all banks' liabilities we'll have

$$\Delta IP = \sum_{i=1}^m ps_i \Delta i_{p,i} (1 - s_i)$$

Assuming an uniform variation of the active and passive interest rates, or rather

$$\Delta i_{a,j} = \Delta i_{p,i} = \Delta i, \forall (j,i) \in \{1,2,..., n(m)\}$$

we can then estimate the variation of the interest margin of the bank as

$$\Delta MI = \Delta IA - \Delta IP \Leftrightarrow \Delta MI = \left(\sum_{j=1}^n as_j (1 - s_j) - \sum_{i=1}^m ps_i (1 - s_i) \right) \Delta i \Leftrightarrow \Delta MI \equiv G^{MA} \Delta i$$

in which G^{MA} represents the maturity-adjusted gap, resulted from the difference between sensitive assets and liabilities, weighted in a gapping period, set at 1 year⁴; weighting which in our view is not very effective if not misleading, reducing the gap and making it less effective in its natural expression. Therefore we will discuss an alternative in paragraph 4.

3. Marginal and cumulative gaps

It's useful to think working on maturity is very laborious and complex, knowing the high number of the same, therefore it makes sense to observe marginal and period gaps, relating to specific future periods. So with G_{t_1} we mean the first marginal gap in the period t , and, obviously, $G_{t_2} = G_{t_1} + G_{t_2}$ will represent the gap cumulated at time 2 in the period t . Regarding of period gaps it's necessary to refer, with slight inaccuracy, to one of the maturities of the period, such as

$$t_j^* = \frac{t_j + t_{j-1}}{2}$$

this maturity allows the weighting of the marginal gap according to the method of maturity-adjusted gap

$$\Delta MI \cong \Delta i \sum_{j|t_j \leq 1} G_{t_j} (1 - t_j^*) \Leftrightarrow \Delta MI \cong \Delta i G_1^w [2]$$

in which G_1^w stands for the cumulative gap weighted to one year. The indicator, obtained as the sum of weighted gaps of the period, is a marker of the sensitivity of the interest margin to change in market rates, and it is also denominated *duration of the interest margin*. The marginal gaps lend themselves better to the evaluation of the interest margin in presence of a vibrant market.

⁴ Saita (2000)

4. Hypothesis of an alternative model to the repricing gap

In our opinion a weak spot of the repricing gap is the kind of weighting utilized, which considers the sensitive positions related to the time to maturity. It's clear how in this way the weight of the sensitive positions is reduced, making ineffective and misleading the same gap in the evaluation of the ΔMI , as well as it is distorting in the different immunization policies.

The individual sensitive positions have not only effect on the ΔMI for their specific magnitude, but since this last has an impact on the MI related to the estimated period, we have to reassess the position considering its time to maturity. Consequently a marginal gap weighted in this alternative model results

$$G_{t_k}^{**} = G_{t_k}^* m(t_0, t_k, t_m)$$

while in presence of a single gap we would have

$$\Delta MI^* = \Delta i G_{t_1}^* m(t_0, t_1, t_m)$$

Otherwise in the case of more of one marginal gap we would find

$$\Delta MI^* = \sum_{k=1}^m \Delta i_k G_{t_k}^* m(t_0, t_k, t_m).$$

Where $m(t_0, t_k, t_m)$ represents indeed a unitary reinvestment to maturity based to the current *risk free* yield. Thus by a group of short-term government bonds, knowing that

$$v(t_0, t_k) = [1 + j(t_0, t_k)]^{-1} \text{ e } v(t_0, t_k) = [1 + i(t_0, t_k)]^{-t_k}$$

or⁵

$$[1 + j(t_0, t_k)]^{-1} = [1 + i(t_0, t_k)]^{-t_k} \Leftrightarrow i(t_0, t_k) = \sqrt[t_k]{1 + j(t_0, t_k)} - 1$$

therefore knowing the unitary yield $i(t_0, t_k)$ that is constant for the entire k -nth period, and considering that $m(t_0, t_k) = e^{\delta_m(t_k - t_0)}$, it is obtained the respective monthly unitary strength of interest δ_m

$$[1 + i(t_0, t_k)]^{(t_k - t_0)} = e^{\delta_m(t_k - t_0)} \Leftrightarrow \delta_m = \log(1 + i(t_0, t_k)).$$

Examining the structure of the *RendiBot* 2016⁶, known the yield $j(t_0, t_0, t_{12})$, we can obtain $i(t_0, t_0, t_{12})$ and consequently the monthly strength of interest $\delta_m(t_0, t_0, t_{12})$ indispensable to the weighting of period marginal gaps that exist in the first interval (t_0, t_k) ; whereas about the gaps related to the next interval $[t_1, t_2]$, the use of the yield $j(t_0, t_0, t_{12})$ remains not totally corresponding to market realities, as it intersects itself with the incoming yield $j(t_0, t_1, t_{13})$, yield that, in our opinion, is important to take in consideration.

Therefore known the strength of interest $\delta_m(t_0, t_1, t_{13})$ which intersects the previous one in the interval $[t_1, t_{12}]$, and being unitary indeed, we can think of an average impact between them. In general, known yields composition $\{\delta_m(t_0, t_k, t_{m+k}), \forall k \in \{0, 1, 2, \dots, m-1\}\}$, we can determine

⁵Fisher (1965)

⁶www.bancaditalia.it

$$\delta_m(t_0, t_k, t_m) = \frac{1}{k+1} \sum_{\gamma=0}^k \delta_m(t_0, t_\gamma, t_{m+\gamma}), \forall k \in \{0, 1, 2, \dots, m-1\}$$

that is necessary to re-evaluate marginal and period gaps of the interval (t_k, t_{k+1}) . The reasoning so far conducted is replicable for each subsequent interval.

In this way it is created the following structure for yield maturity, or

$$\{\delta_m(t_0, t_0, t_{12}), \delta_m(t_0, t_1, t_{12}), \delta_m(t_0, t_2, t_{12}), \dots, \delta_m(t_0, t_{11}, t_{12})\} [3]$$

That is necessary to the weighting of each marginal gap in the gap period taken in exam.

5. Indices as a function of the gap

In addition to prospective evaluation of the interest margin, the gap is utilized even in determining some indexes such as

1. *Index of the capital profitability* which provides a measure of the variation of the profitability of the interest margin on its own means, in addition of market variations

$$\Delta \left(\frac{MI}{MP} \right) = \frac{G}{MP} \Delta i$$

2. *Index of management profitability* which provides a measure of the variation of interest margin on its interest-bearing assets, in addition of market variations

$$\Delta \left(\frac{MI}{AF} \right) = \frac{G}{AF} \Delta i$$

3. *Gap Ratio* which relates sensitive assets and liabilities, providing possible comparisons both in time and space between banks, even of different measures.

$$gap \text{ ratio} = \frac{AS}{PS}$$

6. Problems related to repricing gap

The repricing gap method, in spite of its more accurate versions, shows some criticalities, which regards:

6.1 The hypothesis of uniform variations of lending and funding rates and of the rates of different maturities. The fundamental hypothesis of the model is indeed the uniformity of the variation of the market interest rates, on assets and liabilities. A possible solution could be that one of considering the adjustment sensitivity explicitly in the calculation of the gap, through the identification of the reference rate, the valuation of different bank lending and funding rates sensibility, then the calculation of the *proper gap*.

For what has been said

$$\begin{aligned} \Delta MI &= \sum_{j=1}^n as_j \Delta i_{a,j} - \sum_{i=1}^m ps_i \Delta i_{p,i} \Leftrightarrow \Delta MI \cong \sum_{j=1}^n as_j \beta_j \Delta i_a - \sum_{i=1}^m ps_i \gamma_i \Delta i_p \Leftrightarrow \\ &\Leftrightarrow \Delta MI \cong \left(\sum_{j=1}^n as_j \beta_j - \sum_{i=1}^m ps_i \gamma_i \right) \Delta i \Leftrightarrow \Delta MI \cong G^s \Delta i \end{aligned}$$

in which β_j and γ_k stand for the coefficients of assets and liabilities items, otherwise G^* is the standardized gap.

6.2 The treatment of on-demand items. Speaking about on-demand items we mean assets and liabilities items of which the maturity is not determined. According to the schema of subdivision of the gapping period, such items should be numbered among those sensitive whose reference period may also be the daily one. By empirical analysis it was found that these items are not readily adapt to changes in market rates; it has been observed that the adjustment of the yield of the on-demand items is asymmetrical. In this case a solution is possible through the estimate of the average delays of the various on-demand items to rates adjustment compared with the instant in which rates variation happen, and generally it is employed the statistical analysis of past data⁷.

6.3 Omitted consideration of the effects of the variation of the interest rates on the amount of funds intermediated. In the repricing gap model no account is taken of stock value, but only the flow value are examined, and then all the amounts of assets or liabilities traded by the bank are ignored. Moving from the utilized solution to the hypothesis of uniform variations of lending and funding rates, it is possible to change the coefficients β and γ to take into account the elasticity of quantities compared with prices. In practice it is enough to build β' as

$$\beta' = \beta(1 + x\%)$$

Indicating with $x\%$ the percentage relative to the variation of the volumes; the same argument can be made for the coefficient of sensitivity of the liabilities γ . However, in reality, also the choice of β' as a linear function of $x\%$ does not seem to be so right but this would require the use of a sophisticated econometric model.

6.4 Omitted consideration of the effects of rates variation on market values. A rise of interest rates doesn't produce its own effects only on the profit flows associated to sensitive assets and liabilities, but that rise would also affects the value itself of these items. For this reason the repricing gap model is not suitable to capture the effects that changes in rate may have on the assets value, conversely of a asset-type model: the duration gap one.

7 Analysis case

In order to make a first analysis about the study we have conduct, we used the balance sheet data closed on 31/12/2015 of a BCC of Apulia and Basilicata, that for matter of privacy we call Bank Alpha. the prediction field is then reported to 2016, in the following initial framework

Chart 1 Assets situation of Bank Alpha on 31/12/2015

Sensitive assets 74.741.925	Sensitive liabilities 54.868.264
Not sensitive assets 186.507.716	Not sensitive liabilities 183.243.524
	Shareolders'equity 23.084921
Total 261.249.641	Total 261.249.641

In particular assets and liabilities that will mature their sensitivity in the area of the observation period result so divided

⁷ A. Resti, A. Sironi (1997)

Chart 2 Division of sensitive assets and liabilities by maturity date

	On view	1-7 days	7-15 days	15-30 days	1-2 months	2-3 months	3-6 months	6-12 months
Assets	134.235.771	13.203.432	9.105.674	2.738.607	1.497.100	2.133.699	10.790.254	35.157.225
Liabilities	18.269.771	1.197.398	224.014	2.210.092	3.924.641	8.629.517	4.118.259	34.501.341

Chart 3 Division of sensitive assets and liabilities by repricing date

	On view	1-3 months	3-6 months	6-12 months
Assets	67.353	17.534	93.748	4.652
Liabilities	131.114	16.981	10.802	35.219

Therefore the gap that has been calculated according to [1] related to the data of **Charts 2** and **3**, results

$$G_t = AS_t - PS_t = \sum_{j=1}^n as_{t,j} - \sum_{i=1}^m ps_{t,i} = 74.741.925 - 54.868.264 = 19.873.661$$

excluding on-demand items, which amount respectively at 134.303.124 and at 18.400.885

7.1 Gap computing after the redistribution of on-demand items

In order to overcome the problem of the on-demand items treatment, we estimate, for each of them, the structure of average delays of rates adjustment related to the moment in which happens a variation in market rates. Let's consider that the overall coefficient of sensitivity⁸ to the three month rate Euribor results equal to 80%; these 8000 b.p. are so divided:

Chart 4 Progressive redistribution of sight deposits

Time horizon	Perceived change	Assets reallocation	Liabilities reallocation
On view	0%	/	/
On 1 month	10%	13.430.312	1.826.977
On 3 months	50%	37.151.562	9.134.886
On 6 months	12%	16.116.375	2.192.373
On 1 year	8%	10.744.250	1.461.582
Total	80%	107.442.499	14.615.817

Therefore the new composition of sensitive items

Chart 5 Division of sensitive assets after the revaluation of on-demand assets items

	1-7 days	7-15 days	15-30 days	1-2 months	2-3 months	3-6 months	6-12 months
Maturity date	13.203.432	9.105.674	2.738.607	1.497.100	2.133.699	10.790.254	35.157.225
Repricing date	/			17.534		93.784	4.652
On-demand items		13.430.312		67.151.562		16.116.375	10.744.250

$$AS_t = \sum_{j=1}^n as_{t,j} = 182.184.460$$

⁸ www.bancaditalia.it

Chart 6 Division of sensitive liabilities after the revaluation of on-demand liabilities items

	1-7 days	7-15 days	15-30 days	1-2 months	2-3 months	3-6 months	6-12 months
Maturity date	1.197.398	224.014	2.210.092	3.924.641	8.629.517	4.118.259	34.501.341
Repricing date		/		16.981		10.802	35.219
On-demand items		1.826.977		9.134.886		2.192.373	1.461.582

$$PS_t = \sum_{i=1}^m ps_{t,i} = 69.484.082$$

The on-demand items redistribution changes the capital scenario of the bank

Chart 7 Capital situation after the redistribution

Sensitive assets 182.184.424	Sensitive liabilities 69.484.082
Not sensitive assets 79.065.217	Not sensitive 23.084.921
	Shareolders' equity 23.084.921
Total 261.249.641	Total 261.249.641

We can therefore observe the new Gap after the strong distribution of the masses exposed

$$G_t = AS_t - PS_t = \sum_{j=1}^n as_{t,j} - \sum_{i=1}^m ps_{t,i} \Leftrightarrow G_t = 182.184.424 - 69.484.082 = 112.700.342$$

If we assume a $\Delta i_a = \Delta i_p = \Delta i = 1\%$, the positive variation of the interest margin will result

$$\Delta MI = \Delta i(AS - PS) \Leftrightarrow \Delta MI = \Delta i G_t \Leftrightarrow \Delta MI = 0.01 \cdot 112.700.342 = 1.127.003,42$$

greater than five times than that one we would have without on-demand items.

7.2 Weighting of marginal gaps

For a better interpretation of the exposure to the bank market rates risk, the gaps related to different maturities should be analyzed.

Then the average maturities have to be calculated, which will be considered the maturities of the sensitive items in the interval, and then will be weighted the marginal gap G'_t , according to [2], just as reported in

Chart 8 Computing of weighted cumulated gap

(t_{j-1}, t_j)	G'_t	G_t	$t_j - t_{j-1}$	t_j^*	$1 - t_j^*$	$G'_t(1 - t_j^*)$
1-7 days	12.006.034	12.006.034	(7-1)/360	4/360	356/360	11.872.633,62
7-15 days	8.881.660	20.887.694	(15-7)/360	11/360	349/360	8.610275,94
15-30 days	528.515	21.416.209	(30-15)/360	22,5/360	337,5/360	495.482,81
0-1 month	11.603.335	33.019.544	(1-0)/12	1/24	23/24	11.119.862,71
1-2 months	-2.427.541	30.592.003	(2-1)/12	1,5/360	10,5/12	-2.124.185,88
2-3 months	-6.495.818	24.096.185	(3-2)/12	2,5/12	11/12	-5.954.499,83
1-3 months	58.017.229	82.113.414	(3-1)/12	2/12	10/12	48.347690,83
3-6 months	20.678.943	102.792.357	(6-3)/12	4,5/12	7,5/12	12.924.339,38
6-12 months	9.987.985	112.700.342	(12-6)/12	9/12	3/12	2.476.996,25

$$\Delta MI \equiv \Delta i \left(\sum_{j|t_j \leq 1} G'_t (1 - t_j^*) \right) \Leftrightarrow \Delta MI \equiv \Delta i G_t^w \Leftrightarrow \Delta MI \equiv 0.01 \cdot 87.768.595,83 = 877.685,96$$

7.3 Alternative hypothesis of weighting

In order to execute this alternative it's necessary to organize rates of return risk-free related to the period under exam; thereby we use the following structure of the cash exchange rates on an annual basis, related to the short-term BOT average yields, just like in the publication of the *Rendistato anno 2016 of the Bank of Italia*⁹, considering that the Alpha Bank data are captured on 31/12/2015

$$\{j(t_0, t_0, t_{12}), j(t_0, t_1, t_{13}), j(t_0, t_2, t_{14}), \dots, j(t_0, t_{11}, t_{23})\}, \text{ or}$$

$$\{-0.141; -0.110; -0.141; -0.191; -0.255; -0.187; -0.264; -0.276; -0.308; -0.339; -0.314; -0.370\}$$

Thus considering what we have seen in point 4, we obtain the related structure for maturity of the instantaneous intensities of the interest $\{\delta_m(t_0, t_0, t_{12}), \delta_m(t_0, t_1, t_{12}), \delta_m(t_0, t_2, t_{12}), \dots, \delta_m(t_0, t_{11}, t_{12})\}$ or

$$\begin{bmatrix} -0,000051 & -0,0000454 & -0,0000473 & -0,0000527 & -0,0000607 & -0,0000618 & \\ -0,0000667 & -0,0000708 & -0,0000754 & -0,0000802 & -0,0000832 & -0,0000874 & \end{bmatrix} [3^*]$$

and bearing in mind average maturities $t_k^* = \frac{t_k + t_{k-1}}{2}$, the alternative weighting we propose results

$$G_{t_k}^{**} = G_t' m(t_0, t_{k-1}, t_k) \Leftrightarrow G_{t_k}^{**} = G_{t_k}' e^{\delta_m(t_0, t_{k-1}, t_k)(1-t_k^*)}$$

Chart 11 weighting of marginal gaps according to the logical method we adopted

Period	G_t'	t_k^*	$1 - t_k^*$	$\delta_m(t_0, t_{k-1}, t_k)$	$G_{t_k}^{**}$
1-7 days	12.006.034,00	7+1/2	(360-4)/30	-0,000051	11.998.768,11
7-15 days	224.014,00	15+7/2	(360-11)/30	-0,000051	8.876.393,58
15-30 days	528.515,00	30+15/2	(360-22,5)/30	-0,000051	528.221,85
0-1 month	11.590.223,90	1+0/2	12-0,5	-0,000051	11.596.531,64
1-2 months	-2.427.541,00	2+3/2	12-1,5	-0,0000454	-2.426.484,01
2-3 months	-6.495.818,00	3+2/2	12-2,5	-0,0000473	-6.492.899,76
1-3 months	57.951.672,50	3+1/2	12-2	-0,0000473	57.989.793,34
3-6 months	20.663.209,68	6+3/2	12-4,5	-0,0000618	20.669.396,51
6-12 months	106.595.745,40	12+6/2	12-9	-0,0000874	9.905.387,47

$$\Delta MI^* \cong \Delta i \sum_{k=1}^m \Delta i_k G_{t_k}' m(t_0, t_{k-1}, t_k) \Leftrightarrow \Delta MI^* \cong 0.01 \cdot 112.645.098,70 = 1.126.450,98$$

8. Conclusions

The analysis conducted until here places under examination the following repricing gap summary, which could be replicated for a sample of comparable banks

Chart 10 Summary

	Without on-demand items	With on-demand items	Weighting	Alternative weighting
G_t	19.873.661	112.700.342	87.768.595,83	112.645.099
ΔMI	198.736,61	1.127.003,42	877.685,96	1.126.450,99

⁹ www.bancaditalia.it

$\Delta (MI / MP)$	0,00861	<u>0,0488</u>	0,0380	0,0479
$\Delta (MI / AF)$	0,000793	<u>0,004497</u>	0,0035	0,004495
AS / PS	1,36	2,62	2,62	2,62

As we can observe this lead to apparently seemingly results in the case of alternative weighting, as it is shown in the second column, but this is simply due to the presence of negative rates on the market.

While it seems very interesting the comparison developed between the two different weighting, knowing the differences of the results, thus leading to projections and different immunization policies with understandable consequences in the hypothesis, you have to consider a lower gap. Problem of risks management of the interest rate, which results even more important in the periods characterized by high volatility of them, and, in particular, in presence of negative variation.

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ESTABLISHMENT OF THE NATIONAL BANK OF ALBANIA (BANCA NAZIONALE D'ALBANIA) AND THE SOCIETY FOR ECONOMIC DEVELOPMENT OF ALBANIA (SVEA)

Lavdosh Ahmetaj¹

ABSTRACT

The work includes the 1925-1943 time span which corresponds to the formation of the Albanian state, which, above all, was facing financial difficulties, in this context, Albanian policies through parliament by June 23 and July 5, 1925, declared "the national organic law for the Bank of Albania" and the law on the new monetary order.

This agreement was followed by Article 18 which stipulated that the new bank issuers should provide, through a specially created company (Svea)², a fund of fifty million gold francs for the Albanian state. This loan was intended for the construction of public works, it would be guaranteed by customs revenues and the main Albanian monopolies.

The Bank was founded in Rome on September 2, 1925, and its capital was set at 12.5 million gold francs. Distribution of quotas shareholder and statutory rates of Italy provided an almost complete control over the management of the institution. The project stipulated that 49% of bank capital be reserved for private Albanian citizens, 26% of the Italian group, and group quotas that remain Swiss, Belgian and Yugoslav; in fact, despite, the distribution came by being modified after shares belonging from Albanians were assigned to Italy and, by some agreements that were made between Albert and Commercial Bank of Basel, it managed to regroup Italian participation with 80% of capital

This agreement was followed by the political event which had to benete declaration of the Albanian republic headed by Ahmed Zog, who had requested financial support of the regime to consolidate his power in the country.

From a diplomatic point the entry to the Italian capital in Albania supported by English and American politics, concerned to win acceptance of Italy in the security pact for Renanine, more generally, to prevent French hegemony to be increased in the Eastern Europe.

Key Words: *financial difficulties, agreement, loan, quotas, capital, security pact.*

JEL Classification: *B22, B26, E44, F36*

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²This article is based primarily on documentation, in large part unpublished, archival funds belonging to the "Banca Nazionale d'Albania" and "Società per lo Sviluppo Economico dell'Albania" (hereinafter Svea), still under inventory near Central State Archives in Rome. This paper was presented at the seminar organized by the seminars II of the studies Cirsfi (Interuniversity Research Centre for Financial History Italian) - "center and periphery in the financial history of the Italian unification (Italian state) in the EU", held on 26-27 September in Cassino 2003 - and contains the first results of a wider research on the topic of financial relations between Italy and the Balkans in the period between the two world wars included.

1. Introduction

The political and economic interest of Italy towards Albania, displayed since before World War, as an Austrian anti-function, was consolidated when the Conference of Ambassadors of Italy in 1921 acknowledged a special "mandate" on the new Balkan republic³. Immediately after the First World War, after the failure of the agreement Venizello-Titoni, Italy was positioned for preserving the independent Albanian state in its political borders set on July 29, 1913, by the Conference of Ambassadors in London. This circumstance, combined with "the Italian protectorate" will bring significant benefits of a political order, since the point of view of control in Balkan –Adriatic areas constituted an obstacle to the French aspirations in the Balkans and broke the continuity of possession of Serbs and Greeks on the east coast of Adriatic and control of the strait of Otranto and it had a great economic importance I accepted as "value of transit" of the Albanian territory⁴. For this reason, it had a strategic importance for Albania's Adriatic balance and represent the main gate for economic expansion to the Middle East⁵.

However, economic relations between Italy and Albania were just started to have a greater importance in 1925, March, when were concluded oil concessions conventions in Italy that compromise the responsibility to create an issuing bank. Agreement on the Establishment of the National Bank of Albania (Banca Nazionale D'Albania) was signed on 03.15.1925 by the Albanian Foreign Minister, Myfit Bey Libohova, and Mario Alberti⁶, representatives of the Italian financial group - which were part of the banks of this country - that, at the invitation of the League of Nations, had organized the operation⁷. Arrangements were subsequently ratified by the Albanian Parliament, on 23 June and 5 July 1925, and declared the "Organic Law on National Bank of Albania" and the law on the new monetary order. Article 18 of the agreement, in addition, provided that the new bank had to ensure, through a specially created company (Svea), a fund of fifty million gold francs for the Albanian state. The loan, intended for the construction of public works, would be guaranteed by customs revenues and the main Albanian monopolies. The agreements followed two months later, the Proclamation of the Albanian republic headed by Ahmed Zog, who had requested the financial support of the regime to consolidate his power in the country. From a diplomatic point of entry in Albania, Italian capital was supported by the UK

³ The Conference of the Ambassadors in 1921.

⁴ "Aide Memoire for the Conference of Ambassadors (1921)", in the Central State Archive (Archive Central delo State, hereinafter ACS), Nitti Cards, 22 envelopes, folder 69, "Albania". Italian-Greek agreement of 07. 29. 1919 (Titoni-Venizello) Italia undertook to support the claims on Greek southern Albania, while Greece knew Italian sovereignty over Vlore. Subsequent international agreements pushed Giolotti government, in August 1920, to order the evacuation of Vlore from the Italian troops stationed there by the end of the First World War.

⁵ Kristo Dako, Albania a key among East and West, Tirana 2008,

⁶ Mario Alberti (1884-1939), was one of the most prominent representatives of irredentism Trieste and one estimated economist. He dealt with the Italian credit during the war and, became its general director. Covering multiple International tasks (delegate conference of the Peace of Versailles, an expert at the conference of Genoa and Cannes delegate the mission to negotiate the debt of war with the United States in 1925) and was the first president of the National Bank of Albania.

⁷ The Financial Committee of the League of Nations, in which Albania had acceded in 1920, was sent instead to delegate his Swiss Alberto Calmes, who in his report concluding on the Albanian economy had foretold the establishment of a bank issuing and an international loan concession (A. Calmes: La Situation économique et financier de l'Albanie, Geneva 1922). In June 1924 the League of Nations tasked to implement these objectives an Italian financial group, which were part of prestanome government as the country's main banks (COMIT, Credit and Banco di Roma). In this operation participated to a lesser extent the Swiss bank (Banque Commerciale de Bale), Belgium (Belgian Banque pour l'étranger) and Yugoslavia.

and US governments, concerned to win the acceptance of Italy in the Renanine security pact and, more generally, in order to thwart the increase of the French hegemony in Eastern Europe⁸.

The Bank was founded in Rome on September 2, 1925, and its capital was set at 12.5 million gold francs. The distribution of quotas shareholder and statutory rates of Italy provided an almost complete control over the management of the institution. Nistor project stipulated that 49% of bank capital would be reserved for Albanian private citizens, 26% of the Italian group, and group quotas that remain Swiss, Belgian and Yugoslav; in fact, despite it modified the distribution that came after shares belonging to Albanians were assigned to Italy and, by some agreements that took place between Albert and Commercial Bank of Basel, Italian participation amounted to around 80% of the capital⁹. In addition, the independence of the institution from the Albanian government was taken, which set legal headquarters in Rome and was appointed an Italian presidency¹⁰. The Bank's overall policy will be directed at Italy, the Italian wholesale social bodies; the institution's management was entrusted to Amadeo Gambino, who would act in contact with the directors of subsidiaries in Albania¹¹. The Agreement envisaged the introduction of a new monetary system and the creation of the Albanian franc, which was converted to gold by the old parity Latin monetary union (0.290322 grams per franc). National Bank of Albania, the holding by statute to match the *gold exchange standard*, acted from the beginning to the *gold standard* regime, providing full gold convertibility of its money¹².

The possibility to keep gold coupons¹³, despite the continuous trade deficit of the country was based significantly on the flow of striking Italian capital in Albania and the limited extent of Albanian (monetary) circulation. The Albanian banking and monetary alignment represented an important plan for "**finance engineering**", designed by Alberti, who arrived to follow important objectives: to expand the use of money and cheque in a country that had never had in the past any

⁸ PF ASSO: Italy and International Loans (1919-1931), Historical series of the Bank of Italy, Roma-Bari, 1993, p. 219; and HJ BURGËYN: Revisionism fascist. Mussolini's challenge to the grant of power on the Danube in the Balkans, Milan, 1979, Chapter 3.

⁹ Koechlin Hoffman, president of Banque Commerciale de Bale, was a member of the council of administration of the Italian credit, in which Alberti was director general. Based on the agreement of 03/10/1928, Italian Credit annually received dividends paid on 50,000 shares nominally permanent, signed on its behalf by the Swiss bank. The relevant documents and correspondence agreement between Stringer, and Kehl Albert Hoffman found in UNICREDITOITALIANOARCHIVIOSTORICO, 2051 dossier, "Banca Nazionale d'Albania", folder 1, "Convenzione e statuto". Besides the Italian group belonged to the founder shares worth 100,000 lower (1. 25 francs) versus intermittent (25 francs) but with the same voting rights.

¹⁰ First Bank President Mario Alberti; Council of Administration took part in addition F. Bruner (vice president), A. Gambino, P. Fenoljo, G. Bianchini U. Viali, E De Woutersd'Oplinter, Lale N. Zuber and S. Curani (councilors).

¹¹ Amadeo Gambino, professor of economics at Rome and corporate personality financial environments assessed in Italian covered councilor delegate the task to liquidate the bank, which occurred in 1957. Gambino assisted in Rome by Guido Córdoba (inspector) and Umberto Pikardi (accounting chief). Albania at the end of 1926 despite bank staff consisted of 58 people. ACS, Banca Nazionale d'Albania, Archivio di Presidenza, the envelope 10, "Personal".

¹² The conversion of banknotes into gold was suspended in 1932 but was not impaired coins ever. President Alberti spoke about the "small issuing of the bank but very stable". - Discorso knows Mario Alberti, president della banca, sull'esercizio 1927 in ACS, Banca Nazionale d'Albania, Book Sociali, verbal del Consiglio di Amministrazione - allegati. Albanian francs would be up to 1939 - in the context of greater volatility of foreign exchange at the international level - one of the strongest currencies in the world level and a "refuge currency" for the Balkan markets; it is much more significant when considering the heavy depreciation suffered after the 1929 crisis by the currencies of Eastern Europe.

¹³ A monetary system based on gold, unlike gold standard (note. Trans.).

experience in banking and in which were not implemented even the main forms of trade and binding legislation¹⁴; to save in the same time the new currency stability while avoiding inflationary trends. The more restrictive monetary policy of the National Bank of Albania was subject - it will further documented - policy objectives of the regime and the protection of the lira in foreign markets. Moreover, such a policy was justified by the fact that banks, being meanwhile credit institution and permanent emissions, must reduce to its minimum the risks of taking scarce investment possibilities assessment provided by the Albanian poor economy. A further target that was managed towards the Albanian National bank standing in collecting sweeping coins (gold and silver) used in the past in the country, either to make payments, either as a form of savings of treasure by incorporating in the institution reserves covering the new banknote circulation.

2. Loan of 1925 for public works

The Economic Development of the Society in Albania, according to the conventions of 1925, the issuing bank has pledged to raise, should give to the Albanian state a loan intended for the realization of public works and to guarantee from customs revenues and monopolies country¹⁵. Svea guarantee was really set in Rome earlier than the National Bank of Albania (04/23/1925) and around a month later (05/29/1925) the agreements were signed between the Albanian government and the Italian financial group and Svea to regulate aspects of other funding.¹⁶

Foreign original intentions of the Italian organizers would have to issue bonds that benefit SVEA interest of 7. 5%, To be sold in the Italian market and major foreign markets. The operation will thus gain an international connotation and, meanwhile, will ease the burden borne by dividing Treasury securities (bonds) between Italian and foreign depositors¹⁷. Meanwhile, the efforts to sell the loan completely failed; even Mussolini's insistence on negotiations seriously risked them at the time by US finance loan granting Morgan destined to stabilize the lira. Some venture strategy for financial expansion in Albania was reprimanded for more money from the

¹⁴ "The first attempts to spread the use of the bill was met with hostility, almost as if they were an insult that was done to teach people to respect their word." F. Jacomoni di San Sovino: *La politica dell'Italia in Albania*, Bologna 1967 p. 27.

¹⁵ Repayment of the loan was guaranteed by the proceeds of the state monopoly on salt, papers cigarettes, and matches, for an annuity provided to 8. 5 million francs (when earnings will not reach such a figure, the Albanian state was obliged to fill the deficit in income from taxes or other activities. (Article 25 of the Convention of 4/29/1925). in connection with this Mario Alberti, president of first National Bank of Albania, specified that "formula was conceived in terms not too clear in order to give more freedom to Italy in any case of scarcity". To see: Note riservate di Alberti sugli accordi esecutivi del prestito, 17/3/1926, in ACS, SVEA: *Libri Sociali, Verballi del Comitato di Amministrazione* - allegati.

