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Potential Development of Offshore Wind Technology Opportunities in Albania as Business for SME-s in the Energy Sector

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Abstract

Energy shortage together with the backwardness involving the energy sector in Albania, represented, for decades, a major obstacle to the development of the country.

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However, in recent years the industry has been characterized by high dynamism and turbulence due to its liberalization, as well as by a series of economic reforms from the various governments that have taken over. A process aimed at replacing conventional energy (coal, oil and gas) both with the development of existing energy sources (hydroelectric), and with a continuous search for new sources of renewable energy (wind): witness the building, in the coming future, of a local wind farm which is going to be the largest one in Europe.

In particular, the present work is aimed at suggesting the construction of offshore wind farms as a means to further increase the amount of energy produced from renewable sources, by exploiting the over 400 km of the Albanian coast.

This belief is grounded in the observation of the projects already successfully implemented in Northern Europe (Denmark, Great Britain and Holland), as well as those being undertaken by the Region of Apulia along its coasts.

In particular, the similarities shared by Apulia and Albania as to the structure of the seabed, the morphology of the coast and the weather conditions allow the possibility to reproduce the projects being carried out in Apulia in the country of eagles.

Probably, this solution would give, on one side, a new impetus to the Albanian energy sector, through its technological development; besides, it would ensure, on the other hand, both social benefits for the population, through a reduction in the rate of local unemployment and economic ones to those firms which, investing first in this innovative business, would gain important competitive advantages of differentiation in the industry.

Thus, after a brief examination of the energy sector in Albania analyzing the process of liberalization, the reforms implemented by the government and the market entry of international competitors often in partnership with local companies, the present work aims at examining the success of the European projects that have already been carried out as well as those being under way in Apulia.

This analysis is supposed to provide a basis for the assessment of offshore plants by comparing them with those onshore, in order to consider which of these two solutions guarantees a lower environmental impact, while maintaining energy production.

Thus, the solution considered as the most suitable for this purpose, namely the offshore one, has been analyzed with reference to the main technologies used to build a power plant. The final part of the work is centred
on an economic assessment concerning the development costs calculated as a percentage, to be incurred for the construction of a wind plant along the Albanian coast.

**Key words:** energy sector, offshore, renewable sources, advantages, Albania.

1. THE EVOLUTION OF THE ENERGY SECTOR IN ALBANIA

The process of liberalization and restructuring of the energy sector implemented by the government in recent years, is mainly aimed at increasing energy production to meet the growing domestic needs, while using renewable energy (particularly hydropower and wind power) to reduce the high rate of environmental pollution and bring economic benefits to the country, such as the GDP growth that should reach 3%\(^3\) for the year 2009.

In this sense, the first initiative developed by the government to achieve the above-mentioned objectives, was represented by the privatization of Albanian Kesh\(^4\) power company set up in 2001.

Italy has been supporting this process with initiatives reaching 130 million euros, becoming, in fact, the main partner of the National Electricity System in the country.

Two programmes,\(^5\) in particular, are noteworthy among the above-mentioned initiatives.

The first one involves the restructuring of KESH and the development of the electrical system in Albania (with a gift of 979,460 euros and an aid credit of 41,528,000 euros). The programme, assigned to ATI Terna/A2A, deals mainly with the activity of technical advice to the Ministry of Economy, Trade and Energy in Albania and training the KESH, OST and OSSH staff (managing bodies of production, transmission and distribution) both in Albania and in Italy.

The second one concerns the restructuring and development of the

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Albanian power system for its integration into the Balkans (with a gift of 235,000 euros and an aid credit of 51,500,000 euros). It has led to the signing of contracts with the Ministry of Economy, Trade and Energy for the construction of the new Albanian Elbasan-Tirana Line (about 13 million euros), the Centre for Remote Monitoring and Dispatch (22 million euros) and the 400/220 kV Substation in Tirana 2 (24.5 million euros).

The beneficial effects of privatization carried out in collaboration with the International Financial Corporation of the World Bank were soon evident, since in 2008 there was an increase of 12.4% in energy sources compared to the previous year, with an output of 6,608 GWh of which 3,849 GWh (about 58%) from hydroelectric plants. This allowed to reduce the amount of imported energy to 2,758 GWh (equivalent to 5.9% less than 2007), and should permit to export electricity in 2009, given the water level on the river Drin cascade of about 1,1 billion kW/h.

The second important point in the revitalization of the area was the opening up of the government to foreign investment, through interventions in the taxation system, such as 10% flat tax on personal income and business profits.

In addition, foreign investors benefited from a portion of land sold to them to the symbolic price of one euro to set up their business and, according to the latest news, the government lifted double taxation on business income and on the personal profits of those who reinvest their earnings in the business.

The third area on which the government intervened to boost the sector was represented by the need to provide guarantees to foreign investors who wanted to settle on the spot, ensuring safety in the activities of storage, transport and trade in oil, gas and their derivatives. This was achieved through the adoption of a directive on “Emergency measures to improve security and activities in the plants” and, with the recent creation of the “One Stop Shop” to issue licenses in the energy sector with a consequent streamlining of bureaucratic formalities.

Among the contracts signed with foreign investors, the one deserving particular attention is the contract entered by the Albanian Government with

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the Marseglia Group in Monopoli (Bari), a leading company in the world for the production of green energy from liquid biomass with combustion engines.

The project involves the construction of three works totalling 1.1 billion euros.

The first work, opened in May last year, is represented by the energy park built in the region of Lezha with liquid biomass power plant, located in the municipal district of Shengjin for a total cost of 150 million euros, which is going to provide an output of 140 MW and will be managed by the Green Albanian Energy Shpk company.

The second is going to invest 300 million euros to build two wind farms yielding a total power of 234 MW, intended for the municipal district of Balldre and operated by Biopower Green Energy Shpk company.

The third one, investing 650 million euros, will allow the interconnection of AAT sections derived from Italy (region of Apulia) to Albania, via submarine cables to the DC/AC conversion station and those stations belonging to the AAT that are located in the municipal district of Kallmet / Kolsh and will produce electricity sold on the Italian market.

In this regard, aiming at the inclusion on the Italian network of the energy carried by submarine conduits, Terna Spa, which will implement the project, has identified a technical solution providing connection to the National Transmission Network through a new 380 kV sorting power station in the north of Apulia.

The other contract that is crucial for the development of wind power in Albania is the one concluded last December between the local government and the Sicilian Moncada Energy company, a leading producer of energy from renewable sources in the biomass field, in Italy. The project aims at starting the building of the largest wind power station ever designed in Europe, for a total cost of 750 million euros.

The technology is entirely Italian, with a total investment of 1.015 billion euros, but the construction of the plant will have important social implications, as it will enable the recruitment of 500 professionals in Albania, while the administration will absorb no less than 100.

As for the process of technology transfer, it will require twenty people involving technicians and experts from the Sicilian Moncada.

The project is going to set up the construction of a wind power plant, south and south-east of Vlore, located partly on the Karaburun peninsula and partly on the Lungara and Kanalit Mountains with 250 wind turbines and an installed capacity of 500 MW. In addition, the project concerns the design of the direct current interconnection line between the Italian transmission system and the Albanian one, with a capacity of 500 MW and a voltage of 400kV, for a total cost of 250 million euros.

The line will develop a total length reaching 154 km, of which 14 km are on the Italian soil (municipal district of Brindisi), 10 km on the Albanian soil, and 130 km are submarine, located within the Otranto Channel, where a maximum depth of 825 m is reached.

The two ends are linked to the conversion station (conversion of current into alternating current) between Brindisi Sud (Italy side) and Babic (Albania side) in order to import to Italy the wind power that the Company will produce on the Albanian soil and to export it from Italy to Albania.

2. THE OFFSHORE WIND PROJECTS IN EUROPE

The analysis of the energy sector is constantly evolving, and the topicality of the theme entitled: “Business and Sustainable Development”, at the centre of the recent Fiera del Levante in Tirana, make us understand how the search for new sources of renewable energy is becoming increasingly important for the evolution of the country and the survival of the planet.

Witness the energy programming of the European Wind Energy Association, that among the forms of renewable energy pays great attention to the offshore wind energy, so that to provide for the installation of 75 thousand MW of wind power, of which 10 thousand MW of wind power offshore, in Europe, by 2010, and to reach 180 thousand MW, of which 70 thousand offshore, in 2020, with the goal of lowering by 25% the high dependence on traditional energy sources.13

The ambitious program of marine wind farms until 2030 provides that they will be able to deliver the world 40% of all the energy produced, for an

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amount of about 120 GW out of a total amount of 300 GW by the replacement of the old onshore plants with the offshore ones.\textsuperscript{14}

Among the projects already completed, the one concerning the construction of the largest offshore wind farm in the world, the Princess Amanda Wind Farm,\textsuperscript{15} is particularly noteworthy. It is built 23 km from the Dutch coast, in front of Ijmuiden.

It consists of 60 turbines of 2 MW which are going to provide 435 GW of clean energy per year, an amount large enough to provide electricity to 125,000 households, avoiding the release into the atmosphere of 225,000 tons of carbon dioxide.

The development of this power station is interesting in economic terms as well; in fact, it shows the reliability of the plant from the point of view of the guaranteed revenue, and provides that the capital of the financing banks (Dexia, BNP Paribas and Radobank) is entirely covered by the interests and instalments of the founding with the receipts yielded by the plant itself, without any further guarantees from the shareholders.

At present, the leading producer of wind energy through wind-farm in Europe is Denmark, with plants producing 400 MW, followed by the UK, with 300 MW, and the Netherlands, with 160 MW, which have set themselves the ambitious target to produce 6 thousand MW of wind energy through offshore facilities.

As for the countries bordering the Mediterranean Sea, at least 250 sites available have been identified,\textsuperscript{16} at a rate over 8 m/s, at 50 m above sea level, to allow the construction of smaller sized plants than those made in the North Sea, ie between 20 and 30 MW, but which could be increased later by improving the existing plants up to 50-60 MW.

Among the most active countries in the Mediterranean area, France and Spain play a main role but Italy is slowly taking the path of wind power by exploiting its coast reaching about 12 thousand km\textsuperscript{2}.

In this regard, our government sent in a document to Parliament providing for the production of energy through 2 thousand MW marine facilities by 2020, of which one quarter should be implemented within the next five years, following the proposals that have been already made.

\textsuperscript{14} Lattanzi D., (2009). Parchi eolici marini: il futuro si sviluppa nel mare Adriatico, Industria Italia e Ambiente, Consorzio Creta, Putignano (Bari), n° 7, Ottobre, p. 4.


\textsuperscript{16} AA.VV., (2003). Offshore wind energy in Mediterranean and other offshore seas, OWEMES.
2.1. - The offshore in Italy. The context in Apulia

In order to develop the offshore wind energy project in Italy, following a research carried out on the area, the region which has been identified as the most suitable for the exploitation of this energy source is, with no doubt, Apulia, with its nearly 3 thousand km² to be used for this purpose.

However, the first offshore wind power plant in Italy, designed by the Effeventi Company, will not be built in Apulia, but according to recent news reports, it will be constructed in Molise, off the coast of Termoli.

The facility that is going to be built at 21 km off the Tremiti Islands, provides for the construction of 54 wind turbines arranged in 6 rows on piles 74 m high, each with an output of 162 MW, which will offer an annual fee of 450 million kW. It will cover an expanse of water of 25.5 million m² of which a little more than 3 million of state property.

Picture 1 – An offshore wind farm


Such a plant will have a large economic as well as environmental impact; in fact, it will be able to meet the energy needs of 120 thousand Italian families and it will prevent the emission of approximately 420 thousand tons of carbon dioxide, 600 tons of sulphur dioxide, 800 of nitrogen oxides, 43 of dust, saving in terms of consumption the equivalent of about 90 thousand tons of oil.

As for the royalties to the local bodies of the Region, they should amount to 2.5 million euros from the end of the first year to the end of the eighth year of life of the plant, and 1.5 million euros from the ninth year onwards.18

Nevertheless, the region of Apulia remains the undisputed leader in Italy for the production of wind energy19 (outside the region it provides more than 80% of the energy it produces) and it is going to reach a total of 700 new MW from offshore wind plants along the Adriatic coast, through the implementation of three new production plants from Manfredonia (Gargano) until Tricase (Salento).

More specifically, applications for offshore facilities in Apulia that are being considered by the Ministry of Environment for the Evaluation of environmental impact and which have as their common proposer Trevy Energy Company (controlled at 100% by the Industrial Holding Company Trevi p.l.c., a quoted company), are: that of Marina Chieuti (Foggia), in the Gulf of Manfredonia (Foggia) and the Torre San Gennaro (Brindisi).

The first project in Puglia, at Marina di Chieuti requires the installation of 50 turbines reaching a power of 3 MW each, for a total installed capacity of 150 MW.

The project planned for the construction of the offshore wind park in the Gulf of Manfredonia is still more important. It is made under the Regional Environmental Energy Plan (PEAR) worked out by the Region of Apulia.

It requires the installation of 100 turbines reaching a power of 3 MW each, for a total installed capacity of 300 MW.

The development phase of the project (studies, materials, equipment, etc..) will take, at least, two years while the construction is expected to take eighteen months.

The phase of operation and maintenance of the offshore wind park is planned for a period of twenty years during which it is going to develop significant economic activities and research.

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The last project conducted by Blue H, a group active in Italy through the British Sky Saver, should represent the largest ever offshore wind farm project in our country; it should be approximately located at 6.7 km from the coast, between Savelletri and Torre Canne, covering an area of approximately 32 km². 80 rotors are provided on towers 90 m high, with blades measuring 90 m in diameter, 3 MW each, for a total capacity of 240 MW.

The technology used could be that of the ‘floating’ turbines anchored to the seabed.

The feasibility study, lasting about 18 months, at a cost of 2.5 million euros, should lead to the implementation of a prototype that has already been authorized by the Region of Apulia and that will be installed in Brindisi. It would be followed, after the testing phase, by the realization of the windfarm itself with the installation of wind turbines at a sea depth between 50 and 200 m.

The total cost, estimated around 500 million euros, provides an early completion of the installation within about 3-4 years.

The royalties for the Town Council of Fasano (Brindisi) would cost around 1 million per year for 29 years.

However, the authorization process is shaping long (with his 49 total permits to be requested from Commune, Province, Region, Ministry and State Property).

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3. THE MORPHOLOGY OF THE ALBANIAN COAST

The idea described in the introduction, to exploit the Albanian coast to make the territory a new source of renewable energy, requires a thorough knowledge of the coastline and seabed to determine the conditions of similarity of the Albanian coast with that of Apulia, in order to allow the reproduction of the interesting projects that have just been discussed, which are being operated in Apulia.

A review\textsuperscript{21} of the coastline stretching for about 430 miles, shows that over 50\% is largely sandy, especially in the northern part of the country where many rivers flow with remarkable liquid and solid flows.

The deposition of large quantities of sediment transported over the time caused the formation of sandy beaches, with small areas of slopes above and below the sea, dune systems and lake areas of great economic, landscape and environmental interest.

The results of this study show that the Albanian coast is so much like the Apulian one involving the watersheds of Fortore and Ofanto rivers, especially in the approximately 200 km of coastline ranging from Albanian Gjiri i Drinit to Vlore.

4. COMPARISON BETWEEN ONSHORE AND OFFSHORE FACILITIES IN TERMS OF ENVIRONMENTAL IMPACT

At this stage of research it is necessary to question whether it is more suitable to build a facility onshore or offshore in the aim of minimizing the environmental impact.

As to the environmental impact, according to the researches carried out, the preference would be granted to offshore wind farms for the following reasons:
- The low noise of the wind turbines at sea mitigated by the location of facilities at some distance from built-up areas;
- The increased speed of the wind;
- Problems related to the migratory routes of birds;

- Minimizing the impact on the biotic (marine fauna) and abiotic (sea water and seabed) environment, limited to the installation phase for the burial of submarine power cables and insertion of the foundation, developing, in some cases, habitats that have fostered the proliferation of the existing organisms and biological diversity;
- The greater respect, in the location of the plant, for those areas which are protected by environmental restrictions, or that may interfere with air, naval and military routes;
- The location at sea that reduces the contact of plants with built-up areas;
- The distance from the coast reduces the visual impact, making the wind farm almost invisible in the eyes of the population.

However, offshore plants have also negative aspects that, at any rate, do not influence the environmental impact. They are essentially due to:
- The major constraints to specific uses of water;
- The more likely accidents caused by lightening in the open sea;
- The greater distance from the electrical system with the need for more expensive electrical works;
- Greater corrosiveness caused by the marine environment;
- The more complex installation and maintenance.

5. THE MAIN STEPS AND ISSUES FOR THE CONSTRUCTION OF OFFSHORE WIND POWER PLANTS

Once we have determined that we can make offshore wind plants in Albania and that they will get the preference to those onshore from an environmental point of view, we must know what are the main steps and issues for the construction of a marine wind turbine, in order to make an economic assessment of it.

In particular, the main stages can be drawn up as follows:

a) - the anemological qualification of the site (one to two years) which is of great importance in view of the fact that the fluid vein is proportional to the cube of the wind speed and thus the doubling of the latter allows to get, as a result, an increase in electricity which is 8 times higher;

b) - the authorization procedures (variable, especially for the environmental aspects);
c) - the construction of the plant (from a few months to a year depending on the size of the facility);

d) - the connection to the network (whose variability depends on the site and is related to the distance from the existing transmission lines).

However, it must be pointed out that the operation of a wind energy plant shows some peculiar features such as:

1) wind discontinuity depending on the site, thus influencing the operation of the plant;
2) the initial investment costs predominate over the running costs, thus the company is more likely to contract debts in its initial stage to face the financial backing of the investment;
3) the availability of turbines on the market up to 97% of cases when being properly selected for the site, as well as managed and adequately maintained;
4) the time to carry out a single initiative that can take even several years from its design to its operation and that requires long term strategic planning and operational activity from the company.

The two main technical challenges in the realization of the marine plant concern the kind of blades as well as the structure of foundation to be used, that are essential for the economic evaluation to be done when planning the facility.

As for the choice of the blades, the most suitable solution seems to be the use of three-bladed turbines to get round the inconvenience of such areas as Apulia and Albania, subject to south winds loaded with sand and other abrasive materials that erode and dirty the blades of offshore plants, thus weighing both the charges of maintenance and the operating costs. This kind of turbines are less sensitive to the roughness on the surface of the blades brought about by the above-mentioned atmospheric agents and they reach values of power from 1,500 kW and up to 2,000-2,750 kW; they are installed on the seabed at a maximum depth of 10 m and at a distance from the coast which does not exceed 4 km.

Regarding the choice of the foundation, the following points have to be considered:

a) - relatively low costs to build and operate the plant; the related charges must not exceed 30% of the total cost of the facility;

b) - the ease and speed of construction and transport on the plant site using non-complex technologies;

c) - the possibility of reproducing mass production with comparatively lower costs of implementation of the individual solutions;
d) - the adaptability of the plants in sites with different morphological features without resorting to special techniques of installation;
ed) - complementarity between the foundation and the machinery to ensure the static and dynamic behaviour of the complex under normal/exceptional loading conditions, taking place during the life of the facility;
f) - the fixing of the wind turbine to be fitted on its foundation in situ or, alternatively, directly fitted on its foundation before installing it;
g) - the possibility of removing the foundation from the area, at completion of the life of the plant, to ensure better conditions both for navigation and for the ecosystem.

5.1. New technologies for offshore installation of wind machines

Thus, the importance of choosing the right type of structure for a wind turbine to be installed at sea, in shallow water, is essential to streamline the assembling procedure in terms of transport and lifting, both as regards the foundation, and, mostly, the wind turbines.

In this regard, at least three alternatives have been identified:
- Transport of the foundation to be put on the bottom and equipped with the complete wind machine;
- Transport of the foundation alone to be fitted into the seabed and subsequent installation of the machine;
- In situ construction of the foundation and subsequent installation of the machine.

In recent years, the major European countries who first realized the wind farms have sought innovative systems either to install offshore wind machines on the existing platforms or trough floating and semi-submerged systems anchored to the sea bottom or to the coast.22

In particular, an example of re-use of offshore platforms has been designed by the Edison Italian electricity Company that has considered the VEGA platform, located at 22 km from the Sicilian coast, at a depth of 120 m, consisting of an eight-legged steel jacket, measuring 80X60 m, and reaching a total weight of 26,000 tons.

The pre-feasibility study has considered the installation of a 4.5 MW wind

turbine equipped with a rotor measuring 112 m in diameter, which would be placed on the existing platform by means of vessels and lifting facilities.

This wind turbine would be able, using the wind speed at 50 m high (equal to 7.22 m/s) to achieve an annual output of about 12.2 GWh/year.

An economic assessment of the prospective costs for a plant with a life of 15 years has resulted in a total installation cost of 8 million euros, distributed as follows: 39% for the turbine, 36% for the electrical works and the submarine cable, 6% for the transformers, 6% for installation, 6% for civil works, 4% for development and engineering, 3% for transport.

The analysis of data showed, in particular the high incidence of the cost of electric power transmission cables, which can be explained, however, by the high distance from the coast and the sea depth interfering with the system connection.

As for the fixed anchorage floating structures, they offer the chance to transfer the whole complex, i.e. the wind turbine and the structure together and to be installed adjacent to ports or near the coast, thus facilitating the maintenance and the operation of the plant, with a significant reduction in the cost of the plant itself.

In this respect, the different main types of anchorage to the seabed or the coast involve either anchoring cables to one or more masses fixed to the seabed, or directly connecting the platform to a rigid pillar.

As for the partially submerged structures (semi-submerged) placed in shallow water, a 5 MW site could be planned, located in the Adriatic Sea, at a distance from the Adriatic coast of Albania between 50 and 200 m, assuming an average speed at 10 m of height corresponding to 9m/s.

Wishing to extend this hypothesis to build a 500 MW wind farm, using three-legged support structures equipped with a wind turbine installed in a central position for different distances from the coast, the cost of each kWh produced would be between 0.068 euros for a distance of 100 km from the coast and 0.074 euros for a distance of 200 km.

6. ECONOMIC EVALUATION FOR THE CONSTRUCTION OF AN OFFSHORE INSTALLATION IN ALBANIA

At this point, it is useful to make an economic assessment of a wind plant to be built along the Albanian coast in order to understand thoroughly what are the costs that a company wishing to develop this business has to bear.

The cost of installation and testing of a wind plant consisting of 10
generators 2 MW each has been assumed as a percentage, using the ordinary estimation procedure for the works of carpentry, while the costs for obtaining permits (EIA, Services Conference, etc..) for the design, and the investigation on the installation site of machines (bathymetric surveys, geological, etc..) were counted separately.

The total cost should be around 1,450-1,650 k€/MW distributed, as a percentage, as follows:
- complete wind machine installed on a sea site 40%;
- electrical works (components of electrical systems, of connection and submarine cable), building (excavation, conduits, electrical substation, buildings for administration, maintenance, etc..), and sundries (costs related to permits, licenses, royalties, insurance, etc..) 30%;
- foundation structures manufactured, tested, painted, equipped for shipping and handling (made of metal structural work and formed by 4 inclined piles linked by crosspieces and diagonals with a central liner with piles 40 m high, 30 m underground) 13%;
- wind turbine assembling 8%;
- foundations assembling by means of towing and lifting, in addition to the load test, the various equipment which is needed for the assembling as well as the labour cost 4%;
- design (studies of the works at sea, coordination, preparation of the tender, technical direction of work, safety studies) 3%;
- geognostic surveys (studies of the foundation with data processing) 1%;
- shipyard (site equipping for vessels either provided with or without engines, engine setting-up, mobilization and demobilization of the pontoons) 1%.

CONCLUSIONS

The study carried out showed that the Albanian economy, the energy industry in particular, have been growing rapidly in recent years, thanks to government policies that, after a long and hard process of privatization, have opened up to foreign investors to modernize the existing structures on one hand and to seek, on the other hand, new sources of energy as compared to the traditional ones, so that to lead to the construction, in the near future, of the largest European wind energy plant, in Albania.

In the context of wind power the present work has focused on the analysis
of offshore wind power which is expected to represent approximately 40% of the world production within 2030, through the replacement of the old onshore plants with offshore ones. Among the projects that have already been implemented in Europe and those being under way in Italy (especially in Apulia), offshore wind energy plants could represent a safer opportunity to ensure development for the Albanian economy and a source of income for local and international SMEs.

This conclusion was reached after careful analysis of the Albanian coast, which turns out to be much like the Apulian one, especially along its approximately 200 km of coastline between Gjiri i Drinit and Vlore, mainly characterized by a sandy bottom. This allows the construction of an offshore wind park which, among the most significant benefits, would minimize the environmental impact compared to onshore wind farms.

In particular, the comparison between the two kinds of facilities shows that offshore plants would be preferable to onshore ones for several reasons: a lesser impact on both the biotic and abiotic environment, reducing noise caused by the wind turbine operation and limiting the visual impact of power plants due to the distance from the coast.

Moreover, this choice would bring significant economic as well as social benefits leading to hundreds of millions of euros’ worth of contracts assigned to both local and international companies; employment growth through the direct recruitment of qualified technicians in the various sectors of production and an important professional qualification of the staff that would be offered periodical training at the Italian power stations, to acquire the know-how needed to operate.

Hence the decision to envisage the creation of an offshore wind farm for which, according to an initial economic assessment, over 80% of the total cost is yielded by the cost of buying the wind machine, the electrical works (the higher the more you move away from the coast), the building machinery, as well as by the authorizations needed and the foundation structures to be made and carried on the spot.

However, the costs to be incurred for the construction of that work could be covered, as it was the case for the Dutch mega-plant, involving among the potential backers, the banking institutions, whose interests on the capital invested and the funding instalments would be covered by the revenue yielded by the plant without any additional guarantees from the shareholders.

Ultimately, the offshore solution, which is still a totally unexplored path in Albania, might provide the businesses involved in this industrial project with
a meaningful role in the energy sector, thus allowing them to gain significant competitive advantages both in the medium and in the long term.

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manfredonia/.
Knowledge Management and the Strategic Orientation of Business Organizations

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Abstract

Knowledge management in contemporary business is becoming one of the greatest management challenges. The recognition of knowledge as one of the most important organizational resources and the emergence of the concept of knowledge economy in the developed countries present a constant pressure for the managerial teams of business organizations to put more effort in finding ways for a more efficient usage of knowledge. In general knowledge management can be understood as the tools, techniques, and strategies to retain, analyze, organize, improve, and share business expertise. The purpose of this paper focuses in an intensive description on knowledge management and its creation and emergence as a discipline, and besides this

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it devotes a special attention on the analysis of knowledge management as a factor that influences the strategic orientation of business organizations. The paper itself is divided in two parts. The first part contains some basic information on knowledge management and its influence on the success of modern companies.

The second part of the paper is about the knowledge management strategies. The intention of this paper is not to give an overview of knowledge management strategies in a concrete company from our surrounding, but to present some of the basic principles of knowledge management and knowledge management strategies that can be useful for business organizations from all over the world. This paper would fit very nicely in the “Challenges of company’s strategic orientation” of the “Economic policy and EU integration” conference, because definitely knowledge management is one of the greatest challenges facing companies. Nowadays knowledge management is slowly but surely transforming from a tool to gain long term strategic advantage to a means for ensuring the daily survival of modern business organizations.

**Key words**: knowledge, management, strategy, success, advantage.

### 1. INTRODUCTION

For thousands of years, humans have been discussing the meaning of knowledge, what it is to know something, and how people can generate and share new knowledge. It is interesting to consider, that despite the pervasiveness of epistemological discussions throughout history, the world of business has begun to recognize the importance of knowledge as a resource. Individual and organizational knowledge have been invisible on balance sheets, overlooked in reward and incentive systems. Companies have realized that, while managing data and information is important, true competitive advantage lies in leveraging the unique, powerful knowledge of the organization.

“Knowledge management,” “knowledge society,” and not least the burgeoning employment prospects of “chief knowledge officers” (“CKO’s”) are signs of our times. To the naïve observer, it is perfectly obvious that knowledge has always played an important role in the organization and advancement of society. In that sense, saying that we live in a “knowledge society” would seem to be no more informative than saying that we live in
a “power society” or a “money society” or a “culture society.” But perhaps “knowledge” here is really an instance of what rhetoricians call *catachresis*, i.e., the strategic misuse of words, a euphemism for something a bit unsavory. After all, that knowledge would need to be literally “managed” suggests that its growth should not be left in a wild state: at best it remains unused and at worst it is wasted. Yet, this managerial mindset goes against the grain of the last 2500 years of Western thought, which has valued the pursuit of knowledge “for its own sake,” regardless of its costs and benefits.²

2. IN GENERAL ABOUT KNOWLEDGE MANAGEMENT

People who claim to know something about KM must decide whether the field is more about knowledge or management. The dark secret of this field is that its name is an oxymoron, for as soon as business enters the picture, the interests of knowledge and management trade off against each other. After all, why spend valuable resources generating new knowledge, if one can simply try to do what one has always done, only more efficiently? To be sure, rising to the level of efficiency demanded of the market can take different forms. It may take the Taylorist route of increasing the level of surveillance on one’s own workers, so that more of the fruits of their labors are reaped by their corporate employers. Alternatively, it may involve acquiring a better understanding of the market itself. In short: What do consumers want? Who, if anyone, is currently providing it? Or, more ambitiously: What can consumers be made to want?³

Now day’s knowledge management emerges to be one of the most studied fields. But it seems almost impossible to give a final definition on knowledge management that would include its wholeness and importance. Perhaps one of the acceptable approaches would be first too define the terms “management” and “knowledge” separately in order to understand the role and importance of knowledge management in modern business organizations.

Having in mind the above mentioned approach it must be emphasized that in general it’s much easier to define “management” than to define “knowledge”. The literature review shows that almost all authors have

² Fuller, S. (2002). *Knowledge management foundations*, Butterworth–Heinemann, Boston, 2
separate definitions on management, but in fact all of those definitions have a few common elements.

Management describes the complex behavior of those responsible for the decisions that determine the allocation of resources, both human and physical, within an organization. The role of general managers is a multifunctional role: decision maker, strategic leader, and human relations expert, custodian of institutionalized values, mediator between business and society, negotiator and power broker. It is played in a set of institutional contexts and implies specific cultural attitudes and styles of action. According to the simplified model of firm behavior under perfect competition, the managerial function is limited to a set of highly rigid decision rules for determining price and output. In real market situations which deviate from the perfectly competitive, market forces are only one of the variables in the complex context where business management takes place. Other key variables concern the corporate organization, the larger group of organizations in which the firm is embedded, state policies and legal systems, and the strategies of both internal and external stakeholders of the firm. The general management function is therefore a very complex one that includes a set of managerial roles and implies various forms of managerial behavior and style. The term refers to the process of using organizational resources to achieve organizational objectives through the functions of planning, organizing and staffing, leading, and controlling. Management is an integral part of, and fundamental to, the successful operations of the organization. Management is therefore the cornerstone of organizational effectiveness, and is concerned with arrangements for the carrying out of organizational processes and the execution of work. Management is the universal process of determining and achieving the objectives of the business organization, with and through other people, by using the managerial functions of planning, organizing, leading and controlling and by an efficient and effective coordination of resources.

Although it seems relatively easy to define “management” the situation when it comes to defining knowledge is much more complicated. The following

5 Essentials
Table 1. Defining knowledge

<table>
<thead>
<tr>
<th>Author</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hislop</td>
<td>Knowledge can be understood to emerge from the application, analysis, and</td>
</tr>
<tr>
<td></td>
<td>productive use of data and or information.</td>
</tr>
<tr>
<td>Davenport, Prusak</td>
<td>Knowledge is a fluid mix of framed experience, values, contextual information,</td>
</tr>
<tr>
<td></td>
<td>and expert insight that provides a framework for evaluating and incorporating</td>
</tr>
<tr>
<td></td>
<td>new experience and information.</td>
</tr>
</tbody>
</table>

One of the most important aspects that must be kept in mind when talking about knowledge and knowledge management is the The Knowledge Life Cycle model that was first introduced by Firestone and other members of the Knowledge Management Consortium International (fig 1).

**Fig 1. The knowledge life cycle**

Source: Firestone, J & WmElroy, M (2003). Key issues in the new knowledge management, Butterworth–Heinemann, Amsterdam, 101

Joanna Paliszkiewicz gives an integrated model of knowledge management that is consisted of the following elements: social perspective, technical perspective, localization of knowledge, acquisition and development of knowledge, transfer of knowledge, codification of knowledge, usage of knowledge and organizational performance. (fig 2).
After having understood “management” and “knowledge” as two separate terms we can continue with defining “knowledge management”.

Knowledge management is “the tools, techniques, and strategies to retain, analyze, organize, improve, and share business expertise”. Knowledge management refers to an organization’s strategic efforts to gain a competitive advantage by capturing and using the intellectual assets held by its employees and customers. Efforts to archive best practices and lessons learned, and to make better use of information stored in databases, also fall under the rubric of knowledge management. Advocates of knowledge management believe that capturing, storing, and the distributing knowledge will help employees work smarter, reduce duplication, and ultimately produce more innovative products and services that meet the customers’ needs and offer a good value.

Knowledge management can be defined as a method to simplify and improve the process of sharing, distributing, creating, capturing and understanding

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knowledge in a company. Knowledge management is description, organization, sharing and development of knowledge in a firm. Knowledge management is managing knowledge-intensive activities in a company. Knowledge management refers to identifying and leveraging the collective knowledge in a company to help the company compete. Knowledge management is a method for achieving corporate goals by collecting, creating and synthesizing and sharing information, insights, reflections, thoughts and experience. Knowledge management is a discipline focused on systematic and innovative methods, practices, and tools for managing the generation, acquisition, exchange, protection, distribution, and utilization of knowledge, intellectual capital and intangible assets. The purpose of knowledge management is to help companies create, share and use knowledge more effectively. Effective knowledge management causes fewer errors, less work, more independence in time and space for knowledge workers, fewer questions, better decisions, less reinventing of wheels, improved customer relations, improved service and improved profitability. Knowledge management is purported to increase both innovation and responsiveness. The recent interest in organizational knowledge has prompted the issue of managing knowledge to the organization’s benefit.10

3. KNOWLEDGE MANAGEMENT STRATEGIES

There are a number of problems with existing conceptualizations of knowledge strategy. Most analyses view knowledge strategy as a functionally based issue focusing on knowledge management without integrating the overall strategic management of the firm. The broader view of knowledge strategy has received very little attention in the management literature. This is despite the fact that, from a practitioner perspective, this view of knowledge strategy is seen as leading edge. Those studies that do take broader views of knowledge strategy tend to focus on competitive positioning, and fail to incorporate other components of good strategic management.11

There are seven strategic levers that organizations use to exploit knowledge (tab. 2).


<table>
<thead>
<tr>
<th>Lever</th>
<th>Key activities</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costumer knowledge</td>
<td>Developing deep knowledge sharing relationships. Understanding the needs of your customers’ customers. Articulating Unmet needs. Identifying new opportunities.</td>
<td>Steelcase, an office product manufacturer, has totally redefined its market into knowledge worker productivity through opening a customer knowledge channel from its product end-users into its R&amp;D.</td>
</tr>
<tr>
<td>Knowledge in people</td>
<td>Knowledge sharing fairs. Innovation workshops. Expert and learning networks. Communities of Practice.</td>
<td>Alongside various knowledge initiatives, Anglian Water has a Learning Organization program and corporate university. It encourages individuals and teams to develop their knowledge continually, through formal development programs.</td>
</tr>
<tr>
<td>Knowledge in products and services</td>
<td>Knowledge embedded in products. Surround products with knowledge, e.g., in user guides, and enhanced knowledge-I intensive services.</td>
<td>Campbell Soup’s “Intelligent Quisine” (IQ) delivers weekly packages of nutritionally designed, portion controlled meals to those suffering hypertension or high cholesterol.</td>
</tr>
<tr>
<td>Knowledge in Processes</td>
<td>Embedding knowledge into business processes and management decision making.</td>
<td>PriceWaterhouseCoopers is typical of several consultancies that have knowledge databases to allow sharing of knowledge. It also has knowledge centers, hubs where human analysts and navigators link consultants to knowledge. This helps them deliver better advice to their clients.</td>
</tr>
<tr>
<td>Organizational Memory</td>
<td>Knowledge sharing. Best practice databases. Directories of expertise. Online documents, procedures and discussion forums. Intranets.</td>
<td>PriceWaterhouseCoopers is typical of several consultancies that have knowledge databases to allow sharing of knowledge. It also has knowledge centers, hubs where human analysts and navigators link consultants to knowledge. This helps them deliver better advice to their clients.</td>
</tr>
<tr>
<td>Knowledge in Relationships</td>
<td>Improving knowledge flows between suppliers, employees, shareholders, community, etc.—using this knowledge to inform key strategies.</td>
<td>Toshiba collects comparative data on suppliers ranking 200 quantitative and qualitative factors. It has an active suppliers network and association where knowledge is shared and suppliers are integrated into future strategies.</td>
</tr>
<tr>
<td>Knowledge assets</td>
<td>Identifying intellectual and knowledge assets. Measuring and monitoring their development.</td>
<td>DowChemical Intellectual Assets Management team takes an active role in managing patents and other intellectual assets in order to develop their value. It has generated over $125 million in additional revenues from this activity.</td>
</tr>
</tbody>
</table>

The three most common high-level approaches to developing organizational KM strategies are:\(^{12}\)

✓ Top-down knowledge management. This approach calls for convincing the most senior members of top-level management first, then the leadership pushes centralized repositories of information, KM tools, and KM technologies downhill to the rest of the company.

✓ Bottom-up knowledge management. This approach starts with deploying knowledge management to smaller parts of the organization and then spreading it further within the company once the benefits can be easily demonstrated. This approach includes a few steps: (1) start with a specific business problem, (2) solve it, (3) show the ROI, and then (4) expand the initiative.

✓ Middle-up-down knowledge management. According to this approach top management creates the KM vision, while middle management develops more specific initiatives implemented by front-line employees. Managers try to find the middle ground between top management’s vision and what is realistically possible within current restraints. In this strategy, middle managers become the linkages between the ideals of top management and the complex, ever-changing realities of the front-line workers.

In general we can differ three main types of knowledge management strategies:\(^{13}\)

✓ Stock strategy is focused on collecting and storing all knowledge in information bases in the organization. Information is stored in databases and made available to knowledge workers in the organization and in knowledge networks. Knowledge workers use databases to keep updated on relevant problems, relevant methods, news and opinions. Information on problems and methods accumulate over time in databases. This strategy can also be called person-to-knowledge strategy.

✓ Flow strategy is focused on collecting and storing knowledge in information bases in the organization as long as the information is used in knowledge work processes. If certain kinds of knowledge work disappear, then information for those work processes becomes obsolete.

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and can be deleted from databases. This is a yellow-pages strategy in which information on knowledge areas covered by individuals in the firm is registered. The link to knowledge sources in the form of individuals is made specific in the databases, so that the person source can be identified. When a knowledge worker starts on a new project, the person will search company databases to find colleagues who already have experience in solving these kinds of problems. This strategy can also be called person-to-person strategy.

✓ Growth strategy is focused on developing new knowledge. New knowledge is developed in innovative work processes taking place when knowledge workers have to solve new problems with new methods for customers. Often, several persons are involved in the innovation, and together they have gone through a learning process. When a knowledge worker starts on a new project, the person will use the intraorganizational and interorganizational network to find information on work processes and learning environments that colleagues have used successfully in previous innovation processes.

Calseth and Cummings14 go one step further and talk about knowledge management as a business strategy and determine a few preconditions that must be met in order for knowledge management to succeed as a business strategy:

✓ the foundation needs to be laid for a new organization, including restructuring and decentralization, to improve organizational flexibility;
✓ there needs to be an improved ability to react to market needs, fight stronger competition, and to respond to new demands;
✓ the organization requires active steering in order to become less dependent on mere passive adaptation to changed business conditions set by others: the markets, competitors, and authorities;
✓ mechanisms should be put in place which facilitate and improve the exchange of information and knowledge within the organization so that it becomes less vulnerable to people leaving the business and changes in staff positions, helping to preserve the intellectual capital;
✓ inefficient work processes and procedures need to be eliminated to improve the exploitation of information, human resources and capabilities at critical stages in the business process;

✓ the organization should be able to learn from past experience and not ‘reinvent the wheel’ over and over again;
✓ employees should receive incentives for information and knowledge sharing;
✓ investments in ICTs and the information infrastructure need to be fully exploited;
✓ relevant information and knowledge should be accessible when needed.

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Abstract

This presentation consists of an overview on three issues related to the topic “Tourism Development in Albania.”