¹⁶ The capital of the company being set free in 1 million, then increased to 15 million. The first president of the society that Valvasori Angelo Peroni. The administration council took part Mario Alberti (vice president), Amedeo Gambino Giuseppe Ugo Bianchini and Viali (councilors), except some Albanian personalities. ASBI, *Carte Stringher cart. 23, fash. 2, prestito for the lavori Pubblici dell'Albani a.*

¹⁷ "One such sale, except for financial reasons, it seems well worth politically after surgery fails to give an international character and the eventual intervention of Italy in Albania, more pronounced in case of failure (contractor) Albanian, it might seem like an act implemented tutelage of interest not only in Italian but also foreign." ACS, Svea, *Book Sociali, verbal del Comitato di amministrazione*, 10. 7. 1926, p. 143. See further more Archivio Storico Banca d'Italia (here in after ASBI), *rapporti con l'Esterio, cart. 17, fash. 8,* "emissione know obbligazioni for LL. PP. in Albania".

main Italian authorities (Stringer and De Stefani), the focused on avoiding the fall of lira in the exchange market in mid 1925¹⁸. It was reached nonetheless to postpone the releasing of the loan on November 12, 1925, predicting a "temporary investment" near Istcambi, which eventually took over the total burden of the operation, equal to 242 794 000 lira¹⁹. The loan credited in Rome at the headquarters of the Bank of Albania will gradually be distributed in conjunction with the progressive development of provided public works. The operation, desired personally by Mussolini, had a prominent political character, fully aware of the insufficient capacity of Albania to pay, the Italian representatives aimed to profit of the guarantees of debt that could achieve control before the trade, and then the whole administration of the country. Therefore the eventuality of Albanian default (contracting) of payment not only was kept into account but was considered since the beginning of negotiation an indispensable premise for the realization of the advantages of political type²⁰.

On the other hand the Albanian government by knowing the purposes Italian and aware of the political implications of non-fulfillment of obligations (contractual obligations), refused to pay the installments of the loan, filed absurd claims favorable to the conditions and was positioned in a filibuster stand that was not possible for the guidance of the program of building public works.

Embedded Obstacles by the Albanian government were numerous: failure to observe formalities necessary for assigning enterprises (depositions and appearance of the bank guarantees), the accomplished works without prior technical controls, delays in submitting the final plan for revenue sharing of the loan between various public acts and administrative irregularities²¹.

Given the confusion during two-year, 1926-1927, were allocated according to the Italian government guidelines (represented in Albania by the ambassador in Durres, Baron Pompeo Aloisi) many favorable conditions and extensive exchange, so as Amedeo Gambino underlined how "such concessions would do as much, the Albanian government by not paying any of the installments for the repayment of the loan, the delay of payment situation did not appear soon after in practice binding installments were balanced by the concessions by SVEAS "²². It was

¹⁸ PF ASSO Italy and Credit International (1919-1931), in the historical series of the Bank of Italy, Roma-Bari, 1993, p. 219-220.

¹⁹ The loan was issued on 12/11/1925 for a nominal total of 70.5 million gold francs, which the 81% rate provided a net profit of 50 million gold francs. After the revaluation of the lira, Italy awarded Albanian government that decided to guarantee the exchange of 62,217,086 francs. Istcambi Svea bonds held in balance by 1935; 08/25/1935 RDL 1614 with the formal transfer went into effect in Treasury securities, which gave in exchange bills with expiration in 1944. Against the Albanian government still listed as Svea lending entity. See ARCHIVIO STORICO PAOLO THAON DI REVEL: Albania, folder 7, Direzione Generale del Tesoro - prestito for the lavori Pubblici in Albania.

²⁰ The Italian Government, moreover, issued a guarantee for repayment of the loan reinforcement in case of default (contracting) by Albania.

²¹ See on this ACS, Svea, Book Social verbal of the Board Committee, 11/09/1927.

²² "English memory for the Gambino sull'inadempienza loan repayment for LL. PP. , 01/25/1932", p. 28, at ACS, Svea, Archivio di administrative office, the envelope 49, Servizio LL. PP prestito. The main mitigating conditions allocated belonged: attribution active in Albania interest rate of 7% on the deposit of the loan, the interest on debit compensation; cedolare bonifizio tax on securities (benefits of about 10 million francs); recognition of about 12 million francs in loan ammontare drank over the attribution of new guarantee on the exchange of lira. S seen about this, except the committee society Historical Archive THAON PAOLO DI REVEL, "Directorate General of the Treasury - loan for the Public works in Albania", cit. and ASBI, Carte Stringher, 23 folders, folder 2, "loan for the Albanian Public works".

added to such a paradoxical situation in which the loan beneficiary slowed di proposito the works guidance and the creditor conferred broad relieves to perform.

On the other side, the lines of conduct (conciliatory "desired by the regime was motivated by the fact that the application material of public works was considered" an essential condition to empower the eventual tightening Italian rights "and" moral foundation and political rights on the mortgages loan "²³ and by the fact that precisely in those months were underway negotiations for the conclusion of" the treaty of defensive alliance "of 22 November 1927 that would introduce eventually the new republic in Balkans in Italian political orbit, anti-Slavic and anti-French function"²⁴.

The strategy was dictated by the regime and some leaders of the National Bank of Albania and Svea were against it, firstly Mario Alberti that (**auspicava**) preached the conservation of closely private criteria in the management of the company and the unlocking of the situation was made more difficult (**oneroso**) for the Italian Treasury²⁵. The conclusion was only with the signing of a moratorium 28/02/1928: Albania was engaged to give "prompt implementation of works" and Italy (**esonere**) the Albanian government from paying the amounts due until 1929, reducing furthermore payments for the years 1930-1932²⁶. The effects of the agreement were not made to wait, with the commessaappalto important for the construction of the port of Durres, a trusted Italian ditta "F. IliMazorana" Trieste was shown erogazione according to regular loan funds. In submitting proventi loan (Table 1) was given special importance (**preminente**) to building infrastructures, in addition to the port of Durres, which absorbed more than 32 million lira, funds were designed for road construction (about 54% of the total) and multiple bridges (25% of total). A great importance took also the construction of public buildings, some of which constituted the offense with exclusive public interest, as they could "*and only with their visibility and brightness to bring documentation to the Italian implementing action in Albania*"²⁷.

From an economic standpoint, it was a whole, therefore, investment in (**redditività** fort **differita**) in time or up and nothing on which however was based on extensive program and organic development and valorization of the Albanian economic resources after 1939.²⁸

Deals of 29/05/1925 determined by the Albanian Government, for (**APPALTI**) procurement of works financed from the loan shall be the National Bank of Albania that was designed to initiate

²³ ACS, Svea, Book Social verbal of the Board Committee, 10. 7. 1926, p. 70.

²⁴ The Treaty was signed by the Ambassador of Italy in Albania, Ugo Sola, and the Minister of Foreign Affairs, VRIONI. In November of 1926 it was already signed a pact of friendship and security between the two countries. On Italo-Albanian Treaty of 1927 be seen P. PASTORELLI, Italy and Albania. Diplomatic origins of the Treaty of Tirana 22. 11. 1927, Florence 1967 E. NOLFO: Mussolini e la Italian foreign policy from 1919 to 1943, Padovain 1960 and G. CAROCCI: Foreign policy dell' Italia fascista 1925-1928, Bari 1969.

²⁵ "The memorandum di Mario Alberti for SE il capo del governo, 15. 12. 1927", in ACS, Svea, Book Sociali, verbal Administration Committee - attachments.

²⁶ Moratorio agreement was signed by A. Gambino and Albanian Finance Minister Starova; it recognized the Albanian debt on 02/01/1928 at CHF 1,326,264. 90 and to restart regular payments will only happen to start in 1933. It is important that the premise of the agreement stated that "a substantial reduction of Onerconsequenti operation could be provided on all the Albanian nation following the effective enforcement of the works". in" English memory for the Gambino default on repayment of the loan LL. PP, 25/01/1932", cit.

²⁷ ACS, Svea, Book youth services, protocol del Comitato di amministrazione, 16.11.1927, p.81.

²⁸ Source: A. GAMBINO "The Relazione conomichetra the Italy and Albania", in Rivista internazionale of Social Sciences, 1940. In total ammontare funds (216.9 million) should be added to the quota of 25 million liras intended, according to the agreements, the payment of the first two six-month loan. Table 1: use of loan Svea (data in millions of Italian lira) Years public buildings Street Bridge Durres port work and other total studies

and receive bids (Article 1). Commission panel, composed of a representative of the Albanian Ministry of Foreign Affairs and a representative of the bank, should give preference for the attribution of works, to Svea's and related companies (Article 26)²⁹.

Svea provided support to enterprises in making works, studies and applied practices, earning in return a commission that ranged between 10 to 15% of (**import of commessa**). Besides this, Italian Ditte operating in Albania was assisted by Svea and the National Bank of Albania even financially, through advances on payment mandates and work on³⁰, but also through the practically exercised loans.

For loans granted by Bancalba enterprises, Svea should give a full and unconditional guarantee on good intentions operations. Public works dite (conferire) in addition to bank term loans yet levied against the Government (GoA)³¹.

This system lead to different guarantees, thanks to the lucrative provisions of the assistance ventures, Svea could cover its overheads and win a limited (**utile**); expand the onere of the balance of Italian-Albanian payments thanks to the remittances (**Rimese**) of Italian companies operating in Albania posing as compensatory element against the reimbursement (esborsi) loan; provide to many Italian companies a safe working source and (redditizio) out, according to the aspirations of Italian economists aiming (**auspicare**) the concession by the State to lend to favor the involved emigration or to expand the influence in the countries of Near East³². With r. d. l. 1699 09/19/1935 the social reason of Svea changed and the Financing Social Affairs Society (Società Finanziamenti Esther - SOFINES), in line with the new tasks set by the Ministry of Finance for the company, which belonged to more broadly financial support to initiatives Italy's foreign policy in the Balkans-Danube basin. Since then, overall visitors after the Italian invasion of Albania, it specialized in medium-term and long loans and assumed different participation abroad³³. Albanian Government would not resist but the handful of loan payments for

²⁹ Among the affiliated Ditte, this Commes entrepreneur were "F. IliRagazzi" of Milan (59 million free), "F. IliMazorana" Trieste (35 million) and "VENANZETTI & Co." (14.3 million). "Concessione" by Svea was not essential for l'aggiudicazione requisito works (27.7% il works actually implemented by Ditte not connesse), while 70% of the work that aggiudicato by Ditte Italian nationality. See: Società per lo Sviluppo Economico dell'Albania, "A decade of life Svea", Roma, Libreria dello Stato, 1936, p. 34.

³⁰ Advance payment on mandates tended to cover financing needs in Ditte between the works and payment term by apaltante station. Paying the mandate was, therefore, subject to technical compatibility with the appearance of the work implemented, released by Svea technical representative, engineer. Louis Sotili, an inspector of the State Railway. Advances on the works were provided by the Bank despite comprising only fidi indeed real, that certainly cannot be overcome 75% import labor. Advances and loans of the National Bank covered about 50% of the overall imports of the works implemented. ACS, Svea, Book Sociali, "Minutes of the Committee Administration-attachments", "letter to the Ministry of Svea Esther, 23. 09. 1927".

³¹ Bank held until the completion of work to guarantee the 10% of import erogato on the specific mandates of payment. Above all financial and contractual relations arising under the provisions of the Loan to be seen ACS 1925, Svea, Archivio di administrative office, the envelope 16, "Forges Davanzati", "Proposte finanziamenti on the work to companies for outside Pubblici prestito, 17/6 / 1932", but the book Social "verbal of the Board Committee - attachments", "lettera della Svea al Ministero Esther, 23. 09. 1927".

³² B. GRIZIOTTI: The policy of Italy of Prestitalia l'estero in Rivista Bancaria 1923 f. 142. Besides "Proceedings of the National Congress for economic commercial expansion of Trieste on all'estero tenuto at 4-8 / 11/1923", in Trieste in 1924.

³³ Among these should remind those in societies following: "Prima Società di Navigazione sul Danubio" (ceduta after the Anschluss with Hermann Goering Verka), "Latorça - Société Economique et industrielle - Munkács" (Assunta in September 1940 to 8, free 9 million to support forest development activities in Ruteni society, was lost after the Rutenisè annexation by Russia); "Compagnia Italiana per l'Oriente Mediterraneo (CIOM)" (born in 1941 by a million

1925; following in 1932 in the cooling of relations between the regime and Zog, who to the second world war only figure of 2 million gold francs³⁴.

3. Balance of the Italo-Albanian pagers (1925-1938)

Bank of Albania, the only credit institution operating in the country, concentrated to itself all the movement of funds between Albania and externally synthesized - for years preceding the 1939 Italian invasion - in TablAlbanian balance of payments for the period 1925-1938 is dominated by Italian financial payments (loan erogazione Svea, funding for institutions and society in Albania, Italian Treasury contributions for government) whose performance in the evolution of relations responds political relations between Italy and Albania.

After the progressive development of public works related to the loan Svea and concession "Loan few decades" in 1931,³⁵ the financial resources will be reduced severely after the missed renovation of the Italo-Albanian pact of friendship and security by Zog, who expressed in the early thirties, his willingness to free themselves from Italian economic hegemony appealing international ordinances. Only later, after improving relations with Italy and the new economic arrangements achievements of the two countries in March 1936, it was recorded resumption of a significant afluso Italian funding, intended in particular to finance the new Agricultural Bank, for the renovation of the port of Durres and the disavanzo RISANAMENTO state³⁶

capital initiated by IRI acted upon jgitha in Greece in the field of commerce); EIAA "Ente Albania's agriculture Industrie" (born in 1926 for reclamation and agricultural or zoo technology improvements in Albanian); ETA "Ente Turismo Albania" (born in April 1940 with a capital of 1. 5 million francs); ITALBA "Imprese per Trasformazioni The farming of Lavori di Bonifica in Albania" (born in 1940 with capital of five million francs). On 12. 31. 1941 the shares of Sofines go to about 24 million Italian liras. ACS, Svea, Book Sociali, verbal del Comitato di Amministrazione, 03/01/1941.

³⁴ More precisely installment was paid in 1930 (1 million francs), more than four installments of CHF 250 thousand between 1939 and 1942. On 15. 04. 1938 was signed in Tirana an agreement on the basis of which was given to Albania delivery in 1965- / 66 of capital quotas expired on that date (5. 8 million francs); bonifico half the interest expired on that date, in addition to other amenities. Despite this, Albanian loan debt of 1925 up to September 1943, between the capital quota, quota and interest took interest in 95,661,000 francs (equal to more than 590 million liras). "Opera Defense dell'Italia in Albania" - "reserved Letter (by A. Gambino) for Dr. Malvezzi on sostenutidall'Italia disbursements in Albania in September 1943 01. 11. 1946". Svea, Archives Bureau, the envelope 57, "Expose sign, the interest in Albania rights for Svea let companies run" - "Promemoria 11 / 12/1950".

³⁵ In June of 1931 that extended from Italy to Albania a loan to finance the state disavanzoer Albanian, Albanian CHF 100 million, to erogarsi in 10 annual installments of ten million francs, without interest and without deadlines. Erogazione of the loan was suspended after two years as a result of political tensions income to create between the two countries after the failure of a customs union project. On the loan of 1931 to see "Loan of 1931", in ACS, National Bank of Albania, the Presidential Archive, the envelope 12, "Solders and the Italian Government Loans"; and furthermore A. ROSELLI: "Italy and Albania. Ventennio finanziari nel Relations fascist", Bologna 1986, p. The Following 98, and GP CASELLI, G. TOMA: "The storia economica English from 1912 to 1950" in Journal of Economic History, n. 1-2003. .

³⁶ Economic Arrangements in March 1936 signed by Indeli Plenipotentiary Italian Ambassador and the minister of National Economy of Albania, predicted besides a loan intended for the establishment of a monopoly TOBACCO in Bangladesh (three million francs) and a loan to improve agriculture (10 million francs to erogarsi in five years). See letter Gaudencit for Gambinob, 29/05/1936, at ACS, Banca Nazionale d'Albania, Archivio di presidenza, the envelope 15, "Albanian economic agreements 19/03/1936 Italian" Ministry Historical Archive (hereinafter ASMA) Series Political Affairs from 1931 to 1945, Albania, envelope 81. On this point, the Italian-Albanian relations seen Pollo S. , A. PUTO "Historie del'Albanie des origines to nosjours", Roanne, 1974, p. 246 Following.

Capital invested by Italy in Albania until March 1939 was more than one billion eight hundred million lira³⁷; it is aptly to say that a significant share of this amount (40%) gave no reason rilevazione customs statistics: it had a "strictly military" or "political" spending character, not included in the records of the balance of payments.³⁸

Financial payments by Italy were offset primarily by commercial payments for exports from Italy to Albania (column B). However, it notes that the proportion of imports from Italy on total Albanian import - always shown in column B - decreases steadily over the years, precisely in sequence with greater Italian financial strain³⁹. This is noteworthy, as outlined by Bank executives, Albania finance purchases from third countries with a mature capital of Italy. This negative analysis can be "tempered" however, by some estimates: In the first place, the Italian investment provided work for many ventures headquartered in Italy. Article 26 of the Convention for the loan of 1925 previewed actually a franchise preference for the delivery that should have exercised in favor of most Italian nationality undertakings, defined as "affiliate" or "connected" with the Svea, who previously collaborated with the State Railways⁴⁰.

This led to an influx of capital to Italy by financial payment for a renewal of these enterprises in the relevant social headquarters located in Italy.

Secondly, it should consider action developed by the National Bank of Albania on the exchange market, which contributed in large part to compensate for the overall balance of the balance of payments.

Designed for the Italian capital of Albania, in fact, transited through the Bank, that took measures to lend to Beneficiaries of riminese amounts generally corresponding to the deposited banknotes in francs.

Faced with these many banks, with its statutory obligations, it should provide coverage in gold or in equivalent currency, giving, therefore, track a sale of lira against foreign currencies precisely in the period when the Bank of Italy carried on the markets foreign international protection insistence parity achieved in 1927. In contrast the Bank of Albania was the only market that part of lire needed to withstand the demands of exchange of Albanians (that they intended to purchase from third countries), keeping the rest that was available to the Bank of Italy and held on deposit in Italy, consistent with "superior foreign exchange needs"⁴¹.

³⁷ In a speech before the Chamber of Deputies held on 04. 15. 1939, the Minister of Foreign Affairs, Ciano, 1. 837 billion calculated accurately in lira. Foreign Minister had commissioned a little hardship month ago a study prof. Amedeo Gambino, delegate advisor of the National Bank of Albania. The study is stored in Asma, Series Political Affairs 1931-1945, Albania, the envelope 81. The figures shown is highly Laerta Therefore a number of Italian investments in other Balkan countries at the same time. Historical Archive of Banca Intesa, Foreign Service, executives cart. 12, fasc. 2, "Italy's position in the Balkans at the time of the Anschluss".

³⁸ Historical Archive Paolo Thaon di Revel, Albania (for the years 1925-1936); and over: ACS, BNA, "Studies (1925-1939)", and "Studio A. Gambino Italy of the work in Albania, 09. 03. 1946" in ACS, National Bank of Albania, Archives Bureau, the envelope 43 "Italy's Defense work in Albania" and BNA, Archives Bureau, the envelope 15, "Italian-Albanian 19/03/1936 agreements" (for the years 1937-38).

³⁹ Italy was already in the last years, around twenty years Albania's main commercial interlocutor. See about this FRASCA P. Polar "Trade and trade policy in Albania", in Journal of Political Economy, 1932 and Chamber of Commerce - Eastern, "The economic Albania", Bari 1927.

⁴⁰ ACS, Svea, Book Social verbal of the Board Committee, especially 23. 09. 1927 and 11. 09. 1927 sessions. In Additions to the letters shown on Sotilin Gambino, "breaks for businesses related", 23/06/1928, at ACS, Svea, Book Social verbal of the Board Committee.

⁴¹ ACS, National Bank of Albania, Archives of administrative office, the envelope 1, Relations with caratteregenerale by the Foundation until March 1939, "confidential notes (Amedeo Gambino) on bilanciatria Italy of payments of

From the prospectus following is possible to notice how the action of the Bank of Albania have enabled the Italian currency effort attached to the expansion in Albania by 40% by 1936, the year of "alineamento free": the face of a comprehensive solder emergency by balance the payment of around 72 million francs (equivalent to 450 million lira)⁴² capitals transferred effectively in Albania in 1936 went up to 42 million francs (equal to slightly more than 260 million lira). The contribution provided by the Bank of Albania to protect the lira was so wide. Between 1931 and 1933, then the world level outlined the transition from the regime of the gold exchange standard in a regime of gold bullion standard with sganciamento from receipt Gold pound and then the dollar, the institute supported apparent invalidation of reserves its currency, which withstood the increase of gold reserves, without abandoning its currency parity.

However, the Bank's management - following the directives of the Bank of Italy - confined to the necessary minimum purchases of gold, using so for such a purpose foreign currencies already for years belonged to the institution and without giving way, therefore, any conversion of Italian lira. Consequences of this behavior were that the bank reserves were held in Italy and that the material was composed in large part to the opposite free gold commitments towards Albania. Once the proven reserves were increased, the reduction in the value of currency crosses during the period 1931-1933.

Quota reserve bank held in Italian lira, equivalent to fifty million by the end of 1933, amounted to about 90% of the reserve overall at the end of 1935⁴³. But the administration less orthodox reserve by the Bank of Albania, however, caused the intervention of Swiss, Belgian and Yugoslav council orsbut also Albanian government protest concerned the growing devaluation of Bank reserve following the abandonment of the defense of the free market exchanges.

In conclusion, we can say that, during the German occupation of Albania (September 1943-November 1944), The direction of the National Bank of Albania was held by Italian officers, who, without the ability to communicate with the central bank of Rome, achieved to avoid the German interference in the administration of the institution.

Germans actually tried to ensure by all means sufficient means of payment for their expenses in Albania; they managed to keep only 60 million francs under the form of loans authorized by the Albanian government⁴⁴, but due to opposition insistence of leaders of Bancalba was impossible to crush the new banknotes and obtain signatures required to validate some banknotes which were printed in Vienna⁴⁵. So to cope with the urgent financial needs of the Wehrmacht Germans were forced to lead the country and then sold to private Albanian, under the control of National Bank.

Albania, 07/12 / 1937"" the confidential memorandum on SIGNATURE SIGNATURE in CambiBanca national of Albania""and" Notes (A. Gambino) on the SIGNATURE SIGNATURE in CambiNazionale Bank of Albania - 1931".

⁴²The cambiodel 12/31/1936 6:22 Albanian Franks Lit.

⁴³"The memorandum riservato for HE the Minister of Finance in free sulle Italian Riserva della Banca of Albania, 11. 29.1935", ASBI, Foreign Relations, folder 130, Issue 5. How vedainoltre the" The memorandum riservato (Gambino) in loans D ' Augustine della Banca of Albania versol'Italia, 09. 06. 1935", in ACS, National Bank of Albania, Archive secretary's office," Relations dicaratteregenerale by the Foundation in March 1939".

⁴⁴The Germans also imported in Albania 100 million francs in banknotes prelevati Banca of Italy from Rome

⁴⁵The cliches for printing banconoteinservibilieranodaglistatiresistessifunzionarilitalianidellaBanca of Albania.

FOREIGN DIRECT INVESTMENT AND EXPORTS. SUBSTITUTES OR COMPLEMENTS. EVIDENCE FROM TRANSITION COUNTRIES

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ABSTRACT

The objective of this research is to provide an empirical assessment of the nature of FDI in selected transition countries, using bilateral country level data on FDI flows and export flows, between 5 South East European Countries (SEE-5), 10-New EU member states (EN-NMS-10) and 14 European Union countries (EU-14 countries), at a yearly time period from 1994 to 2010. For estimation purpose, we use standard panel estimates of the robust fixed effects. The study finds that country characteristics, like differences in GDP and GDP per capita, as well as differences in factor endowments between countries at labor and capital base and trade cost, are significantly related to export flows between countries. With regard to the relationship between exports and FDI the findings of the study support vertical nature of FDI in the SEE-5 and EU-NMS-10 countries, whereas, based on country characteristics the findings of the study support horizontal nature of FDI. The conclusion is that the paper confirms the mixed nature of FDI into host countries, supporting both vertical and horizontal nature of FDI.

Keywords: *transition countries, complements, substitutes, fixed effects*

JEL Classification: *F12, F14, F21, F23.*

1. Introduction

The relationship between FDI and exports has received extensive attention in the late empirical evidence. Theoretical predictions on the relationship between FDI and exports depend on the nature of FDI. Horizontal FDI is negatively related to trading, whereas vertical FDI is positively related to trade (Markusen, 1984; Helpman, 1984). In this regard, horizontal (vertical) FDI are considered as substitute (complement) goods to trade (Shatz and Venables, 2000). With regard to trade cost, horizontal (vertical) FDI operates under the conditions of moderate to high (low) trade costs and trade and tariff barriers. With regard to country characteristics, horizontal (vertical) FDI operates under the conditions of large absolute market size and similar factor endowments (small absolute market size, different relative factor endowments) (Lipsey & Weiss, 1981; 1984; Ramstetter, 1991; Swenson, 1996; Dauti, 2016). The main purpose of this paper is to provide empirical evidence on the nature of FDI in the selected transition countries of South East European region and Central East European region, based on country characteristics and trade costs evidence. The developed model in this paper provides a unified theory considering both

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vertical and horizontal FDI. In this regard, the framework of the study will link the country characteristics to the relationship between FDI and exports to generate the hypotheses: It is expected that FDI from EU-14 to SEE-5 and EU-NMS-10, will have an effect on increasing the exports from SEE-5 and EU-NMS-10 to EU-14.

The findings of the paper suggest a mixed nature of FDI in the host transition countries. On the grounds of country characteristic differences and trade cost, FDI and exports are substitutes and the nature of FDI is horizontal. On the other, on the grounds of the relationship between exports and FDI, the paper finds that bilateral FDI flow is positively related to exports, suggesting a complementary relationship between FDI and exports supporting vertical nature of FDI. The paper is organized as follow. The next section presents a theoretical approach to the studies on horizontal and vertical FDI, associated with empirical evidence. Section three describes the data, presents the methodology and the empirical model. Section four presents results obtained by estimating the empirical model framework. The last section summarizes the results and concludes.

2. Theoretical approach and empirical literature

The theory of multinational firms originated from the theory of capital flows (Caves, 1971). The empirical literature on this theory suggests that FDI activities should be focused on capital – abundant countries with subsidiaries in capital – scarce countries. Consequently, this theory by itself was insufficient to explain the FDI activities in identical countries. This fact led to new developments of new "Trade theory" that capture Trade and FDI activities, at the same time, based on the idea of increasing returns to scale and imperfect competition to the traditional capital flow models (Dunning, 2012). The "capital flow" theory, later on, was split into two parts: the theory of vertical FDI and horizontal FDI. "Vertical FDI" dominate in cases when the firm geographically separates the production stages and "horizontal FDI" dominates when the firm produces homogenous products in different locations (Carr et al. 2001). However, there is no clear cut between vertical and horizontal FDI, since horizontal FDI are viewed as vertical FDI in cases when the affiliates draw some headquarter services from the parent company, even when the firm duplicates the same production activity in multiple countries (Carr et al. 2001). Thus, each horizontal FDI has some vertical ties.

a. Horizontal FDI

The horizontal-FDI view is that multinationals arise because trade barriers make exporting costly. The formal setup is one in which firms have a high-fixed-cost headquarters and one or more production plants. When trade costs are low, a firm produces all output in domestic plants and serves foreign consumers through exports. When trade costs are high, a firm becomes multinational by building production plants at both home and abroad, each serving just that country's consumers. This type of FDI is called horizontal because the multinational does the same activities in all countries. (Carr et al. 2001). Therefore, theoretical concepts of horizontal FDI suggest the presence of positive trade costs.

Theoretical models on horizontal FDI, date back to the studies of Markusen (1984; 1996) and Brainard (1993). Further developments of the horizontal model of FDI were conducted by Markusen and Venables (1998). Markusen and Venables (1998) extended the aforementioned models to a full multi-country framework, allowing for the mix of multinational and local firms

in each country. In the former, multinationals dominate in countries that are similar in size, factor and technology endowments. In the latter, the authors show that dissimilarity in relative factor endowments reduces the horizontal activity of MNE.

b. Vertical FDI

The vertical-FDI view is that multinationals arise to take advantage of international factor price differences. When factor prices differ across countries, firms become multinational by locating production in countries where manual labor costs are low (Carr et al. 2001). The theoretical modeling of vertical FDI was driven by cost – factor differences across countries in factor endowments. Vertical FDI takes place in cases when the production process is fragmented geographically in different locations, in order to exploit relative factor cost differences between countries (Hanson et al. 2005). Closely related to the term vertical FDI is the literature on outsourcing and fragmentation (Feenstra, 1998). These terms are more general and include often the geographical separation of production that takes place outside the firm. (Feenstra, 1998). Vertical FDI can also be viewed as “export-platform FDI” (Ekholm et.al. 2007). Export platform FDI defines the produced output in a host country, which is sold to a third market and not in the parent or local market, subject to conditions that the location where the output can be sold is chosen on the basis of cost considerations. (Ekholm et.al. 2007). Vertical FDI is also seen as trade creation since products at different stages are shipped between different locations. (Yi, 2003).

Theoretical models on vertical FDI date back to the studies of Helpman (1984, 1985) and Helpman and Krugman (1985). These models were based on the extended Heckscher-Ohlin trade theory with two factors of production and two sectors, one perfectly competitive with constant returns to scale and the other producing differentiated products under increasing returns to scale. (Helpman and Krugman, 1985). Helpman (2003) showed that MNCs fragment the production capacity only when countries differ significantly in relative factor endowments. Detailed information on the review of empirical literature on Trade-FDI nexus model can be found in Dauti (2016).

3. Data, methodology and empirical approach

In our empirical exercise, we use bilateral panel level data for EU-14c³, SEE-5c⁴ and EU-NMS-10c⁵, for the period from 1994 to 2010. The dataset contains information on country characteristics based on aggregate-level data (Gross Domestic Product, Gross Domestic Product per capita, labor skill endowments, capital endowments, transition reforms progress and trade costs) and detailed information on country's exports, imports and foreign direct investments flows between different countries. In this paper, we test of the country's driving motives into outward FDI flows, and in particular their productivity performance of the sample countries. Most of the existing empirical studies use cross – section data at the firm and sectoral level, while this study extends this approach to country-level data, using bilateral panel data set between countries. The original data set contains 29 countries. All of these countries had export and foreign direct

³ Austria, Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, Netherland, Portugal, Spain, Sweden and the United Kingdom

⁴ Albania, Bosnia and Herzegovina, Croatia, Macedonia and Serbia

⁵ Bulgaria, Romania, Slovenia, Slovak Republic, Czech Republic, Hungary, Poland, Latvia, Lithuania, and Estonia

investment flows between them. The FDI flows and export flows data were provided from OECD database. The data that provide country information characteristics were provided from World Bank dataset and UNCTAD.

In this paper, we test the relationship between FDI and exports by including SEE-5 and EU-NMS-10 countries as exporting (partner) countries and host countries of FDI and EU-14 countries as a reporting (importing) country and source countries of FDI. The reduced form equation of related choice variables is given below.

$$\ln \Delta x_{ijt} = u_t + \beta_0 \ln fdi_{ijt} + \beta_1 \ln difgdp_{ijt} + \beta_2 \ln difgdpc_{ijt} + \beta_3 \ln op_{jt} + \beta_4 \ln tr_{ijt} + \beta_5 \ln t_{ijt} + \beta_6 \ln dskill_{ijt} + \beta_7 \ln dcap_{ijt} + SEE + \varepsilon_{ijt} \quad (1)$$

Where ΔX_{ijt} stands for exports flows from country j to country i in year t . FDI_{ijt} is an inflow of FDI from source country i to host country j in year t . $difGDP_{ijt}$ and $difGDPPc_{ijt}$ is a difference between countries i and j GDP and GDP per capita. Op_t indicates country j 's overall trade openness measured by the sum of exports and imports over GDP, while tr_{jt} is country j 's overall advancement of reforms according to the EBRD Transition index. $dskill$ is the absolute difference in the relative skill endowments between country i and j at time t , $dcap$ is the absolute difference in the relative capital endowments between country i and j at time t . To capture the trade costs, in the model will be included transport costs, t_{ijt} to reflect natural barriers (Carr et al. 1998). The SEE dummy, distinguishing between the SEE and EU NMS, is included in order to check whether FDI flows from EU-14 to SEE-5 countries may result in a lower impact on SEE countries' export flows in comparison to the NMS-10 countries. ε_{ijt} is the usual standard error.

a. Hypothesis

The main relationship we are interested in is between FDI and exports. Whether exports and FDI are complements or substitutes depends on whether FDI is horizontal or vertical. Markusen *et al* model suggest that FDI is horizontal when countries are similar in size and relative factor endowments. Hence, we expect FDI and exports to be substitutes when the coefficients of $lndgdp$, $lndskill$ and $lndcap$ are small, provided that trade costs are moderate to high. Therefore, if the coefficients of $lndgdp$, $lndskill$ and $lndcap$ are close to zero, which means that countries are identical, and trade costs are large, then FDI is horizontal, hence exports and FDI are substitutes. If countries are different in size and relative endowments, and trade costs are moderate to low, it is expected vertical FDI to dominate, and therefore FDI and exports are complements. Therefore, considering country characteristics, we expect FDI and exports to be complements if differences in relative country size and factor endowments are large and trade costs are moderate to low. However in a model with multi – stages of production and multi – countries we do not have a clear prediction on the interactive skill and capital variables.