The first part will present a panorama on statistical data about tourism sector from 2005 to today, the main source markets affecting Albanian tourism and its high dependency from seasonal tourist flow from this source markets. The second part is an overview of SWOT analysis of Albanian tourism and a summary of critical issues, as an urgent need for new policies related to tourism development and human resources in tourism in Albania. The third part is a presentation of tourism policies for sustainable tourism in Albania.

Key words: Tourism development, Tourism, Human resources, Tourism in Albania, Vocational training.

1. FACTS AND FIGURES

On the basis of the most recent analysis published by the Tourism World Organisation (“Tourism Highlights, 2009 Edition”), on 2008 international tourist flows, in terms of arrivals in destination countries, are raised at an yearly average growth rate of about 2%. All this has happened before the

1 Source: http://www.unwto.org/facts/menu.html
collapse of the financial markets and the recent recession of which we are still dealing with. In fact during this year the tourism sector is expected to be affected by the financial crises and the new swine flu A (H1N1).

As a matter of fact, figures from the UNWTO establish that quite all regions except Europe have had a positive growth in the sector. Today Europe is suffering stagnation about the arrivals (+0.3%), while other areas like Middle East have boosted their performance during 2008, with a rise of 18%. Europe’s tourism sector remains still the largest and the most mature one, but the crisis and the overprice of Euro currency has deteriorated things for it, leaving so the possibility for an increasing of tourist flows towards destinations like the US, dealing at the moment with a weak currency. A bitter impact in terms of tourism earnings with a negative growth of 1% in real terms is crashing in European Tourism now.

Albania’s present data concerning the tourism industry and flows are quite poor and not sufficient to implant a correct strategy. According to the survey “Statistic information for tourism sector in Albania, period January-December 2008” from MoTYCS, concerning number of visitors in Albania, the total number is about 2,5 million people, 1,3 of which are strangers. According to what is reported by the United Nation Development Programme about the Albania in the “Image of Albania – Phase II (May 2006-may 2008)”, very little is known outside of Albania about the country’s rich history, its people’s hospitality, progress made towards the consolidation of democratic institutions leave behind the country’s tourism potential. Albania suffers from a negative image in the world and much of the negativity often derives from misconceptions and clichés associated with the country’s previous isolation from the world and the fact that Albania remains one of the poorest countries in Europe.

Looking back at what has been happening during the recent years, the number of people visiting Albania for business or searching for a new tourism destination has increased. The higher rate of people presence is signed during the summer time, things that show the attractiveness of Albania as a tourism destination for many foreigners. From January up to June 2009 about 508813 tourists visited Albania. Comparing the January – June period of 2009 with the previous one, it has been signed a prominent rate of increasing, 10% of presence visitors more in Albania. Compared to the same period of 2005, the

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2 Source: http://www.unwto.org/facts/menu.html
3 Source: http://www.mtkrs.gov.al/
increase is worth is 2.4 times more\(^4\). The percentage of visitors coming from Europe about 92% is the highest one, and the remaining come from USA (5), Asia (2%) and others 1%.

Incomes in euro for the tourism sector in Albania during the last two years, and the first quarter of 2009 is described in the following table.

**Table 1: Tourist income in Albania 2007-2009**

<table>
<thead>
<tr>
<th>Year</th>
<th>Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>1,002</td>
</tr>
<tr>
<td>2008</td>
<td>1,17</td>
</tr>
<tr>
<td>1st Quarter 2009</td>
<td>212</td>
</tr>
</tbody>
</table>

Source: MoTCYS, 2009

According to the 2008 Travel and Tourism Economic Research for Albania prepared by Oxford Economic Forecasting, the future of the Albanian tourism sector is positive. We highlight the key indicators of growth as follows:

- The Albanian Travel and Tourism Economy is expected to contribute 14.7% of total GDP in 2008, rising to 15.3% in 2018. Estimates state that the Travel and Tourism Economy will grow by 4.9% per annum in real terms between 2009 and 2018\(^5\).

- Total Travel and Tourism capital investment in 2008 is estimated at US$473.8 mn or 7.6% of total investment. By 2018, this is expected to reach US$780.0 mn or 7.9% of total investment\(^6\).

The expected levels of growth will only be realised once the supporting infrastructure has been improved. The business tourism market in Albania is extremely small and accounts for just 6% of total tourist arrivals. This is largely due to the fact that there are very few multinational corporations in Albania and therefore the number of international clients visiting Albania is relatively small. However, the demand for the largest hotels in Tirana is

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predominantly corporate, on account of the fact that the majority of Albania’s large corporations and government ministries are located in the city and host a great number of conferences/meetings.

2. SWOT ANALYSIS ON ALBANIAN TOURISM

In the following table, SWOT analysis on Albanian Tourism is described.

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good climate</td>
<td>Poor tourists flows</td>
</tr>
<tr>
<td>Unspoiled amenities</td>
<td>Do it yourself tourist business</td>
</tr>
<tr>
<td>Strategic location in the Mediterranean sea</td>
<td>Poor communication</td>
</tr>
<tr>
<td>Variety of territory</td>
<td>Lack of infrastructures</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPPORTUNITIES</th>
<th>THREATS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attracting tourists flows from neighbouring countries</td>
<td>Competitive tourism market</td>
</tr>
<tr>
<td>Developing tourism as multiplier of local income</td>
<td>Non positive country image</td>
</tr>
<tr>
<td>Increasing employment</td>
<td>Non good perception as a tourist destination</td>
</tr>
</tbody>
</table>

- **Strengths:**
  1) Good climate: Albania has a very good climate that resembles to Italy and Spain one. There are about 300 sunny days\(^7\) during the year.
  2) Unspoiled amenities: There are still new places as tourism destinations to be discovered by the tourists.
  3) Strategic position in the Mediterranean Sea: Its strategic position in the Mediterranean Sea realizes the possibility for the tourists that visit the area, to have a look and enjoy the Albanian treasures.
  4) Variety of territory: The Albania land\(^8\) thanks to its territory diversity, allows an ample variety of making different kind of tourism: sea, mountain, rural, sustainable etc.

- **Weakness:**
  1) Poor tourist flows: The international tourists’ arrivals are about 60,000\(^9\) (in

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7 Source: National Tourist Organisation of Albania.
8 Source: National Tourist Organisation of Albania.
2007). The International tourism receipts amounts to $1,010 (in 2007).

2) Do it yourself business: Albania ranks to 105 positions with 2.75/7.00 for do it yourself T&T business environment and infrastructures.

3) Poor communication: Effectiveness of marketing and branding ranks the 124\textsuperscript{10}.

4) Lack of infrastructure: It held’s the 105 position for T&T business environment and infrastructures\textsuperscript{11}.

- **Opportunities**

1) Attracting tourists flows by neighbouring countries: A good part of the tourism Flows in Albania comes its neighbouring countries like Macedonia, Kosovo, Italy and Greece.

2) Developing tourism as an accelerator of local income

3) The increase of the employment: The Albanian tourists destinations are some good opportunities for boosting the Local Development and increasing the quality of life.

- **Threats**

1) Competitive tourism market: Albania has to face the competitive tourism market facing Adriatic and Mediterranean area.

2) Albania non consequent Country image: Unfortunately the country has not been able to build the own image as a tourist destination yet.

3) Albania is not perceived as a tourist’s destination

### 3. THE ALBANIAN POLICY OF TOURISM

Albania is the last of the tourism destinations to be discovered in the Balkan regions, and due to this, the tourism industry depends on the moment on the flows hitting the Balkans. The Ministry of Tourism, Culture, Youth and Sport of Albania in the “Tourism Strategy” on 2007 pushed for the development of sustainable tourism and for the training and education of qualified human resources in order to increase the quality of life of a large number of Albanians.

\textsuperscript{10} Source: World Economic Forum 2008 Report

\textsuperscript{11} Source: World Economic Forum 2008 Report
In the Albanian policy on tourism it is very remarkable the Agreement, signed on 11 April 2006 between UNDP and the Albanian Ministry of Tourism, Culture, Youth and Sports titled “Supporting platform for Albania’s Tourism Development based on Cultural and Environmental Tourism”. This agreement aims to a long-term tourism development focused on the environmental and nature protection, instead of a commercial model characterized by a rapid return of the investments with the destruction and consumption of natural resources.

The main goals of the agreement are:
- Planning and development of a quality tourism national programme;
- showing a positive message and a good “image of Albania” focused on its nature and culture;
- Financial supports to the local public administrations.

The Albanian policy on tourism is intended to make the most of its wonderful climate, environmental and related to its rural traditions characteristics, particularly about mountain tourism of the hinterland (Dibra, Kukes), coastal tourism (Vlora, Saranda, Parade) and cultural tourism in the cities getting a significant artistic heritage (i.e. Bat and Gjirokaster).

The above considering that in 2006 cultural, adventure and ecologic tourisms have represented a niche segment growing considerably in the context of the overall tourism market, with shares passed from annual 15% to 20% and whose turnover represents a quarter of the overall one (information’s drawn by a Fates Cockle’s article on magazine “Kohl June”, dated 15 march 2006).

In spite of this tourist potential and notwithstanding the effective promotional actions carried out in 2006, i.e. the participation at International Tourism Fair of Berlin with a stand dedicated to Albania (“Albania, the last secret to discover in Europe”) and the carrying out and distribution of tourist guides and albums, Albania shows again significant lack by the infrastructural point of view, in terms of tourist service and in terms of competences and professional skills of the human resources operating in tourism sector.

Not by chance in 2006 Albanian Tourism Minister promoted the distribution to tourist operators of the Ethic Global Code, an ethic code of professional behaviour for tourist sector carried out by World Trade Organisation, with the aim to favourite a focused approach to high quality tourist service not only based on politeness and familiarity.

We consider the “Strategy and Action Plan for the Development of the Albanian Tourism Sector Based on Cultural and Environmental Tourism”, issued by the MoTCYS and UNPD on December 2005, set out the guiding
on how “Albania will seek to position itself as an attractive destination for tourists seeking a unique experience featuring high quality cultural sites and nature destinations presented in a truly “authentic” way”.

On further the “Tourism Strategy” issued on May 2007 by the MoTCYS designed this strategy concentrating it mainly on the sustainable development principle and also in finding out the challenges that are in order to maximize the sector.

The main goal to be achieved for the Albanian tourism development consists on increasing the quality of living in order to provide people with a higher employment rate, better infrastructure, an improvement of the health – care system, better education and further social developments. Also in the strategic objectives there are included the protection, assessment and promotion of the inherited cultural heritage of Albania.

Challenges to be faced instead consist primarily on some general ones like a market position, the planning term of the investments, the infrastructure and the lacking of internal data. Some specific challenges as reported in the Tourism strategy consist instead in defining a successful nature and culture based destinations.

4. CONCLUSION
THE HUMAN RESOURCES - A TOOL FOR THE DEVELOPMENT POLICIES IN ALBANIA

From the critical issues assessed in the SWOT analysis is evident that the success of tourism development relays on human resources. There is an urgent need for tourism educated professionals at the managerial level for the improvement of quality services in tourism. To be competitive today it is needed professionalism and knowledge for the management of the tourism businesses. To be competitive today means that the business can not be managed by the owner if he is not educated in tourism. To become a successful and competitive destination in the region, Albania has to be developed in qualitative way towards the use and preservation of cultural and natural resources as well as towards high quality services delivered to the tourists, services which not necessarily have to charge high prices.

For this reason, where it is necessary, the owners of tourism businesses have to attend vocational education / training to understand not only their business and the way to run it professionally, but the most important thing to
learn about tourists and their needs and motivations. The same thing is valid for the employees of the tourism sector.

On 1 November 2007 was established in Tirana the Foundation for the European University for Tourism (UEPT - Universitetit Europian Per Turizmin) in compliance with the Albanian regulation in force, aimed to set up the European University for Tourism.

The European University for Tourism originates with the ambitious aim to begin the most Advanced international cultural and educational pole in the tourism sector, characterized by the excellence of its own scientific and educational production, that will be ensured by the quality of international level and of the educational offer or the scientific activity, testing and cultural elaboration carried out in the university by the European teachers involved in the project. The main goal of the European Tourism University is to get ready a new paradigm of reference for the local development of the Mediterranean Regions. It is intended to create a network system highly innovative able to carry out an effective integration between the modern tourist’s request and the offer of the different production segments of the local system (the tourist system tout court, but also i.e. agro industrial, cultural goods, quality handicap sectors). By the organisational point of view, the European Tourism University is a foundation whose main bodies and the related functions are the Academia Cenate, the Executive Committee and the Board of Directors.

The Foundation will provide all the operational and institutional support to the local development activities, i.e. the set up of the network, the mainstreaming and mainly the set up of the new University.

On 26 December 2007 the Foundation for European University for Tourism presented to the Ministry of University and Scientific Research in Albania application to set up the European University for Tourism in Tirana;

On 11 April 2008 the Evaluation Agency for Albanian Universities approved the application in order to set up European University for Tourism and the following courses

EUFT aim and goals focus on the preparation of tourism industry managers capable to face the challenges of Albanian tourism. This is possible through its three Bachelor’s Degrees in Tourism, two Bachelor’s Degrees in ITC and three Master Degrees. The guaranty for this is our excellent teaching method which is realized by 52 lecturers that come from different European partner universities and will cooperate with 16 Albanian lecturers. The diploma issued by our university is valuable in Europe.

Also, the role of European University of Tourism will expand to facilitate
the connection of demand and offer and be an academic body with professional reputation and accreditation for business certification, being a third and fair part.

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Deceptive Advertising and Marketing Practices
– A Theoretical and Practical Review –

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Abstract

Deceptive marketing practices are prevalent today. It is done with the intent to mislead the consumer, making deceptive advertising a relevant

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marketing ethics issue. There are many ways that both the media and advertisers can influence the masses through deceptive means. Deceptive advertising can occur with almost any product or service - for example, loans, weight loss products, miracle cures, beauty products, mobile services, etc. The consumers spend much money every year on everything from toothpaste to vacations. They often make their purchasing decisions based on false logic implanted into their brains by mass media, which focuses on a certain style and image. In fact, what is happening as a direct consequence of advertising is that people are spending more, getting into credit card debt at an alarming rate, and having to work more to pay for those that they consider to be vital. Although deception marketing engages the minds and arouses the passions of individual consumers, parents, social commentators, educators, government regulators, consumer protection associations, marketers — research on deception marketing is scarce and out of balance with the importance of the topic in society, particularly in Albania.

This paper first presents the concept of deceptive advertising. Next, by giving some examples it focuses on what makes a marketing practice deceptive. Then based on a survey done during the summer sale, the paper presents most deceptive marketing cases facing Albania. Finally will be a view on legislation or public agencies responsible for addressing the deceptive marketing practices as well as what Albania need to do in consumer protection field based on the EU directives.

Key words: deceptive marketing, consumers, marketing, false advertising

1. INTRODUCTION

Deceptive advertising and marketing practices are quite prevalent nowadays. This is related to competition which has become fierce and in order to mislead the customers making therefore false publicity an important ethical marketing issue. There are many ways how media and marketers can influence the public by using deceptive advertising or marketing practices. It is a fact that customers around the world, including Albanians spend increasingly more considerable budgets for the different products, services ranging from toothpaste to vacation. This has made the deceptive marketing practices to face almost any product or service, such as beauty products, loans offered by banks, products or services of mobile telephony, tourism packages
etc. Consumers are very sensitive to the marketing communication tools, which often make their purchasing decisions based on false logic, which is created by the style and image “imposed” especially by mass communication media. Direct consequence of the impact of marketing communication means consumer expenses are increasing for products considered vital to them.

“Fraud” or “deceptive” is inevitable part of the transaction carried out in the market between marketers and customers. They have existed since Ancient Rome, and are present in the modern world and are favored more than any time from the World Wide Web.

Although deceptive marketing engages the minds and arouses passions of consumers, parents, educators, government policymakers, consumer protection organizations, marketers, marketing studies and research on the deception marketing are scarce and have not managed to become very important part of developed societies, less of the Albanian.

2. THE CONCEPT OF DECEPTIVE ADVERTISING AND SUCH MARKETING PRACTICES

In practice we encounter expressions such as “false publicity”, “deceptive marketing practice”, “misleading publicity” etc. What makes them called such?

Aaker (1974) was the first to formulate that advertisements can also mislead the consumer. According to him, deception is said to exist when “the output of the perceptual process (a) differs from the reality of the situation and (b) affects the buying behavior to the detriment of the consumer”. A number of definitions have since then been offered by various regulatory agencies, associations, and legal bodies. According to the Federal Trade Commission’s (FTC) publicity or marketing practice is considered fraudulent or false if it is a representation, omission, or practice that will likely mislead the consumer.

The expression “Marketing Practices” is used in a broad sense and not only includes marketing in a technical sense, but “any activity carried out for business purposes”. The general clause is applied to all measures connected with supply and demand and the sale of goods and services.

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3 www.ftc.gov

4 Presentation on “common elements of misleading and deceptive practices”(1) by the Danish Consumer Ombudsman, Hagen Joergensen, at the IMSN Berne-meeting, September 13-14 2001
Determining whether an ad is misleading continues to prove difficult and controversial (Russo, Metcalf and Stephens, 1981). Various researchers have made many attempts to define deceptive advertising. Many of the definitions that have appeared in the literature have one thing in common; they all state that for an advertisement to be deceptive it must assert or imply something that is “objectively false” (e.g. Shimp and Preston, 1981).

Based on the literature to determine that the publicity is false, the claimant must prove that: there is not a true statement of the fact on the advertiser or in connection with goods, services, or commercial activity; statement either deceives or is likely to deceive a substantial part of the target audience; fraud is also likely to influence audience purchasing decisions; advertising includes goods or services which are traded and fraud has caused or is likely to cause damage claimants. The most important factor among these is caused damage or potential damage. The damage is usually attributed to the customer loses money from a purchase that would not be made if there had not been deceptive or misleading publicity.

According to David Gardner (1975) there are three types of deceptive advertising: fraudulent advertising which is outright lie, false advertising which “involves a claim-fact discrepancy” such as not disclosing all conditions to receive a certain promotion or price; and misleading advertising which involves a “claim-belief interaction” (Assael, 1998).

Let’s return to the definition given above. There are three common elements of false advertising and claims to such marketing practices. It should therefore be a representation, omission, or practice that is likely to mislead customer, such as claims for fraudulent price, or a distorted description of either orally or in writing of a product or service.

Advertising as a whole may be misleading, although every sentence separately considered is literally true. Misinterpretation may result not only from direct statements, but also by omission or obscuring of a material fact (Better Business Bureau, 1998 [on-line]). This includes promotion and sales tactics called “bait and switch” which is an attractive offer to sell a product or service in which a business has no intention to sell to consumers. The goal is to make the customer willing to buy the promoted product and then get them to switch their decision by buying a product or service with higher price.

This category includes general or obscured statements related to product or service. Take for example a range of beauty products. It is hard to say to which product are attributed such declared values: “Pump up your hair
volume”, “make your lips plump get slim instantly”, “get a full body tan without trying...”. All are tricks to reach customers and when it is possible to make that work. The reasons are easy to understand, as long as we know that our body is not perfect as those models that grace our television screens, but all want to look as beautiful as possible. Statements of the same nature are “our vehicles consume less fuel”, “our foods have low fat percentage”. Can we assume that all such products or their characteristics are on average? These statements of a very general nature may mislead and confuse customers.

But not only false advertising is a deceptive practice. Often we face the deceptive marketing practice called “False Price Comparison”. Legitimate advertisers often compare a sale price to a “regular” price. Unscrupulous advertisers use falsely inflated “regular” prices in order to deceive consumers into thinking that they are getting a bargain. There have been cases where a retail sales establishment has raised the regular price of a product and advertised it as on sale at the new higher price.

**Going out of Business Sales** is the case when some retail sales establishments falsely advertise that they are going out of business to deceive consumers into thinking they will be able to buy products at considerable savings. Such false sales are advertised as: “bankruptcy sales”, “lost our lease, “building coming down,” “forced out of business,” “final days,” “liquidation sales,” “fire sales,” “quitting business”, or similar names. In most cases Albanian businesses use this practice for growing the traffic in their stores. In other countries this practice is regulated. It means that businesses which want to advertise going out of business sales must first obtain a permit from the state authorities.

“Misrepresentations” - unscrupulous advertisers often intentionally misrepresent the characteristics, origin, uses, benefits, or qualities of products offered for sale. So, more and more food companies are getting on the bandwagon of advertising and becoming more inventive with their phraseology, presenting food options that look great for the health. People want to stay healthy. They want to be able to eat all those foods that are known to be good for them because we are human and make nutritional mistakes, though if you look closely at the advertising and then the consequences, it really does become almost scary. As mentioned above more important element of deceptive marketing practices is the effect in consumer decision making. It means that the misrepresentation is likely to affect consumer decision to buy a certain product or service. The customer switch the decision because of the effect of advertising or marketing practice used, for example because of the information about consistency, performance, product guarantees.
3. THE SURVEY IN ALBANIA

For the purpose of identifying the presence or not of some types of deceptive marketing practices in Albania, we organized a survey after the summer sale using questionnaires. Other objective of this survey was to identify products and services related to such practices, as well as Albanian consumer behavior in the case of facing them. Then, we analyzed all data collected from these questionnaires and we found that a substantial number of the participants have identified in most cases such deceptive marketing practices:
1. misleading indication as to price (21%)
2. false or misleading representation (28%)
3. bait & switch (15%)
4. other - different types

About the categories of products and services we have identified: Beauty line services; Beauty products; Mobile and phone services; Electrical Appliances; Audio & Visual Goods; Medicines; Bank loan; Vacation packages. Finally, about Albanian consumer behavior came to the conclusion that the response was to very low levels almost non-existent.

The more common instances involving misleading price indication were:
- failing to display clearly and prominently the unit weight referring to the price of a product;
- making price comparison by stating a “reduced price” without quoting the higher price to which it refers;
- stating “regular price” without saying whose regular price it is;

The questionnaire was organized with Open-End, Closed-End questions and multiple choices. The respondents selected on a random basis in several large commercial centers in Tirana, in different time of their shopping. The questionnaire contained 20 questions, starting from the receipt of information if they know what are the deceptive advertising and/or deceptive marketing practices. Other questions were: How often have you made a purchase based on an appealing ad; Have you ever been tricked into believing you are getting more for your money, when in reality you are not? Select from listed practices that you have faced during the last two months; List the categories of products and services related to deceptive marketing practices faced by you; How you react when face fraudulent practices? Do you believe there should be more laws or limitations to protect the consumer from deceptive advertising? Do you know the state bodies responsible for consumer protection? etc.
indicating in small prints the conditions attached to offers at special prices;
confining the maximum reduction quoted to very small quantities of products;
displaying a price for goods or services and then charging a higher price;
refusing to cancel a transaction that a consumer has entered into on the basis of a price indication that is misleading;
advertising an offer that wasn’t true;

The more common instances relating to false or misleading representation made were:
advertising that goods or services have approval, uses, benefits, or performance characteristics they do not have;
claiming that goods or services are of a particular standard, quality, value or grade without providing substantiation;
suggesting that goods are original but it was not true.

Bait & Switch: Most cases were identified for the electrical appliances: a warranty was offered by the shop but not an international warranty and emphasized that the particular brand recommended by salesman would be a much better investment than what the customer has intended to buy in the first instance.

In some other cases, the trader uses high pressure sales tactics to coerce the customer with a view to undermining his rational decision making. These data identify the presence of such practices which must be combated, but this requires first of all the relevant legal regulations.

Let’s be focused on two other examples. Recently, the advertising about yogurt “Activia- Dannon” statements of returning the money in the cases of product does not comply with what is promoted. But, let notice what a consumer on-line newspaper has written for the same ad used by Dannon CO.

“Dannon Co. settled a false-advertising lawsuit, agreeing to set up a $35-million fund to reimburse consumers who bought its Activia and DanActive yogurts. The class-action lawsuit, filed in January 2008, alleged that Dannon lied when marketing its Activia and DanActive yogurts by trumpeting health benefits that didn’t exist. As part of the settlement, the company agreed to make changes to the labeling and advertising of Activia and DanActive by increasing the visibility of the scientific names of the “probiotic” cultures in the yogurts, court documents said. Dannon also agreed to remove the word “immunity” from its DanActive products. DanActive labels that say the yogurt has “a positive effect
on your digestive tract’s immune system” will be reworded to say the yogurt will “interact with your digestive tract’s immune system.” The refund program for customers who bought Activia and DanActive yogurts will pay up to $100 per customer, depending on how much yogurt each bought, court documents said.

Another example is the ad case of mobile phone companies. AMC-Albanian Mobile Telecommunication Company last month launched a new advertising. The advertisement “Albakarta tariffs” began with the appearance of three boys dressed in green, red and yellow shirts, speaking with their mobile phones and aimed to show the superiority of AMC mobile network tariffs towards other mobile networks. This advertisement is typical practice of the comparative advertisement. The advertising stress among others: Do you know how long you can speak by 100 ALL? ... with Alba card ... 10 minutes, comparing improperly bids with two other mobile companies which enable a shorter time. In fact no one understood that this duration and price were valid concerned ourselves if such a conversation and only prolonged the numbers of the same network. The launch took a spot from another competing company Vodafone to understand that this offer was not convenient as it seemed. AMC advertising shows that are dealing with an unfair practice because the information is not clear and very well may confuse customers. But no response came either from the customer or by state institutions but only from competitors.

According to point 1 of Article 25 of Law no. 9902, dated 17.04.2008 “On consumer protection” this advertisement, which explicitly or by implication identifies amongst other traders, goods or services offered by them and it is not allowed for the following reasons: (a) is misleading, because it is likely to deceive the average consumers, being so in contrary with the point 2/a of Article 25; (b) not objectively compares important features, verifiable and representative of the offered service (comparable data on the same basis), being so in contrary to the point 2/c of Article 25.

Vodafone Albania Company submitted a complaint to the commission which examined and decided: To cease the further diffusion of the advertisement “Albakarta” tariffs, in its actual form, in all communication means (television, internet, radio, newspapers, billboards, etc.), starting

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7 www.mete.gov.al/.../20091015103606_consumer_protection_commission_-_decision_1.pdf
4. THE ROLE AND RESPONSIBILITIES OF STATE BODIES, ADVERTISERS AND THE MEDIA

Who are the actors that can play a key role on consumer protection from the deceptive marketing practices? The legislation had given the responsibility to some state bodies as well consumer associations. But we also can consider advertisers and the media.

The role of state authorities: Most consumer protection laws in advanced economies prohibit deceptive, misleading and unfair practices in consumer transactions. Whilst such practices are not uncommon in Albania improvement in legislation and the especially law enforcement is necessary.

Deceptive and unfair practices harm not only the interests of private consumers but also honest businesses who may be caught in the dilemma of either adopting similar tactics or losing position in the market. Demands from both the consumer and the business sectors for more effective measures to curb trade malpractices are mounting.

It is recognized that a vibrant, fair and competitive marketplace is essential to consumer confidence. This means that when making their purchasing decisions in the marketplace, consumers must trust that they are comparing competitively-priced goods and services; that they are being offered the widest possible variety of quality goods and services; and that they are being provided with sufficient product information upon which to make their decisions.

Regard to the Albanian legislation concerning misleading advertising or publicity we can say that the basic provisions are foreseen in Civil Code, Article 635 and especially the new law on consumer protection articles 13-26. Article 23 of “Consumer protection law” has provided particularly misleading publicity. The law has foreseen in detail all cases of such practices and has provided the subject responsibility. So, the content of article 26 is: Subject promoting goods or services, and advertising agencies respond according to relevant provisions of this law for their unfair publicity, misleading or comparative publicity. In the case of misleading publicity to the extent the law provides 100,000 fine ALL 8.

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Consumer protection actually, is the responsibility of Ministry of Economy since the law\(^9\) provides that: “\textit{Ministry responsible for trade area, through the administrative structure for consumer protection, drafting policies and regulatory instruments to ensure consumer protection and effective enforcement of the law.}”

Combating deceptive advertising should be a priority for the Ministry of Economy but not only for it, but also for the Ministry of Health, Ministry of Agriculture and Consumer protection etc., can play the same role. Albania government has already approved some laws which direct or indirect give an important role on consumer protection. But, it is necessary these parties to undertake some enforcement actions to combat deceptive advertising or deceptive marketing practices. Consumer Protection Law authorizes certain structures to review consumer complaints which are: a) the state administrative structure responsible for consumer protection; b) consumer associations; c) the Ombudsman; d) court of arbitration; d) judicial bodies; f) any other structure, created specifically to resolve disputes outside the judiciary.


Priorities of this strategy are:

- To strengthen Albanian customers - real choices based on accurate information, strong self-determination, faith that comes from effective protection.
- To protect the economic interests of Albanian consumers Albanian related to security issues, selection, quality, price, variety, availability, etc.
- To provide for Albanian customers contemporary supervision and market transparency.
- To protect Albanian consumers effectively from risks and threats which can be treated and resolve individually.

The Albanian Consumer Policy supports the aims laid out in Articles 153 and 95 of the Treaty establishing the European Community, which promote the interests, health and safety of European consumers. It is designed to ensure

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that the internal market is open, fair and transparent, allowing consumers to exercise real choice, excluding rogue traders, and helping consumers and businesses take full advantage of the market’s potential.

The Unfair Commercial Practices (UCP) Directive (2005/29/EC)\(^{10}\) introduced a general duty on all businesses not to trade unfairly with consumers. In particular, it obliges businesses not to mislead consumers through acts or omissions; or subject them to aggressive commercial practices such as high pressure selling techniques. The Directive also provides additional protections for vulnerable consumers. Some of these protections broadly replicate existing legislation, but others are new.

This directive is adopted by EU countries only in recent years, while Albania not only should do its part to legislation but should establish and specialized structures to enable its effective implementation. What is required by Albanian state authorities is to coordinate their efforts with consumer protection organizations, advertising agencies and media as well as to educate consumers how to protect themselves from such practices.

**The Role of Advertisers:** So what does this mean for advertisers? The advertisers are responsible for the claims they make about their products. They must comply with the basic principles of advertising law, such as having substantiation and, where appropriate, competent and reliable scientific evidence for the claims they make about their products. There are a variety of sources of information to assist advertisers in complying with the law, and the ministries listed below are some of them. They should issue specific rules why not *An Advertising Guide*.

Legitimate firms advertising legitimate products in an appropriate manner have a real stake in resolving the problem of deceptive advertising. While legitimate marketers take care to avoid misleading claims, they can lose sales to unscrupulous marketers that make false claims promising dramatic results. Even worse, if consumers lose faith in advertising, the entire industry suffers.

Some countries recognized the important role of effective self-regulation. They support the advertising industry’s self-regulatory efforts, conducted by

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a National Advertising Unit of Business Associations. The unit investigates complaints against advertisers brought by both consumers and other advertisers.

**The Role of the Media:** Other major player that may be involved in reducing deceptive advertising is the media. The state authority may distribute the list of false claims to the media to provide clear guidance for screening ads. The screening process that authorities or consumer associations may ask the media to voluntarily adopt involves simply comparing the claims in an ad with the claims on state authorities list. But, it does not mean asking the media to review scientific studies or substantiation for products ads, nor insisting that media outlets require television network-style clearance procedures for products ads. They should ask the media to take steps to screen out obviously false ads.

**CONCLUSIONS**

False advertising and marketing practices are also present in Albania. Our survey pointed out the existence of such tactics and practices as: misleading indication as to price; false or misleading representation; bait & switch etc.

These practices are harmful not only to the customer but also for businesses. The commitment of state authorities and various organizations, including Advertisers and media are necessary to combat such practices as the required.

Also, Albania in the framework of approximation of EU legislation last year adopted a new law for consumer protection and has developed a short term strategy.

Albanian Civil Code and law on consumer protection foresee all possible cases of unfair trade practices including deceptive advertising. Legislation also provides responsible authorities, administrative measures in case of finding these practices. It will take all of us in a combination of dialogue and action to rid the market place of fraudulent and deceptive advertising. It is in our interest to join the fight. All parts including advertisers, ad agencies, and expert endorsers should encourage, attempt to educate, and, enforce the laws aggressively.
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Electronic Ticketing: As One of Successful Applications of E-Commerce; Alternatives and Strategies in The Process of Albania Integration Into European Union

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Abstract

E-commerce and e-business in global economy turned out to be an important component of business strategy and a strong point for economic development. E-commerce has already revolutionized the business domain throughout the world. Due to continuous advancement of information technology the producers and consumers now realize more business transactions through the computer networks.

Electronic ticketing is a form of electronic commerce that offers a new distribution channel for different kinds of tickets e.g. for public transport,
for long distance travel by train or airplane or for cultural institutions like cinemas or museums.

An e-ticket offers many advantages for both travelers and airlines, including security, flexibility, cost and convenience. At the same time, it also provides the standard assurances of the traditional paper ticket, such as seating choice, travel time options and other flexibilities.

In spite of their advantages, e-tickets have some disadvantages. A computer crash could cause a passenger’s reservation and other information to simply vanish. Most networks have backup systems in place to prevent such an occurrence, and passenger printouts of e-ticket documents can guard against this, but it remains a possibility and has happened in the past. Also, frequent flyers, such as business travelers, might make last-minute changes to their plans and forget to use the original e-tickets or apply their value to another flight. In that case, the old paper ticket might serve as a simple reminder.

This paper gives an overview of Electronic Ticketing generally in airlines companies. It includes a discussion on the advantages of Electronic Ticketing and mentions some projects currently in operation. Electronic Ticketing applications for airlines companies are presented and the security problems associated with such applications are raised and techniques to secure such applications discussed.

The main goals of this paper are to indicate some aspects of e-ticketing usage and its risks in e-commerce applications as well as in particular to present the usage of e-ticketing in flight companies operating in Albania.

The methodology used is through interviews in Albanian and foreign flight companies operating in Albania as well as through data collected and compared with updated literature.

The study ends up with the conclusions, on development and strategy of e-ticketing in Albania.

Keywords: e-ticket, e-commerce, interviews, ICT

1. INTRODUCTION

E-commerce has already revolutionized business throughout the world. By progressive advance of information technology, producers and consumers can do now more business transactions through internet. Moreover, internet commerce continues to increase rapidly by increasing of users.

In global economy, e-commerce and e-business have been made an
important component of business strategies, and a strong point for economic development. Integration of the information and information technology in business is a great leap in relations between organization and individuals.

By development of Internet and web-based technology, difference between traditional market and global electronic market has been gradually considerably reduced. Perhaps not all, but developed countries are already members in e-commerce, as sellers or buyers. Nevertheless, to ease the increasing of e-commerce in these countries should be improved development of information technology.

Economy in Internet is a concept including e-commerce and e-business.

B2C is an e-commerce between business and consumers, or between company and consumers, including collecting of information for consumers, selling of the goods (books or consuming goods), information (software or e-books), and for all these goods, best way of sending is by network. Although number of actions is smaller than of B2B, this type of e-commerce is being increased progressively creating facilities for users and companies participating in e-commerce. (Chaudhury, Abijit; Jean-Pierre Kuilboer (2002).

Just E-ticket is one of numerous branches of e-commerce. In a few words, e-ticket exists only like a digital form. It changes the structure and way of how airline companies operate in their business, eliminating many manual jobs and reducing the costs.

During last decade, e-ticketing has been considerably changed, or has influenced on the way how people travel (creating facilities in travelling procedures), and how airline companies operate. The aim is to see what transformation has brought e-ticketing to travelling industry and consumers.

2. WHAT IS E-TICKETING?

An e-ticket (electronic ticket) is a paperless electronic document used for ticketing passengers, particularly in the commercial airline industry. Virtually all major airlines now use this method of ticketing.

E-Ticket is a system for online ticket generation and sales. User can easily book and order the tickets to a cultural or sport event online, pay them online and then print his electronic tickets (downloaded as PDF ticket or image format) at home printer and go directly to the event place. There is no need to wait in queues or be stressed to get tickets just before the event.
2.1. How does it work?

The sale system communicates with the terminals at location and can check validity of each ticket in real time. The system is based on EAN barcodes and terminal running Java application.

Fig 1 the e-ticketing system

To check in with an e-ticket, the passenger usually comes to the check-in counter and presents the e-ticket itinerary receipt which contains a confirmation or reservation code. In some airports and airlines it’s not even necessary to present this document or quote the confirmation code or e-ticket number as the reservation is confirmed solely on the basis of the passenger’s identity, which may be proven by a passport or the matching credit card. After confirming the reservation, the passenger checks-in his/her luggage and is given a boarding pass which usually says “Electronic Ticket” or “E-ticket.” When a customer books a flight by telephone or using the Web, the details of the reservation are stored in a computer. The customer can request that a hardcopy confirmation be sent by postal mail, but it is not needed at the check-in desk. A confirmation number is assigned to the passenger, along with the flight number(s), date(s),
departure location(s), and destination location(s). When checking in at the airport, the passenger simply presents positive identification. Then necessary boarding passes are issued, and the passenger can check luggage and proceed through security to the gate area. (Kathleen Crislip, 2009).

Electronic Ticket Technologies include:
- on-line sales system (e-shop)
- on-line ticket generating application (using EAN barcodes and PDF format)
- sold ticked database
- Java-based terminals to validate the validity of ticket brought by the customer
- platform independent (Unix, Linux & Windows servers compatible)
- high availability, high transaction throughout

2.2. Travelers can check flight information right from their computer

The seller or agency sends an e-mail to the purchaser’s account, confirming the purchase and details of the trip. Sometimes they will send them the e-ticket (which the buyer can print) and sometimes they will send a link to an airline Web site, where the passenger can view or download the e-ticket and travel itinerary. It is a good practice to save these e-mails and print them out, as it can help confirm the ticket purchase in the event of a problem. (Tim Crosby, 2008)

Some online e-ticketing services will save a traveler’s flight information online, enabling that person to access it at any time from different locations simply by logging on to the site and entering a password. Printing this out will suffice as a paper receipt.

Airport security procedures usually call for e-ticket flyers to present government-issued photo identification to claim their ticket and receive a boarding pass. In some cases, other documents or the credit/debit card used to make the online purchase may be required. Passengers should check with individual airlines for appropriate documentation requirements. It is recommended that passengers arrive and check in at the airport - either at the airline counter or a self-serve kiosk, if available - at least one hour prior to your flight. This allows time to iron out any last-minute issues. (Kathleen Crislip, 2009)

However, some e-ticket holders can check in for their flight from their home computer. Once passengers satisfy these requirements, the airline issues a boarding pass, which will allow them through other security checkpoints and onto the aircraft.
2.3. Self-service and remote check-in

The option to check-in online is available on some airlines. A passenger enters their confirmation number at the airline’s website, and the passenger prints the boarding pass on their home printer. Online check-in is typically permitted up to twenty-four hours before the flight’s scheduled departure time, though this may vary by airline. On airlines without assigned seating such as Southwest, it typically guarantees a passenger early boarding and a better seat. Besides identification, the boarding pass that has been printed is all that needs to be presented upon arriving at the airport. On airlines without online check-in, the check in may take place at a self-service kiosk in the airport, or at the check-in counter.

A boarding pass is required to board an aircraft; in some countries, such as the United States, it is also needed to pass through airport security checkpoints. E-tickets are very popular because they allow extra services like:

- online/telephone/self-service kiosk check-in
- early check-in
- printing boarding passes at airport kiosks and at locations other than an airport
- automated refunds and exchanges online, by telephone and at kiosks

Several web sites exist to help people holding e-tickets accomplish online check-ins in advance of the twenty-four-hour airline restriction. These sites store a passenger’s flight information and then when the airline opens up for online check-in the data is transferred to the airline and the boarding pass is emailed back to the customer.

3. E-TICKET LIMITATIONS

E-tickets are sometimes not available for some flights from an airline which usually offers them. This can be due to a number of reasons, the most common being software incompatibility. If an airline issues tickets for a code-share flight with another company, and there is no e-ticket interlining agreement, the operating carrier would not be able to see the issuing carrier’s ticket. Therefore, the carrier that books the flight needs to provide hard copy versions of the tickets so that the ticket can be processed. Similarly, if the destination airport does not have access to the airline who booked the flight, a paper ticket needs to be issued.

Industry discount (ID) tickets also tend to be issued on paper if they are valid for more than one airline, and if the airlines that the tickets are valid
for do not have an interlining agreement. Since e-ticket interlining is still the exception rather than the rule, tickets valid for more than one airline are usually issued on paper.

Currently the ticketing systems of most airlines are only able to produce e-tickets for itineraries of no more than 16 segments, including surface segments.