Table 8: Regressors, hypothesis and data sources

Regressors	Expected sign	Explanation	SOURCE
fdi_{ijt}	+/-	If all countries were identical and trade costs were zero there would be no motivation for FDI. Positively (negatively) estimated coefficient denotes for the presence of vertical (horizontal FDI).	OECD
$difgdp_{ijt}$	+/-	According to standard trade theory, we would expect that an increase in the difference in GDP between partner countries will	UNCTAD

		reduce the trade volume between countries since trade is expected to maximize when countries are of equal size (Helpman and Krugman, 1986). However, according to standard gravity model applied in trade studies, we expect positive impact of the absolute difference of GDP between trading partners on the size of bilateral trade (export and import) flow	
$difgdpc$	+	It is expected that high-income EU-14 countries will trade more with relatively low-income EU-NMS-10 and SEE-5 countries	UNCTAD
op_{jt}	+	The fewer restrictions an importing country imposes on trade the higher will be traded flow from exporting country. Therefore, a positive relationship between trade openness and trade flow is expected.	UNCTAD
$tr_{ij,t}$	+	$lntr_{jt}$ is measured by the sum of the indexes denoting overall infrastructure reform, banking reforms, trade and foreign exchange rate reforms and the reforms in the securities and no – bank financial institutions (Johnson, 2006). It is expected that the transition progress will be positively associated with bilateral trade flow	EBRD
$t_{ij,t}$	+/-	It is expected that an increase in trade costs reduces trade volumes. Symmetric bilateral trade costs are computed using the Inverse Gravity Framework (Novy, 2009), which estimates trade costs for each country pair using bilateral trade and gross national output.	World Bank
$dskill_{ij,t}$		$dskill_{ijt}$ is measured by the difference of employment in the service sector (as a percentage of total employment), between country i and country j and. According to standard trade theory, it is expected that an increase in differences in relative labor endowments will increase trade flow.	World Bank
$dcap_{ij,t}$		$Dcap_{ijt}$ variable denoting the absolute difference in the relative capital endowments between country i and j , measured by gross fixed investments in relative to total employment, in terms of the absolute difference of the EU – 14 ratio less the ratio for country j (SEE - 5 and CEE - 10). It is expected that an increase in differences in relative capital endowments will increase trade flow.	World Bank
SEE		SEE = 1 denoting SEEc; 0 otherwise, denoting EU-NMS-10c	

b. Econometric issues - Testing the relationship between bilateral exports and FDI

This section aims at testing the relationship between bilateral FDI flow and exports. In the table below we report the base and robust coefficients for Ordinary Least Square (OLS), fixed effects (FE), random effects (RE). The robust estimates are conducted to control for serial correlation and homoscedasticity in these models. Additionally, feasible GLS estimates are presented in the study, due to their robustness to the same problems. The Breusch and Pagan Lngrangian Multiplier (LM) test confirm the relevance of panel effect in the data⁶. This is an evidence of significant difference across countries; therefore we can choose a simple RE regression in

⁶ The null hypothesis in the LM test is that variances across entities are zero. The chi - square of 443,99 and the associated p - value of 0.00, from the LM test, is an evidence that we can reject the null and conclude that random effects are appropriate

relation to pooled OLS. To test for heteroscedasticity, we have used modified Wald test for group-wise heteroscedasticity in the fixed effect regression model. Using Wald test⁷, we conclude the presence of heteroscedasticity in the data. Wooldridge test for autocorrelation is used to test for autocorrelation in the panel. Using this test, we reject the null hypothesis of no - serial correlation and conclude the data does have the first-order autocorrelation⁸. To choose appropriate specification, we have used Hausman test. The output from Hausman test leads to a strong rejection of the null hypothesis that random effect estimates provide consistent estimates, therefore, we choose fixed effect estimates for interpreting the results (column 2). However, in order to control for no auto – correlation, and homoscedasticity, we have also provided the robust estimates from OLS, FE, and RE models. Using Sargan – Hansen statistic (*xtoverid*), we reject the null that robust random effect estimates are consistent, suggesting to choose robust fixed effect estimates for interpreting the results (column 4)⁹

4. Results

In this section, we present the empirical results. We discuss the economic interpretation of models summarized in table 2, bearing in mind the significant coefficients from fixed effects and robust fixed effects, which are suggested by testing procedure, should be considered for interpretation of the results. Considering country characteristics, we find that bilateral exports increase with the differences in bilateral GDP between EU-14 countries with SEE-5 and EU-NMS-10 countries, (the coefficient of difference in GDP is positive and significant). Also, the effects of relative differences in skill endowments and capital endowments are statistically significant. However, the results are confirming that the size of the coefficients of GDP difference and factor endowments differences at labor and capital base are very small. Interpreting the results from robust FE estimates, we find that a 10 percentage points increase in terms of GDP difference between the importing and exporting countries, will increase the exports flows from exporting SEE - 5 and EU - NMS - 10 to importing EU – 14 countries by 5,19 percentage points, that is lower by around 4,81 percentage points. Therefore, there is no indication that GDP difference is concerned with high volumes of export movements. The coefficient of capital endowment difference indicate that SEE-5 and EU-NMS-10 exports increases to EU-14 countries as the capital endowment differences increases between countries, thus confirming the standard trade theory that trade increases with differences in relative capital endowments (Helpman and Krugman, 1995), although the size of trade boost due to the increase of capital endowment differences between countries, is very small. Focusing on column (5), 10 percentage points increases in differences of relative capital endowments between EU-14 with SEE-5 and EU-NMS-10, is associated with 2,45 percentage points increase of export flows from, that is lower by around 5,19 percentage points. On the other hand, skill endowment difference between countries indicates that export level of SEE-5 and EU-NMS-10 back to EU-14, increases

⁷ The null hypothesis from this test is that there is homoscedasticity in the data (constant variance). The chi2 of 1.1e+3, and the associated p - value from 0,000 the Wald test is sufficient evidence to reject the null hypothesis of homoscedasticity in the data. Hence the data suffer from heteroscedasticity problem

⁸ The p - value associated with the Wooldridge test for serial correlation is 0, 00. This is a sufficient evidence to reject the null hypothesis of no - serial correlation in the data

⁹ The Sargan - Hansen statistics of 189.618 and the associated p - value with this test of 0,000 suggest to reject null hypothesis of Sargan - Hansen test that robust random effect estimates provide unbiased and consistent estimates.

as the difference in relative skill endowments between countries decreases, although the size of skill endowment coefficient is very small. The robust fixed effect estimates confirm that 10 percentage points increase in the differences in relative skill endowment between countries is associated with 1 percentage point decrease of SEE-5 and EU-NMS-10 exports, which is lower by 9 percentage points. Trade cost is negatively related to exports, as expected. The size of trade cost coefficient is very high. The results are confirming that 1 percentage point increase in bilateral trade cost between exporting and importing countries, reduces bilateral trade activity at export level between countries by 2,8 percentage points, indicating that export performance of SEE - 5 and EU - NMS - 10 countries, decreases by around 3 times, as the trade cost between countries increases by around 1 time. The transition progress variable confirms the significant and positive effect of advancements of institutional reforms of exporting SEE - 5 and EU - NMS - 10 country institutions on export performance of these countries. The coefficient of bilateral FDI is significant and positive in fixed effect specifications, although the size of the coefficient of FDI very small. Hence, there is no indication that export performance of SEE - 5 and EU - NMS - 10 countries, is concerned with large FDI movements since the size of FDI coefficient is very small and significant at 5 percent level of significance. This indicates that a considerable increase of bilateral FDI activity, at flow level from EU - 14 to SEE - 5 and EU - NMS - 10 countries, by 10 percentage points improves the export performance of exporting countries by only 0.2 percentage point, that is lower by 9,8 percentage points. This lack of consideration of FDI movements relates well to the recent events, when the consequences of the global economic and financial crisis in Europe, caused significant reduction of the spillover effect of FDI activity on the improvements of host country trade performance. However, this finding supports the main hypothesis of the study that exports from SEE - 5 and EU - NMS - 10 countries will increase as a result of the presence of foreign capital in the form of FDI. However, the negative and significant coefficient of SEE dummy variable in the robust random effect specification, suggest a reduction of bilateral trade of EU – 14 countries with the SEE – 5 countries, leaving room for future research, about the way how trade can be furthermore stimulated between SEE – 5 and EU – 14 countries. In general, the results of the paper provide an empirical assessment, of *Markusen et al (1996)* and *Helpman (1984)* theoretical concept about the nature of FDI into SEE - 5 and EU - NMS - 10 countries.

Table 9: Estimation of the relationship between bilateral exports, FDI, trade cost and country characteristics

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
VARIABLES	OLS	FE	RE	Robust OLS	Robust FE	Robust RE	Feasible GLS
Log bilateral FDI	0.164*** [10.63]	0.025** [2.02]	0.054*** [4.24]	0.164*** [10.14]	0.025 [1.53]	0.054*** [3.80]	0.164*** [10.68]
Log difference in GDP	0.452*** [20.81]	0.519*** [30.78]	0.504*** [28.96]	0.452*** [17.81]	0.519*** [18.57]	0.504*** [21.85]	0.452*** [20.90]
Log difference in GDPc	0.000 [0.03]	-0.004 [-0.51]	-0.005 [-0.55]	0.000 [0.05]	-0.004 [-0.81]	-0.005 [-0.82]	0.000 [0.03]
Log openness	-1.002*** [-10.67]	0.171 [1.01]	-0.607*** [-4.80]	-1.002*** [-9.54]	0.171 [0.93]	-0.607*** [-4.47]	-1.002*** [-10.72]
Log of trans	1.768***	1.002***	1.689***	1.768***	1.002***	1.689***	1.768***

progress	[6.63]	[3.67]	[6.74]	[7.05]	[3.77]	[7.30]	[6.66]
Log bilateral trade cost	-2.687*** [-29.29]	-2.884*** [-39.68]	-2.891*** [-38.82]	-2.687*** [-26.34]	-2.884*** [-25.89]	-2.891*** [-31.91]	-2.687*** [-29.41]
Log difference in skill	-0.044 [-0.99]	-0.119*** [-2.95]	-0.078* [-1.95]	-0.044 [-1.05]	-0.119** [-2.17]	-0.078** [-1.97]	-0.044 [-0.99]
Log difference in capital	-0.089 [-1.26]	0.245*** [3.73]	0.178*** [2.72]	-0.089 [-1.23]	0.245*** [3.48]	0.178** [2.48]	-0.089 [-1.27]
See Dummy variable	-0.819*** [-10.88]		-0.822*** [-7.01]	-0.819*** [-12.22]		-0.822*** [-6.83]	-0.819*** [-10.92]
Constant	8.146*** [7.02]	7.631*** [7.29]	6.574*** [6.46]	8.146*** [6.86]	7.631*** [6.32]	6.574*** [6.13]	8.146*** [7.05]
Observations	1,149	1,149	1,149	1,149	1,149	1,149	
R-squared	0.785	0.842		0.785	0.842		
R2-overall	.	0.679	0.764		0.679	0.764	
Number of groups		175	175		175	175	
Hausman Test		FE vs RE					
Chi (sq)		62.44					
p - value		[0.00]					

Notes: Dependent variable is log bilateral FDI flow. *t*-statistics in brackets, ***, ** and * indicate the significance of coefficients at 1, 5 and 10 percent, respectively.

Source: Authors' calculation.

Taken together, these findings, based on the size of the coefficients of country characteristics and trade cost and on the other hand on the relationship between FDI and exports, confirm that FDI into SEE - 5 and EU - NMS - 10 countries are both horizontally and vertically oriented. Hence, we provide a mixed evidence about the nature of FDI into SEE - 5 and EU - NMS - 10 countries. Considering country characteristics, the fact that the estimated coefficients of country specific factors and relative factor endowment differences are small, provided that trade costs are moderate to high confirm that countries are similar in size and relative factor endowments. Hence, on the grounds of country characteristics differences and trade cost, FDI and exports are substitutes and the nature of FDI in SEE - 5 and EU - NMS - 10, originated from EU - 14 countries is horizontal. This empirical finding supports Markusen *et al* (2005) model which suggest that FDI is horizontal when countries are similar in size and relative factor endowments. However, the positive relationship between FDI and exports, on the other hand, support the Helpman (1984), theoretical approach related the relationship between FDI and exports. Hence, FDI and exports in SEE - 5 and EU - NMS - 10 countries may be considered as a complement to each other and FDI as a vertical, when a positive relationship between FDI and exports, is confirmed.

5. Conclusions

The findings of the paper, suggest a broad support for the theory of both horizontal and vertical FDI. Linking the relationship between FDI and exports, with the country characteristics and trade costs, the results of the paper indicate that horizontal FDI is more likely to dominate when countries share similar market size and relative factor endowments; both at labor and capital base and trade costs are moderate to high. Hence FDI and trade (both exports and imports) are substitutes and FDI into SEE-5 and EU-NMS-10 countries are horizontally oriented. However, on the grounds of the relationship between FDI and trade (at both export and import level), the findings of the paper confirm that FDI into SEE-5 and EU-NMS-10 countries is vertically oriented, and hence FDI and trade (exports and imports) are complements. This finding support Helpman (1984) approach, related positive relationship between FDI and trade (exports and imports). Hence, the study provides mixed evidence about the nature of FDI in SEE - 5 and EU - NMS-10 countries, based on the grounds of country characteristics information and the relationship between FDI and trade.

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THE FACTORS THAT IMPACT HUMAN BEHAVIOR TO ENSURE THEIR LIFE AND HEALTH ON INSURANCE COMPANIES

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ABSTRACT

The insurance market is an important part of the financial system. In 1992 Albania decided to apply, Insurance Law 8081 dated 03.07.1996 "On the activity in insurance and / or reinsurance", creating the necessary legal infrastructure for the creation and development of the insurance sector in Albania. The main products that offer insurance companies, are providing TPL, CASCO insurance, life and health insurance. In this paper will be treated, insurance companies in Albania and especially life insurance companies. The purpose of this paper is to study of factors that affect the behavior of individual life insurance and health. Through this work will be evaluated the factors that affect the choice of individuals to ensure their life/health or not. So if they would prefer to transfer the risk of their life to the insurance companies. The methodology of the paper is presented in two main parts. In the first part, they are presented data on life insurance product in Albania. The data are taken from annual reports of the Financial Supervisory Authority. In the second part, it has been organized a questionnaire with important questions, which assess factors that affect the choice of individuals to ensure their life at insurance companies. At the conclusions of the paper we will get the answer to the research problem that this paper raise.

Keywords: *life and health insurance, risk, human behavior*

JEL Classification: G220

1. Definition of risk and insurance

Risk is the potential of gaining or losing something of value. Values (such as physical health, social status, emotional well-being or financial wealth) can be gained or lost when taking risk resulting from a given action or inaction, foreseen or unforeseen. Risk can also be defined as the intentional interaction with uncertainty. Uncertainty is a potential, unpredictable, and uncontrollable outcome; risk is a consequence of action taken in spite of uncertainty. Risk perception is the subjective judgment people make about the severity and probability of a risk, and may vary person to person. Any human endeavor carries some risk, but some are much riskier than others. *Insurance* is a means of protection from financial loss. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. An entity

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which provides insurance is known as an insurer, insurance company, or insurance carrier. A person or entity who buys insurance is known as an insured or policyholder. The insurance transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate the insured in the event of a covered loss. The loss may or may not be financial, but it must be reducible to financial terms, and must involve something in which the insured has an insurable interest established by ownership, possession, or preexisting relationship. In insurance, the insurance policy is a contract (generally a standard form contract) between the insurer and the insured, known as the policyholder, which determines the claims which the insurer is legally required to pay. In exchange for an initial payment, known as the premium, the insurer promises to pay for loss caused by perils covered under the policy language. Insurance contracts are designed to meet specific needs and thus have many features not found in many other types of contracts. Since insurance policies are standard forms, they feature boilerplate language which is similar across a wide variety of different types of insurance policies.

2. Insurance Policy Components

When choosing a policy, it is important to understand how insurance works. Two of the most important components of all insurance policies are the premium and the deductible. A firm understanding of these two concepts goes a long way to helping you choose the policy that is best for you. A policy's premium is simply its price, typically expressed as a monthly cost. The premium is determined by the insurance company based on your, or your business', risk profile. For example, if you own several expensive automobiles and have a history of reckless driving, you pay more for an auto policy than someone with a single mid-range sedan and a perfect record. However, different insurers may charge different premiums for similar policies, so finding the price that is right for you requires some legwork. The second important policy component is the deductible. Whenever you make a claim, you are required to meet a minimum out-of-pocket expense, or deductible, before the insurance company pays for your losses. Deductibles can apply per-policy or per-claim depending on the insurer and the type of policy. Policies with very high deductibles are typically cheaper because the high out-of-pocket cost means insureds are less likely to make small claims. When it comes to health insurance, for example, people who have chronic health issues or need regular medical attention should look for policies with lower deductibles. Though the annual premium is higher than a comparable policy with a higher deductible, cheaper access to medical care throughout the year may be worth the trade-off.

3. What is 'Life Insurance'

Life insurance is a protection against financial loss that would result from the premature death of an insured. The named beneficiary receives the proceeds and is thereby safeguarded from the financial impact of the death of the insured. The death benefit is paid by a life insurer in consideration for premium payments made by the insured. The goal of life insurance is to provide a measure of financial security for your family after you die. So, before purchasing a life insurance policy, consider your financial situation and the standard of living you want to

maintain for your dependents or survivors. For example, who will be responsible for your funeral costs and final medical bills? Would your family have to relocate? Will there be adequate funds for future or ongoing expenses such as daycare, mortgage payments and college? It is prudent to re-evaluate your life insurance policies annually or when you experience a major life event like marriage, divorce, the birth or adoption of a child, or purchase of a major item such as a house or business.

How Life Insurance works

Life insurance is a contract between an individual with an insurable interest and a life insurance company to transfer the financial risk of a premature death to the insurer in exchange for a specified amount of premium. The three main components of the life insurance contract are a death benefit, a premium payment and, in the case of permanent life insurance, a cash value account.

Death Benefit: The death benefit is the amount of money the insured's beneficiaries will receive from the insurer upon the death of the insured. Although the death benefit amount is determined by the insured, the insurer must determine whether there is an insurable interest and whether the insured can qualify for the coverage based on its underwriting requirements.

Premium Payment: Using actuarially based statistics, the insurer determines the amount of premium it needs to cover mortality costs. Factors such as the insured's age, personal and family medical history, and lifestyle are the main risk determinants. As long as the insured pays the premium as agreed, the insurer remains obligated to pay the death benefit. For term policies, the premium amount includes the cost of insurance. For permanent policies, the premium amount includes the cost of insurance plus an amount that is deposited to a cash value account.

Cash Value: Permanent life insurance includes a cash value component which serves two purposes. It is a savings account that allows the insured to accumulate capital that can become a living benefit. The capital accumulates on a tax-deferred basis and can be used for any purpose while the insured is alive. It is also used by the insurer to mitigate its risk. As the cash value accumulates, the amount the insurer is at risk for the entire death benefit decreases, which is how it is able to charge a fixed, level premium.

Life insurance for loans

Life insurance loan is a life insurance product that is offered to people who take credit in the bank and protect them from the risk of default on the loan due to the borrower's loss of life. This product guarantees the repayment of the amount of unconverted loan at the time of loss of life of the borrower liberating family insured or business partners from having banking, as Insurance Company takes over the repayment of the amount of unconverted loan, facilitating in this so financial obligation that will burden them.

4. The insurance market in Albania

Insurance in Albania have started quite late compared with other developed countries, and are developed with their own characteristics and history. This history dates back to 1944, when British companies, French and those Italian helped create a good tradition for insurance necessity, exercising their insurers concentrated in the main cities of the country, mainly in industry ,

construction, accident insurance, life and natural disasters. In post-World War II period from 1948 to 1965, they began to appear and new forms of insurance, such as compulsory insurance of public housing, voluntary insurance of property, buildings and real estates, voluntary insurance of agricultural crops and livestock, voluntary insurance of life from disasters, compulsory insurance of imported goods, etc. In 1991 Albania established the first insurance company, "INSIG" JSC. The INSIG Insurance Institute was established with the approval of the law by the Albanian Parliament for the establishment of the Insurance Institute, dividing it by Cashes Institute of Savings and Insurance. Currently in the insurance market there are nine insurance companies (JSC Sigal Uniqa Group Austria, Sigma, Interlbanian JSC Intersig JSC (Vienna Insurance Group) Atlantic JSC, JSC Albsig, Insig, Eurosig sh. and a Ansig JSC) which operate in the non-life insurance and three companies operating in the life insurance (Insig JSC, JSC Sicred, Sigal-life Uniqa Group Austria JSC). Also on the market are six brokerage companies (MAI JSC, P & C Albania JSC, Devon JSC, JSC ALL SIG, insurance Bindi, Broker JSC, A-COME Insurance Broker JSC). From the perspective of the value of written premiums, the Albanian insurance market amounted to EUR 47 million on September 30, 2012, of which EUR 42 million (90%) related to the activity of non-life and the rest of it to life. 55% of the market relates to motor insurance, which means that the level of sophistication and penetration of this sector is still in its early levels. Based on official data published for the 9th first half of 2012, the insurance market seems to have undergone a slight decline compared with the preceding period of 0.18%, although the number of policies sold has fallen by 8% during this period.

While in the non-life operations recorded an increase in premiums sold by 7% in life insurance have a significant decrease of 21%.

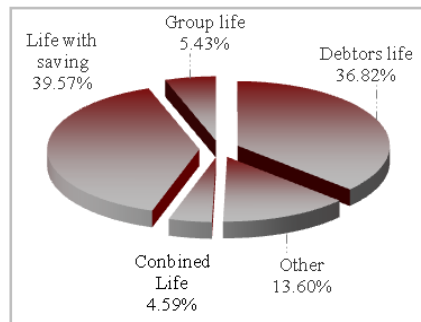
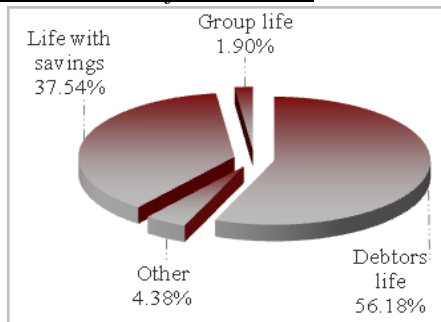
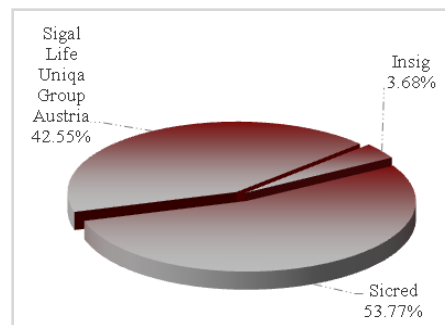
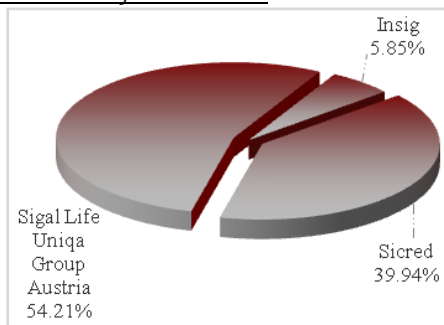
The specific weight of these market companies during 2005 is as follows:

- | | |
|------------------------|-------------------------|
| • Sicred -1.52% | • Intersig – 9.09% |
| • Sigal-life - 1.72% | • Atlantic – 10.28% |
| • Insig (Life) - 2.71% | • Interlbanian – 6.27% |
| • Sigal - 27.21% | • Albsig - 5% |
| • Sigma - 18.98% | • Dukagjini AL - 14.2%. |
| • Insig – 15.09% | |

Albanian insurance market is dominated by domestic capital to 80% thereof. Foreign capital invested in this sector is represented by IFC and EBRD. For the first time in the Albanian insurance market it has a capital company Kosovo and Albanian companies which conduct only authentic life of activity. Some of Albanian companies have expanded their activities in Kosovo and Macedonia turning into regional companies, as well as increasing considerably their premiums. As a monopolist position of the state has always been the landing place leaving private initiative. There is a complete change of the insurance market in favor of private companies. Increased competition has caused these companies to respond better to the needs of the insurance market, to offer a wider range products and competitive insurance premiums.

Main features for insurance in Albania

The number of insurance policies reached 72,134 which indicate an decrease 3.05% compared to the year 2015. Gross insurance premiums in Life insurance business reached the value of ALL 92,543 thousand, which indicate an increase 2.13% compared to the year 2015. The number of Life insurance policies reached 7,859 which indicate an increase by 4.30% compared to the year 2015.

Market structure - Life insuranceMarket share - Life insuranceNumber of Policies and Paid Claims - Life Insurance

Class	Type of insurance	No. of policies (in items)		Change (in %)	Share in total value (in %)	
	January	2015	2016	16/ 15-1	2015	2016
Number of policies (in items)						
	Life Insurance					
A	Pure endowment insurance	-	-	-	-	-
	Debtor's life	4,706	3,516	(25.29)	62.46	44.74
	Combined life	61	56	(8.20)	0.81	0.71
	Life and health in travel	1,641	1,913	16.58	21.78	24.34
	Group life	337	910	170.03	4.47	11.58
	Student's life	5	7	40.00	0.07	0.09
	Pupil and student's life	11	108	881.82	0.15	1.37
	Life with savings	721	822	14.01	9.57	10.46
	Depositor's life	-	-	-	-	-
	Flexi plan	4	6	50.00	0.05	0.08
	Cash plan	49	521	963.27	0.65	6.63
	Sportman's life and accidents	-	-	-	-	-
	Other	-	-	-	-	-
	Annuity insurance	-	-	-	-	-
B	Marriage - Birth	-	-	-	-	-
	/Marriage - Birth	-	-	-	-	-
	Birth	-	-	-	-	-
C	Insurance connected to Investment Funds	-	-	-	-	-
D	Administration of Collective Funds	-	-	-	-	-
	TOTAL (A+B+C+D)	7,535	7,859	4.30	100.00	100.00

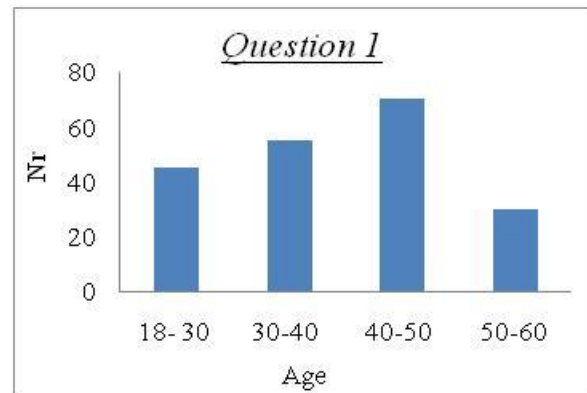
The aim of this survey is to know what your perception about life insurance is. All the information that you provide will be used only for academic purposes. In this survey are taken into consideration all persons who have reached the age of 18 years but not more than 60 years you have the right to be provided.

The results of the survey

1. What is your age?

- a. 18- 30
- b. 30-40
- c. 40-50
- d. 50-60

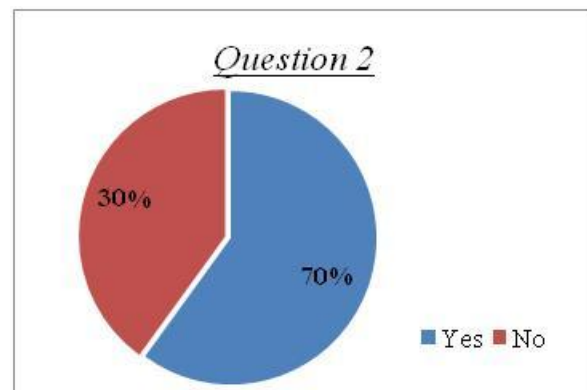
As we see from the graph obtained starting from 18 years – 60 years. 18 years of age where they can reassure themselves without the legal representatives of parents to age 60 years where to buy a contract sigurmi 5 years.



2. Do you know what life insurance is?

- a. Yes
- b. No

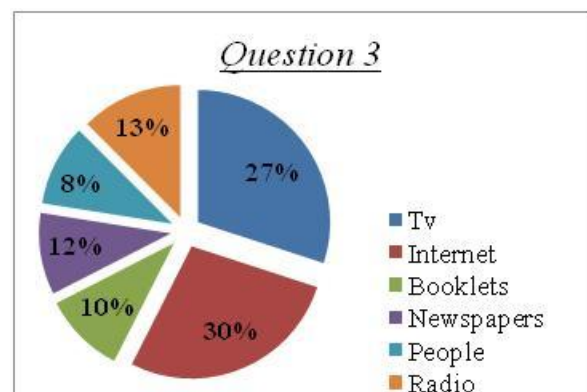
In the chart below we see that the major part people have information for life insurance, 70% they have information while 30% of them have not information for life insurance.



3. Information on life insurance:

- a. Tv
- b. Internet
- c. Booklets
- d. Newspapers
- e. People
- f. Radio

Faster ways to get information is internet you can get information in real time. As you can see from the chart the highest information is obtained through internet with a weight 30% by searching the internet, web site of the Insurance Companies, social networks like facebook and instagram ect. Another way to get information is by television from advertising, because a part of the time people use to watch TV. This way information has a weight 27%. Another way distribution of information is radio it disperses in real time. Every morning people who go to work by car listen to radio including advertising. With a weight of 12% newspapers and their advertising provide information also and booklets

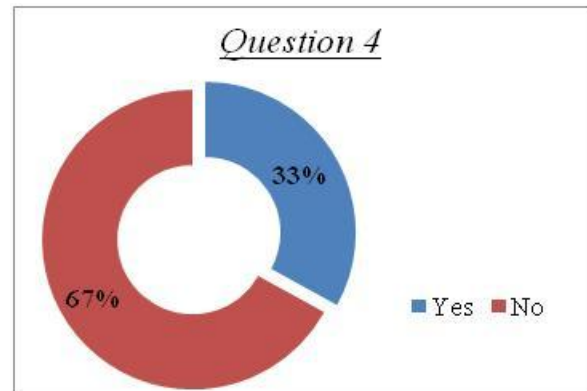


with a weight of 10%. In the end with a weight 7% people communicating with each other share information.

4. Do you have life insurance?

- a. Yes
- b. No

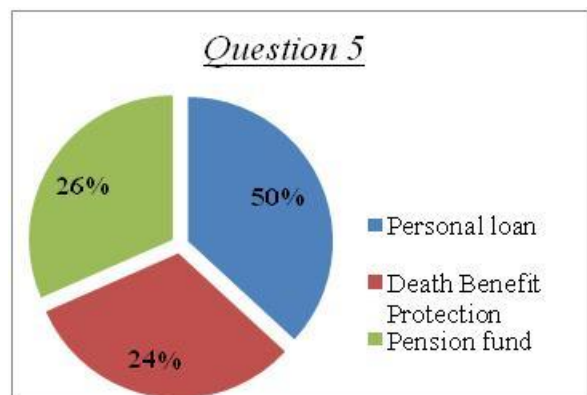
As we see from the chart a small part have life insurance with a weight 33% while the rest do not have a life insurance with a weight 67%.



5. If yes, rank your main reason.

- a. Personal loan
- b. Death benefit protection
- c. Pension fund

As we see from the graphic, the majority of people have bought a life insurance because they have a personal loan to pay. By making a life insurance they provide a guarantee to bank for the repayment of this loan. The rest have bought a life insurance because they could turn it into a pension fund and benefiting from this investment a future pension. The other part has bought it to guarantee a death benefit, in order to ensure an amount of money to the family or beneficiaries in case of death.

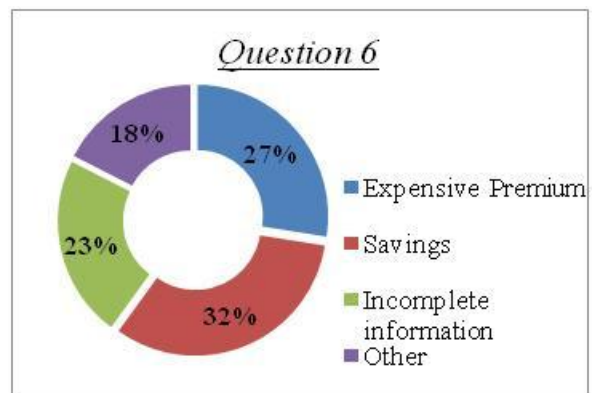


6. If no, why you are not interested in buying life insurance?

- a. Expensive Premium
- b. Savings
- c. Incomplete information
- d. Other

As we see from the graphic below, some people try to save money for expenses that they may have in the future and they do not see it as an investment opportunity, buying a life insurance.