3.1. IATA mandated transition

As part of the IATA (International Air Transport Association) Simplifying the Business initiative, the association instituted a program to switch the industry to 100% electronic ticketing. The program concluded on June 1, 2008, with the association saying that the resulting industry savings were approximately US$3 billion.

In 2004, IATA Board of Governors set the end of 2007 as the deadline for airlines to make the transition to 100% electronic ticketing for tickets processed through the IATA billing and settlement plan; in June 2007, the deadline was extended to May 31, 2008.

As of June 1, 2008 paper tickets can no longer be issued on neutral stock by agencies reporting to their local BSP. Agents reporting to the ARC, using company-provided stock or issuing tickets on behalf of an airline (GSAs and ticketing offices) are not subject to that restriction.

Except the industry was unable to comply with the IATA mandate and paper tickets remain in circulation as of February 2009.

4. THE PROGRESS OF E-TICKETING

The paper ticket is now a thing of the past. United Airlines was the first airline to issue electronic tickets, back in 1994. A decade later however, only 20% of all airline tickets were electronic. The industry was missing out on an opportunity to save US$ 3 billion a year. Aside from the substantial cost savings, electronic tickets are also more convenient for passengers – they would no longer have to worry about losing tickets and changes to itineraries could be made more easily.

In June 2004, IATA set an industry target of 100% ET in four years. At the time, many believed this was an unrealistic goal. Evolving standards, uncertainty about the return on investment and skepticism about the customer acceptance of paper in parts of the world were some of the reasons why e-ticketing hadn’t taken off.
It took only four years to reach 100% ET. On 1 June 2008, the industry moved to 100% electronic ticketing. Together, IATA and airlines, travel agents, airports, system providers, and GDSs have moved an entire industry from the paper age into the full electronic era. Armed with a mandate from the IATA Board, StB was able to mobilize the industry. Through local engagement, the ET team was able to understand and meet the varying needs of airlines – from those who needed little help to those who hadn’t issued a single electronic ticket. And by engaging and understanding the needs of partners – from GDS’s to ground handlers – StB facilitated the adoption of ET across the industry.

The Vision is 100% implementation of e-ticketing worldwide by 2007.

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*Fig 2 Current Status/Forecast for ET Penetration by Airlines in IATA BSPs*

4.1. The Implementation of the system

Driving paper out of ticket process with Electronic Ticketing (e-ticketing) is achievable by the target date of 2007.

*All major components for 100% e-ticketing are in place:*
- Robust technology in place in many airlines, or from GDS and other service providers;
- Various solutions for inter-connections of ET Systems for interline ET (Hub Ware solution developed by different providers);
- Technical expertise at all levels;

*Proven cost benefit:*
- All IATA offices will be capable of handling e-ticketing in BSPs by the end of 2004.

*IATA’s Action List:*
- Stop distributing paper tickets by end 2007
- Coordinate all stakeholders to ensure readiness
• Ensure education and technical support systems for less developed regions
• Examine the feasibility of eliminating all other paper documents

5. E-TICKETS ADVANTAGES

An e-ticket offers many advantages for both travelers and airlines, including security, flexibility, cost and convenience. At the same time, it also provides the standard assurances of the traditional paper ticket, such as seating choice, travel time options and other flexibilities. (Kathleen Crislip, 2008)

Unlike the traveler who leaves his ticket at the office, e-tickets are impossible to “lose” because they reside in a computer database network. For this reason, they are hard to steal, as well. Passengers typically print out copies of their e-ticket, including confirmation e-mails, itineraries and other documents. All those documents can be replaced by pulling them out of the computer again, and only a person with the proper identification can actually use the e-ticket. With the old paper tickets, passengers who lost or forgot them might be charged a fee for the airline to make new ones. In some cases, passengers were required to buy new tickets at full-price. E-tickets offer a distinct advantage in this area.

A passenger also may find it easier to make changes to their travel itinerary using an e-ticket, as the travel agency or airline need only update their database with the requested changes rather than incur the expense of physically issuing a new ticket. Dealing with e-tickets is much less costly to airlines - the industry estimates a savings of $3 billion annually if it used e-tickets only which make it possible for airlines to offer more competitive fares to passengers. The tickets also are booked and processed in a more timely way, saving labor hours and cutting down on traveler frustration.

Convenience: Easier handling of itinerary changes and last minute travel decisions

More effective use of internet capabilities No more “lost tickets”

Booking your flight has become so easy. With the implementation of the E-Ticketing system; all you have to do is get online, choose your destination and book your ticket. E-Ticketing follows the same procedure as an ordinary ticketing, except that the details of the E-Ticket, along with the passenger’s name, E-Ticket number, flight details and price, are saved in the computer system instead of being printed. Once the booking is made, you will receive a receipt with all the above details. All you need to do is print out the receipt and present it at the airport check-in, just as you would do with a regular ticket. It couldn’t be easier. With this
new system, your E-Ticket can never be lost or stolen.

Additional e-ticketing cost savings derive from:

- Elimination of printing, postage, shipping, storage and accounting costs
- Elimination of costs for collateral materials (envelopes/ticket jackets)
- Reduction in counter airport counter space through increased use of self-service check-in
- Increased efficiency in revenue accounting

After the sale, airlines can more easily track down passengers to inform them of itinerary adjustments, cancellations and other last-minute changes. Airlines and travel agencies also are plugging into the growing numbers of devices travelers use to communicate and manage their lives. E-ticket passengers can receive everything from gate assignments to cancellation or delays through e-mail and text messaging sent to their home or business computers or to their cell phones, personal data assistants (such as a Palm Pilot), pagers or some portable combination devices that handle multiple communication tasks and data management, such as a BlackBerry. For harried business travelers, this can be especially convenient, as it provides real-time updates on their travel arrangements without slowing them down. Airlines and travel agencies also can use the system to alert travelers to special discounts or promotions, possibly saving them money. E-tickets, in short, allow airlines and travel agencies to use the strengths of today’s e-culture, both for their own and their passengers’ benefit. The principal advantage of e-ticketing is the fact that it reduces booking expense by eliminating the need for printing and mailing paper documents. Another advantage is that it eliminates the possibility of critical documents getting lost in the mail or being sent to the wrong address. 100% e-ticketing will save the industry up to US$ 3.0 billion per year.


Travel agencies save on the cost of maintaining ticket printers and ticket inventory control. Using an e-ticket often gets the passenger through the gate and on the plane quicker and with less hassle than a paper ticket as airlines encourage passengers to use the e-tickets.

Finally, using e-tickets is a more environmentally friendly approach. The IATA estimates the industry would save the equivalent of 50,000 mature trees per year, about three square miles of forest, if it used e-tickets exclusively.
6. E-TICKET DISADVANTAGES

In spite of their advantages, e-tickets have some disadvantages. A computer crash could cause a passenger’s reservation and other information to simply vanish. Most networks have backup systems in place to prevent such an occurrence, and passenger printouts of e-ticket documents can guard against this, but it remains a possibility and has happened in the past. Also, frequent flyers, such as business travelers, might make last-minute changes to their plans and forget to use the original e-tickets or apply their value to another flight. In that case, the old paper ticket might serve as a simple reminder. (Kathleen Crislip, 2008).

With its much-improved efficiency, e-ticketing also could make some jobs, such as those at travel agencies and airline reservations desks, obsolete, adding to unemployment. With world conflicts and security a constant issue, some experts argue e-tickets and the procedures associated with purchasing and using them make it harder to detect risks. Foreign travel also can be hindered using e-tickets, as some countries require seeing a return ticket before allowing travelers into their countries in order to ensure they are not flouting their immigration laws.

Although e-tickets can be more flexible under some circumstances, their holders can be at a disadvantage to paper ticket holders in the event a last-minute cancellation forces them to transfer to another airline. Because airlines largely invented their own networks and procedures for issuing e-tickets early on, they are not always compatible, meaning hassles for the passenger trying to transfer a ticket.

7. THE FUTURE OF E-TICKETS

It is safe to say airline e-tickets are here to stay. They already make up a majority of the market, and the industry is committed to increasing that percentage. Airlines are moving toward a “self-service model,” with passengers researching, booking, buying, checking in and boarding virtually without airline assistance.

As all this occurs, analysts foresee great improvements in standardizing e-ticketing among airlines. Continental Airlines, for example, this year announced it had implemented a standardized system with 77 carriers both domestic and internationally, allowing passengers to travel on any of them using a single, paperless e-tickets.
The industry also plans continued improvements in flexibility, reliability and real-time updates. Some of this will depend upon other advancements in Internet software and hardware advances, as well as improvements in wireless technology. The airlines, for instance, are working on plans to increase the number of multi-carrier self-serve kiosks at major airports. The industry also wants to adopt a standardized bar coding system to increase the speed and accuracy of check-in and boarding passes.

The public’s comfort level with e-business transactions - online bill paying, shopping and such - is rising. Some hotels also are installing self-serve airline e-ticket kiosks in their lobbies, where travelers can make plans and receive updates on their flights. At the same time, some airlines already are charging passengers up to $20 for the “extra” service of providing them with a paper ticket. With these and other factors looming, there are many reasons to believe the paper ticket will be totally replaced by its electronic cousin, the e-ticket.

8. E-TICKETING IN ALBANIA.

In Albania have their activities about 14 local and foreign airline companies, covering flights as foreign citizens in different countries of the world departed from Tirana. To bring the reality of e-ticketing in Albania, we prepared some questionnaires, which have been sent to most important companies, as Albanian Airlines, Austrian Airlines, Malev, Lufthansa and Belle Air, and managed to have an idea about situation of history of e-ticketing in Albania as part of e-commerce and as a mean of integration in Europe.

In a continuous attempt to reach requests of IATA, Austrian Airlines will offer e-ticketing for its 130 destinations from 01-06-2008 and continually. Company has changed the system of tickets on first of June, 2008, within last deadline. As a result, 130 airports which will be part of itinerary net of Austrian Airlines Group will be able to invite their passengers to benefit from many possibilities offered by “paper-free” flight. This can be used for programmed and privileged destinations with individual sales.

Investigation officer of Austrian Airlines for new system has pointed out: by converting into the system of e-ticketing, we have made a historic step forward. Using e-tickets and services as web check in, with function of their printed boarding pass.

Austrian Airlines has 17 years operating in Albania, having flights from
Tirana to Vienna and then in all destinations this company has in the world. Austrian Airlines in Albania is operating with e-tickets since two years. The need of using this system, was born as part of simplified and modern form of issuing tickets in order to reduce administrative costs of ticket production etc. Company uses the Amadeus system of reservation. Implementation of e-ticketing took about 1 month, and generally there had no difficulties during this process. The system is controlled directly from the center and there is no IT staff in Albania, but officials and agents are frequently trained. According to questioned staff, advantages are highly facilitation of administration of all e-ticketing process, as well as facilitation of using a document for every itinerary, eliminating the use of printers of tickets and all related costs. Facility in further processing of passenger itinerary in case of effective changes, facilitates saving and checking of tickets database as a principal financial document of passenger-company relation. Difficulties in using the system will happen only in case of a total “black out”. In such a case, this system doesn’t allow to make operations with e-tickets, when it happens, you are obliged to turn back to old method of working manually. According to local staff, this system has improved the correspondence in time and quality. As a result, service has became more professional, which is very important for businesses that try to benefit from every minute, so costumers will be satisfied, although, in some cases are faced with difficulties in its administration, because of inexperiencing the system and its technological process.

Lufthansa has two years operating in Albania, having flights from Tirana to Munich and then in all destinations this company has in the world. Lufthansa in Albania is operating with e-tickets since two years. The need of using this system, was born as part of simplified and modern form of issuing tickets in order to reduce administrative costs of ticket production etc. Company uses the Amadeus and Galileo system of reservation. Implementation of e-ticketing took about one month, and generally there had no difficulties during this process.

Hungarian company Malev has 50 years operating in Albania and covers about 70 destinations, departing from Tirana, and its arrival in Budapest. This company has two years operating in Tirana with e-tickets. Its managers in Tirana say using of e-ticketing creates facilitates for passengers, in computer systems, and replacing without costs. For Malev branch, there is no IT staff in Tirana, but everything is directed and observed by central residence in Budapest. Local staff is continuously trained and there is no serious difficulty in using of this system. This system has positively influenced in relation with costumers, is quick and has many satisfied costumers (about 90% of them).
Frequently are practiced promoting campaigns with travel agencies.

Albanian Airlines, is first albanian company founded in 1992, having 17 years experience. It undertakes flights in 5 States, aiming to cover space of 8 States in the future. Albanian Airlines company uses both types of tickets, manual and e-tickets. New e-ticketing system has been implemented in June 2007, and lasted nearly two weeks. Initially, there were difficulties in using of this technology and adopting of staff and its training. The staff directly related to e-ticketing actually is in London, although there are staff dealing with IT. According to Albanian Airlines staff, by entering in use eticketing, costumers are satisfied, because it includes facility, quickness, so they have not previous problems (loss of tickets etc). Except of e-ticketing, Albanian Airlines also uses system booking online, which is a special system of e-ticketing.

Belle Air Company is another Albanian Company which started to operate in Albania three years ago, with about 24 destinations. It uses another form of operation, the system of booking online.

**CONCLUSIONS**

After a detailed view of e-ticketing in the world and particularly in Albania, advantages and disadvantages, we note that:

- ✓ e-ticketing proved to be a positive step ahead for both, consumers and corporate of airlines travels
- ✓ More advantages, more important are effect.
- ✓ Security problem can be solved by appointing more personnel at the gates, or simply by doing the check in impenetrable.
- ✓ Bigger problem for the time being is setting up a communicating system among different companies.
- ✓ Rapid progress in evolution of e-ticketing system showed once more its domination on air ticket system.
- ✓ E-ticketing showed that, through informatics technology can efficiently changes a long determined process.
- ✓ During a time of ten years, consumers have changed the process of travelling by booking flight tickets through a simple and common daily process, as booking online.
- ✓ Consumers have advanced in holding tickets for boarding pass. Today they can do a self check in in kiosks (self-check-in kiosks,) or more advanced check in in their homes.
✓ Reduce the costs associated with printing and mailing tickets to your ticket buyers. Eliminate or reduce the need for ticket stock, envelopes and postage.
✓ Labor Savings. Reduce the labor associated with printing and mailing tickets. Cut down on the effort required to retrieve tickets for Will Call pick up orders.
✓ Safe and Secure. E-Tickets are safe and secure. Barcode validation eliminates the possibility of counterfeit and duplicate tickets.
✓ Actual Attendance Reporting. Find out how many of your e-ticket patrons attended your event and when they arrived.
✓ Instant Delivery. Ticket buyers’ love being able to print their tickets immediately. There’s no need to wait for the mail or wait in line at the event. Customers can print their electronic tickets immediately after they purchase them. This makes e-tickets ideal for the last minute gift or the last minute decision.
✓ Additional Information. E-Tickets provide space for additional useful information such as street maps, driving directions, and other information your customers may need to know.
✓ Advertising. Tickets provide unique advertising capabilities. Increase your organization’s revenues by offering advertising space on your web ticket.

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Factors of Critical Success in Destination Marketing

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Abstract

As a consequence of globalization, the marketing of places has grown in importance as countries, regions and individual destinations compete with one another to attract investment and visitors. In order to compete effectively, it is essential to identify the critical success factors and ensure these are incorporated into one’s strategic planning.

An extensive review of the literature covering place and destination marketing indicates that image and identity play an important role in differentiating between objectively similar alternatives. Accordingly, the branding of destinations has become of major importance and is analyzed in depth. Thirty-three factors are identified, clustered into four categories, that may be considered CSFs to be taken into account when developing tourism strategies and plans.

Key words: Globalization, marketing, critical success factors (CSF)

1. INTRODUCTION

The marketing of places is a new concept in Albania. It has been developed quite recently after the forcing demand for a better promotion of the country as a whole but even of specific areas which embodied unique values. Place marketing is defined by Kotler et al. (1999) as ‘...a place planning procedure
Concerning the satisfaction of the needs of target markets. It could be successful when it satisfies two main parameters: a) The enterprises’ and the residents’ satisfaction from the purchase of goods and services that the place provides, b) the satisfaction of the expectations of potential target markets (enterprises and visitors), as long as the goods and the services that the place provides to them are those that they wish to get. In essence this requires the satisfaction of both internal and external stakeholders and involves four primary activities: designing the right mix of community features and services; setting attractive incentives for the current and potential buyers and users of its goods and services; delivering a place’s products and services in an efficient, accessible way; promoting the place’s values and image so that potential users are fully aware of the place’s distinctive advantages (Kotler et al., 1993: 18). Six generic strategies are suggested to achieve this:

- Attracting tourist and business visitors
- Attracting businesses from elsewhere
- Retaining and expanding existing businesses
- Promoting small business expansion and fostering new business start-ups
- Expanding exports and outside investments
- Expanding the population or changing the mix of residents (Ibid.).

Intuitively, these would appear to be ranked in some kind of ascending order with the attraction of visitors leading to business, and social and economic development. While each of these might be regarded as a different market ‘segment’ their interdependence and interrelationship are illustrated in Kotler et al.’s (2002) framework ‘Levels of place marketing’ (Figure 1).

**Figure 1. Levels of place marketing**

![Figure 1](image)

*Source: Kotler et al. (2002: 46)*

Clearly, place marketing is not only limited to increasing tourist arrivals but also plays an important role in regional/urban development, country positioning.
in international relations and economic development. The marketing of places as destinations has become increasingly competitive in recent years as it has become well established that such a ‘large, complex and special entity as a destination’ is able to be marketed in much the same way as a product (Howie, 2003). Against this background, our purpose is to explore the nature of destination marketing and identify factors associated with its successful planning and execution. To achieve this we begin by defining destination marketing and reviewing evidence from both academic and practitioner studies that spell out some of the key considerations that need to be taken into account.

2. DESTINATION MARKETING

A destination is a place that attracts visitors for a temporary stay, including continents, countries, states, cities, villages and purpose-built resort areas (Pike, 2004), and thus is an amalgam of all the tourism services and experiences offered to consumers (Buhalis, 2000). According to the WTO (2004: 10): ‘... destination marketing covers all the activities and processes to bring buyers and sellers together; focuses on responding to consumer demands and competitive positioning; is a continuous coordinated set of activities associated with efficient distribution of products to high potential markets; and involves making decisions about the product, branding, price, market segmentation, promotion and distribution’. As the definitions of both place and destination marketing indicate, a major challenge is the fragmentation of ownership. There is no single product over which the producer has total control, instead the tourism product is comprised of organisations of varying sizes, government and the natural environment, and the image of a destination can be affected by uncontrollable external events (Bennett, 1999). Thus there are many different stakeholders involved in the process, including both public and private organisations and local residents, all of whom, individually, have little control over the marketing of the destination product. In addition, the definitions suggest that destination marketing must satisfy the needs of all these stakeholders as well as target segments. Thus, Prideaux and Cooper (2002) argue that destination marketing should occur not only on the demand side to increase visitor numbers, but also on the supply side to market the destination to intermediaries and to increase the numbers of sellers through investment in accommodation, entertainment and infrastructure, etc. Moreover, Buhalis (2000) proposes that destination marketing be used as a strategic mechanism in coordination with planning and management
to provide suitable gains to all stakeholders, and not simply as a promotional tool. Buhalis further suggests that in order to fulfill this aim, the most successful and competitive destinations will be those that impose effective human resource training, cooperate with competing and complementary destinations to learn from them, undertake innovative, research-led marketing using new technologies and fulfil the four key generic strategic objectives listed in Table 1.

Table 1. Strategic marketing objectives for destinations.

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<td>1.</td>
<td>Enhance the long-term prosperity of local people</td>
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<td>2.</td>
<td>Delight visitors by maximising their satisfaction</td>
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<td>3.</td>
<td>Maximize profitability of local enterprises and maximize multiplier effects</td>
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<td>4.</td>
<td>Optimize tourism impacts by ensuring a sustainable balance between economic benefits and socio-cultural and environmental costs</td>
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Baha’is (2000) argues that the implementation of these objectives will depend on the relationships between, and the dynamics of, the different destination stakeholders that are represented in Byhalia’s (2000) dynamic wheel of tourism stakeholders as illustrated in Figure 2.