To another part, the paid price seems too expensive, therefore they prefer to not buy a life insurance. They keep the risk by themselves, at any situation that may arise as a premature death bringing funeral costs etc. Others since they do not have a complete information, they feel more risky to be insured without this information. Others are very young and having a life insurance seems unnecessary for the moment.

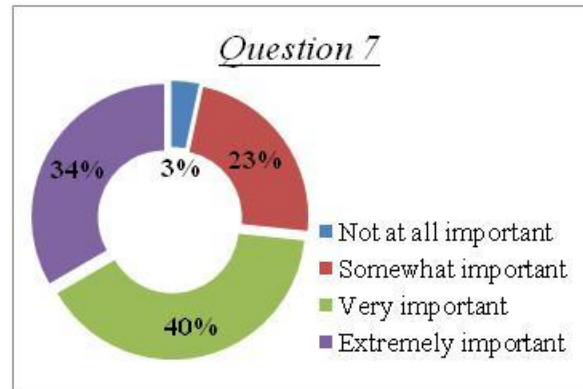


7. How important is giving financial security to your family in the long term?

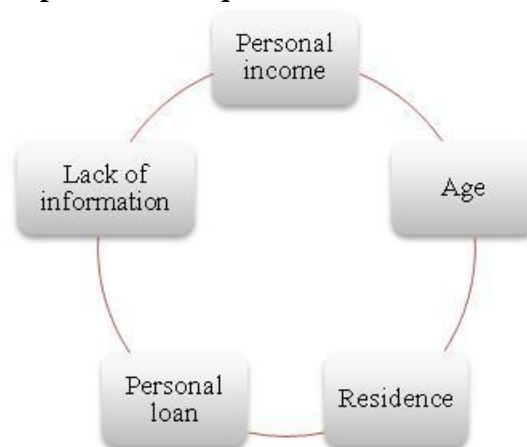
- a. Not at all important
- b. Somewhat important
- c. Very important

d. Extremely important

As it appears from the graphic, most people consider it extremely important the financial insurance of family, which means providing a lot of money or saving funds to their family in case they do not live anymore. Leaving a considerable amount of money if they are head of the family to their children, in order for them to attend school or live a normal life financially. Only a very small percentage do not require this financial insurance, because they are younger and have still have not created their own family.



Factors that have a negative impact on the acquisition of a life insurance:



5. Conclusions and Recommendations

- The major part people have information for life insurance.
- The highest information is obtained through searching internet web page Insurance Company and by television from advertising.
- A small part of people have life insurance.
- The majority of people have bought a life insurance because they have a personal loan to pay, and the rest have bought a life insurance because they could turn it into a pension fund and benefiting from this investment a future pension.
- Individuals with high income can afford payment of premium for a life insurance and individuals with low income can not afford this payment.
- Young people tend to keep themselves risk and do not prefer ensure life while elderly want to ensure because they feel pressure health wicked, death.
- Most people consider it extremely important the financial insurance of family, which means providing a lot of money or saving funds to their family in case they do not live anymore
- Residence may be far away from the Insurance Company, these impacts negatively to acquire a life insurance, it requires more time and cost.

- Individuals feel uncertain due to lack of information, they tend not to ensure by feeling high risk.
- Individual that have personal loan are bound by banks to buy a life insurance , so bank feel safe that payment will be returned and in case if death.
- There should be more information on media and radio as these affect more heads which have more interest in insurance life. By creating their family a financial security in case of death. Dissemination of information through the Internet attracts more young people, which are not susceptible for an insurance life.
- By reducing the premium insurance life becomes affordable for those individuals who have lower incomes.
- Add more insurance agents in those countries where there is opportunity to open a branch of insurance company.
- More detailed information on the web sites of insurance company

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SHORT-TERM FINANCIAL MANAGEMENT OF THE COMPANY

“BEREQETI” LLC

Nafi Pollozhani¹

Nuhi Sela²

ABSTRACT

Businesses in order to develop their activities, except fixed assets (property, land, equipment, etc), need raw materials, finished goods and labor, as to conclude the process of production and making ready products for sale.

Management of raw materials, finished goods, buyers demand, cash, etc., on the one hand, and short-term financial liabilities relates to short-term financial management company. Often this process is also known as working capital management. As part of our topic treatment will be considered the short - term funding sources, the financial operational management, cash budgeting and short - term financing plan. To illustrate theoretical concepts will be given an example at the end of the paper.

Short-term planning and financial decisions are of a particular importance for the company and its vitality, as well as for the new ones (start-up) and for those large and well consolidated. Even large companies with positive income statements have bankrupted, simply because they have been unable to carry out short-term obligations.

Keywords: *short-term sources, working capital, cash budgeting, operating cycle, decision making, credit*

Jel Classification: *G17, P40, G32*

1. Introduction

Financial management as a process has to do with the planning and decision making about important areas of the company and dealing with the decision for the usage of money as well as finding the funding sources.

Funding sources, forms and financial manners are some of the issues that the financial manager has to deal with them during his activity.

The short-term financial decisions include current asset decisions and current liabilities, or which have a lower maturity than a year.

The financial manager which is responsible for the short-term financial decisions, in the future should not go far. It must deal with the financial and operational activities related to the maximum for the next 12 months.

Unlike short-term financial decisions, long-term financial decisions deal with the financial and investment activities over 1 year or more and have to do with long-term assets and liabilities,

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as well as by nature they are not easily changed and put the company in a particular direction for several years.³

In following of the working paper are presented the issues mentioned above in a more detailed way.

2. Short-Term Financial Planning

In a manner to clarify the importance of financial management, initially we are presenting briefly the short-term financial planning and its role in the financial management process.

Financial planning denotes to prepare a financial plan. The financial plan is the evaluation of the total requirements of the company. It chooses the most economical sources of the company. The plan also shows us how to use profitability with the received funding. The financial plan gives a complete picture of the future financial activities of the company. Financial planning is as follows⁴:

Financial sources (Financial resources)	+	Use of funds (Financial techniques)	= Financial planning
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Figure 1: Financial planning

Otherwise it can be said that the financial planning represents the strategy for:

- a) Investment of surplus cash or
- b) Financing of cash lack

One financial plan contains answers to the following questions:

1. How much funding (short, medium and long-term) is required by the company?
2. From which this funding will be ensured? In other words, which are the funding sources?
3. How will the company use this funding? Or how will be used these funds?

The financial plan in general is prepared during the promotion phase. It is prepared by entrepreneurs with the help of experienced professionals. Entrepreneurs need to be very careful during the preparation of the financial plan.

Financial planning as if the financial decisions are divided into different time periods, to be able to serve each other with accuracy. The literature encountered various divisions, but we have taken three divisions, as following:

³ Luboteni, Dr.Gazmend,Financat e Korporatave,Prishtinë,2007

⁴ Article from prof. Mudit Katyani in his webpage

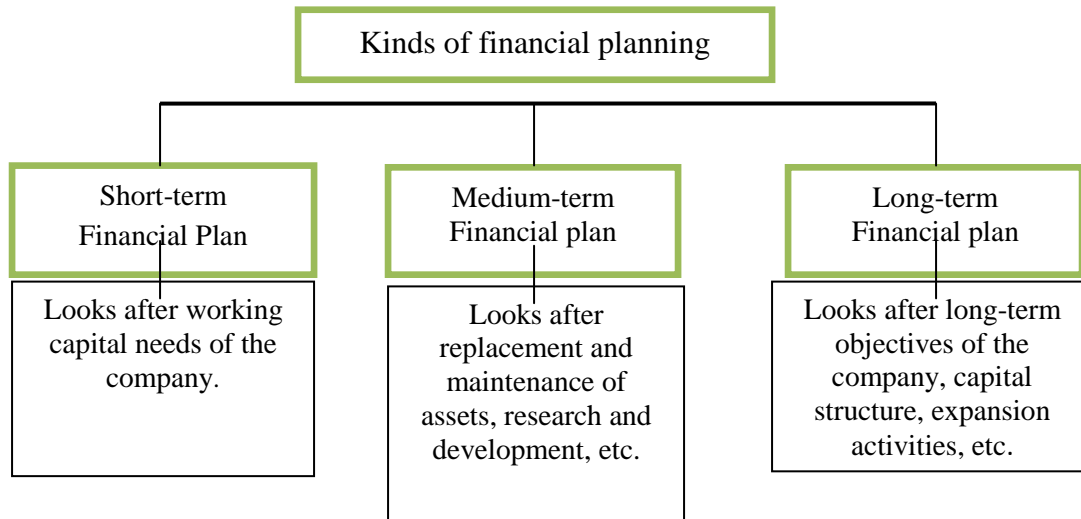


Figure 2: Types of financial planning

We mentioned that the short-term financial management has to do with the assets and current debts, respectively with the management of the working net capital. Through the figure are presented as following:

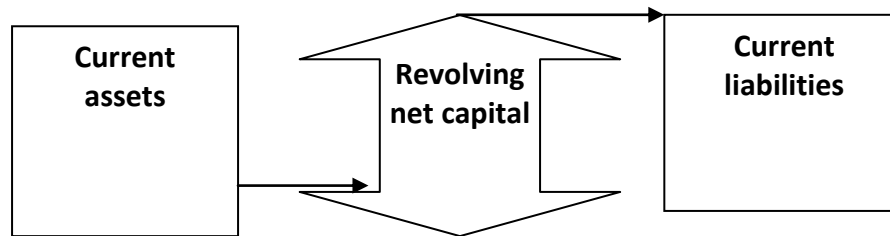


Figure 3: Short-term financial management – Working capital

2.1. Resources and Forms of Short-Term Financing

Financial sources of companies in general are internal and external sources. Internal sources include funding from proprietary capital or retained earnings, whereas the externals are dealing with loans outside the company, as those short-term as well as long-term ones. Our topic theme is the sources and forms of short-term financing.

2.1.1. Short-term financing sources

In general, a source of financing of a certain economic activity has to be in conjunction with the purpose for which will be used the funds.⁵

2.1.2. Short-term financing forms

In general we can say that the main sources of short-term financing are the trade credits (purchases with payment term), short-term bank loans, paper trading as well as outstanding liabilities (deferred payment)⁶. Below will be mentioned briefly each of them.

⁵ Dr. Isa Mustafa, Menaxhmenti Financiar, Prishtinë, 2008

Trade credit- is a very important source of short-term financing. Most of companies in contemporary business are not obligated to pay the goods at the time of purchase or receipts of goods, but they have a fixed term that can do the payment, usually several days (30, 60 or max. 90 days). Thus, the trade credit appears in the moment when the supplier sells the goods and does not require an immediate payment, thus it allows a payment term.

Short-term bank loans – are a very important source of short-term financing and in this case financial are the commercial banks. In general as a source of the financing are used the small and medium-sized businesses, while the large businesses have a much greater opportunities of the financial diverse with different products and larger loan amounts. Among the most common form of short-term trade credit financing are:

- *Overdraft or the exceed of the current account-* is a very flexible way of financing, in which case the banks allow the company to use up to a certain account overdraft, causing their account be less until minus for the used amount of the working capital needs or seasonal.
- *Revolving line of credit or revolving approved lines-* these two products as short-term loans enable the company to utilize the loan up to a certain amount to the determined destination.
- *Paper trading-* represent a source less used than the first two, but still important. Usually trading papers are issued by large companies and are sold to other companies or the insurance companies, banks or pension funds.
- *Outstanding liabilities (deferred payment)* – represent a spontaneous source of the short-term financing. As more expressed forms are salaries and taxes. In both cases we are dealing with the postponing payment of two liabilities that have occurred, so to the actual business expenses that is not paid yet.

3. Short-Term Financial Management

As we have mentioned earlier, the short-term financial decisions include the current assets and liabilities. In a company it is very important to be analyzed the situation where it is situated and where is planned to be achieved. Therefore we continue to use the company's financial statements to evaluate the overall performance and its condition. After the mentioned analyses are complete, the financial planning gets a great importance. Namely the financial reports serve as the basis and as a starting point of the development of the future financial plan.

3.1. Cash Budgeting

Cash budgeting is the primary component of short-term financial planning. It relates to the cash inflows and outflows over a period of time. So, it has to do with the cash resources and the use of them. Generally different corporations use different models of preparing cash budget, including sophisticated computer programs (“corporate models”- “spreadsheets”)

Looking at historical cash flow many conclusions can be drawn, but the future planning is also represented as a challenge for the financial management. There are four steps to find out how much extra cash the corporate need.

- 1 Step: Planning of the cash source
- 2 Step: Planning of the cash usage
- 3 Step: Calculation of the surplus or shortage of cash
- 4 Step: Pro-form preparation of the balance sheet

⁶ Dr.Halit Xhafa, Drejtimi Financiar, Tiranë,2005

3.2. Short-term financial planning

Cash budgeting as mentioned earlier allows defining the financial need, and now it belongs to the financial manager to ensure the short-term financing to cover the needs for money. There are various options of the short-term financing, but in this part because of the more practical way treatment we have mentioned some of them, such as:

- Overdraft, Line of Credit
- Account Payable Financing
- Settlement Payment

Nevertheless, there are three common steps for the cash budget preparation.

- 1 Step: Planning of the cash source
 - Inflows from the sales receipts to customers
- 2 Step: Planning of the cash usage
 - Payments to accounts payable
 - Salaries, taxes and costs
 - Interest and dividends
- 3 Step: Calculation of the surplus or shortage of cash

In case the theoretical aspects that are shown during the working paper to be more explicit and more practical, we have done a research as it follows.

4. The Study Case

Data sheet sample for the company BEREQETI LLC (000MKD).

Unit	2015	2014	Average
Finished good	5.117	6.444	5.780
Buyers requirements – A/R	6.446	6.464	6.455
Suppliers liabilities –A/P	893	1.169	1.031
Net sales	29.442		
COGS	27.282		

The other elements of the sample are:

- Expected sales will be: 29.442
- Quarterly sales: Q1=6.436; Q2=6.598; Q3=7.317; Q4=9.093
- Initial accounts receivable = 6.464
- Receipts are 28.282. That is 96, 06 % of sales.
- Accounts payable are 79, 84 % of the short-term obtained loans and 20,16% of sales.
- Salaries, taxes and other costs are as 12, 68% of sales.
- Interest is 405 MKD for four months session, the 1, 38% of sales.
- Loans are 18.405 MKD, the 62, 51% of sales.
- Initial cash balance is 375 MKD. And at the end of the year is 855 MKD.

Is required to be calculated and prepared:

- a) The operating cycle and cash cycle;
- b) Cash Budgeting;
- c) The short-term financing plan

The solution is as follows.

At first we right down the aforementioned formulas for calculating the operating cycle and that of currency:

1) Operating cycle and Cash cycle

a) **Operating cycle** = Goods days + A/Rdays

b) **Cash cycle** = Operating cycle – A/Pdays

Days of goods

Goods average = $(6.444+5.117)/2 = 5.780$

Goods circulation = $\text{COGS} / \text{Goods average} = 27.282 / 5.780 = 4.72 \text{ times}$

Goods days = $365 / 4.72 = 77 \text{ days}$

Days of accounts receivable (A/R)

A/R Average = $(6.464 + 6.446) / 2 = 6.455$

A/P circulation = $\text{Sales} / \text{A/R Average} = 29.442 / 6.455 = 4.56 \text{ times}$

Days of A/R = $365 / 4.56 = 80 \text{ days}$

a) Operating cycle = $77 + 80 = 157 \text{ days}$

Accounts payable days (A/P)

A/P days = $(365 / \text{A/P circulation})$

A/P Average = $1.169 + 893 / 2 = 1.031$

A/P circulation = $\text{COGS} / \text{A/P Average} = 27.282 / 1.031 = 26 \text{ times}$

A/P days = $365 / 26 = 14 \text{ days}$

b) Cash cycle = $157 - 14 = 171 \text{ days}$

Goods and accounts receivable should be funded for 171 days.

2) Cash budgeting

Below we are presenting the sources and the use of cash.

Cash sources	Q1	Q2	Q3	Q4
Initial balance A/R	6.464	7.394	6.582	6.237
Sales	6.178	6.328	7.343	9.093
Cash collection	5.248	7.140	7.688	8.990
Final balance A/R	7.394	6.582	6.237	6.446
Cash fees	Q1	Q2	Q3	Q4

A/P fees	3.174	7.256	16.627	4.312
Salaries, taxes and other costs	896	1.100	1.142	594
Capital costs	0	7	0	99
Interest costs	58	48	157	142
Total cash usage	4.128	8.411	17.925	5.147
Net cash flow	Q1	Q2	Q3	Q4
Total cash accumulation	5.248	7.140	7.688	8.990
Total cash usage	4.128	8.411	17.925	5.147
Net cash flow	1.120	(1.278)	(10.237)	3.843
Cash balance sheet	Q1	Q2	Q3	TM4
Initial cash balance	375	1.495	217	(10.020)
Net cash flow	1.120	(1.278)	(10.237)	3.843
Final cash balance	1.495	217	(10.020)	(6.177)
Minimum cash balance	(68)	(68)	(68)	(68)
Accumulated surplus (absences)	1.427	149	(10.088)	(6.245)

Budgeting cash comments of the company “BEREQETI” LLC.

- At the Q3 and Q4, the company “BEREQETI” LLC has a deficit which needs to be covered.
- Sales during the 2015 are real and through the overdraft it has repaid A/P.
- However the company “BEREQETI” LLC has a positive outcome for 2015 and it covers the interest for the short-term loans.

3) Short-term financing plan

Short - term financial plan	Q1	Q2	Q3	Q4
Initial cash balance	375	(63)	(961)	(843)
Net cash flow	1.120	(1.278)	(10.237)	3.843
Net short - term debt	0	7.995	12.512	3.000
Short - term debt interest	(58)	(48)	(157)	(142)
Short - term debt repayment	(1.500)	(7.567)	(2.000)	(7.343)
Closing cash balance	(63)	(961)	(843)	(1.485)
Minimum cash balance	(68)	(68)	(68)	(68)
Accumulated surplus (absences)	(131)	(1.029)	(911)	(1.533)
Initial short - term dept balance	4.500	3.000	3.428	13.940
Short-term dept change	(1.500)	428	10.512	(4.343)
Final short-term dept balance	3.000	3.428	13.940	9.597

As seen the company “BEREQETI” LLC has received a short-term debt in the second quarter, third and fourth.

5. Conclusions and Recommendations

Through the literature examination as well as the treatment of our working paper we can come to conclusion that the short-term planning and financing as a task of the financial manager requires a special concentration and commitment. Much of the business activity depends on this moment. Short-term financing decisions also require daily commitments and continuous monitoring of business.

Below we list some of the main conclusion of the working paper:

- Financial planning has to do with the surplus investment and/or the absence of financing
- Short-term financial decisions are more easier than those long-term ones but not less important
- There are software models of the cash budgeting preparation across various corporations.
- From the cash and cycle operating analysis can be observed the short-term financing need of the company “BEREQETI”LLC.
- Cash budgeting in short-term planning is done in maximum for 12 months.
- Short-term financing mainly has to do with the accounts payable usage or bank loans at mostly 12 months.
- But, regarding the recommendations we can say that:
- Financial manager should pursue a balanced policy between the conservative and aggressive policy, and in this case should be considered issues relating to the cash reserves (1), the compliance maturities (2) and interest rates (3);
- Because of the costs and other limitations, intern resources need to be considered primary for funding the business activity of the company;
- To not be used the credit lines or overdraft (OVD) for investment purposes;
- To be used the short-term loans for current needs of the companies;
- To be held the cash reserves for emergencies that may occur in the company.

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THE IMPACT OF EUROPEAN UNION POLICY IN THE MANAGEMENT AND FINANCING OF THE HEALTH SYSTEM IN ALBANIA

Zamira Sinaj

ABSTRACT

Albanian health care system is undergoing comprehensive changes. The paper focuses on the system of contributions for health insurance scheme. The paper will argue the need for immediate measures regarding this issue. Based on the primary and secondary data, through an economic analysis is studying the trend of contributor's number for five years. Are identified the economic, social and political factors, that affect this process and whole health insurance scheme (HIS). In Albania, partly scheme function, an informal labor market, lack of incentives for participation in health scheme, weak administration capacity for contributions collecting and poor structure, regulatory and supervisor and all in all its funding challenges, are the main factors that accompanies for years the health care system and as the result the contributions system for health insurance. The main economic factor is a little economic growth and a problem with which Albania has already begun to face nowadays. In this paper research we want to present the new low reforming in health care system in Albania. Like any robust reform process, we face significant challenges across a spectrum of efforts. Designing country strategies was more time and labor intensive than originally anticipated, particularly because a large number of partners were engaged in the process to determine tough trade-offs. The Albanian Health sector is in the continuing transformation in the function of the realization of the proper standards. To realize the reform in this sector and to help the decision makers in their decision is necessary to have the right information on the source of the financing of health sector, on the destination of the expenditure in this sector and their control. "The establishment of the National Health Service is an integral part of the new Government program and it is also the fairest intervention intended to upgrade the system of service financing at the levels required by providers and recipients of health services.

Keywords: *public administration according to EU standards, Albanian strategy, health sector, national service, progress in health service*

JEL Classification: *H51, I13, I15, I18*

1. Introduction

This article presents a summary of the current status, of health Albanian system. The developing health care system of undergraduate, postgraduate and continuous medical education in Albania and suggests opportunities for development and partnerships that would help the country's medical education reform. Albania is a small south-eastern European country still recovering from almost half a century of a fierce communist regime. But what I would like to underline here as a very significant element is that the financial reform in the hospital sector must be deepened according to the unchan It is necessary to create due conditions for investments, especially at

regional hospitals but also at tertiary ones with the intention to provide all over the country the same package of services in compliance with the well-defined protocols.(Belishova 2015) Hospitals should be paid for the treated patient, something that is considered as a highly efficient financing mechanism, which will encourage hospitals to treat as much patients as p previously because the traditional method of financing through historic budget was used. This new conduct will increase transparency toward the patients, in order they become aware of the exact service package they are receiving in hospitals and the medical staff that will be paid based on the performance. On the other hand, this transparency will create facilities for decision-makers to predict the costs more easily, which as you probably know are too much unpredictable. This package was the result of the cooperation of HII with MOH and with the technical assistance of USAID, sanctions all the services, that the patient gets from the Primary Healthcare Centers, that the patient gets from the Primary Healthcare Centers, where an important and very detailed part goes for the services provided by the family doctor for the prevention, identification or diagnosis and treatment of the patient with mental health disease. (Hoering, Uwe. 2002)

1.1. Albanian health system and categories of patients suffering from chronic diseases

Thirdly, as the health sector is the largest user of the workforce, negotiations with doctors and medical staff are still a very important element, in order that they are paid according to the services provided to the patient. We should think about improving the actual legislation with regard to the profession safety in the long term. Thus, last year, three cases (2 in Vlora and 1 in Lushnja city) have burdened the budgets of hospitals and consequently the service to the patient by Lek over 31 million, something that is directly related to profession safety. This problem may become a So, this reform may be defined as one that is travel toward a health service, where all have access and feel safe in it and with it and all the staff providing this h with the belief that we are behaving according to the present and future expectations.36 % of the interviewed patients were over 60 years old and 36% were 41 - 59 years old. It came out from this interviews that people over 41 years old, about 72%, were the greatest users of the health services in primary health care, as this is the most vulnerable age of the population.

1.2. Indicators of health care and health problems

75% of interviewed patients were suffering from chronic diseases and 45% were patients suffering from acute diseases. This paper research indicates that people suffering from chronic diseases comprise the greatest number of patients and they are the greatest users of primary health care services. (Theodorakis PN, Benton, Glaros 2008) The following indicators represent the demographic structure of patients interviewed by age group and type of patients (chronic / acute).Patients express their satisfaction about the attention that the physician paid to their health problems (98%) and a vast majority of patients (94.5%) underline that their physicians have given explanations on the causes of their health troubles The recently formed HII is a new health sector entity. Eventually, the institute is intended to assume a larger health-funding role (JI, Anderson JP 2008)

1.3. Some data in Albanian conditions employees.

The self-employers contribution rate at urban areas is 9% of the minimal salary, meanwhile the self employers at the rural areas pay 5% of the minimal salary, at hilly and mountain areas, and at the field areas is 8%. The voluntarily insurance is another opportunity to be insured. The contribution rate is 3.4% of minimal month salary. Budget for the year 2015 is estimated to

amount to 37.4 billion, or a 7% increase compared to 2014. This growth will make possible a salary increase of 4-5% on average for other health sector employees. The amount to be allocated for the drugs reimbursement will be also increased and it will amount to Lek 7.5 billion (Source: ISKSH, year).

2. Literature Review and Hypotheses

2.1. American health care system, a perfect implementing model

Health care models such as Wagner's Chronic Care Model (CCM) and Patient-Centered Medical Home (PCMH) promote a safety culture for patients. (Wagner Health Model) CCM promotes health care delivery systems designed to support community-based resources, self-management of care, and information support systems. Information support systems provide the basis for much of the continuity in patient records and clinician communication. PCMH uses a team-based model led by a primary care physician who provides continuous and coordinated care throughout the patient's life. Features such as open scheduling, expanded hours, and new options for communication between patients and their personal physicians and practice staff enhance patient experiences and improve the quality of care (Wagner & Sholdenn; Maderings & Waldders, 2011).

2.2. Development of Hypotheses

A well-integrated, culturally competent health care delivery system that allows patient information to be readily available to providers positively affects the quality and efficiency of care and therefore patient outcomes. The adoption and use of health information technology (IT) can be an effective way to manage health care costs and improve the quality of care. Since the publication of the Institute of Medicine (IOM) report Unequal Treatment: Confronting Racial and Ethnic Disparities in Healthcare, which emphasized the need for standardized collection and reporting of racial and ethnic data, the need for more granular detail on racial and ethnic subgroups has become apparent.

2.3. Albanian partnership and modifications medical programs

The impact of these changes and developing health care sector in Albania may be reduced by two modifications in undergraduate medical programs. The process of bidding individual contracts between hospitals and the staff is improved and the criterion that the contracts have to be bided only if the staff is a member of relevant professional orders (Order of Physicians, Pharmacists, and Nurses) is set. The process of applying penalties is improved and due to this various penalties for different violations are applied for e.g. fines were put when it was found that clinical diagnosis were not defined accurately, all the columns of the case record were not fully completed, the medical record was not finished, or delivered in due time etc (Glaros D. 2000). First identifying, training practice discrepancies, with a view of correcting them. Computerization of all pharmacies started for the first time in 2007. Partnership with health institutions and namely with pharmacies was also strengthened. The intention of this corporation was to insure hardware equipment to support the software produced by HII(Hordenss 2001).

2.4. The partnership and the health collaboration reform.

Since their system was designed in such a way that it served not only to HII, but also to pharmacies in their everybody work, very so improving the system. The HII received more than

17% of all health funds, with 8.5% coming from the state budget, 4.3% from employers and 4.4% from individual contributions. While the state remains the major source of health care financing, its contribution shrank from around 84% in 1990 to less than 60% in 1999 as other funding, especially out-of-pocket payments, increased. (Bernin & Waldders year 2011)

2.5. Albanian medicines inefficiency medical education

Under such a situation, the most emergent issue to be solved is that of drugs. We all know that in the recent years, the government has allocated Lek about 2 billion more for medicines in public hospitals. But the ways used to purchase, distribute and use these drugs have caused a considerable inefficiency that must be addressed as soon as possible. While major reform and support have focused on healthcare and higher education (HE) in the past decade, there have not been major attempts to improve medical education (Welfare, 2000). The time is now ready for medical education improvements created by increasing internal and external pressures as Albania aims to align its HE with the European Union standards and adapts the Bologna system. One of the main concerns of health insurance scheme in Albania has continuously been the care for patients suffering from cancer medical care, but also staying close to them because of psychosocial and economic problems that may arise.

H1: Healthcare is funded by the state and private practice is limited to a small niche sector.

The state system is supposed to be funded through insurance contributions from those employed and their employers, but poverty in Albania is rife and few can afford to pay. All citizens of the Republic of Albania benefit from health insurance schemes, whether contributory or vulnerable categories, since the state contributes for the later. The contract emphasizes the increase of the healthcare quality active participation in the system of Continuous Medical Education, as one of the priorities of HII funding policies. Another way of improving the health services quality is the financial motivation of health personnel based on The Information Technology achieved:

1. The application of the standard form for the visits and medical procedures by the medical staff of the HC, which helps in:
 - a. reporting, monitoring and financing the Performance and Services quality
 - b. decision-making to increase the service quality
2. The electronic registration of the population and the application of the effective payments per capita (still in process).

The extension of the financing reform in the hospital service:

- a) Change the method of financing. HII as an active purchaser
- b) Autonomy of Hospitals, which consist of: financial: existence of a separate budget, the right to propose it and to manage it financially.
- c) Organizational: relative independence to be self-organized normative: the power to issue self-regulatory norms.
- d) Contractual freedom, the possibility to enter in relations freely with the others. The rewards to medical staff shall not be the similar for those

H2: The net result is that many people fail to get much needed medicine and medical care to treat their ailments.

The failure to collect a substantial amount of contributions means that healthcare system is strongly reliant on charitable aid for medical supplies and drugs. HC 2014 contract can be considered as such that consolidates management position of health centres directors as well as accountability of all actors who are part of this contract. The reform in the health care sector started in January 2007. During this period, the following significant steps have been undertaken by HII with the intention to consolidate the primary health care service:

- 1) Health services package, which created the premises for the provision of a standard health care to all residents, was developed in the primary health care sector.
- 2) A supportive supervision was carried out in primary health, something that enabled an accurate measurement of the discrepancies between actual and expected level of health services provided by HC management and their addressing in due time, in order to improve the quality, performance and efficiency of health services.

H3: Treatment of out-patients with drugs will be unified with the treatment received by in-patients during their hospitalization.

Something that will give an end to abusive cases of treating the out-patients with expensive drugs an important factor affecting a growth of the service quality is not only financial motivation, but also upgrading of the medical personnel professional skills. This contract sets out some additional tasks for the Director such as: to create opportunities that professionals are involved in continuous education activities in accordance with the needs of their working position; to encourage professionals to take part in sustainable education activities and add another.

2.6. The health care reform and the cost centre for patients, in order to strengthen the management role of HC Directors

This contract sets out that HC director has to draft a monthly analysis of HC activity together with the health personnel and participate in monthly meetings held at Regional Directorates. This obligation will strengthen the management role of HC Directors both inside the institution and in relations with other parties. The responsibility of HC director to provide arguments for all excessive expenditures and failure to realize indicators is another step that leads to a better management of the reimbursement fund and accomplishment of performance and quality indicators. The administration form of direction in Albanian health care system to administer human resources as one of the elements of The entire population benefits health services free of charge through health insurances; free of charge service by the family doctor; specialist doctors; free of charge health services at home, from polyclinics and hospital.

3. Methodology

3.1. Research Goal

In this survey we aim to identify the mediating effect of health care system in Albania on the relationship between Albanian government relations and institutions of health care, hospital performance, politics reforming of Ministry of Health. To test the propositions, a field survey using questionnaires will be conducted. The survey of this study will be conducted on middle and senior innovations in Albanian health care reforming system, Cure the special categories of patients, health services of high performing financing and services in health Albanian System.

Data obtained from questionnaires will be analyzed through the health statistical packet program and three proposed relations will be tested through regression analyses (Barbullushi M, Koroshi A, Tase M 2000) tation, multiple sclerosis and major CA.

3.2. Sample and Data Collection

The financial contracts between HII and health centers were bided based on an established traditional process, consisting in a close cooperation with all stakeholders contributing in the primary health care. The process commenced with getting the opinions of all HIRD-s and health centers that have made contracts with these directories and as well as the viewpoints of other stakeholders in the health sector: Ministry of Health (Department of Public Health), Order of Physicians, Order of Nursing, associations and health services unions. (Borkan J 2010) The problems identified during monitoring and control of contract implementation during fiscal year 2011 served also as a source of information for improving the contract.(Bowman, L CroftsA 1991) During the process of developing 2015 contract with primary health care centers, a special attention was paid to elements that affect the consolidation of health center management, as a public entity responsible for serving the population that is registered next to it.

Analyses and Results

Thus, while the management of electronic registry of patients is now a reality in health centers, they will be also responsible for updating the data on the patients. Under such a situation, the process of transferring patients from one doctor to another, or from one HC to another will become more simple and easy for the patients. Reforms achievements in PHC wants:

- 1) More funds were allocated to the HC as a consequence of the improvement of their performance and quality indicators.
- 2) The HC have a better conceptions regarding the management of the allocated found.
- 3) The level of autonomy of the HC has increased.

The contracts with HC have improved and the Boards function.