Figure 2. The dynamic wheel of tourism stakeholders:

Source: Buhalis (2000)

A further problem in destination marketing is often the lack of proficiency, resources and flexibility in public sector entities, which can be ‘self-serving bureaucracies, which are not nimble nor fleet of foot’ (Bennett, 1999). Thus, considering this and the need to satisfy the needs of all destination stakeholders, cooperation between public and private sectors is important. Clearly, collaboration between stakeholders and the development of a strategic plan are fundamental to success in destination marketing.
3. DESTINATION PLANNING

The tourism plan addresses what is to be done and when, estimates costs, suggests which agencies will be involved in implementation, and suggests how to measure change and the effectiveness of the response (Howie, 2003). While there is no defining text that states what constitutes an effective destination marketing plan, several important and emerging areas are cited in recent literature. First, the increasingly competitive tourism environment and the nature of destinations require that a strategic perspective is adopted when developing tourism plans. Deffner and Metaxas (2005) argue that during the last 20 years developing a long-term vision has become of increasing importance to European cities, in order to become more competitive and increase market shares. Gunn (2002) notes the significance of image in tourism planning today. In the competitive tourism market, the author warns of the danger of replicating the same theme of tourism development and so argues that analysis of factors such as the destination’s cultural and natural resources, geographical characteristics and tradition is required in order to differentiate the destination from the competition. The WTO (1994: 16) recognises: ‘During and after implementation, tourism development must be monitored to ensure that it is accomplishing the objectives and achieving the recommended policies. Monitoring will detect any serious problems that arise so that remedial measures can be taken before the problems become serious’. Thus, implementation, monitoring and review are crucial aspects of a destination tourism plan.

A further issue pertinent to tourism planning and destination development is collaboration (Jamal and Getz, 1995). Jamal and Getz (1995) define the former as a process of joint decision making among autonomous, key stakeholders of an inter-organizational, community tourism domain to resolve planning problems of the domain and/or to manage issues related to the planning and development of the domain.

4. DESTINATION BRANDING

A brand is defined by Keller (2003: 4) as ‘...a product, but one that adds other dimensions that differentiate it in some way from other products designed to satisfy the same need’. Additionally, a brand is ‘...a shared desirable and exclusive
idea embodied in products, services, places and/or experiences’ (Kapferer, 2004: 13), and to be successful it must establish an emotional relationship with the consumer by ensuring that there is a fit between the consumer’s needs and the brand’s values and features (Hankinson and Cowking, 1993).

Howie (2003) stresses the importance of branding and positioning in relation to the product element of Kotler’s marketing mix that comprises: product, price, promotion and place. So, according to Hall (2002), brands encompass:

- a clear and distinct image which differentiates them from competitors;
- association with quality and a distinctive way of relating to the customer;
- the ability to deliver long-term competitive advantage;
- something greater than a simple set of physical attributes.

On these grounds, it could be argued that branding is now a fundamental component in a destination-marketing plan. Indeed, Kania (2001) argues that branding is the most important element in any marketing plan. Although, the topic of destination branding did not appear in tourism literature until the late 1990s (Pike, 2004), it has, like corporate and product branding, become increasingly important in recent years. As suggested earlier, the definition of a brand appears to satisfy many of the aims of destination marketing and thus highlights the importance of branding to destinations. Several authors confirm this, arguing that branding provides a good starting point for destination marketing and a sound framework by which to manage the image of a place (see eg Kavaratzis, 2004; Kotler et al., 1999) and that branding is at the very heart of destination marketing strategy (Pike, 2004). Furthermore, many believe a successful brand to be a key national asset (Kotler et al., 1999; Kotler and Gertner, 2002. The reasons why image and branding have become of such importance to organisations in recent years are also shared by destinations, with the main reasons for destination branding growth being related to either competition issues or consumer behaviour. Substitutability has become one of the main problems for destinations today, especially in the most competitive markets such as sun, sea and sand markets, and many destinations are becoming increasingly substitutable (Pike, 2004). In addition most destinations have excellent facilities and services and claim to have unique culture and heritage (Morgan and Pritchard, 2002). Howie (2003) also identifies the ‘I love NY campaign’ as one of the most successful brand identity building and positioning campaigns, as well as the ‘Super Natural British Columbia’ campaign. Several further branding campaigns and slogans,
including those of Albania spots, past and present, that have been cited as particularly effective are presented in Table 2.

Table 2. Destination branding campaigns and slogans.

<table>
<thead>
<tr>
<th>Destination</th>
<th>Campaign/Slogan</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand</td>
<td>100% Pure New Zealand</td>
</tr>
<tr>
<td>Australia</td>
<td>Australia: A Different Light</td>
</tr>
<tr>
<td>Spain</td>
<td>Everything Under The Sun</td>
</tr>
<tr>
<td>India</td>
<td>Incredible India</td>
</tr>
<tr>
<td>Scotland</td>
<td>Silicon Glen</td>
</tr>
<tr>
<td>Cyprus</td>
<td>The Island for All Seasons</td>
</tr>
<tr>
<td>Singapore</td>
<td>Live It Up in Singapore</td>
</tr>
<tr>
<td>Paris</td>
<td>Paris is for Lovers</td>
</tr>
<tr>
<td>Copenhagen</td>
<td>Wonderful Copenhagen</td>
</tr>
<tr>
<td>Amsterdam</td>
<td>Capital of Inspiration</td>
</tr>
<tr>
<td>Las Vegas</td>
<td>What Happens in Vegas, Stays in Vegas</td>
</tr>
<tr>
<td>Albania</td>
<td>Albania – The Last Secret</td>
</tr>
<tr>
<td>Albania</td>
<td>New Mediterranean Love</td>
</tr>
</tbody>
</table>

Clarke (2000) further emphasises the relevance of branding to tourism destinations by highlighting the marketing advantages of branding to tourism organisations or destinations, which she summarizes into six points. These are as follows:

- Tourism involves complex and high involvement purchase decisions and so branding can reduce the choices available to consumers.
- Branding can help offset the effects of the intangibility of the tourism product, especially if combined with positive past experience.
- Branding can communicate consistency in a sector that is sensitive to variability of experience.
- Branding can act as a mechanism to reduce the risk of ill-spent time through selection of a poor destination.
- Given the inseparable nature of the tourism product and the desire for segment compatibility therefore being high, branding helps ensure tourist satisfaction and thus facilitates precise segmentation.
- Motivation and teamwork are of high priority in such a high-contact service as tourism and brands can provide a focus for the integration of producer effort and assist people in working towards the same outcomes.

The need for the branding of destinations and branding’s relevance to tourism
appear indisputable, as is the view that the development of a unique, effective branding campaign can differentiate a destination from the competition.

5. DESTINATION BRAND BUILDING

Given the importance of image to destination branding, Aaker’s (1991) model of consumer-based brand equity can be of use in the application of brand theory to destinations. Aaker’s model suggests that consumer-based brand equity consists of four major components: brand loyalty, brand awareness, perceived quality and brand associations. Additionally, Morgan and Pritchard (2004) recognize that neither place reputations nor visitor choices are made in a vacuum, and so destinations must compare their image to those of key competitors. They suggest that ‘wish you were here?’ appeal and celebrity value are critical, that is, do tourists see the destination as a fashion accessory or a fashion faux pas? Figure 3 positions several destination brands according to these two factors.

Figure 3. The destination brand positioning map

Source: Morgan and Pritchard (2004: 67)

Morgan and Pritchard (2004) also identify the stages involved in destination brand building, that are presented in Table 3.

Table 3 - The five phases in destination brand building.

<table>
<thead>
<tr>
<th>Phase one</th>
<th>Market investigation, analysis and strategic recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase two</td>
<td>Brand identity development</td>
</tr>
<tr>
<td>Phase three</td>
<td>Brand launch and introduction: communicating the vision</td>
</tr>
<tr>
<td>Phase four</td>
<td>Brand implementation</td>
</tr>
<tr>
<td>Phase five</td>
<td>Monitoring, evaluation and review</td>
</tr>
</tbody>
</table>

The authors further add that in order to create an emotional attachment a destination brand has to be:

- Credible
- Deliverable
- Differentiating
- Conveying powerful ideas
- Enthusing for stakeholders and partners
- Resonating with the consumer

The second last point highlights the importance of cooperation from all stakeholders. Indeed, Prideaux and Cooper (2002) contend that without this cooperation brand fragmentation, as opposed to brand building, would occur.

6. SUCCESS FACTORS

Success factors try to explain why place marketing practices are successful or unsuccessful and represent the ability and capacity of a location to take these into account in developing an effective marketing strategy for a location (Rainisto, 2003).

Based on our review of the literature we identified 33 different success factors. Based broadly on the suggestion of Morgan and Pritchard (2004) (Table 4), we have clustered these factors into four stages involved in destination brand building which we have called: strategic orientation; destination identity and image; stakeholder involvement; and implementation, monitoring and review. The allocation of individual factors was judgmental and not based on formal cluster analysis. The specific factors included under these headings and their importance to destination branding may be explained as follows.

7. STRATEGIC ORIENTATION

The first phase in destination branding, according to Morgan and Pritchard (2004), is market investigation, analysis and strategic recommendations. This suggests that the important elements are related to situational analysis factors, goals and objectives, and strategy. According to Johnson and Scholes (2002), strategy is the ‘direction and scope of an organisation over the long term’. Thus, adopting a strategic orientation involves taking a long-term and holistic approach to tourism planning. Further to this, investment in buildings and brand infrastructure sufficient to make the promised brand experience a reality
is required for successful branding (Hankinson, 2003). Thus, the provision of suitable gains to all stakeholders, long-term vision and the negative impacts of tourism over and above visitation are indicators of a strategic orientation.

8. DESTINATION IDENTITY AND IMAGE

Identity development, image and communicating the vision comprise the second and third phases of destination brand building. Place identity is how a place wants to be perceived and is a unique set of brand characteristics that destination marketers want to create or maintain and that differentiate it from other places (Rainisto, 2003). Image, however, is the sum of beliefs, ideas and impressions that people have of a place and must be valid, believable, distinctive and appealing (Kotler et al., 1999). Therefore, as noted by Pike (2004) and Keller (2003), a brand represents an identity for the producer and an image for the consumer, with brand positioning the interface between the two. Likewise, Rainisto (2003) adds that marketing communications can be used as a bridge between the identity and image of a place.

9. BRAND IMPLEMENTATION, MONITORING AND REVIEW

Implementation, monitoring and review form the last two phases in destination brand building, (Morgan and Pritchard, 2004). Simpson (2001) notes that it is often in these end phases that many strategic planning processes fail, and so effective planning should include implementation, monitoring and review elements in acknowledgment of this.

Such elements, according to Simpson (2001), include prioritising objectives, assignment of responsibility for key tasks, estimation of costs, the inclusion of a review mechanism and methods by which resources should be allocated. In addition, Pride (2002) notes that continual evaluation, monitoring and adjustment to what is being done in order to determine the effectiveness of the brand is required and, similarly, Metaxas (2003) in Deffner and Metaxas (2005) argues that feedback procedure performance is one factor necessary for effective destination marketing.

The 33 critical success factors and their assignment to the four categories are summarised in Table 4.
Table 4 - Critical success factors derived from the literature review.

<table>
<thead>
<tr>
<th>Strategic orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Visitation statistics are included and the destination’s main markets are quantified and segmented</td>
</tr>
<tr>
<td>2. The main competition is identified</td>
</tr>
<tr>
<td>3. Tourism trends are identified</td>
</tr>
<tr>
<td>4. A long-term orientation is adopted</td>
</tr>
<tr>
<td>5. The importance of international competitiveness is recognized</td>
</tr>
<tr>
<td>6. The need for infrastructure improvements is highlighted</td>
</tr>
<tr>
<td>7. The need for integration with national/regional tourism plans is recognised</td>
</tr>
<tr>
<td>8. Residents’ attitudes to tourism are considered</td>
</tr>
<tr>
<td>9. Local cultures, values and lifestyles are considered</td>
</tr>
<tr>
<td>10. Wealth and job creation and quality of life for residents are primary aims</td>
</tr>
<tr>
<td>11. The issue of overcrowding is addressed</td>
</tr>
<tr>
<td>12. The issue of environmental problems is addressed</td>
</tr>
<tr>
<td>13. The issue of seasonality is addressed</td>
</tr>
<tr>
<td>14. The benefit of tourism to the destination is quantified</td>
</tr>
<tr>
<td>15. Scenarios are developed</td>
</tr>
<tr>
<td>16. The need to develop brand identity is recognized</td>
</tr>
<tr>
<td>17. Brand associations are identified</td>
</tr>
<tr>
<td>18. The need for image development is recognized</td>
</tr>
<tr>
<td>19. Positioning is discussed</td>
</tr>
<tr>
<td>20. The need for coordination of industry promotional material is recognised</td>
</tr>
<tr>
<td>21. Recognition to ensuring the promises made in marketing communic. are conveyed to visitors</td>
</tr>
<tr>
<td>22. New and innovative forms of communication channels are addressed</td>
</tr>
<tr>
<td>23. The need to improve branding and brand awareness is recognized</td>
</tr>
<tr>
<td>24. The importance of experiences to tourists as opposed to tangible propositions is recognized</td>
</tr>
<tr>
<td>25. National government agencies are involved in planning</td>
</tr>
<tr>
<td>26. Local government agencies were involved in planning</td>
</tr>
<tr>
<td>27. The area tourist board/area tourist office was involved in planning</td>
</tr>
<tr>
<td>28. Local residents were involved in planning</td>
</tr>
<tr>
<td>29. Local businesses were involved in planning</td>
</tr>
<tr>
<td>30. The need to improve communication between stakeholders (pub., priv. and resid.) is recognised</td>
</tr>
<tr>
<td>31. Leadership is addressed to give greater guidance to stakeholders.</td>
</tr>
<tr>
<td>32. The timescale for each task is included</td>
</tr>
<tr>
<td>33. The need for monitoring and review is established</td>
</tr>
</tbody>
</table>
Taken together, we believe the four categories and 33 individual success factors provide a useful checklist against which to benchmark extant tourism planning documents as well as guidance for the development of effective plans for the future.

10. DESTINATION MARKETING DEVELOPMENT IN ALBANIA

The study made is more comprehensive and covers a great deal of destination marketing organizations operation worldwide. The study also shows the impacts of these organizations and what they really should represent.

In Albania we have a different picture. Destination marketing organizations are in their embryonic phase.

Since Tourism has never been a priority of the government so far destination marketing organizations have played a minor role in promoting touristic destinations the way they should.

The weak political factors worldwide, the adverse image of Albania as well as the Tourism left as a minor priority have brought to chaotic Tourism situation in Albania where incoming fluxes played a inferior role compared to outgoing tourism. The lack of efforts from public institutions or entities, accompanied with a negative publicity of other western countries caused a general fear to tourists who wanted to visit Albania.

The situation changed for the first time in 2006 where CNN broadcasted the first spot promoting Albania as a tourist destination. It showed the first sign of the Government’s will to promote Albanian Tourism and also this spot signed for the first time the slight change of world mentalities concerning Albanian tourism. Must be stated that the promotion efforts are played by the state with the support of different donors such as USAID, UNDP, GTZ etc.

The initial spot did have the desired effect even because of the not appropriate mean of promotion. CNN was not the best mean for the promotion of Albanian Tourism since the nearest travelers are europeans and CNN is more American. Therefore the mistake was corrected and the spot was published to Euro News hoping that it is attended from most European visitors and people who like adventure, new and exotic places.

The spot brought new fluxes and a greater concern of tourist, Travel Agencies and Tour Operators, for Albania.

The central state efforts are accompanied with some efforts from the local government where in some cities are opened Tourist Information Offices. Cities
like Tirana, Shkodra now have their Tourist information offices where can be found the appropriate information concerning the tourism in those cities.

Unfortunately this destination marketing effort is not the same in many distinguishable touristic places like Apolonia, Berat etc.

Tourism industry in Albania is still weak, not organized properly and yet not aware on the role they should play in destination marketing. Furthermore the seasonality and lack of incoming fluxes jeopardize the profits of touristic structures and them by their turn more reluctant in spending for marketing and promotion of destinations.

Still there are some Travel Agencies like Destination Albania, Albania Holidays, Albexx Travel and Tours, which are promoting Albania as a touristic destination mainly through web sites, participations on fairs and exhibitions and personal contacts. But this is more individual rather than organized.

Now Albania is creating its own brand concerning cultural tourism with its great representation of UNESCO protected values, such as Butrinti, Gjirokastra and Berat.

Saranda and the Riviera are also becoming distinguished brands in region concerning sun and sea tourism. Articles from Tourism writers all over the world are telling to worldwide travelers to come to Albania where they will find the “latest unspoiled beaches” in Europe.

Also in a ranking of 50 more authentic destinations worldwide Albania got two places as the overall country, so all of Albania and Gjirokastra has a specific place. There were no countries in the world represented twice in the ranking compared with Albania.

Therefore we might emphasize that Albania is still in initial phases concerning the efforts it should made concerning the destination marketing. The study takes the worldwide experience and uses it in defining of what marketing should do to promote touristic destinations.

CONCLUSIONS

In an increasingly competitive global environment, places — towns and cities, districts, regions and countries — need to differentiate themselves from one another if they are to attract industry and commerce and sustain the economic and social development of their inhabitants. To do so they need to understand fully the nature of their competitive environment, and their own strengths and weaknesses, as a basis for crafting effective marketing
strategies and plans for their implementation. Central to the success of this process is knowledge and understanding of those factors that impact upon it—what may be termed ‘critical success factors’ or CSFs.

In this paper, we have undertaken an extensive review of both the academic and practitioner literature relating to place and destination marketing. In addition to highlighting a number of CSF, this review confirmed the importance of branding and the development of a strong brand and strategy for promoting it. Evidence in support of this claim has been presented together with broadly based advice on the use of the listing of CSF as a basis for evaluating the content and relevance of the marketing/branding strategy. We believe the use of this checklist should prove useful in both the development and evaluation of destination marketing plans. Inevitably, its value will depend significantly on the users ability to operationalise the individual factors in the context of the specific problems they are seeking to solve.

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MARKETING STRATEGY ORIENTATION AND ITS INFLUENCES TO THE BUSINESS SUCCESS OF BANKS IN GLOBAL MARKET

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Abstract

The banking sector has a great importance and role in the economic development. It has an important role in creating and strengthening competitive advantage of domestic economy.

In the condition of the globalization of services sector, is needed a fundamental change in the business organization’s behavior. This study will asses if the banks are oriented by marketing strategy or no.

From our point of view the most important factor for creating advantage and market position is marketing orientation. Services marketing strategy

1 Dr. Drita Kruja finished her graduate and postgraduate studies at the Faculty of Economics in University of Tirana. She has attended various scientific research activities at the University of Bologna, University of Social sciences of Roskilde, Denmark; University of Applied sciences in Bocholt and Eberswalde, Germany, etc. She has lectured as visiting professor at Economics University, Prague, Czech Republic and Corvinus University of Budapest. She has participated in the project of Economic Development Strategy for the Municipality of Shkodra/Albania. Actually she is Head of Tourism Department and Head of Administrative Council at University of Shkodra “Luigj Gurakuqi”.

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and banking marketing strategy are, by their very nature, more retention than winning new customer.

To realize this study primary and secondary sources will used in harmony with one-another and in function of the hypothesis.

The statistical analysis will realized by SPSS.

Key words: Banking sector, marketing strategy, customer – retention marketing.

1. INTRODUCTION

Marketing strategy in the banking sector must be totally interrelated with corporate and business strategy. It’s difficult to separate the corporate strategy level from marketing and functional level. Banks are changing their focus from attracting new clients to retention of existing ones. They use so-called frequency market-concept, which makes existing customers more profitable by broadening the range of services bought by customers from the bank (Bateson, 1995). Customer retention is a critical component of frequency marketing efforts.

The objective of many marketing strategies in the last 10 years has been building the customer’s commitment to a brand or a dealer. This has taken three forms:

• Creating customer satisfaction - delivering superior quality products and services (Gale and Chapman, 1994).

• Building brand equity - the sum of the intangible assets of a brand.

Factors that contribute to this are: name awareness, perceived quality, brand loyalty, the associations consumers have towards the brand, trademarks, packaging, and marketing channel presence (Aaker, 1991).

• Creating and maintaining relationships (Peppers and Rogers, 1993).

Success with any of these strategies will result in high levels of repeat purchase, insulation from price increases and improved responsiveness to marketing communications by customers.

There has been an evolution of marketing thought and activity over this last decade.

Initially, the quality movement placed customer satisfaction as the ultimate goal of marketing programs. However, as satisfied customers were shown to defect to other brands or providers at relatively high rates, strategists looked to creating a greater commitment with the customer.
Relationship marketing sought to build interdependence between partners and relied on one-to-one communications, historically delivered through the sales force. With the growth of marketing databases and the Internet, the ability to reach customers individually became a viable strategy for a wide range of firms.