- 1) There have been improvements in the collection of the secondary incomes and better possibilities to manage them by the HC.
- 2) Improvement of the information technology.
- 3) It is in process of implementation, supportive supervision, as a new methodology applied to help in solving the HC problems and improve their performance

Material and Methods

In this retrospective study are included 66 patients with ADPKD admitted -July 2015. Is prepared a fold tip taken following data: age, gender, birthplace, residence, diagnosis, the basic disease complications, the examinations made, the cost for each examination in money (leke), treatment day and expenses for each medicament taken by patients. The diagnosis of ADPKD was based on household data for the presence of ADPKD and echo-graphic criteria. The renal function alteration was considered then the createninememia level was bigger than 1.5 mg/dl. For data analysis was used SPSS. For continuous data were calculated the average and standard deviation. (For the comparison between, ISKSH 2015)

3.3. Patients Satisfaction with the Environment and Delivered Service

Most patients are satisfied with the service they receive at health centers (95.3%) and they like to recommend these centers to their friends as well (93.2%). Most of the interviewed patients feel that the center premises are suitable for a better service to citizens (about 70%). But, according to the opinion of half of the citizens there is still room for improvement in relation to equipments and appliances of the health centers. The patients believe that it is necessary to make further improvements, in spite of the fact that in 2014, Health Centers were equipped with some necessary health facilities (Bolton R 1996)

4. Conclusions

Taking into consideration the results of this survey and comparisons of outcomes with 2013,2014,2015 survey, we arrive at the following conclusions: providers of health services at primary health care, something that indicates that the results of the reform in the primary health care all over our country were positive and more specifically :

- a) Consolidation of the health insurance scheme and autonomy of primary health care providers;
- b) Obvious improvement of HC funding based on the realization of performance indicators and quality of services;
- c) Installment of Health Information System in primary health care led to significant improvements in receiving accurate data on the primary health care activity and in getting information in due time.

These data were intended to be used for the improvement of payment procedures of health care providers and the all health indicators in primary health care. (Cairncross L 1992) The access to primary health care services and quality of health services as perceived by patients are significantly upgraded; the barriers put in the way of identifying the insured persons to be supplied with health cards have been already removed; the monitoring of the health service provided by the family physician is strengthened; referring system and health services packages in primary health care service are achievements in the primary health care sector are improvements with regard to relations between the medical staff and HC-s heads, transparency in decision making and budget spending and communication at all levels. All these are due to advantages of decentralization of the health system in primary health care sector.

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LESSONS FOR DEVELOPMENT OF PUBLIC - PRIVATE PARTNERSHIPS IN

ALBANIA

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ABSTRACT

During the last 25 years Public-Private Partnerships are seen as a mechanism that modern governments consistently use to fulfill their responsibilities in providing infrastructure and public services. Their use has expanded from the transport sector to other areas such as health or education.

Gradually, Albania is underway to build its legal basis of PPPs, but in this regard there are many difficulties as the adoption of PPPs requires the fulfillment of certain conditions, among which it is worth mentioning the existence of a qualified, knowledgeable and experienced staff in the field of public-private partnership. Albania's aim for integration into the European Union created the necessity of studying the PPPs, advantages and benefits of the implementation of these contracts in the economic, political and social aspects as well as recognition of the potential risks that must be taken into consideration by the government.

Albania is currently in the first phase of the development of PPPs and the purpose of this paper is to study the efficiency of PPPs contracts in different countries and sectors as well as drawing valid conclusions on creating the right conditions and environment for the adoption and implementation of these practices in our country.

Keywords: *public-private partnership, benefits, threats, PPP phases*

JEL Classification: *H41, H42, E22*

1. Introduction

Public-private partnership in offering of public services has generated a great interest around the globe. This kind of partnership is seen by governments as a way to further improve the quality of services provided to citizens and to increase the efficiency of public investment. Public-private partnership is the best option to combine the private sector with its resources, managerial skills, innovative capacity and advanced technology and public sector with its regulatory authority and its major objective to protect public interest. One of the reasons that prompted not only our – government but also the governments of other countries to use this form of partnership has been the financial inability to realize investments simultaneously in various projects.

Gradually, Albania is underway to build its legal basis for PPPs, but in this regard there are many difficulties since the adoption of PPPs requires the fulfillment of certain conditions, among which it is worth mentioning the existence of skilled staff, knowledgeable and experienced in the field of public-private partnerships.

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In this paper we will make a comprehensive presentation of the Public-Private Partnership, concepts, definitions and main characteristics. Later in this paper will address the main factors that led to the birth and development of PPP practices, benefits arising from their implementation and what are the main current issues which have been highlighted in these partnerships in order to find the ways that lead to improving and increasing the effectiveness of these contracts and the implementation of a successful cooperation.

Further work will focus on the main areas of application of PPP in two main European countries (although after Brexit) to assess the efficiency of public-private partnership practices and based on past experiences conclude whether these practices can be successfully applied in our country.

2. Literature Review

Public-Private Partnerships are widely accepted and recognized in public sector management. The 1990s saw the creation of PPPs as the main means of public policies worldwide (Osborne 2000, p.1), as a novelty of the New Public Management. Starting from the 1980s, the key words of the New Public Management (NPM) were privatization, market mechanism, the distribution of public goods and services, competitiveness and reinventing the role of government. At the centre of NPM were: reduction of public sector expenditure, delegation of responsibilities to the private sector and promotion of voluntary commitment of private sector to providing public goods (Mitchell-Weaver and Manning 1991). The principles of New Public Management encouraged the establishment of Public-Private Partnership as a new management tool.

Nowadays there is a large variety of public-private partnership definitions worldwide. The content and objectives may vary in accordance with the special background of country-specific and individual interests of different authors.

According to the "Green Paper of EU for Public-Private Partnerships and Community law on public contracts and concessions" public-private partnership refers to forms of cooperation between public authorities and the business world, which provide financing, construction, renovation, management or maintenance of an infrastructure or providing a service. A key characteristic of PPPs is the relatively long duration of the relationship, regardless of the role of private financing or distribution of risks between the public partner and the private partner.

The main features of this partnership are:

- Long-term contractual cooperation, 25 or 30 years.
- The contract stipulates the integration of all stages of the project, sharing of investments, responsibilities and loans as long as the contract is valid.
- The contract determines the final performances required as well as product specifications.
- Public partner is the one that defines the requirements in terms of construction, maintenance and service quality standards.
- The private partner assumes the risk that was previously held by public sector.
- Public partner pays a fee to the private partner for the realization of the product or service.
- After expiry of the contract term, public sector resumes the ownership of the product or service.

But all definitions are based on the idea that PPPs fill the space between traditional government projects and full privatization (Grimsey and Lewis, 2005, cited in OECD, 2008). OECD also

notes that the feature that determines if it is provided in traditional public way or a PPP, is whether a significant amount of risk is transferred (OECD, 2008).

There is currently no a major definition of a public-private partnership in Europe. As a result, PPP is a kind of umbrella that covers a wide range of agreements between public institutions and the private sector with the aim of providing public infrastructure and public services. Existing European legislation does not regulate PPPs, but only the general principles of the EC Treaty and the specific secondary legislation for public safety and concessions have established some guidelines in this regard (Public-Private Partnerships National Experiences in the European Union, 10.02.2006 ; EP 369.858;)

Despite the fact that there is no unified definition of public-private partnerships, their main characteristics fall in five categories (Akintoye et al 2006):

- 1- The partnership includes two or more subjects, one of whom represents the public sector and the other the private sector.
- 2- In public-private partnership, all participants in the project have a leading position.
- 3- In public-private partnerships, it is established a long and steady cooperation between the parties.
- 4- In the PPP model each party gives its contribution in the created partnership. For a successful cooperation, each partner must contribute material or non material resources in order to achieve the synergy effect.
- 5- This type of partnership involves joint responsibility for the results achieved (for example for services provided). Such a relationship varies significantly from the traditional position of the public sector, in which it holds responsibilities for the provision of services and implementation of public policies, based on the available advice from the private sector.

Figure 1. Types of Public-Private Partnerships



Source: World Bank

3. The potential benefits of public-private partnership

Faced with restrictions on public resources and the importance of infrastructure investment on economic growth, it urged governments of developed countries and developing ones to be supported by the private sector to provide the necessary additional funding to cover the financing gap. The benefits that the public sector gains from the partnership with the private sector are numerous, such as:

- *Transfer of risk* - In the case of a public-private partnership, the risks will be transferred to the partner, who is keen to manage them in an efficient and low cost manner and has the ability to

cope with the incentives that they convey. Thus, it is proved that the private sector is better at managing the risks of the construction, operation and financing, while public sector manages political risks. It is this transfer of risks that ensures that private sector will be motivated all the time to evaluate and produce efficiently.

- *The most innovative techniques in design and construction*- Experts generally believe that the private sector is able to develop newer models of design and construction that government entities. This is due to the specialized expertise that the private partner brings to a project. Innovations that the private sector brings produce a variety of benefits including lower project costs, higher quality, shorter working hours and other more extensive features of the project.
- *Fast Implementation* - Division of design and construction responsibility with the private sector, combined with payments related to the provision of a service, offers important incentives for the private sector to complete projects within a short timeframe.
- *Incentives to perform* - The project risk division stimulate a private sector contractor to improve the management and performance achieved in each project undertaken. In most partnerships, full payment to the contractor shall be made only if the required standards regarding the service are consistently met.
- *Economies of scale* - PPPs enable benefits from economies of scale, by minimizing costs per unit of service produced, as the service is provided in cooperation with the private sector.
- *Higher efficiency in the use of resources* - The privatization experience has shown that many activities, even those traditionally undertaken by the public sector, can be undertaken in a more cost effective way by private sector managerial competence.
- *Investments infrastructure* - Economic growth depends a lot on the development and growth of infrastructure, especially in utilitarian objects (energy, water and telecommunications) and transport systems. Also, in many countries there is an urgent need for new social infrastructure, such as hospitals and health care equipment, prisons, education and housing facilities. For many governments this is seen as the most pressing areas for the involvement of private sector investment.
- *Management skills of private sector* - private sector management skills enable the project to be implemented on time or before the deadline. Using public-private partnerships for investment in infrastructure government will have access to new skills.
- *Monitoring and controlling the quality of offered public services* - Unlike the public sector, which does not employ enough experts to monitor and control the quality of services provided, private companies are known for numerous internal audit processes and increasing the efficiency of product delivery that is subject of the signed contract.
- *Competition* - Competition is observed during the tendering phase, creating in this way a kind of competitive market. As long as the product is specified correctly in terms of production requirements (instead of specifying the inputs), then each private provider tends to minimize costs as much as possible.

4. Potential Risks of Public-Private Partnership

Costs of development and delivery during the PPP project may result higher than traditional processes of service delivery by government. Therefore, the government considers as necessary to determine whether these higher costs are justified or not. The main risks the government faces in the implementation of public-private partnerships are:

- Some projects may be politically or socially challenging to introduce and implement than others. Such cases are when the existing workforce of the public sector has the feeling of fear to be transferred to the private sector, when fees increases are needed to enable the realization of the project or when displacement is deemed as necessary.
- Procedure in providing services through PPP contract is longer and more expensive, if compared with the traditional way of providing public services.
- PPP agreements are long-term, complicated and relatively inflexible, because of the impossibility of forecasting and evaluating all special events that may influence future activity.
- Deferral of public sector payments to PPP projects for subsequent periods may affect negatively on future fiscal indicators of public sector.
- The private sector will do that for which it is paid and no more than that. Therefore incentives and performance requirements must be set correctly in the signed contract. The focus of the government, generally need to be set on performance requirements.

5. Lessons learned for PPPs from international institutions

Lessons learned from the World Bank

The World Bank's website contains a significant number of reports about PPPs on basis of which there are identified some valuable lessons:

1. PPPs are more likely to be successful when special attention is paid to planning and a detailed study of the feasibility of the project is undertaken.
2. PPPs require transparency and competition.
3. PPPs require robust monitoring and flexibility, in order to ensure a rapid response to unforeseen events.
4. Governments must learn how their PPP programs are developed in order to make adjustments whenever necessary.
5. The participation of international firms increases finances, reliability and expertise.
6. Financial profitability and sustainability of PPP's depends directly from the observance of contractual obligations by promoters.
7. A solid legal framework is necessary to specify the "rules of the game" for the private sector and to reduce project risk.
8. In developing or in transition economies, a strong macroeconomic shock could create an unexpected situation for a government putting it in difficulties to meet its contractual obligations with regard to PPPs.

Conclusions drawn from the State Treasury in England

The United Kingdom has the largest program in the world regarding PPPs in terms of the number of implemented projects and of the number of sectors in which they are applied. British Treasury has revised the guidelines PPPs over the years to reflect all the lessons learned from central and local government agencies.

Treasury has identified key features that should have a project that is suggested as suitable for being part of a PPP. These features include:

1. A major capital investment program that requires effective management of risks associated with the construction and delivery.

2. Appropriate service structure that allows the public sector to determine its needs, to create partnerships with parties that ensure the realization of the project effectively and fairly, and the risk is shared accurately between the parties.
3. Nature of assets and services identified as part of the PPP scheme and risks associated are capable of being costed on a whole-of-life basis.
4. The project value is too large to ensure that service costs are not excessive.
5. Technology and other aspects of the sector are stable and not susceptible to rapid changes.
6. If planning horizons are long-term and the private sector has good expertise to offer assets and services that are intended to be used for long periods of time, then there are strong reasons to believe that this partnership will offer value for money and strong performance incentives.

Efficiency of public-private partnerships in UK

UK developed the concept of public-private partnerships in the 90s. These partnerships between the government and private sector provided efficient and cost-effective services.

Countries around the world such as Canada, Portugal, Ireland, Japan, Sweden and Australia work with UK organization and rely on their expertise to develop their respective models of PPPs.

It is universally acknowledged as the leader state of Public-Private Partnership in the field of health care by constantly bringing innovations in this field. For years they have successfully implemented a number of PPP programs. Projects range from the giant project of St. Bartholomew's and the Royal London Hospital, worth 1.1 billion pounds to the residential care home worth 2.8 million pounds. Since the early beginnings NHS in cooperation with British advisers has developed extensive expertise in terms of PPPs, ie the method of management, contracting and management of a public- private partnership project. Another main objective of british experts has been the realization of projecets with lower costs by increasing the efficiency.

Efficiency of public-private partnerships in France

Public-Private Partnerships have had a wide range in France since their first appearance in 2004. Like any other innovation, these types of agreements were faced with some difficulties, as they were new concepts in legal terms. In August 2012 the number of signed public-private partnership contracts reached 150 with a cumulative value of 12 billion Euro in total since 2005. Since 2011 France has dominated the European market in terms of contracts volume.

To evaluate the efficiency of the Public-Private Partnerships in France, will be used data generated from a study performed in 2012 by Stéphane Saussier and Phuong Tien Tran, the first study that covers the construction and operational phase of PPP contracts. Evaluation of the efficacy of the above-mentioned contracts in terms of costs, deadlines, quality and value for money is obtained through a questionnaire addressed to the executive directors of 30 projects that were in the operational phase.

After processing the data from the questionnaires showed that a large proportion of the contracts included in the sample obtained in the study (97%) were renegotiated at least once after the initial contract signing. Renegotiations included adjustments to the scope of the contract (73%), to financial arrangements (3%) and reagrding the completion term of the project (30%). In the study conducted, 70% of public authorities stated that they were satisfied or very satisfied with the negotiated changes and renegotiation generally has not been conflictual.

6. Conclusions and recommendations

Public-private partnership is the best option to combine the private sector with its resources, managerial skills, innovative capacity and advanced technology and public sector with its regulatory authority whose major goal is the protection of public interest.

Nowadays there is no widely accepted definition of PPPs. Eurostat, the IASB (Board of International Accounting Standards), the IMF (International Monetary Fund), IRFS (Institute for Reporters Freedom and Safety) and others bodies work with different definitions.

Public-Private Partnership ensures the transfer of risk, the most innovative design and construction techniques, rapid implementation of the undertaken project, better incentives to perform, benefits from economies of scale, high efficiency in the use of resources, investment diversity in infrastructure, expertise in monitoring and controlling the quality of public services and increased competition.

The development of PPPs is associated with a number of worth mentioning risks such as: political risk, longer and more costly procedure of providing services, complex and inflexible procedures in signing long-term agreements, etc.

England is the first country in the world that developed the concept of public-private partnership in the 90s. Partnership between the government and the private sector provided efficient and cost-effective services, especially in the health sector.

Starting from 2011 France has dominated the European market with more than 50% in terms of volume of signed contracts. Based on the processed data of the distributed questionnaires during the study conducted by the Stéphane Saussier and Phuong Tran Tran, it was concluded that most of the contracts included in the sample obtained in this study have achieved a good performance, thus laying down all the criticisms that have been made towards public-private partnerships.

The government of our country should pay particular attention to various aspects when compiling the institutional framework supporting PPP's. Requirements for Successful Public-Private Partnerships include: a) good governance in Public-Private Partnerships b) creation of PPPs legal framework.

The first PPP projects in Albania are carried out in the health sector, where based on the experiences of Spain and England it is foreseen that these contracts will also be successful in our country.

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TURKEY BETWEEN TWO WORLDS

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Turkey walking towards west in a train headed to east.

Doğan Avcıoğlu, 1968

ABSTRACT

It is almost impossible to see in a Muslim world that both orient and occident are mutually inclusive in daily economic life. Turkey as a G20 country has sustainable economic growth performance in OECD with strong ties in Europe with more than of half of foreign trade with those countries. As a long waiting EU applicant trade volume is much lower with Muslim world compared to the European continent. Economic substructure is formed on contemporary liberal capitalism rather than Islamic sharia law that dominates in Muslim world. Even though founding fathers of Turkish Republic fought against imperialist western world in early years they turned young country's face to western values in every aspects of life from alphabet to economic system. Free market economy with democratic ruling were the two main pillars of governance in country from the very beginning.

Since 2002 Turkish political agenda has been highly motivated with the conservative democrat AK Party. Indeed ruling government overcame economic crisis and had strong economic performance with proper economic reforms and EU anchor. Turkish economy had good macroeconomic indicators with conservative governments. Muslim conservative AKP government did not hesitate to interfere with the liberal economic until very recently and put ahead different national defense strategies involving different market mechanisms as Shanghai Organization. In the meantime foreign policy formation was reshaped by the government for more active policy in Arab world. Both of these policies would create meaningful changes in the economic infrastructure and political superstructure in Turkey. My humble paper will make an effort on possible outcomes of this new paradigm shift in Turkish economy by evaluating benefits, distortions with its neighbors.

Keywords: *Turkish history, Turkish economy*

JEL Classification: *N4, E10*

1. A Realist Approach to Turkish History

The realist paradigm in International Political Economy is appropriate in describing the historical development of international economic relations and related wars. For example, the Roman Empire promoted free trade as a means of domination. Creation of center and periphery in Wallerstein in late middle ages were the first signs of realism in world order. (Wallerstein, 2010) Moreover, after the Second World War, the United States set up the global economic system based on free trade and capital mobility leading to the creation of the international organizations such as the World Trade Organization, International Monetary Fund and World Bank. Also, the

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American government launched the European Recovery Program, widely known as the Marshall Plan, which aimed at removing trade barriers and facilitating economic growth. By doing so, the United States was keeping Europe from falling into the communism.

Ottomans or European Turkey after Berlin conference started to roll in today's geographic location Anatolia in the beginning of 10th Century with Malazgirt victory of nomad Turks from Central Asia. At those times the regional power in region after many antic civilization from 5000 BC was East Roman Empire or as well-known Byzantium. Nomad culture of those new comers attributed to their nonresident migrant culture converted to local village settlements after the contacting with local civilizations. Muslim Turks again regenerated and reorganized their life codes, ethics and culture as well as governance like they did after being Islamized by Arabs. For example Ottoman land management, taxation systems were quite similar Byzantium Romans. Thus I can interpret that PaxRomana transformed to Pax Ottomans via its soul.

The take off period of Ottomans is based on conquest and distribution policy.(İslamoğlu,1997) The eclipse of Roman Empire basically filled with the vacuum of new comers. In that stage they kept their enlargement policy in realist basis that and did not to intend the Bonapart and Hitlers fault of attacking to inner circle of Central Asia and Russian borders.

Ottomans were new landlords of ex Roman empire territories for ages. Pax Ottoman period was one longest period of stability in region from Balkans to Middle East. Empire arose from the substructure of former inhabitants with conquest. Thus Anatolia had significant waves of migration till today. (İçduygu,2015) The Ottomans involved different cultures, religions and ethnic origins. Byzantium Orthodox Romans, Jews exiled from different countries, Arabs and many other nations. When Sultan being proud of his Central Asian ancestors with referring Islam, there were minorities practicing daily religious performance with retaining own cultures. Profaned version of Islam has created pragmatic solutions political correctness in public governance.

Until the beginning of 19th Century there were limited diplomatic relations concerning power balance with other countries in world. As the super power they were not negotiating with other countries in international relations. Following to stagnation and regression period western colonial powers as England, Germany, France become more involved empires internal policies. Then Turkish ambassadors assigned western capitals. In realist terms they made political policy formations in international level by considering different power blocks among western countries. The main aim was to keep Ottoman borders without any offensive action from abroad, so they allied with British, German and French in different wars in order to maintain power balance to rivals. The world order in 19 century was Eurocentric and owing to the colonial powers, shaped by those forces. The last influential Islamic global power Ottomans were slightly diminishing from scene. The glittered days of Islamic civilization in 11th Century already faded and technological backwardness become epidemic. In last two centuries western Christian world had tremendous improvement in manufacturing with industrial revolution. The pragmatic solution of Muslim empire to this problem was considered to revise and modify western mode of production and governance methods to his lands. So Christian "others" in western civilization became a route for modernity as long as named as infidels. The main aim was to ignite faded military based power by copy and paste solutions from west. This is not a process of invention and innovation of technological substructure and somehow it took ages for absorption from all parts of society. Meantime the cement of society shifted from Ottoman identity to Turkic identity by the influence from French revolution.

After Berlin meeting in 19th Century England and other hegemonic powers agreed to disintegrated Ottomans. The attempts to use German alliance in following age had traumatic collapse of empire with German defeat in WWI. Anatolia, the heart of Turks for ages has occupied by Italian, English, French and Greek military troops. The response was fierce from poor, illiterate war torn Turks led by Mustafa Kemal Thessaloniki born orphan Ottoman General. In catastrophic shortage of armory, medical care, food and money he achieved to retake Anatolia from British led coalition forces in couple of years. More than 2/3 of Ottoman land lost and Turkish Republic founded in 1923.(Ortaylı,2010)The revolutionary foundation process regarding to ex Ottoman ties created fast disengagement in all segments of cultural life, dress codes, measures, alphabet are all replaced with western values in few years. Even though Turks retained some old habits such as Arabic alphabet in daily life for a while in 1970's there are merely few people eligible to read Arabic. As in late 17th Century Turks has attempted to transform public space and governmental regime with western ideals in post 1923 period and succeeded in this aim. In first glance it seems paradoxical and confusing that Atatürk's policy towards westernization. The dilemma of building occidental values on an oriental country where recently fierce fights had with those enemies was not an easy task. Enlightenment, development and democratic governance are always conceptualized as westernization in Turkey. Technological development with splendid economic growth in in those countries impressed western educated intellectuals in Turkey that would cure sluggish economic performance and technological backwardness with insufficient level of invention and innovation in war torn Anatolia.

Global world order has drastically changed during two world wars that formers colonial countries England, France, Germany and Italy had lost their powers in their historical territories and middle east. US and USSR become new power blocks. Young Turkish Republic successfully kept international relations in impartial manner till the 1950's. Famous "peace at home, peace at world" motto was the main backbone of foreign policy. Stalinist reflections of USSR towards Turkey have forced country to give priority towards US backed western NATO alliance. Even though Turkish governments tried to follow independent foreign policies with semi liberal economic programs soon in a decade they become familiar the real meaning of NATO membership which reforms country policies with US hegemonic power. 1960 military coup was the opening stage of three more military interventions in following decades.

From the very beginning of Republic since 1923 Atatürk's followers has the impression that Islamic rules, identities had adverse effects on economic development. The foreign relations with Islamic world formed in western bases. Founding fathers of Republic snubbed Arab world because of their hostile behaviors during the Turkish independence war. This combined with backward Islamic culture perception that isolates those countries from Turkish Republic. The secularist life style and governance in Turkey on the other side also questioned and criticized by Muslims in those countries that Turkey is the player of western world in region. NATO alliance, EU negotiation member status and Mediterranean heritage roots improved Turkish ties with west. During the cold war Turkish presence with NATO created limited flexibility to follow alternative policies to hegemony.(Sander,2011)After 1980's liberal economic policies with Turkish Islam synthesis formation become much more dominant version of nationalist view of Islam. There were limited relations with Turkic Republics due to USSR. Following the disintegration the emotional Turkish borders from Adriatic to China Wall had little significance on those countries due to the revival of Russian Federation. Turkish role in western block rather become a peripheral role in security analyses limited to NATO operations and EU membership process was always used as a stick for carrot for Turks to western policies in Middle East. Ankara agreement

with EU in 1963 ratified the date of membership as 1978, but Turkey is still waiting in EU membership after all enlargement waves.

2. Turkish Economy

Turkey has poor economic performance in declining period of Ottomans (Pamuk, 2007) Technological insufficiency, poor public finance and low rate of economic growth are the main determinants of pre Republic period. Those problems created insurgencies in different geographical locations. In order to have sustainable development level, the founding fathers of Turkish Republic choose state controlled industrialization due to insufficient private sector capital accumulation. From the foundation till 1980's economic development highly appreciated to import substitution model with heavy state controlled public enterprises. The drawbacks of the model are subsidized, out dated assembly industries without global competitiveness and lack of foreign currency reserves.

Post-coup period after 1980's enabled global finance and hegemony to reshape Turkish economic development model with export promotion with liberalism (Özçelik, 2015). The share of state enterprises in GDP and the public share in banking sector gradually diminished in following years. EU Customs Union agreement enabled FDI in Turkey (Schweizer, 2005). Meanwhile Istanbul centered secularist capitalist class had started to compete by conservative Anatolian new capitalist class as called Anatolian tigers.

Turkish economy experienced two severe economic crises in this liberal period. Both in 1994 and 2001 crises also has reflections on political life with peripheral Islamic conservative parties of Welfare Party and Justice and Development Party became the dominant power in Turkish Parliamentary elections. The IMF recipes for liberal Turkish economy were basically more liberal solutions with more deregulation and privatization with budget restrictions. The main outcome was declining of center right parties with leftist parties in favor of conservative Islamic party AKP, which managed to combine IMF receipts with liberal, policies in astonishing economic performance. As G20 country it had sustainable economic growth performance compared with most EU countries. Some macro-economic indicators are much better than the EU criteria's such as debt ratio. Inflation targeting policy enabled policy makers to curb high rate of inflation. With positive growth performance neoliberal policies enabled masses to follow AKP in every election since 2002.

There are weak parts of those economic policies that make it quite fragile. First even if export are raising due to the increase of semi-finished goods imports the balance of payment current account deficit remained very high volume which makes country hot money addicted. In order to have sustainable balance performance low exchange rate and high interest rate policy as in 1990's followed. The low rate of energy prices with enormous amount of unrecorded foreign exchange inflow (the surplus of net error and omission is the highest volume in Turkish history) strengthen government hands to follow policy. Then unemployment touched two digits with 11%. In some cases with different calculations even higher is not easy to remedy public unrest. The cure from the policy makers is increasing welfare and social transfers to disadvantaged groups. The share of social transfers to GDP increased during AKP regime which notably diminished collateral damage of neoliberal policies.

The AKP successfully tailored EU accession policy after negotiation treaty under democratic bases. That combined with liberal policies and conservative cultural background. EU membership

potential pivoted in relations with Muslim world. For a long period of time especially after millennium Turkish neo liberal economic model with its own foundations considered as role model in Arab world. In Tunisia, Egypt and others conceptualized Turkish experience as a success for dynamic economic growth process. From daily media to intellectual chambers there were very positive image for Turkish economic model and its governance. Although EU Turkish relations lost its momentum after 2008 it was still dominant factor in Muslim world. Thus both Europe and Turkey leveraged EU as for internal political affairs for a message to public. The nationalist political movements accelerated public view against Turkish membership according to polls. Thus center parties become more conservative Turkish policy in order to get support in elections. In Turkey somehow in order to promote Neo Ottoman image inside Turkish ruling party played anti EU cards for more votes. It is quite obvious one of the main pillars between two parties is economics. There are important number European investors in Turkey and there is a growing potential for that. Besides there is a attractive market for goods and services. In recent decade Turkish financial system heavily had mergers and accusations from European border. More than half of the banks are owned by EU based companies. Thus even though Turkish political climate and daily cultural life much more leaning on Islamic conservative roots compared to 1990's, the economic substructure dominated by western neoliberal policies engaged in global financial system. In political discourse, Islamic roots and Holly Quran are highly materialized for reorganizing society. Someone from abroad easily observe changes in Turkish daily habits according to increasing dominance of Islamic patterns in last decade. However contradictory to that ineconomic life Islamic rules of Quran verses are not referenced. . That simply provided ruling government to follow liberal policies and allow them to get consent from poor masses by Islamic connotations. (Tuğal,2011)

One of the main challenges of Turkey stand on economic dynamics of its geopolitical importance. The energy hub policy amongst Turkic republics, Russia, Middle East and Europe flourished geostrategic importance in stability. More than 2/3 of world fossil energy reserves are produced in eastern neighbors of Turkey. Those energy rich countries are looking for new markets with efficient transportation methods. Europe soaring important amount of energy imports due to lack of reserves. Thus in market terms Eurasian demand and supply match in Turkey. Energy reserves from orient transferred via Turkish pipe lines to occident where supply and demand for energy met. Both sides thus pursue to cooperate Turkey in their energy policies. International Energy Agency expects Turkey would become energy market in coming decades with increasing transportation and storage. The volume of economic benefits and gains would be impressive.

3. Turkey at Crossroads

Western media has praised AKP governments from the very beginning. There was shine, fine articles about neo liberal reforms in Turkey with strong democracy, rule of law, splendid record of economic growth compared to old, torn European countries. Although Turkey is performing much better than most EU countries, the way of articles in western newspapers has radically altered with negative comments since 2013. In this part of the paper I attempt to conclude Turkey's new world with some western terms.

Turkey has been a democracy from the very beginning of republic. But the democracy itself interrupted many times When Erdogan's Justice and Development Party (AK Party) came to

power in 2002, it reduced the role of the military in politics, promised Turks personal freedoms, and made it harder to close political parties and ban politicians. But Turkish leaders soon began to backslide on reforms, and over the past decade Erdogan has used the bureaucracy to undermine his political opponents and resurrect something akin to the state security courts, which his government previously abolished.

The history of leftist movements had some anti-imperialist and anti-Soviet ties. (Sayilgan,2009) Someone has to define left and right wing parties quite different context in Turkey compared to western counterparts. İdris Küçükömer famous socialist author and politician clearly refers that left means right in Turkey. (Küçükömer,2014) Center left parties are much more elitist, conservative than center right parties. For example till 2010 left wing party CHP were much more EU skeptic compared the ruling conservative AKP. It may resemble in Greece politics leftist movements are sometimes much more conservative in world affairs than right wing parties. Besides all, the Turkish elections are much more reliable and almost no intervention to election process compared to Middle Eastern countries and some Turkic Republics where the security and reliability of polls are very questionable in those countries. The EU observers confirmed that elections are based on true and fair basis in our country. Thus may be the explanation would be redefine left and right in politics different than western terminology in Turkey.

The democratic culture of Turkey much more dominated by one man type leadership compared to west. Erdoğan had more complicated relationship with Turkish citizens than tin-pot dictators like former Tunisian president Zine el-Abidine Ben Ali or Syria's President Bashar al-Assad. The AK Party has prevailed in 10 consecutive elections because Erdogan has delivered. (Washington Post,2017) Turks are wealthier, healthier and more mobile than ever before. If election results are any indication, about half the Turkish electorate dislikes Erdogan for his corruption, arrogance and power grabs, while the other half reveres him for the freedoms he has given them.

The definition of secularism would be totally different than western world in Turkey. The state religion relation was not like total distinction like in US. From the very beginning of Ottomans state instrumentalized Islam for governing country. Today's Presidency of Religious Affairs in Turkey is state organization and serves government policies. In western world religious organizations such as churches are totally isolated from state authorities. Even the Turkish military, a supposed bastion of secularism, is deeply linked to Islam.

While 20 percent of the country's population is ethnically Kurdish, the overwhelming majority of them consider themselves Turks. No doubt, Kurds have suffered. For years, their ethnicity, language and culture were denied. Even so, many of Turkey's 15 million Kurds are well integrated into the political, economic and cultural life of the country. Turgut Ozal, Turkey's prime minister in the 1980s and president in the early 1990s, was of Kurdish origin, as is the current deputy prime minister, Mehmet Simsek. The country's Kurdish voters have been a reliable constituency for the AK Party, and not just religious Kurds. (WP,2017)

One of the first military coup ended with execution of Turkish PM Adnan Menderes and his two ministers, but borne to the most democratic constitution of Turkey. Following years center left CHP party unexpectedly beaten in 1965 elections by new AP which is the follower of former DP where coup shut down. That trauma questioned by the intellectuals of left wing groups where they did wrong. The explanation of Doğan Avcıoğlu in his famous book Order of Turkey in 1968 was basically draw that universal values of west are somehow not fully applicable to oriental roots of Turkey. As national socialist Avcıoğlu referred the eastern social structure of Turkey with its own sociological background must be reconstructed in leftist platforms. It means the

religion as Islam, cultural codes must be reshaped from bottom to top rather than top to bottom as founding fathers of Republic did.

The role of neoliberal economic regimes in free market economic system determines the process of wealth distribution in the world economy. Thus, the ideas of economists David Ricardo and Paul Samuelson that through labor specialization all states can benefit from economic openness was criticized for its neglect of gains distribution. The hegemonic stability theory captures globalization as the result of the U.S.-led policy of economic openness. The contemporary global economic governance, in the realist view, is the reflection of the power distribution in the system. However, developing countries consider their influence in this system inappropriate to their real economic power. For that reason, states such as China and Russia are trying to build independent economic regimes as alternatives to U.S.-led institutions such as the World Bank or IMF. The Turkish presence in future in global system so far inclined it on the new power agenda of new order. As long as it persists on historic and cultural grassroots it may achieve further success (Passig, 2010).

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ORGANIZATIONAL COMMUNICATION IN DIFFERENT CULTURES. THE ALBANIAN EXPERIENCE.

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Piro Tanku²

ABSTRACT

We live in a society of communication, which is carried out not only by the media, but above all a direct communication, which is implementing through people as human beings. The world is becoming more and more global. No one can exclude himself/herself from this phenomenon. As soon as we involve ourself in this process the better will be. The phenomenon of globalization requires that in order to be successful would be better as fast as we can to have the proper knowledge as well as to respect the other culture of communication.

We have no right to say that our culture of communication is better than a culture of communication of citizen of another country. In this context is required to know generally how to communicate but the details of knowledge and communication. We have to know what we have to say.

We call ourselves "citizens", while we may consider each other "competitors" in a world where everybody wants to be better than others.

Good communication skill is essential to the success of every individual; it leads to improved success at work and in personal life. It should be perceived as a professional skill that can be learned and used to make progress in certain areas.

In this way communication and culture can turn itself into an art and will be useful for individual or collective benefits. Thus, communication becomes not the ability of conveying a message, but its transmission in such a way that the person to whom we turn to behave as we wish. This aspect is worth considering more deeply about how long that enables us to dramatically improve interests of interpersonal relations.

The purpose of the communication strategy is to make the communication culture more ethical, more honest, more tolerant, more transparent, more effective, more efficient, more stable, more accurate and more professional in relation to the tasks that we take.

The aim of this paper is to provide details of communication in different cultures, especially in countries with Islamic culture from the perspective of peacekeeping forces as an organization.

Keywords: *culture, organizational Communication, Albania, Afghanistan, comparison of conduct*

JEL Classification: *D83, O15, H70*

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1. Introduction.

Although the definition of the "age" of scientific fields it is difficult to be identified, I believe that we agree that communication in an organization has always existed. The beginnings of this discipline started as a need of survival. The latest years the issue of identity and struggle for autonomy were raised.

As a result of the rapid developments in the field of IT, communication has reached that maturity that few people could have predicted a half century ago. This is definitely a good thing, because without IT only a few changes would have been predicted in the world. Nowadays we are faced with differences in politics, business, technology, as well as changes in value and the environment³.

Good communication skills are essential to the success of every individual. In this context we have to perceive it as a professional skill that can be learned and used to make progress in certain areas. In this way, the culture of communication can turn into art in itself, useful for individual or collective benefits. Researchers have seen the art of communication in the optics of the result obtained by his correct practice.

Thus, communication becomes not the ability of transmitting a message, but its transmission in such a way to make person to whom we discuss with to behave as we wish. It will be better for this aspect to be analysed deeper as long as it enables us to dramatically improve interpersonal relations interests.

Communication itself is a difficult process, while on the job it is even more difficult. Work can face with different people and cultures. This obviously complicates it, because we cannot use the same standard of communication with all people and not all will understand the message you are trying to transmit.

When we talk about communication, we can not ignore the concept of employment relationship. According to Michael Armstrong⁴ the Employment term relationship That describes the relationships exist between Employers and Employees in the workplace. These formal maybe (Contracts of Employment, procedural Agreements) or informal, in the shape of the Psychological contract. The aim is to achieve professional goals and appears to be one of the sectors where it is more widely used.

In everyday work, we are dealing with a lot of different individuals: the boss, subordinates, citizens etc. We communicate with them face to face, or with different communication tools like telephone or Internet. It is undeniable that communication is a central element in the work activity. Is the element that allows us to be known to others and how to influence to the environment that surrounds us. We respect them, we inform them about our needs, our skills and for what we can offer them. Of course, that such things would happen in an ideal and theoretical world, but in terms of real world, the truth is that there are conflicts, misunderstandings, which time passes, the more it impacts the nature of our sensations and our perceptions at work, affecting our professional fulfillment and direct results obtained from it.

We need to note that each country has its own rules. The most fundamental values in a culture will be coherent with communicational structures of the most fundamental concepts in the culture⁵. The first step toward success is without doubt to have knowledge about them, to whom should address, for what to address and what things should not be addressed in order to avoid

³ Organizational Communication, Catherine Miller, Sixth Edition, Approaches and Processes, p.17

⁴ Human Resource Management in Practice 1999, p.185

⁵ Excerpt From: Lakoff, George. "Metaphors We Live By." iBooks

inconvenience and conflict. Good communication is the result of knowledge, patience and understanding of the rules in a certain environment. This helps to avoid and prevent any unpleasant situations. To know oneself and the communication skills of everyone, helps us to choose a model that fits to our objectives and the specific situations. There is no general rule for all individuals, in terms of how to face or deal with different situations, but it varies from person to person, from one culture to another culture.

In any relationship of interest in the professional life, it is undoubtedly important that when we communicate something, we must be efficient during the transmission of the message in the most accurate and clear way in order to avoid misunderstandings that lead to conflict. Communication facilitates the building of relationships among people and avoids any disagreements or misunderstandings. Success within an organization is often made possible through effective communication in all its levels, starting from simple workers to higher levels of the hierarchy⁶. Outside the work environment, it is important at the same level, by providing the most effective interpersonal relationships and therefore would provide a more healthy lifestyle, especially in international environments.

This paper focuses on communication with members who belong to different cultures, and have been on a mission in Afghanistan. The information was obtained through participants that took part in such cultures. It is focused on Albanian team during peacekeeping missions and how they fit their culture not only with Afghan culture, but also to many other individuals belonging to different cultures. In such conditions knowledge at global cultures level is required.

2. The role of Interpreters.

Communication with Afghan soldiers was realized through Afghan interpreters. They translated from English to their native language (Dari or Pashto, Afghanistan's two official languages). Communication would be of high quality if they build good relationship with the Afghan interpreters. This is because in some moments they would get out from difficult situations.

For example a day during a free conversation with an Afghan soldier, in order to recognize each other – they asked a question about the family; how many children they had, with what they were dealing with etc. The Afghan soldier didn't feel well because in some areas of Afghanistan, no one likes to speak about family with other people, except close family circle. This custom was explained by the military Afghan interpreter. In order to avoid any misunderstanding, the interpreter informed the Afghan soldiers that they were newly arrived in this mission.

In these conditions, it is necessary to train personnel before going on mission. Griffin and Moorhead (2015)⁷ argue that success in business can grow through the development of a strong culture. If an organization has indicators of a strong culture, then workers will feel better and improve individual performance and that of the organization. They emphasize four key components of a strong culture, values (beliefs and visions of the members of the organization). Heroes- (individuals who represent the values of the organization. Rites and rituals- (ceremonies through which an organization shows how they celebrate). Finally, cultural networks as communication system, through which cultural values are institutionalized and strengthened.

⁶Gary Johns and Alan M.Saks, *Organizational Behavior, Understanding and Managing Life at Work*, sixth edition, 2005.

⁷Griffin and Moorhead, *Organizational Behaviour, Managing people and organizations*, Eleventh edition, 2015, p511-151.

Greeting in Afghan culture is very important. No matter if you know or not the other person. When a person is walking on the street, regard him by saying Selam, right hand placed on the heart and slight bow. The answer is alejkum selam, right hand placed on the heart in a sign of respect. According to their custom, when a man see a Afgan female, greeting is the same as in the above example, but it is forbidden to look her in eye. If a boy sees a girl in her eyes, it is a indication of disrespect.

- **Peculiarities of Communication in Afghanistan with members of different cultures.**

Every morning two meetings were held, one with military personnel from NATO, on the main base, the other on the basis of Afganistan with the Staff comanded by Afghan Bgigadier General. During the first meeting communication was in English. Since the military personnel of NATO as the official language is English, there have been no misunderstandings during meetings. At these working meetings a lot of discussion were focused how to accomplish the tasks, problem as well as tasks for the following day, according to the medium and long term work plan, while meeting in the Afghan base were carried out through interpreters.

- **The importance of greetings in the local language.**

Afghans feel valued and respected when a foreigner spoke to them in their language. Taking this request into consideration, as one of the interviewers highlights, you greeted Afghans in their own language, mainly in Dari. After greeting and question how are you, which in Dari said **çishturasi**, and thanks **hubasum**, you reached out the hand to shake, but not tight.

- **Touching.**

Afghans during the conversation maintain their hand shake for a long time compared with this custom in our country. Example- a NATO officer (US), extended a hand to the Afghan military to meet and greet, but strongly tightened. The Afghan soldier frowned. To overcome the situation, the interpreter intervned and advised that during the meetings it is impolite to shake hands tightly. Compared with Western cultures, mainly Anglo-Saxon during daily activities in case of greeting to each other-there is no need to shake hands, it is accomplished through facial gestures⁴. In Afghanistan when a man meets a woman, they do not ofer hands to shake and it is not allowed to look each - other in the eye. It is considered disrespectful not only to women but also to their tradition.

During the interviews process, it is noted that it was easier for the Albanian military personnel to adapt and to continue conversation with Afghan personnel compared with personnel from other western countries. Perhaps this is as a result of oriental and western cultures in our country.

The sooner you began the process of fitting in, the easier it was to motivate the afghan soldiers. To do this they had to stay with them, learn about their concerns and problems of work and family life.

- **The Importance of details during Communication Process.**

It is very important to have knowledge about culture details, as they contribute to our success. Often when invited for lunch, they did not refuse the invitation, not only because liked the Afghan food, but the refusal was considered an insult by Afghans. Except communication through spoken or written language, another way that fullfilled the purpose of communication was through body movements, facial expressions, given emphasis to the words, the dress code, the position of the body, etc. All these convey a purpose, a meaning. Communication through **body language** is not always conscious, however, always meets or complicates communication through words. Open body positions, stretching back, etc., show the warmth, closeness, predisposition to communicate. Closed-junction positions of the arms, legs,

hands, etc., indicate a need to protect⁸. In general, we can say that the analysis of body language is a subjective thing that can be wrongly interpreted and very dependent on the situation and cultural differences. People should be very careful when interpreting the body language of others. Incorrect interpretations, add "noise" in the communication process. The person, who sent a message, must be careful because in some moments the body language, unconsciously, may oppose what he says by words. This will confuse the receiver, or would give him messages that we do not want to say⁹. The person who receives messages (sender-recipient) must be attentive to catch those signs of the body that sender launched, in order to get all the possible meaning of what is said.

⁷ **Here's a real example:**

The first day they went to have lunch with the interpreters, took food and sat on the floor as they did, but the legs weren't crossed but spread. A few minutes later the interpreter said; please cross your legs because the way you sit based on our traditional shows disrespect for the food. Once acted upon the advice, they started a constructive conversation. Although they were given spoons, Afghans prefer to eat food by hand (rice by hand and meal without spoon but by dipping bread in it). To be closer with them, every lunch they tried to act like them. Feeling easier, the Afghans showed that in their homes, they eat food with hands, sitting cross-legged on the ground and in a circular way, and all family members must be present. In some families tables (sofra) were used, which was used years ago in our country.

They emphasized that it was very important that all members of the family eat together every meal. In Afghan culture, each morning they offered tea and some kind of biscuits. By drinking tea a better conversation was developed.

Negative impact of severity

When working with Afghans, you can not start working immediately in the morning. So one day, a NATO officer just arrived to his office where Afghans worked, and began to talk with Afghan counterpart, but with severity. Afghan few seconds after hearing found an excuse, left and did not return to work that day. Interpreters suggested that severity is not a solution to Afghan culture, and that such a way of communication will slow labor productivity.

The physical distance between people during communication is another requirement that must be taken into consideration during the communication. Various relationships, have a kind of allowed distance, commonly known to both parties. Preservation or violation of this appropriate distance, sent according to the situation a certain sense to the recipient. The physical distance varies in different cultures. What may be normal in one culture may be considered as too small in another, or vice versa⁷

Afghans during the discussion asked for a broader personal space, while the Germans were closer to each other. Thus, in a case in the Afghan military office, with whom our specialists worked, noticed that while communicating with a German soldier, the Afghan soon backed away. This thing was explained kindly by interpreters.

What may be unacceptable in a culture, it can be a normal thing to another culture. So two close Afghan friends walked by holding hands with each other, an action that in other cultures can not be considered as normal.

⁸Organizational Behavior, Andrej A. Huczynski and David A. Buchanan 2007, p.178-183

⁹ Griffin and Morhead, p.298

Shopping Culture.

Afghans are very good in trade and try to sell their goods at a higher price. It is part of their culture that when a client comes in, say welcome, offer tea, and be patient. One day our officers went to a small market to buy something. It was interesting that by respecting a seller, speaking a few words in their native language but not refusing the tea they offered, it was possible to buy goods with a cheaper price compared to their real price. There were those sellers, who can also make small gifts just in order to preserve the clientele.

The Culture of Family.

Afghans are a proud people and it is important that they be respected during conversation. They pay attention to family and females. They consider women as mothers, who will educate children and for that reason she should not do ordinary work. On the other hand, men consider female as their property. This is because when they marry they should ask father in law how much money they should give to take the girl. Thus, the Afghan interpreter who was working with our officers was single, and was interested to marry.

His mother was looking for a good girl, very well educated and to belong from a good family. Once he asked and found the girl suitable for his son, she spoke with the girl's family. Then spoke to her son about the girl. Once they had met and were introduced to each other's family, the interpreter was obliged to pay the girl's family a lot of money, in order to marry. This amount of money was determined by the family of the girl. Such actions were regarded as normal in Afghanistan. The opposite happens in Western culture. When a couple is married, the bride's family pays for the wedding expenses. If the bride's family will have sufficient income, they can also donate an apartment.

Communication with military personnel from the Balkan countries.

Communication with staff coming from the Balkan countries was very cozy. There are great similarities in the communication mediums, including the body language (the messages given by the movement of feet and hands). Mostly this cooperation and communication was made freely inside the military base but after working hours. They communicated with their hands, joking and work began by offering something to drink. In their free time the favorite drink was brandy/shlevovica. As a result of similarity in culture, they organized many friendly meetings where there was no shortage of guitar music and Croatian serenades. During talks with military personnel from the Balkans, it was easy to create good relations if you greeted them in their native language.

Communication with staff from the western countries.

Regarding military personnel from countries such as Finland, Sweden, it was noted that they were cold but also quiet. They use less hands in communication compared to the Afghans. With Germans and Americans personnel on the military base, communication or social relationships started through games like volleyball, table tennis, chess, pools etc. German military personnel have left a good impression and were the opposite of what any had heard or seen in movies. They were approachable, sociable and with good humor. It is important to find the detail to give a message. So, Albanian military personnel built quality social relationships through the game of chess. So, while with the Afghans good communication was achieved by drinking tea, with the

German or American military personnel, it was realized through the game of chess, pools, table tennis, etc., or by organizing dinners, in facilities within the base.

3. Conclusions

The purpose of the communication strategy is to improve the communication culture, to be more ethical, more honest, more tolerant, more transparent, more effective, more efficient, more stable, more accurate and more professional.

Message- to be adapted to the environment, context and situation. Other forms of messages, such as personal or social, to follow the informal channels of information in the organization.

Touch- is an element of non-verbal communication, where people tend to touch what they like. Men and women interpret touch differently from each other. Rules of touch during the meeting vary greatly from one culture to another. Adapting to cultural norms is a sign of opening and honesty.

Facial expressions, as when we talk or when we listen, accompany what we say. They can transmit fear, aggression, shyness, etc. Smiling, typically expresses warmth, happiness, or friendship, while eyebrow scowl conveys disgust or anger.

The same can be said for the voice intonation that accompanies the words we say. Speech intonation that colors it can not be registered, but is accompanied by a word element that gives different meanings to it.

Recognizing differences that represent different styles of communication used by different people, managers can develop such methods to provide listening and evaluating every ideas, during the meetings and free time.

Also, it will be better for each individual to analyze the strengths and weaknesses of his style of communication, compared to that required in the organization. He/she must try to fix problematic elements, since, a certain style, influences the perception of certain skills and competencies of the individual by others.

Finally, we can say that communication in terms of a global environment is important to be taught and practiced before we are in the environment where tasks will be performed. Training on the receiving culture for all personnel being public or private raises chances of successful cooperation and production.

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STUDENT SATISFACTION AND QUALITY OF EDUCATION AT THE UNIVERSITY OF BARI

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ABSTRACT

The process of measurement, evaluation and efficiency improvement of the Italian Universities has become fundamental for the accountability to various stakeholders: students and their families, institutions, companies and especially the Government, that is the main financier. Recently, the Italian universities have adopted a competitive behavior in order to maximize their share of public resources allocation, in a framework of constant reduction in funding. In this competitive scenario, students can be considered as "customers", since they can choose the university in which to enroll or change it in the case of dissatisfaction if it doesn't meet their expectations (Petruzzellis et al., 2006). For this reason, Universities should plan their "educational offer" also on the basis of the needs expressed by their stakeholders, first of all taking care about students' placement and continuous improvement of service quality. The last reform of the Italian university system has been aimed at improving the quality of service offered, entrusting the National Agency of Evaluation (ANVUR) to oversee the related processes. Using the data collected by the last survey "Opinione degli studenti", this paper deals with the assessment of the student's satisfaction in the three areas of education, teaching and interest for academic courses, as stated by Anvur questionnaire. Through a descriptive and a multivariate statistical analysis (Principal Component Analysis), student satisfaction has been measured with reference to the quality of teachers, teaching materials, and logistical support, under the most relevant variables: students' percentage of lessons attendance, type of course (first and second level degree) and course scientific group. It emerges that the quality of teaching seems to be related to "tangible aspects" as perceived by students: teaching materials, interesting lessons, teacher clearness, coherence topic consistency with the contents of the course website, teacher availability for additional explanations. In the following years, one of the most important challenges for the academic courses coordinators might be the adoption of specific initiatives aimed at reaching the 100% of satisfied students; they have to be sure of the reliability of student judgments.

Keywords: *students satisfaction, quality of teaching, effectiveness*

JEL Classification: *A23, C38, M31*

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1. Introduction

In the last decades, characterized by a period of a global recession, Italian Universities have experienced severe resource constraints. Also due to a reduction in funding, there has been an increasing interest of the Ministry of Research (from now MIUR) in designing methods to evaluate academic performances in order to rank efficient universities and to reduce potential inefficiencies, so providing the administration authorities with measures that may be used for an optimal resources allocation. Side by side to this increasing interest in University performance, a wide academic debate about the models and measures to be adopted has emerged. The methodology is based on several quantitative input measures that have been largely borrowed from the evaluation methodologies of the main European Association, as ENQUA, more consolidated in its experience. Among the adopted resources allocation models, we cite the one introduced by MIUR last year, based on the students evaluation in terms of standard cost and the “customers” satisfaction survey, named *Opinione degli studenti*, whose main goal is to provide an independent system of regular evaluation of student satisfaction and of the university teaching quality.

The aim of this paper is to deal with the student's opinion about the quality of teaching, considered as “users” attending the academic courses in the University of Bari. Quality is a multidimensional concept and it is concerned with several variables: comfortable spaces and seats in the classrooms, equipment and scientific laboratories for teaching, professionalism of the teaching and administrative staff, assistance and tutoring services, apprenticeship opportunities, equipped laboratories for technical-practical and laboratory activities.

The Government, the main financier of Italian Universities, considers the level of student satisfaction a matter of great importance to evaluate the quality of their courses. It is actually measured by different points of view as the quality of teachers, teaching materials, and logistical support. Since 1999, with the law n.370, Italian Universities have to systematically carry out a survey (called *Opinione degli studenti*) to measure the satisfaction of their students about “teaching. Recently, the National Agency of Evaluation (from now ANVUR) has been entrusted to oversee the processes related to this survey, starting from the step of data collection. Since 2013, the University of Bari, like the other Universities, has adopted the ANVUR guidelines.

2. Data and methods

According to the last ANVUR release of the survey, Italian Universities have to administer three questionnaires: two questionnaires addressed to students, respectively with more than 50% percent of lessons attendance (questionnaire n.1) or less than 50% percent of lessons attendance (questionnaire n.3) and the questionnaire n.2 to the teachers. ANVUR suggests that Universities should carry out the online survey after 75% of lessons held or, at least, when the student is booking for his exam.

The questionnaire number 1 is the most complete because it has to be filled by the students with more than 50% percent of lessons attendance (Table 1); it is composed of eleven questions grouped into three sections: the first one focuses on the subject, the second on the teacher and the teaching services while the last one concerns the student's interest in the subject. The questionnaire number 3, being addressed to those students who have less than 50% percent of lessons attendance, shows the same composition, except for the lack of questions from 5 to 10

which need the attendance of the lessons to be answered. In order to avoid duplications, we only discuss the complete student questionnaire, specifying that the other one (number 3) has an identical content except for the section “teaching” (questions from 5 to 10). An important innovation in the last survey is the presence of 9 suggestions that the student can choose, in addition to the questions. This part contains precious information for the improvement of the quality of teaching and will be deeply analyzed in this paper.

As above said, the questionnaire number 2 has to be filled by the teacher and contains questions aimed at measuring his perception of quality of teaching. Due to the presence of different questions, this last questionnaire is incomparable with those filled by students. Therefore, it is not possible to explore our interesting research hypothesis concerning the assessment of the satisfaction gap between the “provider” and the “beneficiaries” of the teaching services. The questionnaires apply a 4-item Likert scale (definitely “no”; more “no” than “yes”; more “yes” than “no”; definitely “yes”).

Table 1: ANVUR students’ questionnaire

<p>Subject</p> <ol style="list-style-type: none"> 1. Was your prior knowledge sufficient for understanding the matters stated in the final exam? 2. Is the required load of study proportional to the assigned credits? 3. Is the teaching material (indicated and available) suitable for studying the subject? 4. Were the examination methods clearly defined? 5. Teaching 6. Are the unwinding times of lectures, tutorials, and any other educational activities respected? 7. Does the professor stimulate/motivate the interest in the subject? 8. Does the teacher clearly set out the arguments? 9. Are the supplementary activities (exercises, tutorials, workshops, and so on), if any, useful for learning the subject? 10. Was the teaching carried out consistently with the statements of the website course? 11. Is the teacher available for clarifications and explanations? <p>Interest</p> <ol style="list-style-type: none"> 1. Are you interested in the topics covered on the subject? <p>Suggestions</p> <ol style="list-style-type: none"> 1. Lighten the study load 2. Increase the educational support activities 3. Provide more basic knowledge 4. Delete the program topics already covered in other teachings 5. Improve coordination with other teachings 6. Improve the quality of teaching materials 7. Provide course materials in advance 8. Insert the intermediate exams 9. Activate evening teachings
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3. Results

3.1. The statistical descriptive analysis

We analyzed the data of 189,698 questionnaires collected in the academic year 2013-2014 and completed by the students attending the academic courses of the University of Bari in four scientific groups: Health, Science, Liberal Arts and Social.

The analyzed questionnaires are related to 115 courses each of them lasting a different period of time (Table 2): the 60.7% of the collected questionnaires belongs to students attending a three-years course (L2), the 11.0% comes from the following two-years courses (called LM) that are needed to complete the academic career started in an L2 course, the 12.8% from the five-years courses (in particular Law, Dentistry, Veterinary Medicine and Pharmacy) and the last 15.4% is represented by the questionnaires of students attending the six year course of Medicine.

Table 2: Percentages of questionnaires collected among the students of the University of Bari enrolled in the academic year 2013-2014 according to the level of degree

Level of degree	% of questionnaires
L1- four-years course	0.1
L2- three-years course	60.7
LM- two-years course	11.0
LM5 - five-years course	12.8
LM6- six-years course	15.4
Total	100.0

Expecting to find interesting differences, through a descriptive a multivariate statistical (PCA) analysis, we deal with student's satisfaction considering the most relevant variables:

- Students' lesson attendance more than 50% or less than 50%;
- Type of course (first and second level degree);
- Course scientific group (considering the four MIUR OFF classification areas: Health, Scientific, Liberal arts, Social).

The first overview on students satisfaction can be obtained by analyzing the variable "lessons attendance", which divides students into two groups named respectively F - Frequentanti, composed by students with lesson attendance >50% and NF – Nonfrequentanti, composed by students with lesson attendance <50%.

As we can observe in Fig.1 in the Appendix, for each question, we find out almost the same judgments distribution: at least a 25% of negative judgments and a 75-80% or more for positive judgments. Then, the level of satisfaction can be defined high (p-value=000), with a significant difference between F (students with lesson attendance >50%) and NF (students with lesson attendance <50%).

The second stratification variable is the type of course (first and second level degree). As shown in Fig.2 in the appendix, almost the same judgments distribution in each question can be observed: at least 15% of negative judgments versus 85% or more positive judgments. The level of satisfaction is high and there is a significant difference among the degree levels. Considering that several students decide to leave the University of Bari to attend their second level degree courses in different Universities, located in regions whose economy is more prosperous and offers better job prospects, we expected different results.

The third analysis is based on the course scientific group, considering the four MIUR OFF classification areas: Health, Scientific, Liberal Arts, Social. Even if we changed the stratification

variable, we find out the same very high level of satisfaction, regardless of the scientific area, as shown in more detail in the Fig. 3 of the appendix, p-value=0,000).

3.2. The multivariate analysis for measuring student satisfaction

In order to reduce the starting set of variables to the most significant ones, we adopt a multivariate statistical model. In particular, we run a Principal Component Analysis with PROMAX rotation and a backward procedure as follows:

1. in the first step all eleven questions are considered;
2. in the second step, the questions with lower values are removed and PCA is run again;
3. in the third step, a measurement of the overall satisfaction is obtained.

In running the Principal Component Analysis we put the hypothesis that students belong to two different groups on the basis of the following issues:

- ✓ F-Frequentanti, with a percentage of lesson attendance $\geq 50\%$ and 154,919 questionnaires and NF-Non frequentanti with a percentage of lesson attendance $< 50\%$ and 34,770 questionnaires;
- ✓ the two groups fill out different questionnaires (11 questions vs 6 questions);
- ✓ the two groups are considered to be totally independent, also in the calculation, but we obtain the same results.

As shown in Table 3, considering the group F-Frequentanti, who answered to 11 questions, the first component explains only the 52.6% of the variance. Therefore, we remove the questions with lower values (q1, q2, q5, q11) as they seem to be poorly related to the quality of teaching. Then, we run a PCA on the new set of six variables and the percentage of explained variance increases at 65.4% (Keiser Meyer Olkin test=0,890, Table 4).

Table 3: Percentage of explained variance and commonality in the 11 questions model for students attending more than 50% of the lessons

Component	Initial eigenvalues			Not rotated factor loads			Communality		
	Total	% of variance	% accumul.	Total	% of variance	% accumul.	Questions	Initial	Extraction
1	5.783	52.570	52.570	5.783	52.570	52.570	Q1	1.000	.317
2	.922	8.382	60.952				Q2	1.000	.382
3	.720	6.543	67.495				Q3	1.000	.593
4	.597	5.427	72.922				Q4	1.000	.533
5	.549	4.990	77.912				Q5	1.000	.478
6	.523	4.759	82.670				Q6	1.000	.677
7	.484	4.396	87.067				Q7	1.000	.671
8	.432	3.925	90.992				Q8	1.000	.520
9	.403	3.665	94.656				Q9	1.000	.651
10	.355	3.228	97.884				Q10	1.000	.584
11	.233	2.116	100.000				Q11	1.000	.377

Extraction method: Principal Component Analysis.

Table 4: Percentage of total explained variance and commonality in the 6 questions model for students attending more than 50% of the lessons

Component	Initial eigenvalues			Not rotated factor loads			Communality		
	Total	% of variance	% accumul.	Total	% of variance	% accumul.	Questions	Initial	Extraction
1	3.924	65.403	65.403	3.924	65.403	65.403	Q3	1.000	.609
2	.546	9.107	74.509				Q4	1.000	.584
3	.499	8.320	82.829				Q6	1.000	.709
4	.426	7.092	89.921				Q7	1.000	.719

5	.368	6.130	96.051	Q9	1.000	.676
6	.237	3.949	100.000	Q10	1.000	.627

Extraction method: Principal Component Analysis.

The obtained set of questions can be considered more reliable than the previous one; it leads us to point out the «core» variables defining the overall satisfaction as perceived by the students of the University of Bari. The quality of teaching seems to be related to what we can be defined “tangible aspects” for a student: teaching materials (Q3), examination rules (Q4), interesting lessons (Q6), teacher clearness (Q7), topics consistency with the statements on the course website (Q9), teacher availability for additional explanations (Q10).

Now we replicate the analysis for the NF group, composed of the students who answered to 6 questions. Running the PCA, the first component explains only 49.9% of the variance (Table 5).

Table 5: Percentage of explained variance and commonality in the 11 questions model for students attending less than 50% of the lessons

Component	Initial eigenvalues			Not rotated factor loads			Communality		
	Total	% of variance	% accumul.	Total	% of variance	% accumul.	Questions	Initial	Extraction
1	2.992	49.860	49.860	2.922	49.860	49.860	Q1	1.000	.431
2	.800	13.331	63.191				Q2	1	.474
3	.689	11.490	74.680				Q3	1.000	.629
4	.580	9.675	84.355				Q4	1.000	.542
5	.496	8.261	92.616				Q10	1.000	.504
6	.443	7.384	100.00				Q11	1.000	.412

Extraction method: Principal Component Analysis.

Therefore, we remove the questions with lower values (q1, q2, q11) and run a PCA on the new set composed of the remaining three variables; the percentage of explained variance increases at 66.8% (Keiser Meyer Olkin test=0.699, Table 6). For the group of students attending less than 50% of the lessons held, the quality of teaching appears to be related exactly to the same aspects highlighted before and called the “tangible aspects”: teaching materials (Q3), examination rules (Q4), teacher availability for additional explanations (Q10). At this point, we are able to define the global satisfaction factor as highly related to the “tangible aspects”.

Table 6 Percentage of total explained variance and commonality in the 6 questions model for students attending less than 50% of the lessons

Component	Initial eigenvalues			Not rotated factor loads			Questions	Initial	Extraction
	Total	% of variance	% accumul.	Total	% of variance	% accumul.			
1	2.003	66.761	66.761	2.003	66.761	66.761	Q3	1.000	.659
2	.531	17.698	84.458				Q4	1.000	.695
3	.466	15.542	100.000				Q10	1.000	.649

Extraction method: Principal Component Analysis.

On the other side, this leads us to suppose that the students consider some questions as «empty» questions if related to the teaching quality dimension; some “meaningless” questions could be, for example, “Are you interested in the topics covered in the teaching/subject?” (Q11), or “Was your prior knowledge sufficient for understanding the matters stated in the final examination?” (Q1), and “Where the examination rules clearly defined?” (Q4). More probably, students consider the aspects related to these last questions as “exogenous” variables. For example, they don’t

believe they could have a positive influence on the reduction of the teaching “load” in terms of subject/topics to be studied, as asked by Q2 “Is the load of study required proportional to the assigned credits?”.

Precious information for the academic course coordinators come from the student's suggestions (Table 7). If we put the items in a decreasing order according to the frequency, the highest belongs to the reduction of the teaching load in terms of study effort (29.3%), to be read along with the introduction of intermediate exams (23.9%), followed by the exigence of a preparatory strengthening of the basic knowledge before starting the official course (25.2%) and of an improvement in the quality of teaching materials (24.3%), better if delivered in advance (23.2%). Students acknowledge the added value brought by the support activities (22.9%) but, since almost the totality of them doesn't work during their academic experience, they are not interested in possible evening teachings.