Taking inspiration from mass customization, manufacturing technologies and applying them to marketing communications, Peppers and Rogers encouraged a one-to-one focus on “share of customer” rather than the mass marketer’s “share of market.” This was based on the marketer’s ability to communicate a unique message to the customers based on the company’s knowledge of their interests. They claimed that this one-to-one interaction with customers would lead to improved lifetime value.

Another marketing concept that is directly related to customer-retention efforts is after-marketing (Vavra, 1992). It implies the importance of marketing efforts after the initial sale has been made.

The main point of all these concepts is customer-focused orientation (strategic intent), which allows high-quality interactions and, based on that, satisfaction and customer loyalty.

Customer-focused and customer-retention marketing are based on following prerequisites:

- It costs less to serve long-term customers.
- Loyal customers will pay a price premium.
- Loyal customers will generate word-of-mouth referrals to other prospective customers.

The banks try to apply customer focused marketing concepts in order to assure profitable business results.

2. THE BANKING SECTOR IN ALBANIA

The banking system transformation in Albania followed almost the same path as in other former socialist countries. The creation of a viable and sound financial system has been a fundamental aspect of the transition to a market economy.

The banking sector in Albania has a history of 15 years. The first banking reform was undertaken in 1992. It consisted mainly in transforming the Albanian banking system from a one tier to a two tier system. The laws on the banking system in the 1992 served as the legal base for this reform. During this period the performance in credit intermediation was weak and the range of services provided to the public was also limited. Many of financial activities
in the economy were carried outside the licensed financial institutions. The state-owned banks were engaged in domestic lending, but they operated as government agencies, with soft restrictions in funds management and failed to apply the lending practices in compliance with international standards. Also, the Central Bank’s supervisory capacities of that time were limited.

Following this period, the lack of a formal operational banking system, associated with an insufficient structure of regulations and supervision, contributed to the flourishing of pyramid schemes. The 1997 events served as an encouraging element for deeper reforms in the banking sector. The saving pyramids connected with banks and other financial institutions reached peak in 1996 and after that banking sector collapsed (Barisitz, 1999).

Another reform was needed immediately. A new banking law was drafted to enhance the supervisory role and prudential regulation of central bank. The reform of that period was mainly focused on: improving the legal and regulatory infrastructure; building of reliable institutions; strengthening the financial structure and liquidating or privatizing the state – owned banks.

First steps were made to the new reform and develop the rudimentary weak banking system at the end of 1997 and in 1998. Banking sector was dominated by 3 state banks with very high proportion of non-performing loans. One of them (The Agricultural National Bank) was liquidated in January 1998, other two begun restructuring to prepare for privatization. Also the Bad Asset Resolution Trust was created and in 2000 the National Commercial Bank was privatized. During 2004, the privatization process of the Savings Bank was finalized, being purchased by the Raiffeisen International Bank Holding, thus recording the transfer of 94% of the banking capital to private ownership.

Actually the Albanian banking system is composed of 17 banks, 14 of which are with foreign capital. The capital source is from different places, such as Greece, Italy, Austria, Germany, Bulgaria etc. During the last two years, the activity of the banking system has been increasing.

2.1. The activities of the banking sector in Albania.

The entry of new banks in the market has increased the competition in the banking sector. The banks that have had the licenses recently, with the aim of gaining market share have tried to offer a wide range of products and services to the public. The Bank of Albania has given 8 licenses for new banks since 1997 and there have been four cases of changes in the ownership of the banks. The figure below gives these changes in years.
Table 1. Licenses given after the 1997

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>New banks</td>
<td>2</td>
<td>2</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Change of ownership</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>2</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Bank of Albania

As we can see from the table two, the assets of the banks have been unused, which means that the main activity toward which banks are going to be directed is the crediting. The rates of the profitability are good but still, the main sources of the revenue have been the investments in governments bonds, placement in foreign banks outside Albania and banks services commissions.

We can notice that for the year 2008 there is a decrease in the use of assets and also on profitability (as indicated by the decline in ROA and ROE). This may be connected with the global financial crisis which was reflected in Albania mainly in the beginning of the second half of 2008 and during 2009.

Table 2. The banking indicator in years.

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</tr>
</thead>
<tbody>
<tr>
<td>Active of the system/GDP</td>
<td>50.2</td>
<td>53.5</td>
<td>51.6</td>
<td>50.2</td>
<td>51.9</td>
<td>59.3</td>
<td>69.4</td>
<td>75.9</td>
<td>78.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROA (Return on Capital)</td>
<td>0.6</td>
<td>2.1</td>
<td>1.5</td>
<td>1.2</td>
<td>1.3</td>
<td>1.4</td>
<td>1.36</td>
<td>1.57</td>
<td>0.91</td>
<td>0.16</td>
<td></td>
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<tr>
<td>ROE(Return on Equity)</td>
<td>16.4</td>
<td>20.7</td>
<td>21.6</td>
<td>19.1</td>
<td>19.5</td>
<td>21.1</td>
<td>22.2</td>
<td>20.2</td>
<td>20.74</td>
<td>11.35</td>
<td>1.79</td>
<td></td>
</tr>
<tr>
<td>Deposits/Passive</td>
<td>86.2</td>
<td>84.0</td>
<td>87.5</td>
<td>97.0</td>
<td>87.2</td>
<td>83.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit /Active</td>
<td>16.4</td>
<td>10.4</td>
<td>8.9</td>
<td>11.5</td>
<td>13.6</td>
<td>16.4</td>
<td>25.7</td>
<td>31.5</td>
<td></td>
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</tbody>
</table>

Source: Bank of Albania

Credit activity. For several years banks have followed a conservative business strategy. The funds collected by the public were mainly invested in government bonds or similar instruments. But after the previous mentioned reforms and developments in the banking system, the banks followed the strategy of softening the procedures, the decrease of the interest rates and also adding the range of services. All these had the aim of strengthening the market position. The performance of commercial loan to private sector and to households is also satisfactory. Its growth rate has been constantly exceeding the expansion rate of banking assets. Over the last years, private loans have improved considerably; for 2005-2006 it recorded a cumulative
growth of 175 per cent, which is the highest growth recorded in the region and the Central and East-European countries. Another characteristic in support of foreign crediting institutions is the free choice of currency, where almost 3/4 (three-fourth) of total loan was extended in foreign currency. More recently speaking, according to the Economic Bulletin (2007) the credit to economy grew under stable rates over the first two months of 2007, amounting to ALL 203.5 billion at end February and accounting for 22.4 per cent of the GDP. This was mostly a consequence of the increasing contribution of short term loans, foreign currency loans and of business loans.

Banks have preferred to give loans in foreign currency rather than in leks in order to avoid the risk of exchange rates and interest rates. The stability of the exchange rates was connected somehow with the engagement of banks in risky activities. On the other hand banks have preferred to invest leks in government bonds, as their return has been good enough. The public also has preferred less the loans in lek because of high interest rates. But we can notice that in the last years the stability of the interest rates and of the exchange rates also has brought an increase in the share of loans in leke. The increase in the concurrence has also has a big impact in these structural change.

On the maturity, is normal to notice that in the first years the short – term loans where dominating. This is due to the low level of economic development, for which the loans where mainly use for financing the circulating capital. The economic development in the last years has caused important changes toward the use of the medium term and also the long terms loans. Another thing that can be noticed is the increase in the loans for the immobile propriety, which coincide with a high development in the construction industry (especially apartments).

The rate of loans to the deposits or to the total assets changed from bank to bank. In smaller banks these rates are higher and the vice versa is true for the bigger banks.

On the side of the borrower, the demand has been stable, with a growing tendency. Besides the conservative attitude of the banking system, high costs and initially low range of services, businesses and individuals have demanded money (to the banks) to finance the consumption, investment and the needs for liquidities in the short – term.

The actual relationship bank – client is the result of several factors, positive and negative that happened during the development of the banking system. One that must be mentioned is the level of banking culture among the population which has lead to the lack of knowledge of basic banking services and also in avoiding the loan repayment. Also another negative factor has been
the preferential nature of giving loans from banks. The critical situation of 1997 and also the panic of 2002 have had an impact in the trust of the public in the banking system, which still does not see the bank as a partner in its activities. On the other side the positive elements have been stronger. The politics followed by banks and from the supervisor authority (BoA), have led to a continuous increase in the stability and the financial activity of the banks. The development of the banking system has led to the increase of the trust from the public. The increase in the competition and also the introduction of potential foreign banks have had a positive impact in the consolidation of the trust of population in the banking system, which is expressed through the increase in deposits and the use of the several services/products banks are actually offering.

3. RESEARCH METHODOLOGY

To carry out this study, the primary and secondary sources were used in harmony with each-other and in function of the hypothesis.

The theoretical and historical background has been combined with the practical part of the study in which new data have been collected through questionnaires.

The basic method used is quantitative research through two questionnaires: first with banking manager and second with customers, which retrieve their opinion on the issue.

The questionnaires were composed of closed questions.

200 self-completed questionnaires have been distributed for customers and have been returned 84% in a random sample.

17 self-completed questionnaires have been distributed for managers of all banks that operate in Albania and have been returned 100% in a non-random sample.

Based in banking sector development in Albania and theoretical background our hypothesis is:

**Albanian banking sector is oriented to customer-focused marketing (strategic intent), as the most important factor for creating competitive advantage.**
4. RESULTS AND FINDINGS

In the questionnaire directed to managers, there is a table including 24 statements describing possible indexes of customer-focused marketing (strategic intent). The respondents were asked to rate, on a 5-point Likert scale (5—strongly agree, 3—neither agree nor disagree, 1—strongly disagree), the degree of their agreement or disagreement for 24 statements. In order to examine their relative importance, the 24 statements have been ranked by mean scores. The mean and standard deviations for the 24 statements are shown in Table 1 (annex 1). As it illustrates, this level of analysis suggests a strong positive attitude towards marketing orientation.

The statements with the strongest support were “Top management stresses again and again that the focus should be on the customer”, “Our bank has many competitors in the industry”, “The marketing philosophy is visible everywhere within our bank”. “The quality of our services is better than our competitors”, and “Our bank does its utmost to be the best”. What these statements suggest, is that the management of these banks is concerned more at clients. The purpose is to realize marketing goals, to create and built strong relations with the customers and strengthening customer loyalty.

Factor analysis was applied to the data. The approach to factor analysis according to the main study objectives was based on above hypotheses.

Of the bold factor loading, eighteen are positive and six are negative. These indicate that for ex. Variable 4 and variable 1, 2, 3 and 5 are in opposite directions.

The “Total Variance Explained” table following shows the eigenvalues, which are the proportion of total variance in all the variables which is accounted for by that factor\(^2\). Only seven are extracted for analysis because, under the Extraction options, SPSS was told to extract only factors with eigenvalues of 1.0 or higher.

---

\(^2\) A factor’s eigenvalue may be computed as the sum of its squared factor loadings for all the variables. A factor’s eigenvalue divided by the number of variables (which equals the sum of variances because the variance of a standardized variable equals 1) is the percent of variance in all the variables which it explains. The ratio of eigenvalues is the ratio of explanatory importance of the factors with respect to the variables. If a factor has a low eigenvalue, then it is contributing little to the explanation of variances in the variables and may be ignored as redundant with more important factors.
Table 5. Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.

<table>
<thead>
<tr>
<th>Statements</th>
<th>Components</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Our bank provides extensive after sales service</td>
<td>.922</td>
</tr>
<tr>
<td>2. The quality of our services is better than our competitors’</td>
<td>.886</td>
</tr>
<tr>
<td>3. Our bank does its utmost to be the best</td>
<td>.765</td>
</tr>
<tr>
<td>4. Developing new services is risky to us</td>
<td>-.661</td>
</tr>
<tr>
<td>5. Our bank has many competitors in the industry</td>
<td>.601</td>
</tr>
<tr>
<td>6. New service introductions are often adaptations and modifications of</td>
<td>.570</td>
</tr>
<tr>
<td>existing cooperation between the various departments is poor</td>
<td>-.943</td>
</tr>
<tr>
<td>8. The exchange of information between the various departments is poor</td>
<td>-.836</td>
</tr>
<tr>
<td>9. The marketing philosophy is visible everywhere within our bank</td>
<td>.762</td>
</tr>
<tr>
<td>10. Our bank regards employees as customers</td>
<td>.722</td>
</tr>
<tr>
<td>11. At our bank we learn from each others’ mistakes</td>
<td>.658</td>
</tr>
<tr>
<td>12. Our bank often launches new services</td>
<td>.894</td>
</tr>
<tr>
<td>13. Launches of new services have often failed for our bank</td>
<td>-.754</td>
</tr>
<tr>
<td>14. Our bank has a unique marketing policy for every market segment</td>
<td>.712</td>
</tr>
<tr>
<td>15. Our bank is not aware of the present activities of competitors</td>
<td>-.693</td>
</tr>
<tr>
<td>16. New plans about the way our bank will operate in the market are</td>
<td>.910</td>
</tr>
<tr>
<td>communicated well and clearly</td>
<td></td>
</tr>
<tr>
<td>17. New plans and changes which affect my own work directly are</td>
<td>.594</td>
</tr>
<tr>
<td>communicated well and clearly</td>
<td></td>
</tr>
<tr>
<td>18. Our bank encourages all customers to voice complaints and give</td>
<td>.851</td>
</tr>
<tr>
<td>19. Our bank knows all its present customers superficially</td>
<td>-.754</td>
</tr>
<tr>
<td>20. Our bank is aware of the preferences of customers</td>
<td>.687</td>
</tr>
<tr>
<td>21. At our bank clearly formulated marketing goals exist</td>
<td>.832</td>
</tr>
<tr>
<td>22. At our bank everybody sees themselves more as providers of services</td>
<td>.710</td>
</tr>
<tr>
<td>to solve consumer problems rather than sellers of services</td>
<td></td>
</tr>
<tr>
<td>23. Our bank has a unique marketing policy for every customer</td>
<td>.819</td>
</tr>
<tr>
<td>24. Top management stresses again and again that the focus should be on</td>
<td>.741</td>
</tr>
<tr>
<td>the customer</td>
<td></td>
</tr>
</tbody>
</table>
The “Rotation Sums of Squared Loadings” give the eigenvalues after rotation improves the interpretability of the factors (we used Varimax rotation, which minimizes the number of variables which have high loadings on each given factor). The seven factors solution satisfies both Kaiser’s criterion of selection. Note that the total percent of variance explained is 88.120% (see the cumulative value for factor 7). That is, after rotation each extracted factor counts for a different percentage of variance explained, even though the total variance explained is the same.

Table 6. Extraction Method: Principal Component Analysis.

<table>
<thead>
<tr>
<th>Factors</th>
<th>Extraction Sums of Squared Loadings</th>
<th>Rotation Sums of Squared Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>% of Variance</td>
</tr>
<tr>
<td>2. Relationship marketing 1</td>
<td>4.065</td>
<td>16.939</td>
</tr>
<tr>
<td>(internal relationship)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Frequency marketing (New</td>
<td>3.799</td>
<td>15.830</td>
</tr>
<tr>
<td>services)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Relationship marketing 2</td>
<td>1.864</td>
<td>7.766</td>
</tr>
<tr>
<td>(Customer retention)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Relationship marketing 3</td>
<td>1.791</td>
<td>7.461</td>
</tr>
<tr>
<td>(Customer service)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Relationship marketing 4</td>
<td>1.254</td>
<td>5.226</td>
</tr>
<tr>
<td>(long-term relationship)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Also, each factor is named in accordance with the meaning of the correlated variables. As we discussed in theoretical analysis these three marketing concepts (relationship, frequency and after-marketing) have as a theme the customer-focused and retention orientation. Thus, management perception is customer retention focus.

In the second questionnaire directed to customers, there is a table including 16 statements, which serve to measure the bank customers opinion regarding retention focus. The respondents were asked to rate, on a 5-point Likert scale (5–Much better I expected, 3–about what expected, 1–much worse than I expected), the degree of their agreement or disagreement for 16 statements.

Factor analysis was applied to the data.
Table 7. Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization

<table>
<thead>
<tr>
<th>Statements</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. “Courtesy of Bank staff” is:</td>
<td>.959</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. “Bank staff being sympathetic when I have problems”</td>
<td>.940</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. “Ease of contacting the bank manager” is:</td>
<td>.912</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. “Personal attention I receive from bank staff” is:</td>
<td>.867</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. “Service Quickness of bank staff” is:</td>
<td>.767</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. “Concern shown by bank staff if queues get too long” is:</td>
<td>.919</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. “Respect for privacy of my financial affairs” is:</td>
<td>.879</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. “Bank staff telling me when services will be performed” is:</td>
<td>.787</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. “Ability of bank to apologize for mistakes” is:</td>
<td>.750</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. “Promptness of service from bank staff” is:</td>
<td>.695</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. “Bank staff’s knowledge of bank’s new services and products” is:</td>
<td></td>
<td></td>
<td></td>
<td>.932</td>
</tr>
<tr>
<td>12. “Quality of advice given about new services” is:</td>
<td></td>
<td></td>
<td></td>
<td>.834</td>
</tr>
<tr>
<td>13. “Quality of advice given about managing my finance” is:</td>
<td></td>
<td></td>
<td></td>
<td>.785</td>
</tr>
<tr>
<td>14. “Number of new services” is:</td>
<td></td>
<td></td>
<td></td>
<td>.714</td>
</tr>
<tr>
<td>15. “Measuring of customer feedback” is:</td>
<td></td>
<td></td>
<td></td>
<td>.807</td>
</tr>
<tr>
<td>16. “After sales service” is:</td>
<td></td>
<td></td>
<td></td>
<td>.722</td>
</tr>
</tbody>
</table>

Only four factors are extracted for analysis. The four factors solution satisfies both Kaiser’s criterion of selection. Note that the total percent of variance explained is 93.64. Also, each factor is named in accordance with the meaning of the correlated variables.

Table 8. Extraction Method: Principal Component Analysis.

<table>
<thead>
<tr>
<th>Component</th>
<th>Extraction Sums of Squared Loadings</th>
<th>Rotation Sums of Squared Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>% of Variance</td>
</tr>
<tr>
<td>1. Relationship marketing 1 (customer service)</td>
<td>9.673</td>
<td>56.900</td>
</tr>
<tr>
<td>2. Relationship marketing 2 (Customer retention and increased commitment)</td>
<td>2.985</td>
<td>17.562</td>
</tr>
<tr>
<td>3. Frequency marketing (new services)</td>
<td>1.916</td>
<td>11.268</td>
</tr>
<tr>
<td>4. After marketing</td>
<td>1.345</td>
<td>7.911</td>
</tr>
</tbody>
</table>

This statistical analysis shows that customer’s perception for banking actions is in the customer retention. The comparison of two above statistical
analysis shows that, there isn’t a gap between management perception and customer perception of the banks retention focus, thus our hypothesis is true.

CONCLUSIONS

✓ Apart from the high foreign bank participation, the Albanian banking system is also experiencing a continuous growth. This has been shown in the increase of the range of the products provided by banks, in their geographic expansion, and in the boost of the lending activities.
✓ The competition in the banking system has been increasing continuously, and this fact has increased the efforts of the banks, especially the small ones to keep their share in the market.
✓ The customer –focused orientation (strategic intent) allows high-quality interactions and, based on that, satisfaction and customer loyalty.
✓ There isn’t a gap between management perception and customer perception of the banks retention focus.
✓ The banking sector in Albania use relationship, frequency and after-marketing concepts, thus its focus is the customer retention.