4. Conclusions

The survey “Opinione degli student”, yearly held in Italian Universities, aims at measuring the students' perception of teaching quality. It has been conceived as a national standardized survey which will allow, among other goals, the Ministry of Research and Education to organize a database which is useful for the evaluation of the quality of teaching in the Italian Universities and, more probably, in the nearest future, for the allocation of financial resources. At University or Department level, inside the governance process, the results of the survey may represent precious information for improving the quality of the courses, either about the issues strictly related to teaching or about the organizational and logistic aspects. Anyway, a certain caution in handling the data collected through this survey is essential because there is no evidence that students expressed their judgments with the awareness of being a part of an awkward evaluation process with important outcomes. Moreover, the fear of lack of privacy could have affected the judgments expressed by the students, as their answers look too “compliant”. Another important issue is that the survey produces a measure of students' perception, not a direct measure of quality and therefore it might be influenced by a variety of biases, first of all, the effect of prior expectations. A further development of this first analysis is to deal with a set of indexes which can measure the reliability of the data so that they can be useful in sustaining the decisional process; they could be used as an input in the evaluation models, for example, in the allocation of internal funds. To move from solid foundations, a comparison with other Italian Universities' experience in this survey would be very interesting, even if the presence of “dubious” high positive evaluations has also emerged in other researchers. Looking at the present work, the results of the analysis show a high level of the overall satisfaction of the students of University of Bari enrolled in all the courses, with no differences among Health, Liberal Arts, Scientific and Social areas (D'Uggento, Manca and Girone, 2016). The quality of teaching perceived by a student seems to be related to what can be defined “tangible aspects”: teaching materials, interesting lessons, teacher clearness, topics consistency with the statements on the course website, teacher availability for additional explanations. In the following years, one of the most important challenges for the academic courses coordinators might be the adoption of initiatives aimed at reaching 100% of the satisfied student, after being sure about the reliability of their judgments.

Table 7: Suggestions from the students of the University of Bari to improve the quality of teaching in their courses

Suggestions	Number of responses	% of the total of questionnaires
Lighten the teaching load	38,918	29.3
Provide more basic knowledge	33,509	25.2
Improve the quality of teaching materials	32,335	24.3
Insert the intermediate exams	31,727	23.9
Provide course materials in advance	30,829	23.2
Increase the educational support activities	30,479	22.9
Improve coordination with other teachings	22,73	17.1
Delete the program topics already covered in other teachings	22,148	16.7
Activate evening teachings	3,699	2.8

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CHILD LABOR: INTERNATIONAL STANDARDS AND ALBANIAN LEGISLATION

LLM Eda Gjoka¹

There can be no keener revelation of a society's soul than the way in which it treats its children

Nelson MANDELA

ABSTRACT

Children's Rights are human rights. The law "On protection of the rights of the child" no. 10347/2010, defines the term children as every born person living until the age of 18 years.

Difficult living conditions because of extreme poverty is keeping away from school a considerable number of children worldwide, making them part in the labour market. This phenomenon is of great concern in our society too, which has been noted also by the international work structures and child protection.

Per the detailed study conducted by the International Labour Organization in our country shows that 7.7 percent of children aged 5 to 17 years are now part of the labour force, even in difficult sectors. Protecting the rights of children constitutes one of the most important social protection policies. At the bases of this policies, are reflected the basic principles of the Convention on the Rights of the Child, ratified by Albania in 1992.

This article will be focused on the identification of the current level of child labour in Albania as well as highlighting the international conventions and Albanian legislation on the protection of the rights of children, including child labour.

Based on this analysis we can conclude that Albania is ranked as one of the countries with the highest completion of the legal framework on the rights of children. As guidelines in this prolusion, had been the principles of the best interest of the child, non-discrimination, participation, survival and development. Despite the legal framework and the positive achievements there is still need for improvement of the current situation.

Keywords: *child, child labour, international conventions, Albanian legislation*

JEL Classification: *K31, K33, K38*

1. Introduction

Child labor is an urgent problem in the international plan and is closely linked to the economic difficulties of the developing countries (in which is part Albania), that are requiring a collaboration internationally. The Constitution of the Republic of Albania provides that every child has the right to be protected from violence, abuse, exploitation and use for work, especially under the minimum age for work, which could damage their health, morals, or endanger their life or normal development.

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Economic, social and political changes, population movement from rural to urban areas and emigration, entered the Albanian family into pressure. These political or non-Political reforms caused unemployment, especially among females and males aged 40 -50 years old. Most of them have families and children to maintain the number of whom in rural areas is higher compared to urban areas. Given these facts, the main causes of child labor are poverty, family tradition and lack of education in the difficult areas of the country.

From the observations, so far, children engaged in work, in Albania work as street salesman of cigarettes, lighters and other items, vendor through various vegetable shops or tableware, beggars within or outside of Albania, shoeshine boys, fishermen using various means, car washers, flower vendor and newspaper sellers etc.

2. What is child labor and the factors that cause children to work

Child labor is work that harms a child's welfare and education and prevents his or her development and future living standards. The ILO Convention on the minimum working age (C138) calls for minimum working age be set no lower than the end of compulsory schooling and in any case, not under 15 years of age (or 14 years in developing countries).

“Easy job” it may be permitted for children aged between 13 and 15 years old (or 12 and 14 years in developing countries). The Convention defines the easy job as work that: it is not likely to be harmful to their health or development, and not prejudice their attendance at school, their participation in vocational orientation and training programs approved by the competent authority, or does not affect their capacity to benefit from learning.

Focus on the worst forms of child labor

The ILO Convention on the minimum working age (C138) was approved unanimously by ILO delegates in 1999 and covers all children up to the age of 18. As the title shows, conventions related to certain types of work that children should not perform.

Article 3 defines these worst forms as: a) all forms of slavery or practices like slavery, such as the sale and trafficking of children, slavery to debt and bondage, and forced or compulsory labor, including forced recruitment or forced children into the armed forces. b) the use, procurement or offering of a child for prostitution, production of pornography or pornographic performances, c) the use, procurement or offering of a child for illicit activities, for the production and trafficking of drugs as defined in relevant international treaties, d) work which, by its nature or the circumstances in which it is carried out, is likely to harm the health, safety or morals of children.

Hazardous child labor

Subparagraph (d) of Section 3 describes what is referred to as "hazardous child labor"

The hazardous child labor is work in dangerous conditions or unhealthy that may result in death or injury of a child (sometimes permanent damage) and / or his / her illness (often permanent illness) because of poor security and standards poor health and work organization.

There are many reasons that drive children into work, but the most important factor is poverty. Poor families put their children to work to increase their insufficient income. Poverty is both a cause and consequence of child labor. Poverty and child labor are the main components of "low economic equilibrium" level of family, community and country.

Supportive attitude towards child labor - Parents (teachers and society in general) can see child labor as part of their education, especially when education does not provide economic benefits for

young people. Parents can support child labor to keep children safe in some areas where children may be discriminated against or be subject to violence in schools.

Unfavorable family environment - families with one parent, headed ill or physically disabled, addiction to alcohol or drugs by the parents, parental incompetence and abuse of children put at great risk to engage in work children.

Lack of access to education - direct and indirect costs of education, is often too high for parents to allow attendance by children and / or schools are far away from their home.

Discrimination - minorities or certain communities have less access to education and to the labor market, and therefore it increases the chances that these children perform certain tasks at a young age. Moreover, the division of labor based on gender could force men and women to limit their job prospects to a certain degree that requires no education, but "job" practice of young people, including work at home.

3. The legal and institutional framework

3.1 International Standards

Albania is ranked as one of the countries with the highest completion of the legal framework on the rights of children; this includes obviously, the child labor. While it is well established the institutional structures that are needed to monitor and combat this phenomenon. Albanian legislation aligned with best European and international models.

-Convention of the United Nations "For the Rights of the Child", ratified by the Council of Ministers on 27 February 1992. In this convention is given the definition of what it meant by "child". The Convention defines the obligations to respect the rights of children, starting from the basic principle of "best interests of the child". This Convention and its additional protocols comprise a complete package of standards for the protection and welfare of children.

-European Social Charter, approved by Law nr.8960 dated 24.10.2002, recognizes and guarantees the right of children to benefit from social services. In employment it provides that minors under 18 years of age, which are activated in certain jobs, must undergo to regular medical checks and the employer must provide those of moral and physical hazards that may be encountered during operation. The Charter obliges states parties not to allow children to attend compulsory education, be activated in some work that hinder the full acquisition of such education.

3.1.1 ILO Conventions

Albania has ratified all eight core ILO labour Conventions. Albania has ratified ILO Convention No. 138 on the Minimum Age and Convention, No. 182 on the Worst Forms of Child Labour. However, exploitation of children at work is a severe problem in Albania. Child trafficking or child labour occur in extremely hazardous occupations in agriculture, construction, small shoe and clothing factories and the service sector and many children, many of them of Roma origin, work as shop vendors or beggars. Albania has ratified ILO Convention No. 29, the Forced Labour Convention and Convention No. 105 on the Abolition of Forced Labour. The law prohibits trafficking, forced and compulsory labour, including by children. However, trafficking for forced labour still takes place and it is reported that women and girls are trafficked for commercial sexual exploitation.

3.1.1.1 Child Labour

Albania ratified Convention No. 138 on the Minimum Age in 1998 and Convention No. 182 on the Worst Forms of Child Labour in 2001. The Albanian state provides nine years of tuition-free, compulsory for children aged 6 to 13. However, many children, especially in rural areas, leave school before the end of compulsory education to work with their families. Parents are required to pay for supplies, books and even heaters for some classrooms, making school prohibitively expensive for many families and leaving a growing population of vulnerable, unregistered children at risk of trafficking or exploitation. The law sets the minimum age of employment at 14 years and regulates the amount and type of labour that children under the age of 18 may perform. However, per section 100(2) of the Labour Code young persons from 16 years of age may be employed in difficult or hazardous work, under conditions determined by decree that limit working hours and may regulate working conditions. The ILO CEACR has expressed deep concern at the grave situation of children begging on the streets in Albania, who are particularly exposed to the worst forms of child labour.

3.1.1.2 Forced Labour

Albania ratified Convention No. 29, the Forced Labour Convention, in 1957 and Convention No. 105 on the Abolition of Forced Labour in 1997. The law prohibits forced or compulsory labour, including by children, or trafficking in persons for all purposes. However, the country was a source country for men, women, and children trafficked for the purposes of sexual exploitation and forced labour; including forced begging and agricultural work.

3.2 Albanian Legislation

Legislation in this area includes a wide range of normative acts, which aim to provide special protection to individuals that are categorized as "children". Enriched with several international instruments that set the standard for guaranteeing the "children's rights", this legislation represents a significant effort to uphold these rights. The following reflects a list of the most important acts in this regard, while preserving reasonable reserve, in the following listing does not represent an exhaustive enumeration of all legislation in this area.

- The Constitution of the Republic of Albania, approved by Law 8417 dated 21.10.1998, is the fundamental act that guarantees the protection of children's rights in general. In this act, children are a special category of individuals who enjoy protection and are guaranteed a series of rights. In certain provisions of the Constitution, the role and caring nature of the state appears in attributing a special care to those individuals who are most vulnerable, namely "children", thus affirming the right and a policy with positive effects.²

-Law nr.7850 dated 29.07.1994 "*Civil Code of the Republic of Albania*", provides equal opportunity to every natural person to have civil rights and obligations within the limits set by law, namely to have legal capacity. The child when born alive, enjoys legal capacity from the time of his conception.³ Per this code, legal capacity to act arises every person who has reached the age of 18 and who can make his / her actions to acquire rights and assume civil obligations.

²In Article 54 of the Constitution states that:

1. Children, the young, pregnant women and new mothers have the right to special protection of the state.
2. Children born out of wedlock have the same rights as children born in wedlock.
3. Any child has the right to be protected from violence, abuse, exploitation and use for labor, particularly in the minimum age for child labor, which can harm health or morals, or endanger their life or normal development.

³See Article 2 of the Law nr.7850 dated 29.07.1994 "*Civil Code of the Republic of Albania*".

Legal capacity is given the limited minors (children) who have reached the age of 14, who based on prior consent of the legal representatives can obtain income from their work, to deposit and dispose of them freely.⁴

- Law 7961 dated 12.07.1995 "*Labor Code of the Republic of Albania*". This code provides special protection measures for minors (children), from any work that is likely, be dangerous to their health, damage morale, or interferes with the child's education. The minimum working age is defined 16 years.⁵ For employees under the age of 18 are prohibited night work and acceptance in the job is done only after a complete medical exam, which recognizes as able-bodied, whose expenses are covered by the employer (Article 103). Duration of daily work, employees below the age of 18, is not more than 6 hours a day, 8 hours, which is the normal working time (Article 78). If the employer recruits a worker who has not reached the minimum for working age, the Labor Code provides for sanctions, namely breach of this provision is punishable by a fine up to fifty times of the minimum monthly wage (determined by decision of the Council of Ministers). Pursuant to the Labor Code is adopted decision of Council of Ministers no. 384, dated 20.05.1996, "On the Protection of Minors at Work," which defines the working conditions, the light and difficult jobs, holidays, etc. Per this decision, the working conditions of employees under the age of 18 must be such as not to endanger the health or physical, psychological, moral and social development or to interfere with his education. Minors aged 14 to 16 years of age may work only during school holidays, provided they are employed to do light work inspectorate has issued a work authorization for the employer. At least once a year, minors aged of 14-16 should perform a resting period of 4 weeks free from any school activity and any kind of work. For children aged 16-18 years, who are hired to work difficult or dangerous, notified the labor inspectorate, which controls the enforcement of the criteria of their employment, and whether harm the child's health or not. Duration of work per child can not be more than 8 hours a day and 40 hours a week. The duration of annual holidays is at least 4 weeks. In the case of recruitment of minors up to the age of 18, to participate in cultural, artistic, sports, publicity or be subject to a prior authorization issued by the Labor Inspectorate. Furthermore, per the law "On State Labor Inspectorate", the Inspectorate has the right to inspect regularly the employment of women and children. These rights are applied to all employers, employees, self-employed persons and members of their families, who have businesses in the Republic of Albania, regardless of their nationality.

Regarding weekly rest, for any period of seven days, minors under 18 years old are entitled to a minimum period of two consecutive days, which included Sunday. Minors under 18 years benefit, in the case when the age works longer than 4 hours and a half, a break of at least 30 uninterrupted minutes.

- Law No. 7895 dated 27.01.1995 "*The Criminal Code of the Republic of Albania*", which provides 14 years of age as the age when an individual criminal responsibility⁶, while at the age of 16 individual actions which are contrary to the law, are punishable. Punishment given in judicial decisions with imprisonment for minors should not exceed half the sentence prescribed by law for that offense⁷, and there are times when the court may depart from the imprisonment of

⁴See Article 7 of the Law nr.7850 dated 29.07.1994 "Civil Code of the Republic of Albania".

⁵They can be employed minors from the age of 14-16 years, during school holidays in light work that does not harm.

⁶See Article 12 of the Criminal Code.

⁷Ibid. article 51

minors ordering placing them in "educational institutions"⁸. Physical or psychological abuse by a legal guardian, exploitation of children through the act of begging, or his obligation to work, to earn income or to perform actions that damage its development, is classified in the code as a criminal offense special⁹. In January 2008, the Criminal Code was amended to include parents' exploitation of children for begging as a separate criminal offence because previously, the exploitation of children in the streets of Albania occurred due to the lack of a national mechanism for the protection of children, the poor enforcement of the right to education for all children and the insignificant punishment of child exploiters.

- Law No. 9062 dated 8.05.2003 "*Family Code of the Republic of Albania*", establishes the legal regime of family relations, relations among family members, place the kids occupied, regulating institutes of parental responsibility, adoption and guardianship. This code sanction the important principle of "the best interests of the child", which serves as the cornerstone, requiring the family to content and especially the rights of children. Putting everything on the children is already a postulate of the Family Code.

- Law no.10347 dated 4.11.2010 "*On protection of children's rights*". This law defines the rights and protection that every child enjoys, the responsible mechanisms that guarantee the implementation of effective protection of these rights, and special care for the child.

- Law No. 69/2012 dated 21.06.2012 "*On pre-university education system in the Republic of Albania*". This law stipulates that university education system has meant the formation of everyone, to meet the challenges of the future, be accountable for the family, society and nation. In the activity of the institutions of the system, it is the primary interest of the students, as well as protects and promotes human rights and freedoms in general and children's rights in particular¹⁰.

- Decision of the Council of Ministers No. 265 dated 12.04.2012 "*On the establishment and functioning of the mechanism of the coordination between national authorities responsible for referring cases of children at risk, as well as ways of proceeding*" This decision creates a mechanism working for a variety of structures mainly at local level, to identify, refer and intervene in cases of children at risk.

3.3 Institutional Framework

Protection of children's rights has an extensive overhaul and institutional. These institutions from their preliminary assessment falls easily advisory character look, recommendatory or coordination of most of them and there is no guarantee of specific tasks for the prohibition of child labor. Based on the law no. 10347 "*On Protection of Children's Rights*" the institutional mechanisms for the protection of children's rights, in line with the scope of the exercise of their activity, are organized at central and local levels.

Institutions at the central level:

- National Council for Protection of Child Rights is an advisory ad hoc body established by order of the Prime Minister, with the proposal of the minister in charge of children's rights protection. This body established chaired by the minister who coordinates the issues of child rights protection and has these powers to coordinate national policies to guarantee the rights and child protection in all areas, particularly in justice, social, educational, health and culture; propose to the minister in charge of protecting the rights of the child the key state programs for the rights of

⁸ Ibid. article 52.

⁹ Ibid. article 124/b

¹⁰ See points 1 and 2 of Article 6 of Law No. 69/2012 dated 21.06.2012 "On pre-university education system in the Republic of Albania.

the child protection and guidance of state policies for improving the situation of their treatment; Assess the concrete situation of respect for children's rights in Albania, issued guidance and provided specific recommendations to the State Agency for the Protection of the Rights of the Child and other national authorities responsible in the relevant areas; Analyzes the implementation of state policies and national and regional programs for child protection; Recommends services and programs that are specifically targeted to children and their families, especially those who need emergency protection; Makes proposals and recommendations to improve legislation in the field of child rights protection.

- State Agency for Protection of Child Rights. its mission is to monitor the implementation of Law no. 10 347 dated 4.11.2010 "On Protection of Children's Rights", as well as to ensure, in cooperation with other responsible state authorities and non-profit organizations working in the field of children's rights, the effective implementation of protection of rights children and special care for them.

Institutions at the local level:

-Unit for the Rights of the Child on the county council operates within the administrative structure of the county council and performs the following functions: Monitors and evaluates the realization of children's rights in its jurisdiction; It identifies and coordinates with State Agency for Protection of Child Rights, referral of cases of violations, abuse or abuse of children's rights; cooperate with Child Protection Unit of the municipality / identification, analysis and referral of children at risk, in county territory.

- Unit for child protection in the municipality / commune functions within the administrative structures municipality / commune as a separate unit or a unit charged structures with social issues and has the task to evaluate and monitor the ongoing situation of the children's families risk, until the child is considered "not at risk". Also, this unit is responsible for the identification, protection and referral of children at risk, to help the community awareness on issues related to children's rights, to serve as an information center, where children and families in the municipality / commune. They can be informed or referred to other support services, per their needs and to report periodically to the State Agency for protection of child Rights statistical data that has worked to protect the child in the territory / municipality and information about child protection.

4. Conclusions

Albania has ratified international instruments, which are part of the internal legal system and directly applicable. Although our internal legislation is in line with European and international standards, child labor in the country remains a complex issue. Currently in Albania lacks a unified national database system that can enable identification of cases of child labor and information on generalities or other data on their economic and social situation. No periodic reports on child labor, factors, psychological and social impact to identify the level of the spread of this phenomenon and the latest trends. The state should be to improve the situation of children in Albania, through the establishment of a national reporting system, increasing the level of social assistance provided to families in need as well as reviewing the legal framework aimed at increasing the penalties in the case of child exploitation.

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EMPLOYMENT AND SOCIAL WELFARE ISSUES IN ALBANIA

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ABSTRACT

The paper tends to explore the relationship between the employment, the policies that promote it and their consequences in Albania, in the last years. The main objective is analyses of the situation of employment in Albania, focused on what the internal labor market offers, the temptations from external (abroad), the function of the state in this situation, the policies followed to balance the internal demand, and the necessities to protect our economy from the famous “brain leak”. Based on the high importance to direct the country towards a sustainable development, the paper analyses the impact of policies on increasing the productivity in the country as an important factor, that stimulates the increase of domestic production, because the domestic production affects not only the employment growth, but at the same time creates an inner need for professionals at all levels of the chain of production. Actually, the Albanian economy shows as its principal competitive advantage, the high level of unemployment and the low level of the average salaries. In this situation, the main labor offers are mostly directed to the unspecialized job and to sectors related with these characteristics, which are not stable due to the low level of capital invested in them and the facility to relocation business (such as call-center and faon). This mean, that their impact in the long term growth of the country will be non-significant.

Research of the applied policies to stimulate the employment and the evaluation of them, is the main method of the paper.

Keywords: *employment, employment policies, productivity, domestic production, unspecialized job, competitive advantage*

JEL Classification: *D82, E24, J21, J24*

1. Employment Promotion Program and its Issues

The economic growth of a country is closely linked to the number of factors owned by the country and the amount of each of these factors. Human capital as an important factor of economic development assessed and treated with the care it deserves from every government that seeks economic growth. Of course, it is the market of the factors of production that determines the balance between supply and demand for these factors, enabling more efficient and effective use of each source. The labor market does not make exception to this rule, but due to the specific nature of the human factor, the debate is longstanding between the supremacy of the free market economy or the necessity of state intervention in the economy and further defining the extent of this interference, is always a delicate subject. The manipulation by the politicians of this social argument wins in the most cases against economic logic. Not

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surprisingly, in every election eve politicians of all stripes promise policies that promote and stimulate the labor market, policies that would focus on the protection of labor rights, increasing wages, reducing tax on income from work, etc. Generally these electoral promises gather around them a large number of supporters.

Labor markets are different from most of the other markets. It is known that the demand for labor is a derivative one. The different types of jobs are usually inputs for the production of other goods than the final output that end up in the hands of the consumer³. Employment in itself is a complex challenge and the creation of new jobs is a multi-dimensional phenomenon, which includes the favorable macroeconomic policies for business development, policies directed to education, social policies, etc. The objectives of the policy for increasing the employment are ambitious. Opening of new jobs accomplished primarily through economic development. Reforms in the tax system, improve the business environment, investment in infrastructure and in the use of energy resources, mining and environmental priorities for the development of tourism, agriculture and agro-industry, as well as foreign investment promotion, are the main factors contribute to economic growth and, consequently, the creation of new jobs. The Government Program provides that over 90% of new jobs will be created by these factors. Programs aimed at the creation of facilities and enhancing employment opportunities are exactly the Labor Market Programs otherwise known as the Employment Promotion Programs. Encouraging employment is among active programs which through the provision of temporary employment or long-term impact on demand for labor will be directly reflected in lower unemployment. Through this program The Employment Offices aim to intervene to promote and support the creation of new jobs by partnering with employers and through their subsidy.

These programs are part of government policies focused in active measures to reduce unemployment. Current programs are applied based on Law no. 7995, dated 20.09.1995, "On employment promotion" (as amended by Law no. 8444, dated 21.0.1.1999, Law no. 8862 dated 7.03.2002 and the Law 9570 dated 3.7.2006). In the service of achieving the goal of these programs, there are several, different Decisions of Council of Ministers, where we can mention DCM. 27 "On the program of promoting employment of women and girls from special groups" Decision No. 48 "On the amount and the criteria to benefit from the employment promotion programs for unemployed workers from the specific groups" Decision No.47 "on the Program of promoting employment through vocational training" DCM No.873, "to the extent of funding, criteria and procedures for the implementation of the apprenticeship programs for unemployed jobseekers who have completed higher education within or abroad, "DCM No.199, "To the extent of funding, criteria and procedures for the implementation of the promotion of employment of young jobseekers Program".

This program is implemented through the National Employment Service, which is an independent public service, with the status of a central state administration. It operates through regional and local employment offices and regional directorates of vocational training. The main structures and competences are regulated by the Statute of the National Employment Service. NES conducts activities that aim: Meeting of all citizens the right Albanian residents to be treated with the services to be financially supported in their efforts to find a lucrative job suitable for individual and professional skills qualities, and efficient implementation of programs management and state projects, which is charged with the special laws and bylaws, development in general of the country's workforce through investments to increase working and self-working ability, flexibility, mobility, competitiveness etc.

³Mankiw,N.G., Taylor,P.M, Economics, pg 521, UET Press 2012

Employment and Migration Services are provided through employment services and migration services. Employment services offered by the National Employment Service are public services provided by the Employment Offices throughout the Republic of Albania as jobseekers as well as for employers. These services include the activity of information for vacancies, employment mediation or counseling and guidance to employment and occupation.

Migration services are offered in two main directions in the field of Immigration and field of Emigration. Services in the field of immigration regulate the entry, residence, employment, treatment and exit of foreigners from the Republic of Albania. These are directed to all foreign nationals who intend to enter the territory of the Republic of Albania for purpose of transit, employment, study or readmission. These foreigners are treated in accordance with human rights and fundamental freedoms and international agreements ratified by the Republic of Albania. In the field of migration, applicable law Nr.9668, dated 18.12.2006 "On emigration of Albanian citizens for employment purposes", as amended by Law 10 389, dated 03.03.2011, as well as the Strategy for the Reintegration of Returned Albanian Citizens 2010- 2015 and its action Plan as part of the national policy on migration. The objective is to ensure a sustainable return of migrants through the support of the reintegration process irrespective of the form of return. Establishment and functioning of the Immigration counters network is an important part of the mechanism of reintegration support.

Are these employment policy effective enough and do they really impact in reducing unemployment?

The National Statistics Agency in March 2017 shows⁴:

Employers registered at NES: 35,354 vacancies registered at NES: 38 519

Employers registered online: 557 Vacancies registered online: 4115

Given the great importance of information, the existence of such structure, naturally favors the orientation of demand and supply in the same market, increasing bilateral chances of finding what they want at minimum cost. On the other hand it helps to formalize the labor market, which is characterized by a high degree of informality in Albania.

2. The structure of the Labor Market in Albania

The labor market in Albania is a very special and incomparable with any market of the same type in developed industrial countries of Europe. Based on data published by INSTAT (Table 1), seems that this market in Albania is divided in three parts: Employees in the public sector, employees in non-agricultural private sector, employees in agricultural private sector. For the last quarter of 2016, INSTAT figures inform us that the total number of employees is 1,051,546, divided as follow: in public administration are employed 165 thousands individuals, who constitute 16% of all employees; in the private sector, non-Agricultural employs 423 thousand (40%); and the highest number of employees is in the private agricultural sector, approximately 464 thousand or 44% of all employees (this number should be approached cautiously, because of the fact whether these people are really employed and operating in this sector).

⁴National Employment Register

Table 1

Description	Employed
Employment in public sector	165.000
Employment in non-agriculture private sector	422.619
Employment in agriculture private sector	463.827

Source: Instat

Considering that in 2016, Albania registers 1 million 970 thousand people involved in the group 15-64 years of age, that is the active working population, and the employment rate for this group is 56.2%, registering only 35 354 persons against nearly 918 000 unemployed persons shows that there is still too much to do, in order that system can work more efficiently. Another important fact is that the number of vacancies registered is greater than the number of job seekers (approximately 3,200 free seats more than the demand for labor by registering with the National Employment Service). This fact raises two questions: Is it true that the number of jobseekers is as far as enrollments? If not, how can stimulate the influx of job seekers and employers in order to streamline their demand and offer through this system?

The National Employment Service is a positive project, ambitious, contemporary project, which needs to be driven in the most efficient and effective way. The following analysis helps us in to find answers and solution in some way. If we analyze the structural side of economic activity in Albania, according to data published by INSTAT, entities are divided into four main groups based on the number of employees per entity (Table 2). More specifically: entities with 1-4 employees, 5-9 employees, 10-49 employees and over 50 employees. So, at the end of 2015, in a total of 152.288 entities, 90% of them are family businesses (1-4 employees), 5.4% have 5-9 employees and only 4.6% of entities have over 10 employees. The structure of the manufacturing sector and services is dominated by micro-enterprises, nine out of 10 listed companies, employ 1 to 4 individuals.

Table 2

Economic activity	Total	Sort by number of employees			
		1-4	5-9	10-49	50+
Total	152,288	136,470	8,172	5,994	1,652
Producer of goods	37,950	33,255	2,080	1,971	644
Producer of services	114,338	103,215	6,092	4,023	1,008

Source: Instat

On the other hand, analyzing companies based on their ownership, according data published by INSTAT, we see that 96% of the entities are wholly owned by Albanian citizens. (Table3). The great number of family business and the ownership of entities, both, affect employment. According a study of Cooperation and Development Institute, the respondents confirm that in Albania the entrepreneurs prefer to employ individuals on the basis of family ties, on the basis of recognition and this explains, to some extent, the small number of people registered in the register of the National Agency for Employment. People doubt in the functioning of merit system. Also, it often happens that the individual skills and abilities achieved by trainings do not match with the job or the position where individuals operate, as far as, these attributes do not pass any tested filter. The risk is that the correspondence between the position and individuals skills could be low, impacting directly on labor productivity. It is not easy to be included in the market of labor in Albania, if you have not connection or contacts,

because of several reasons: first, the prevalence of small family businesses, second, the foreign companies that primarily aim to recruit personnel based on meritocracy, are a small number (less than 4% of entities registered in 2015).

Table 3

Ownership	Year					
	2010	2011	2012	2013	2014	2015
Total	103,038	109,039	106,837	111,083	112,537	152,288
100% Albanian	99,897	105,241	102,806	106,429	107,292	146,349
Joint *	3,141	3,798	4,031	4,654	5,245	5,939

Source: Instat (*Albanian + Foreigner)

3. The impact of FDI on labor productivity

Foreign companies that conduct their economic activity in our country, are operating mainly in the call center sector and inward processing (façon), sectors such exploiting cheap labor and do not require specialized labor. Although, the contribution of foreign investment to our GDP occupies one of the highest percentages in the region, it is not enough to enhance or promote the productivity of the country. Usually, there is a positive correlation between foreign investment and productivity, which implies that the high level of productivity of a country can bring higher inflow of foreign investment, but the reverse is not always true. In other words, the foreign investments which would have more impact on the socio-economic development of the country will be the ones that will help to further increase productivity in it. Those types of investments can be attracted only by previously owned high productivity in the country, so the increase of foreign investments will further increase the productivity and intended access to a consumer market bigger than the local one. While the method of serving high unemployment and low wage workforce as some of the competitive advantages of Albania can only attract the foreign investments in the sector as call center, inward processing, etc., that have limited impact on economic and social development and the increase of domestic productivity. Currently the main sectors that feed the market of labor are those that produce products with a low added value and low productivity. Sectors that are providing increasing employment in Albania are no longer finance or telecommunications (which were once the investment incentives in technology), but the industries based on intensive use of the work, such as those mentioned above. Based on INSTAT data, we can see the trend: as sources of funding for the Albanian business are reduced (fewer loans, remittances are decreasing, etc.), and as a result companies are investing less on sectors that are intensive in capital, directing the attention to the use of human capital. This has resulted in low productivity, but on the other hand has increased the number of employees and total production, as well. However it must be said, that the increase driven by sectors such as call centers or other similar, is still in its infancy. The call center boom in Albania is expected to be after the country's EU integration. This political change, without the necessity of private investment, will increase the supply on the market, because Albania will join the list of countries where services could be outsourced to a third party account. Such is the case of Romania. It means an increase of the number of employees and of course has its positive effects. But, in addition to cheap labor are the Albanian equally competitive in know- how? Despite that we have all the opportunities to be competitive in respect of professional services and / or technology or know-how, the answer is no. Albania's geographical position enables

access to the market of Western Europe, which represents a competitive advantage in the region for export of Albanian products (agriculture, light industry, professional and technological services, etc.), for the development of sea and mountain tourism and "importation" of knowledge, experience and know-how that are lacking in most industries that should be developed. Given the experience of countries with similar characteristics, such as Estonia (Skype was developed in Estonia and its sale to e-bay in 2015 provided income of 2.6 billion dollars) as a good example of exploitation of professional and technological services, this can be achieved through incentive reforms, easing fiscal policy, privatization and a concrete strategy relating to economic and social development. The whole mechanism should work towards the recovery of the deficit that is creating from migration, too. The tendency of leaving the country is not a phenomenon that attracts only unskilled workers. The great number of the applicants who want to work in Western Europe (the highest number of doctors applying in Germany) or Canada (favoring applicants with engineering training, telecommunications, technology, etc.) shows that skilled workers are leaving. Those who leave are young, ambitious, and aimed at achieving good positions. It means that the migration is not only because of low wages, but perhaps the non-stimulating climate in the country can feed the phenomenon. The phenomenon of the migration of skilled labor and professionals, or otherwise known as "brain leak" affects more the reduction of productivity in the country.

A very important part of the strategy should be the education of generations and focus on developing sector technology. In our country the youth has a big confusion idea regarding their professional future and the fields to direct their studies. As a result of this confusion and lack of a specific impulse of the Albanian government towards specific sectors, who can contribute to the development of the country, the majority of young Albanians continue their higher education without any clear idea about their professional future. The biggest participation of Albanian students is mainly in the Faculty of Law and Faculty of Economics (23.6%), (Table 4), despite the fact that these two areas do not have any special developments or guarantee places of work and developing vocational recent graduate. Education, in general, needs to motivate young people to develop their skills and their entrepreneurship motivating even the initiative of opening their private business. This phenomenon is expected to be more pronounced in sectors that require specialized knowledge and small investments in capital, such as in information technology. The government can help in this regard by encouraging growth in the number of students in fields which are expected to have a greater development and for which there is a limited supply of human capital, such as Information and Communications Technology, Agriculture Veterinary Science Natural, Statistics and Mathematics, this not only at the level of higher education, but also by encouraging vocational oriented education in these fields. In the future it will translate into greater opportunities on employment for this group of population and thus, an increase in the number of employees and increase of productivity.

Tabela 4

	Field of study	Percentage
1	Education	9.2%
2	Arts & Humanities	13.8%
3	Social Sciences, Journalism & Information	11.4%
4	Business, Administration & Law	23.6%
5	Natural Sciences, Mathematics & Statistics	6.8%
6	Information & Communication Technologies	5.1%
7	Engineering, Manufacturing & Construction	8.0%

8	Agriculture, Forestry, Fisheries & Veterinary	3.5%
9	Health & Welfare	12.2%
10	Services	6.3%

Source: HEI provision database.

4. Conclusions

The creation of structures and programs that promote employment must be a functional, efficient and effective process, in order to direct the supply and the demand to the same channels.

Increasing the productivity in those sectors where we really have a comparative advantages and where there are resources still untapped efficiently, such as agriculture, tourism and why not the know-how. It will have a positive impact in two directions: stimulation of growth in employment and it will lead the country towards sustainable development.

The necessity of formulating and implementing attractive policies for direct foreign investments not only in sectors that necessity unskilled labor but also in sectors that necessity skilled labor and capital investment, in order to increase productivity as a key factor for the long-term growth of the economy.

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SOCIAL SUPPORT AND QUALITY OF LIFE

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ABSTRACT

Post – socialist societies face many challenges regarding health care and caregiving. Albania, as one of these countries, has only sporadic studies related to the tumor diseases and their psycho – social effects that focus on the patients themselves, but also on their caregivers. In western societies, patients themselves and caregivers are studied and provided services. The aim of this study was to assess the levels of perceived social support of cancer caregivers and their quality of life, as well as to find out the possible relations with socio – demographic factors. The research was conducted at the Oncology Hospital, which is part of the “Nene Tereza” University Hospital in Tirana. The instruments used to assess the perceived social support was the “Quality of Life Scale” and “Multidimensional Scale of Perceived Social Support” which divided social support according to the sources form which it was received: a special person, family or social network. The sample of this study was $n = 377$.

Results indicated that half of the participants had high levels of perceived social support and medium levels of quality of life. Although, when these levels were divided according to the source of social support there were differences: the levels of social network were lower compared to the other two. Finally, age and gender were negatively related to social support, while being single had a positive effect. Quality of life declined with age and men were far better than women. Further studies are necessary in order to explore the impact of other factors.

Keywords: *perceived social support, quality of life, caregiving, socio – demographic factors*

JEL Classification: *I12, I14*

1. Introduction

According to statistical data, it is estimated that every year almost 3500 individuals will be given the diagnosis of cancer, ranking as the second cause of mortality in Albania (Lakrori, 2013). Tumor diseases come immediately after cardiovascular diseases as a leading cause for deaths, which resulted in 64 deaths per 100,000 thousand in 2009, and a figure that represents 16% of deaths (INSTAT, 2010).

Psychosocial studies for chronic illnesses in Albania have been sporadic. As a result of the demographic and epidemiologic transition there is a probability that the cardiovascular and tumor diseases, diabetes and others to become more frequent, while in the industrialized countries these diseases are in decline for the last two decades. These are statistics that indicate a

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living reality, which means much more than the numbers presented in a table or graphic. Nowadays, early detection of cancer and progress made with existing therapies as well as the reveal of new ones, has resulted in a better prognosis for cancer patients. (“The stages of cancer”, 2011).

Early diagnosis, advancements in cancer treatment, extension of the survivorship and tendency for outpatient treatment are associated with complex help given out of the hospital setting mainly from the patient’s caregivers. Literature and studies in the caregiving field had in focus family members of individuals with mental health problems, e.g. schizophrenia or dementia, while there is a tendency towards exploring the problems of the chronic patients caregivers, including here cancer patients (Schulz, O’Brien, Bookwala & Fleissner, 1995). The caregivers role can be challenging. Caregivers usually have many unmet needs, problems with physical and mental health and they can be indirectly discriminated because of their status. Being a caregiver can be a noble duty, but on the other hand it relates to problems with work, low socio – economic status and low levels of quality of life.

Operational definitions of caregiving, social support and quality of life.

An overall definition describes the caregivers as “the individuals, which are responsible for caring for another person, whom suffers from mental health problems, has different physical abilities or has a damaged health because of his disease or age” (“Being a caregiver”, 2012) Quality of Life (QOL) may be defined as subjective well-being. Recognizing the subjectivity of QOL is a key to understanding this construct. QOL reflects the difference, the gap, between the hopes and expectations of a person and their present experience (Jansenn, 2007). Social support can be defined and measured in many ways. It can loosely be defined as feeling that one is cared for by and has assistance available from other people and that one is part of a supportive social network. These supportive resources can be emotional (e.g., nurturance), tangible (e.g., financial assistance), informational (e.g., advice), or companionship (e.g., sense of belonging). Social support can be measured as the perception that one has assistance available, the actual received assistance, or the degree to which a person is integrated in a social network. Support can come from many sources, such as family, friends, pets, organizations, coworkers, etc. (Cohen and Syme, 1985).

Aim and research questions of the study.

The aim of this study was to assess the role of perceived social support in cancer caregivers and its relation to quality of life. For this reason the following research questions were addressed:

- What were the levels of perceived social support and quality of life in cancer caregivers?
- How social support influences the quality of life in cancer caregivers?

2. Literature review

Cancer caregiving. Cancer diagnosis is a unique living experience, the consequences of which often persist after diagnosis or treatment. The impact of this disease can be just as strong in the individual, in his/her family and social network; people around the patient may find it difficult to accept it European or maybe are not aware of the ways to help. The kind of the relationship as well as the attitudes and perceptions of cancer affect the way of experiencing the disease and caregiving. Some of the most common problems of physical and mental health caused to caregivers are: physical exhaustion, low levels of energy, insomnia, excessive appetite or lack of

appetite, pain in different body sites, stress, frustration, depression, bad mood, melancholy, anger towards the person of caring or others, reduction of social contacts with friends and family, lack of interest in favorite activities or activities with other family members and the feeling that they have no time for themselves (http://www.medlook.net/article.asp?item_id=1894).

Perceived social support. With the increasing demands of caring for cancer patients the need for social support network of caregivers can be enhanced, especially for the socio – emotional aspects of support. Caregivers who perceive that such support is available and accessible can use it as a method to have close relationships, which may have lost due to cancer relatives. A number of studies refer that perceived social support is an intermediate factor for psychological symptoms to freedom and the level of QOL (Nijboer et al., 2001). Different forms of social exchange (negative support, daily emotional support, etc.) have different effects or not in distress of caregivers. Different types of social support mediate or not the care results in non - formal cancer (Gaugler, 2005).

According to Kim et al. (2006), the majority of caregivers received support from their employers (77%) or from their peers (85%), while none was reported to have used child care services and little (1%) wished to use them. These findings imply that the support in the work environment is very frequent and caregivers can benefit from it. For caregivers with children, finding or providing child care services in the community or encouraging caregivers to receive assistance from other family members and friends / close / or child care may be very useful.

Quality of Life. Quality of life is a term often used to refer to the general wellbeing of the individual. Studies conducted in Western countries have revealed factors related to quality of life during the period of caregiving for a patient with cancer. They can be divided into four categories: (i) socio - demographic characteristics, (ii) the demands of caregiving, (iii) resources available, psychological and social, and (iv) the caregiving situation (Lu et al., 2010). In a research study on quality of life for caregivers of patients with cancer three aspects of this concept were reported. These were (a) descriptions of the quality of life of caregivers, (b) impacts associated with the quality of life and (c) interventions to enhance quality of life of caregivers.

Positive expectations, performing protective behaviors, self-efficacy and self-esteem had a positive correlation to their quality of life. Using avoidance as a stress coping strategy caused poorer mental wellbeing, but lower use of self-blaming correlated with a higher life quality of the caregiver. Individual aspects of the quality of life of the caregivers influence the overall quality of life. Good life quality at the beginning of the disease, good health, marital satisfaction and feeling of safety and meaning, were positively correlated to the life quality of caregivers (Axelsson & Sjoden, 1998). On the other hand, loss of physical strength, the feeling of burden, emotional tension, psychological distress, confusion, sadness, anxiety, depression, concerns and lack of hope were important factors on reducing the quality of life (Gaston-Johansson *et al.*, 2004).

The time devoted to caregiving, negative appraisal of caregiving and the impact of caregiving in the life of caregivers were strongly correlated to the quality of life of the caregiver (Axelsson & Sjoden, 1998). Good relationships with patients, marital satisfaction, contacts with friends, family resilience and social support contributed to a better quality of life (Axelsson & Sjoden, 1998).

3. Methods

This study was conducted in the Oncology Hospital, which is located in the University Hospital Center "Mother Teresa" in Tirana. Although oncologic services are not provided only by the hospital, the highest percentage of cancer patients are in this hospital.

Sample. This study is based in a convenient sample. An important issue for the selection of the sample for this study was that of defining the status of caregivers. Before taking part in the study and filling the questionnaire participants should answer "yes" in the following question: "Are you the person that gives care most for this patient or is it someone else?" If the answer in this question was yes then the participants should meet the below inclusion criteria.

Inclusion criteria. Caregivers in this study should be at least 18 years old and they should have the main responsibility of offering direct care to a patient with cancer for at least one hour per day. They should also be unpaid caregivers, like family members, relatives or friends. Only one person for a patient could have the status of caregiver, so for one patient there were only one caregiver – participant. Finally, the last criterion was the time of caregiving: it should be at least one month.

The sample size was calculated based on the confidence level (95%), and for a $N = 20.000$ because the real number of cancer caregivers is not known. So, the final sample size was $n = 377$ participants.

The research tool consisted of socio - demographic information for the caregivers (age, sex, education, employment, monthly family income, origin, type of the family etc.) and questions related to the patients and the caregiver's relationship to them: e.g. relation to the patient, type of diagnosis, age, hour per day for caregiving, first or recurrent diagnosis etc. followed by an open ended question regarding the caregiver's needs. The other part of the research tool comprised of 4 different scales; for the purposes of this paper only two of the scales will be analyzed: the "Quality of Life Scale" (Flanagan, 1982) and the "Multidimensional Scale of Perceived Social Support" (Zimet, Dahlem, Zimet and Farley, 1988). All research scales were originally in English; they were translated forward and backward and then adapted for the Albanian context. At the final instrument Cronbach alphas were in satisfying levels for all scales ($\alpha > 0.7$). Data analysis was conducted in SPSS 16 after data cleaning.

4. Results

Characteristic of cancer caregivers. Participants of this study were $N = 377$ cancer caregivers, 31% of whom were male and 69% female. They belonged to six different age groups, ranging from 18 years to 66 years and more. Table 1 shows that the largest percentage of caregivers belongs to the ages of 26-35 years (21.2%) and 36-45 years (20.2%). Then, with an almost equal distribution are ages 18-25 years (18.3%), 46-55 (18%) and 56-65% (17.8%).

The highest percentage of caregivers had an elementary or secondary education until high school (68.9 %), a small percentage had no education (0.8%), as well as postgraduate education (2.1 %), and higher education were 24.9%. In relation to marital status 71.4 % of the participants were married, 22.3% single, 1.6% divorced and 4.8% of them were widowed. Employment of caregivers was in very low levels. Only 37.4% were employed, while 62.6% were unemployed.

Of course, some of them were retired and therefore not expected to be employed. Excluding age category "66 and older ", the employment rate varied somewhat: 39.2% reported that they are employed, while 60.8 % were not. Of the employed sample ($n_e=141$), 39% were employed in the public sector, 38.3% were self-employed, while the rest were employed in the private sector (22.7 %) .

Table1. Participants' characteristics

<i>Participants characteristics</i>		
Age	16 - 25	18.3%
	26 - 35	21.2%
	36 - 45	20.2%
	46 - 55	18.0%
	56 - 65	17.8%
	66 and above	4.5%
Sex	Male	31.0%
	female	69.0%
Level of education	illiterate	0.8%
	elementary	3.2%
	secondary	24.1%
	high school	44.8%
	higher education	24.9%
	postgraduate	2.1%
	Other	0.0%
Civil status	married	71.4%
	divorced	1.6%
	widower	4.8%
	separated	0.0%
	single	22.3%
Employment	Yes	37.4%
	No	62.6%
Family monthly income of your family (in Albanian lek)	>30000	48.3%
	30000 - 60000	37.7%
	60000-90000	6.4%
	90000-120000	2.7%
	120000-150000	1.6%
	150000 and above	3.4%

Perceived social support. As seen in Table 2 perceived social support as a total was in fairly satisfying levels; the major part of the participants reported having high social support (49.9%) while the rest a medium one (46.9%). A very small percentage didn't have any significant support (3.2%).

Table 2. Social support overall*Social support overall (Total)*

	<i>Frequency</i>	<i>Percent</i>	<i>Valid Percent</i>	<i>Cumulative Percent</i>
Low	12	3.2	3.2	3.2
Medium	177	46.9	46.9	50.1
High	188	49.9	49.9	100.0
Total	377	100.0	100.0	

In relation to the sources of support it seems that the participants received a considerable support from a special other (80.6%), whom could be a best friend, the spouse or another relative (Table 3). Table 4 indicates the results for family support, which was in even better levels reaching 84.9% and indicating a high level of family support.

Table 3. Social support: special other subscale*Social support: special other subscale*

	<i>Frequency</i>	<i>Percent</i>	<i>Valid Percent</i>	<i>Cumulative Percent</i>
Low	15	4.0	4.0	4.0
Medium	58	15.4	15.4	19.4
High	304	80.6	80.6	100.0
Total	377	100.0	100.0	

Table 4. Social support: family subscale*Social support: family subscale*

	<i>Frequency</i>	<i>Percent</i>	<i>Valid Percent</i>	<i>Cumulative Percent</i>
Low	7	1.9	1.9	1.9
Medium	50	13.3	13.3	15.1
High	320	84.9	84.9	100.0
Total	377	100.0	100.0	

However, when it comes to receiving social support from friends and social network in general then the levels dropped drastically as seen in Table 5. Social support received from this sources were in low (42.2%) or medium levels (37.1%). A very small percentage, which were mainly younger caregivers, reported having support in high levels (20.7%).

Table 5. Social support: friends and social network subscale*Social support: friends and social network subscale*

	<i>Frequency</i>	<i>Percent</i>	<i>Valid Percent</i>	<i>Cumulative Percent</i>
Low	159	42.2	42.2	42.2
Medium	140	37.1	37.1	79.3
High	78	20.7	20.7	100.0
Total	377	100.0	100.0	

Quality of life

Regarding caregivers' quality of life the mean value was $m = 69.45$ with $SD = 1.5189E1$. The median was $M=70$, with $min = 35$ and $max = 205$. Table 6 presents the frequencies of quality of life according to the three categories. As it is seen in the table only 21% ($n = 79$) of the participants reported a high QoL, most of them had a medium QoL ($n = 199$, 52.8 %) and there was a part that reported low QoL ($n = 99$, 26.3%).

Table 6. Quality of Life frequencies

Quality of Life frequencies, N=377

	<i>Frequencies</i>	<i>Percent</i>	<i>Value percent</i>	<i>Cumulated percent</i>
Low	99	26.3	26.3	26.3
Medium	199	52.8	52.8	79.0
High	79	21.0	21.0	100.0
Total	377	100.0	100.0	

Social support and QoL

As in other studies social support appears to have a relation with QoL. Table 7 indicates the positive correlations between QoL and social support in general as well as with its subscales. Regarding the total of social support it correlates moderately with QoL ($r = .480$, $p < .001$) and the from the subscales the best correlation was the friends and social network ($r = .463$, $p < .001$), followed by special other subscale ($r = .272$, $p < .001$) and family ($r = .249$, $p < .001$).

Table 7. Relation between Social support and its subscales and QoL.

Relation between Social support and its subscales and QoL

	<i>QOL</i>	<i>Social Support, total</i>	<i>Special other, social support</i>	<i>Family social support</i>	<i>Friends and social network, social support</i>
Pearson Correlation	1	.480**	.272**	.249**	.463**
Sig. (2-tailed)		.000	.000	.000	.000
N	377	377	377	377	377

**. Correlation is significant at the 0.01 level (2-tailed).

5. Discussion and conclusions

In this study an effort was made to assess the levels of social support of cancer caregivers and its subscales, the levels of QoL and the relation between all these variables. As indicated at the results social support was in satisfying levels, besides the one from friends and social network, and quality of life was mainly in medium levels, which is lower compared to other studies conducted with different populations. On the other hand, QoL and social support had different positive correlations. According to Nijboer et al. (2001) social support may moderate the psychological symptoms and improve the perception on quality of life. However, this is not confirmed in other studies (Gaugler *et al.*, 2005). Goldstein et al. (2004) conducted a study

focusing on social networks, where they found that caregivers with limited social networks felt more the burden of caregiving. This result is relevant to this study also and confirmed by other studies as well (Stenberg, Ruland and Miaskowski, 2010).

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POST-WAR COMMERCIAL HISTORY AND RE-POSITIONING OF THE GREEK ECONOMY

Grigoris Zarotiadis¹

ABSTRACT

The present paper belongs in a wider project that aims at (re-) defining the trade-potential of the Greek economy in the frame of a rapid changing international environment, especially in the neighbouring area.

Following a thorough literature review, we present the evolution of the spatial and sectoral decomposition of contemporary Hellenic trade relations. We distinguish three main periods: the first lasts till the end of the 60s, where the political and the economic orientation was towards the transatlantic consensus; a second which starts with the approximation and the entry in the European Union; and the last one beginning from the early 90s and the deep reformations in Eastern Europe.

The continuing, deep geopolitical and economic rearrangements, combined with the deepening of the domestic insolvencies, opens new prospects for a spatial and sectoral re-orientation of the Greek economy.

Keywords: *Hellenic trade history, trade relations, sectoral and spatial decomposition of trade*

JEL Classification: *N74*

1. Introduction

Markets do fail. Daily economics confirm the misleadingness of the theoretical construct of perfect, self-regulated markets that provide us with the best possible solutions. In place of the (neo-) classical "invisible hand" we see the "robust" hands of oligopolies, the hand of a bank, a fund, of the one or the other government, a union, up to the "small, weak" hands of the consumers, the unemployed, the employees and the self-employed producers. The necessity therefore for interventions and planning is inevitable; it is in fact the very nature of the actual economy itself. The question then is which "hands" we choose.

In this sense, sectoral and spatial orientation of a national economy does not arise "naturally" objectively and inevitably; it rather results from the specific choices of (more or less) centralized socio-economic interests.

Sectoral and spatial (re-) orientation in the frame of a rapidly changing international context is a crucial issue for any regional and / or national economy. Not only because of the rapid transformations in economic and political geography, but moreover because of the deep, systemic alterations: (i) there is an endogenous trend for socialization against the intensification of centralization of production (vertically and horizontally) – in other words the prevalence of oligopolies – that strengthens as the systemic crisis remains worldwide; (ii) post-modern

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capitalism evolves from a system succeeded in covering needs into one that necessitates to discover (individual and collective) needs; (iii) additionally, instead of the accomplishment of the balancing internationalization and the completion of global markets, we witness the emergence of new competitions at a higher level, within the frames of a newly formed bipolarism.

In this context, what is the (economic) orientation of Greece and does this comply with the specific characteristics and interests of which classes and what social strata?

2. Periodization of modern history of Greek Trade

We can distinguish three main periods in the modern history of the Greek economy, with respect to its commercial orientation. The **first** is until the end of the 1960s, where political and economic transatlantic orientation prevailed. Binding into the NATO necessarily implied a geographical "alienation" in the context of the cold war and the US policy in the East. This was combined with the specific development of the national economy, yet following the traditional model of a regional, parasitic capitalism. Having in mind that the area from the Baltic to the Black Sea, the Near and Middle East form a region that was and will be specially vital for the socioeconomic development of Hellenism, the framework of this first period did not help the strengthening of Greek economic relations to that area and led to the **first (postwar) spatial - historical disorientation of the country**.

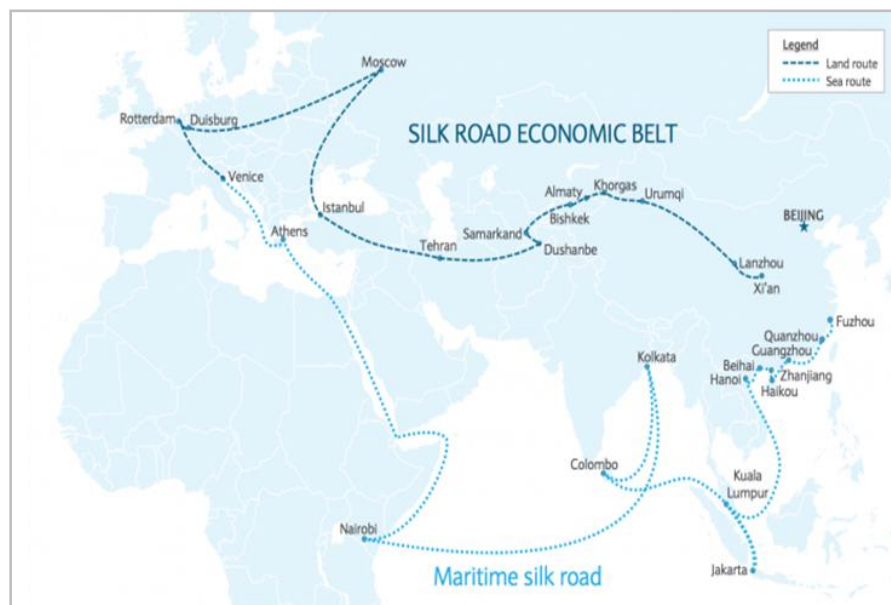
The **second** period starts with the gradual (economic) alliance and the entrance to the European Union (European Economic Community – EEC at that time), after the end of the Dictatorship, together with the new era in the modern political history of the country ("*Metapolitefsi*"). The orientation of the Greek economy experienced a meaningful change: along with maintaining the traditional partnership with American diplomacy, Greece developed its links in the context of the expanding European single market. If we consider this in combination to the European Community's strategy for the so-called "Eastern Enlargement" and we put in our consideration the evolving EU - Russia partnership, all this result in concluding that, in this second period, the tremendously tertiarized Greek economy was re-approaching its northern and eastern neighborhood (even if this was largely done by playing the role of a platform for the transfer of funds, rather than of commodities).

Figure 1: Eastern Enlargement and the re-approach of Greece with Balkans and the Black Sea



This evolution was interrupted and reversed in the still evolving **third** period, that started from the beginning of the 1990s: the neo-liberalized Europe, where the notion of “mutli-speeds” gradually prevailed, confining itself within the formed, modern dipole –on the one hand the Euro-Atlantic economic integration (think for instance of CETA and TTIP agreements) and on the other the Chinese “Belt and Road” initiative and the evolving congregation of developing capitalisms - mutated its policy of Eastern Enlargement into the strategy of “Eastern Partnership” (Global Strategy for the EU, 2016), which resulted in rupturing diplomatic and trade relations with some of the Black Sea and other eastern markets. This broader situation in combination with the modern Greek (economic and political) crisis that was transformed into a generalized collapse of the Greek production, led to the **country’s second phase of spatial, historical disorientation**.

Figure 2: “Belt ad Road” Strategy and its significance for the eastern European relationships



3. Empirical survey of the spatial orientation of Greek exports

In the following, we will empirical present the evolution of the spatial orientation of Greek exports, in order to sustain the hypotheses of the country’s second phase of (modern) disorientation. For that reason, we will use a spatial transformation of the well-known Balassa index for revealed comparative advantages:

$$SRCA_{G,j} = (X_{G,j}/X_G)/(X_{wj}+X_w)$$

where j stands for the destination country for exports from Greece (G) (in contrast to the standard version of the index where j points the different branches) and w refers to world exports.

In the following four diagrams, we present the annual evolution of the spatial RCA index since 2000 for the countries of four sub-regions that form the area, which we believe to be especially vital for the socioeconomic development of Hellenism. First for the Balkans then for the (rest)

Eastern Europe, following for the north-eastern Black Sea and finally for the south-eastern Mediterranean.

Figure 3: Spatial RCA of Greek exports in the Balkans

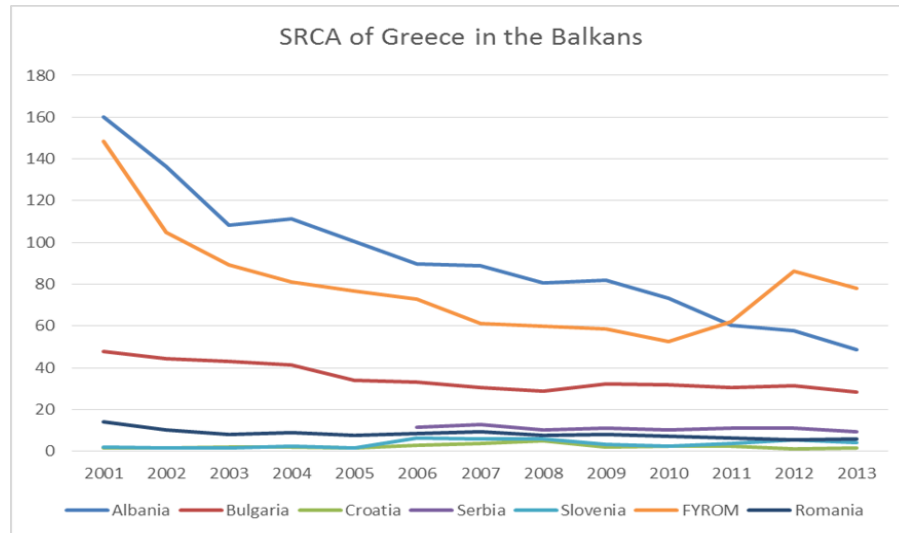


Figure 4: Spatial RCA of Greek exports in Eastern Europe

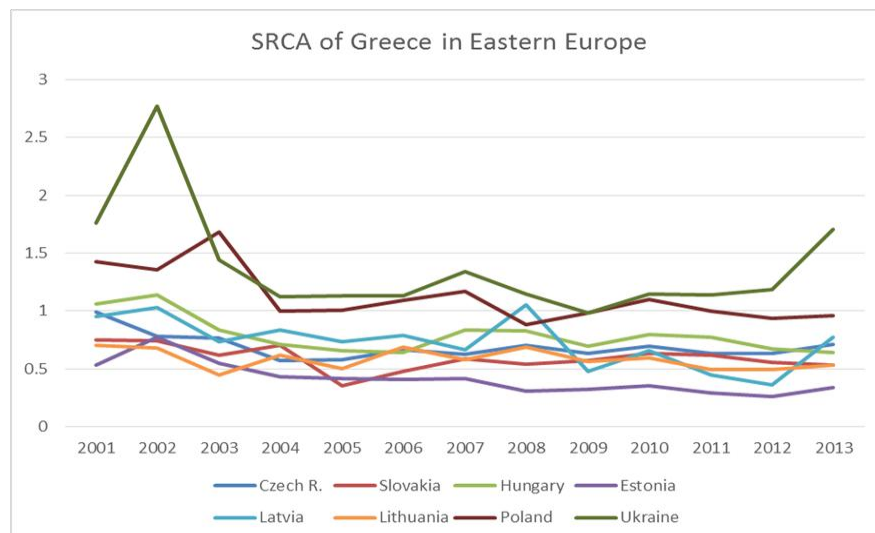
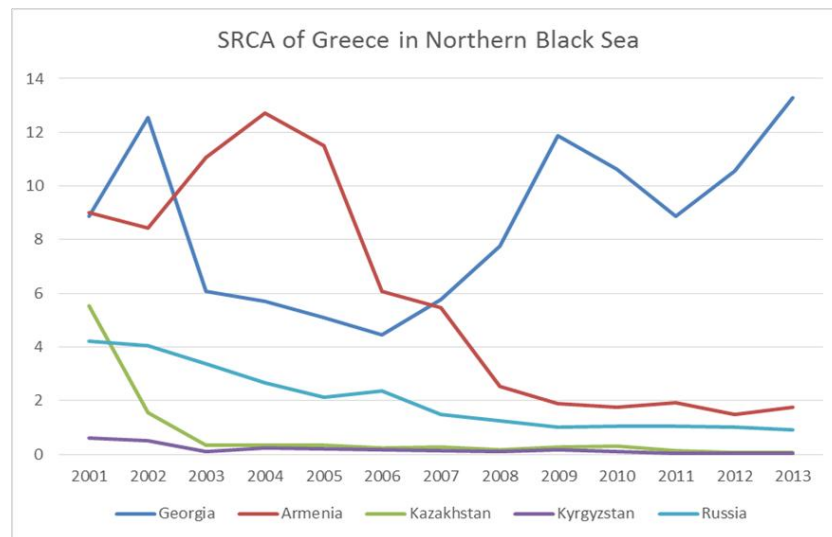
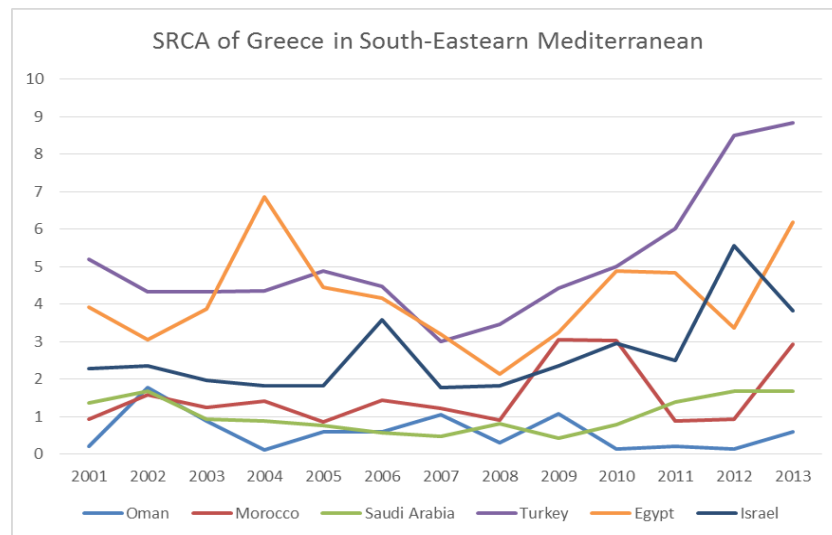


Figure 5: Spatial RCA of Greek exports in the north-eastern Black Sea**Figure 6:** Spatial RCA of Greek exports in the south-eastern Mediterranean

Following the definition of the spatial RCA index, this indicates whether the position of Greek exports in the specific destination country is enhanced or not (always compared to total world exports spatial distribution). Having this in our mind, the downward trend of this indicator for the countries of the Balkans, Eastern Europe and the Black Sea region confirms the disorientation of the Greek economy. There are some exceptions for specific destination markets in the fourth group of countries – in particular Turkey and Israel – as well as for the special case of Georgia; yet those exceptions verify the meaning of the evolving diplomatic arrangements in the area and, thereby, the necessity for well-planned, political interventions, according to the spatial and sectoral characteristics of the country.

4. Conclusions and policy implications

The ongoing, geopolitical and economic upheavals, coupled with the deepening of domestic malformations, open new prospects and new necessities for a spatial and sectoral reorientation of the Greek economy. An alternative proposal for the country's extroverted development should first start from claiming the role of "a modern, progressive neutrality –an agent for cooperation, democracy, social justice and ecological balance" in the area that was and will be especially vital for the socioeconomic development of Hellenism – Eastern Europe, Black Sea, the Eastern Mediterranean and the Middle East.

Around this axis, Greece can (and should) specify separate categories of sectoral specialization within the modern international division of labour, highlighting the country as (i) an international node for commodities, capital, energy, ideas and people and (ii) a global, applied research and development laboratory.

Central and local political interventions should serve towards a reorientation of Greek production, following its horizontal advantageous in developing economies of quantity (rather than economies of scale), but also its specific sectoral strengths in the nutrition and the primary sector, in sectors where qualitative specialization and custom-made production make sense, in branches associated with cultural industry and education, shipping and tourism.

Yet above all, the spatial re-orientation of the country should be served, giving priority to the regions of Eastern Europe, Black Sea, Eastern Mediterranean and Middle East.