BIBLIOGRAPHY

2. Bank of Albania (2006), Annual Report,
### Annex

Table 1. Means and standard deviations for the 24 statements

<table>
<thead>
<tr>
<th></th>
<th>Min.</th>
<th>Max.</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our bank has a unique marketing policy for every segment of the market</td>
<td>2.00</td>
<td>5.00</td>
<td>3.3077</td>
<td>1.03155</td>
</tr>
<tr>
<td>The quality of our services is better than our competitors’</td>
<td>3.00</td>
<td>5.00</td>
<td>4.2308</td>
<td>.72501</td>
</tr>
<tr>
<td>Our bank has many competitors in the industry</td>
<td>1.00</td>
<td>5.00</td>
<td>4.4615</td>
<td>1.12660</td>
</tr>
<tr>
<td>Our bank provides extensive after sales service</td>
<td>2.00</td>
<td>5.00</td>
<td>3.7692</td>
<td>.83205</td>
</tr>
<tr>
<td>New service introductions are often adaptations and modifications of existing</td>
<td>2.00</td>
<td>4.00</td>
<td>3.1538</td>
<td>.89872</td>
</tr>
<tr>
<td>At our bank clearly formulated marketing goals exist</td>
<td>3.00</td>
<td>5.00</td>
<td>4.0769</td>
<td>.49355</td>
</tr>
<tr>
<td>Top management stresses again and again that the focus should be on the customer</td>
<td>4.00</td>
<td>5.00</td>
<td>4.5385</td>
<td>.51887</td>
</tr>
<tr>
<td>Our bank has a unique marketing policy for every customer</td>
<td>1.00</td>
<td>4.00</td>
<td>3.5385</td>
<td>.87706</td>
</tr>
<tr>
<td>The marketing philosophy is visible everywhere within our bank</td>
<td>4.00</td>
<td>5.00</td>
<td>4.3846</td>
<td>.50637</td>
</tr>
<tr>
<td>At our bank everybody sees themselves more as providers of services to solve consumer problems rather than sellers of services</td>
<td>1.00</td>
<td>5.00</td>
<td>2.9231</td>
<td>1.25576</td>
</tr>
<tr>
<td>Our bank encourages all customers to voice complaints and give</td>
<td>3.00</td>
<td>5.00</td>
<td>3.9231</td>
<td>.75955</td>
</tr>
<tr>
<td>Our bank does its utmost to be the best</td>
<td>3.00</td>
<td>5.00</td>
<td>4.1538</td>
<td>.68874</td>
</tr>
<tr>
<td>New plans and changes which affect my own work directly are communicated well and clearly</td>
<td>3.00</td>
<td>5.00</td>
<td>3.9231</td>
<td>.64051</td>
</tr>
<tr>
<td>New plans about the way our bank will operate in the market are communicated well and clearly</td>
<td>3.00</td>
<td>5.00</td>
<td>4.0769</td>
<td>.64051</td>
</tr>
<tr>
<td>Our bank regards employees as customers</td>
<td>2.00</td>
<td>5.00</td>
<td>3.0769</td>
<td>.86232</td>
</tr>
<tr>
<td>Our bank is aware of the preferences of customers</td>
<td>3.00</td>
<td>5.00</td>
<td>4.0769</td>
<td>.49355</td>
</tr>
<tr>
<td>Our bank often launches new services</td>
<td>2.00</td>
<td>5.00</td>
<td>3.7692</td>
<td>.72501</td>
</tr>
<tr>
<td>At our bank we learn form each others’ mistakes</td>
<td>2.00</td>
<td>5.00</td>
<td>3.8462</td>
<td>1.06819</td>
</tr>
<tr>
<td>Developing new services is risky to us</td>
<td>1.00</td>
<td>3.00</td>
<td>2.0769</td>
<td>.49355</td>
</tr>
<tr>
<td>Launches of new services have often failed for our bank</td>
<td>1.00</td>
<td>3.00</td>
<td>1.8462</td>
<td>.68874</td>
</tr>
<tr>
<td>The exchange of information between the various departments is poor</td>
<td>1.00</td>
<td>4.00</td>
<td>1.9231</td>
<td>.95407</td>
</tr>
<tr>
<td>Our bank knows all its present customers superficially</td>
<td>1.00</td>
<td>4.00</td>
<td>2.2308</td>
<td>1.01274</td>
</tr>
<tr>
<td>Our bank is not aware of the present activities of competitors</td>
<td>1.00</td>
<td>2.00</td>
<td>1.4615</td>
<td>.51887</td>
</tr>
<tr>
<td>Cooperation between the various departments is poor</td>
<td>1.00</td>
<td>4.00</td>
<td>1.9231</td>
<td>.95407</td>
</tr>
</tbody>
</table>
Advertising, Internet and Disintermediation in Tourism: 
*The Case of Albania*

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**Abstract**

Since advertising is particularly important in tourism, the paper analyses this concept in the particular case of Albania using primary data from sample surveys of holiday hotels and tourists. It also examines the relationship between Internet and disintermediation and tries to give an answer to whether the Internet leads to disintermediation or not, especially in high-risk countries. The results indicate that the most frequent and effective advertising medias considered were television, Internet and travel agencies, which were

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employed by the majority of the hotels who advertised. On the other hand, two important sources of information for tourists are repeat visits and friends/word of mouth, while advertising, travel agencies and Internet represent an infrequent source of information. In other words, although a considerable proportion of hotels employ their own website for advertising, only a few tourists seemed to be informed through this source, which may be important for future business decisions. This may support the previous evidence in the literature and suggests that disintermediation (by the use of Internet) is less likely in high-risk countries.

**Key words:** advertising, Internet, disintermediation, holiday hotels, Albanian tourism.

1. **INTRODUCTION**

Tourism is extremely dependant on the information and communication industries. As considered by Kushi (2008), the strategic role of information in the tourism industry may be explained by considering three important aspects of the tourism “good”. First, the tourism good is a combination of goods, meaning that it constitutes a set of characteristics such as location, transport, accommodation, attractions and support services. Each of these components constitutes a potential source of information asymmetry. Second, the tourism product is an “experience” good, meaning that tourists cannot appreciate the quality of the tourism good before they consume it, and they cannot actually taste a sample of the product. Thus, as Nelson (1974) suggests, they can only study the tourist information available and try to evaluate the quality. Third, the tourism product is a localised activity and a tourist does not always know the precise location. It can be a historical site, a natural park, a restaurant, a hotel, and so on. As consumers face a lot of sources of information, firms need to signal their existence, and not only for differentiation (that is the role of the brand), but to give information to the consumers about their location inside the multidimensional space: informational and geographical space.

One strand of literature (for example, Akerlof, 1970; Spence, 1973; and Stiglitz, 1975) concentrates on several market responses to the information problem, such as reputation, signalling, screening, guaranties and so on. Another strand, closely linked with the first, tries to extend the theory by showing that advertising is an important concept in markets with asymmetric
information, such as tourism. Most of them identify several ways through which advertising affects products quality and prices. Furthermore, they describe how advertising may solve the problem of low quality products, if it signals quality. Several studies in this area (for example, Akerlof, 1970; Leland, 1979; Wolinsky, 1983; and Shapiro, 1986) agreed that if it is difficult for buyers to assess the quality of the product, such as the case of tourism products, sellers of high quality products will not be able to command higher prices for higher quality. If quality is costly to produce, high quality products will withdraw from the market (Mocan, 2003). Advertising is often seen as a key area of need for all tourism enterprises in general and this highlights the critical importance of good and extensive advertising for their success.

Moreover, a new strand in the literature relates to the Internet as one of the most important information tools and advertising medias in the tourism industry (for example, Doolin et al., 2002; Murphy and Tan, 2003; and Cai et al., 2004). Corfu and Azevedo (2007) suggest that using the Internet as a means to promote tourism organisations reduces dramatically the costs of advertisement. Also consumers become closer to the information and asymmetries in accessing the information are reduced. Disintermediation, which most commonly refers to the substantially reduced role of traditional travel agents in the distribution of tourism product, is another phenomenon consequent from the use of the Internet as an information tool.

However, there is no clear answer in the literature to whether the Internet leads to disintermediation or not. Wiig (2004) argues that, in fact, the intermediaries play the role of both bundler of goods (making a package) and certifiers (guaranteeing the quality). The possibility of disintermediation depends on whether the Internet influences these roles (Wiig, 2003). The certification role is linked to the fact that tourism is an information-intensive product characterised by asymmetric information. In these circumstances, proper certification mechanisms or other trust-enhancing factors are of vital importance in order to increase sales since they may reduce the transaction costs that arise when there is asymmetric information between the consumer and the service provider. If customers cannot rely on the information provided on the homepage, they will not use the information, and direct contact becomes a non-viable option. Wiig (2004) finds some empirical evidence that disintermediation is more likely in markets with low risk. The study suggests that, although new information technology may facilitate direct marketing and a higher retention of revenue (by eliminating the intermediaries), this process will mainly take place in low-risk countries.
Since there is no clear evidence in the literature regarding the relationship between Internet and disintermediation, this paper intends to analyse these concepts in the particular case of Albania. More specifically, it has two important objectives: first, to identify the most frequent advertising medias of Albanian tourism enterprises; and second, to observe if Internet leads to disintermediation in the case of Albanian tourism. The paper is structured into four important sections. Section 2 explains the data used and Section 3 discusses the research results. The final section presents the conclusions of the paper.

2. DATA

UNWTO (2001) argues that one of the most important issues characterising the tourism industry worldwide is the absence or insufficiency of data and data sources at the national level. In Albania this situation is even more problematic. In addition to the inefficiency of basic statistics on tourism, the literature on this topic is scarce. There are a very limited number of studies on tourism in general and only a few of these include any information on the effectiveness of different advertising medias in general and Internet in particular.

Given this situation, the paper makes use of primary data collected during the peak season of summer 2006 in Durres, the major sun-and-beach segment in Albania, for an analysis of this sector. The investigation is focused only on the holiday hotels sector because, according to the Ministry of Tourism, Culture, Youth and Sports (MTCYS, 2006) and Institute of Statistics (INSTAT, 2006), it constitutes the most developed sector within this industry. The necessary information was collected through the use of two questionnaires, one for holiday hotels representatives and another for tourists. The investigation covered Durres coast which represents the largest beach and sea destination of the holiday hotels sector in Albania, with a coast of six km long and 150-180 m wide and only 39 km from Tirana, the capital of Albania. Based on lists of hotels provided by various sources (particularly Chamber of Commerce in Durres and INSTAT), the sample of hotels includes 83 holiday hotels, which represent almost the whole population of legal holiday hotels on the Durres coast. The sample of tourists is specified through a sampling technique and includes 454 tourists in the area.
3. DISCUSSION OF THE RESULTS

The survey investigated the six important advertising medias which were employed by holiday hotels in the study area. The holiday hotels which advertise (44 out of 83) were asked their ranking of the effectiveness for each employed media. Table 1 summarises their answers. The most frequent and effective medias considered were television, own website and travel agencies, which were employed by the majority of the hotels who advertised, respectively 75 per cent, 63.6 per cent and 61.4 per cent of hotels in the dataset.

<table>
<thead>
<tr>
<th>Advertising media</th>
<th>Most effective</th>
<th>Effective</th>
<th>Not so effective</th>
<th>(Not employed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Press</td>
<td>18.2</td>
<td>11.4</td>
<td>6.8</td>
<td>63.6</td>
</tr>
<tr>
<td>Television</td>
<td>31.8</td>
<td>20.5</td>
<td>22.7</td>
<td>25</td>
</tr>
<tr>
<td>Radio</td>
<td>4.5</td>
<td>18.2</td>
<td>2.3</td>
<td>75</td>
</tr>
<tr>
<td>Travel agencies</td>
<td>29.6</td>
<td>15.9</td>
<td>15.9</td>
<td>38.6</td>
</tr>
<tr>
<td>Mail</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Own website</td>
<td>38.6</td>
<td>18.2</td>
<td>6.8</td>
<td>36.4</td>
</tr>
<tr>
<td>Other medias</td>
<td>4.5</td>
<td>9.1</td>
<td>0</td>
<td>86.4</td>
</tr>
</tbody>
</table>

Mail is never employed from any of the holiday hotels, even though it is a cheap way of advertising compared to other medias. The preliminary investigation identified a few hotels using Mail as an advertising media. However, during the final survey it was found that those hotels had abandoned this way as it was difficult to apply to Albania or had resulted “not effective at all”. This outcome reflects the poor mail system in Albania, which suffers from the lack of the postcodes in the country and a lack of mail addresses for the majority of houses, buildings, blocks and streets built after the years 1990. In addition, two other advertising medias (radio and press) are not very popular, being employed respectively by 25 per cent and 36.4 per cent of the 44 hotels. The last category (other medias) includes mainly posters, leaflets and fairs. Again, these are not employed from the majority (86.4 per cent) of the holiday hotels in the dataset.

The results reflect also the particular behaviour and preferences of Albanian people towards different medias. Television is the most popular and reliable media in Albania (Albanian Media Institute, 2006). People are more influenced by it in everyday life rather than the radio and press. At
the same time, Albanians are characterised by the desire and willpower for
embracing very quickly the newness and especially the new technologies,
such as Internet. Hence, holiday hotels generally employ these advertising
medias trying to act in response to the people needs and tastes.

However, it is important here to compare the number of hotels using their
own website and the number of tourists that were informed through this source
of information. The results indicate that, although 63.6 per cent of the hotels
that advertise employ this advertising media and 38.6 per cent of them (or 20.5
per cent of all hotels in the sample) considered it as “most effective” (Table 1),
only about three per cent of tourists replied that they were informed through
this source about the hotel. More specifically, Table 2 presents the proportion of
tourists according to the source of information they had on the hotel.

**Table 2. Distribution of tourists according to the source of information (in %)**

<table>
<thead>
<tr>
<th>Source of information</th>
<th>Advertising</th>
<th>Internet</th>
<th>Friends</th>
<th>Travel agencies</th>
<th>Previous visits</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of tourists</td>
<td>37</td>
<td>12</td>
<td>155</td>
<td>25</td>
<td>223</td>
<td>2</td>
</tr>
<tr>
<td>% of tourists</td>
<td>8</td>
<td>3</td>
<td>34</td>
<td>6</td>
<td>49</td>
<td>1</td>
</tr>
</tbody>
</table>

The majority of the tourists in the sample are informed through previous
visits or friends/word of mouth, respectively 49 per cent and 34 per cent.
Only 8 per cent of the tourists in the sample are informed through advertising
(in TV, radio or press) and the nine per cent remaining are informed through
travel agencies or the Internet, respectively six per cent and three per cent.
The last category considers the cases where tourists’ choice of the hotel is
casual. However, this proportion is very small, suggesting that people always
try to find information when making their choices. These results may reflect
the possible presence of asymmetric information in this market, since tourists
may not be informed about the existence of this kind of advertising and thus
do not use it. An alternative explanation may be that tourists use the Internet
as a source of information but they may not trust it and make the choice
based on friends (word of mouth) or previous visits. Indeed, as considered in
Section 2, Wig (2004) suggests empirically that disintermediation (by the use
of Internet) is more likely in low-risk countries.

Concerning travel agencies, 29.6 per cent of the hoteliers that advertise
replied that this is the most effective media for their business. In general,
hoteliers think that travel agencies are useful for tourists because they can
provide complete and flexible information about hotel attributes, zones, prices, and so on. However, although 20 per cent of the tourists in the sample had arranged their prices through travel agencies, only six per cent were informed through this source. This suggests that, in reality, travel agencies may not be an effective advertising media for holiday hotels in Albania.

CONCLUSIONS

This section summarises the main findings of the paper, which was focused on advertising medias, Internet and disintermediation in Albanian tourism. The results indicated that only 44 hotels (out of 83) use advertising in media. The most frequent and effective medias considered were television, own website and travel agencies, which were employed by the majority of the hotels who advertised. Details on the types of information used by tourists, which is not available from other sources, revealed an interesting pattern. Two important sources of information for tourists are repeat visits and friends/word of mouth, while advertising, travel agencies and Internet represent an infrequent source of information. A considerable proportion of hotels employing their own website for advertising were identified, but only a few tourists seemed to be informed through this source, which may be important for future business decisions.

Importantly, this paper supported what was previously suggested about the presence of asymmetric information in the tourism market. First, the majority of holiday hotels employ Internet as an important advertising media but tourists may not be informed about the existence of this kind of advertising and thus do not use it. Second, tourists use the Internet as a source of information but they may not trust it and make the choice based on friends (word of mouth) or previous visits. The results support the previous empirical evidence in the literature that disintermediation (by the use of Internet) is less likely in high-risk countries.

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Considerations on the Potential of Renewable Energies in Fieri District, their Impact on Socio-Economic Development of the Region

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Abstract

Evaluation of the physical-geographical conditions and the potential that offers climate of Albania and in particular the district of Fieri presents a particular importance in current conditions development of the area and

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constitutes a solid basis for fulfillment of energy needs and the socio-economic development of the rural area as a whole. In this study special attention is devoted to the evaluation of solar energy resources and available potential to convert it in producing electricity and hot water from solar collectors for sanitary and technological needs, resources of wind as another important factor, the possibility of their use and involvement in the entirety of energy resources in the area.

In the near perspective, placing the use of renewable energies, for environmental benefits, will affect on the quality change of the economic structure, giving priority to the energy sector, and simultaneously, creating a new positive image for the development of sustainable society. In this framework will enable the provision of some considerations on the potential that may be offer by the wind and solar radiation in orographic conditions of this space. Also some consideration will be given to preserving the area’s hydrographic network, or guidelines that will also enhance tourism and will enable the company initiatives and the right decision-making to establish protected areas with special status, providing thus a real possibility for the use of renewable energies.

These assessments will be a contribution to strategic orientation in economic development not only in the area in question but also for Albania, meanwhile for energy sector will constitute a good premise for guidance and more detailed studies for various projects and investments, which should be oriented in the appropriate territory and for those areas of renewable energy, which already contribute to preserve and had a clean environment in accordance with EU standards.

**Key words:** Renewable Energy, rural economy, socio-economic development, energy resources, protected area.

### 1. INTRODUCTION

#### 1.1. Climate forming factors of Fieri district. Geographical position and solar radiation

Fieri district lies in western region of the Republic of Albania, in the southern part of the field of Myzeqea. It lies within the geographical coordinates 40°, 57’, 05” and 40°, 33’, 06” wide geographic north and 19°, 49’, 48” and
19°, 48’, 29”, longitude geographic East. The locality of Fieri has broad access to the Adriatic Sea, starting from embouchure of Seman River in the north till to the embouchure of Vjosa River in the south with a length of 48 km. In northern district bordering Lushnja with a 49 km boundary, from which 21 km are land border and 8 km are river border (i.e. river Semani) and 20 km is lagoon border. In the east and northeast bordering with Berat’s district with a length of 53 km, all land border. In the southeast bordering with Mallakastra’s district. In the southwest bordering with district of Vlore with a length of 75 km and on the west is washed by the waters of the Adriatic Sea. Within these boundaries Fieri’s district has an area of 793.6 km² with a population of 265,394 inhabitants and the average density 253.5 inhabitants/km²; rank this district in the third place after Tirana and Durres’s districts. This geographic position is quite favorable for the social-economic developments, which is testified by the earliest historical sources. According to them, results an active connection of this territory with the Italic banks (the region of Puglia) as an integral part of road system, Via Egnantia which included this center with its southern branch. Fieri has served throughout the ages as a hub connecting with the central, southern and southwest of the country. This district is part of commune of Fieri and at the same time is its center where are placing the main institutions. Most important urban center of this district is the city of Fieri and two small towns Roskoveci and Patosi, in composition of which are the 117 rural settlements grouped in 3 municipalities and 14 communes. Placed at the intersection routes between northern and southern, district of Fieri is an important hub of commercial and industrial land.

1.2. Relieve

Fieri is known for its natural resources and economic potentials. The relieve of this district is characterized by a field-hilly relieve. Field part occupies 60 -65% of the surface and hilly part 35-40%. Its average height is 154 m or 4.5 times smaller than the average height of the country. About 2/3 of surface located at a height of 0-100 m and 1/3 of the surface at an altitude of 100-300 m. Relieve is characterized by small horizontal scale of fragmentation. The height of the field area is being decreased from east to west. Fieri area lies at 12 m altitude and in Seman village this altitude goes down in 3.5-4 m reaching 0 m (sea level) on the coast. Constituent fields are not completely flat; in those raise a series of back hilly, whose height varies from 200 m to 300 m. In those backs is found the higher quotas, Likovuni 302 m altitude.
1.3 Hydrography

Fieri has a dense hydro network. Water flow characterized by an unregulated regime which is related to the climate characteristics. The maximum flow recorded in the winter season and the minimum flow in the summer season. Rivers of the Fieri district excluding Seman River fed mostly by rainfall and partly from underground sources of Mallakastra area. Water main flows that form hydro network are rivers Seman, Gjanica and Vjosa. Down stream of Seman river crosses the northern part of the district of Fieri with a length of 69 km, of which 8 km bordering with the district of Lushnja. Flow and coefficient flow are 95.2 m³/s and 0.49gr/m³. It is vague river and transports 16.9 000 000 tones a year alluvium. The maximum flow is 1 800 m³/s. Gjanica river has a length of 42 km and maximum flow of 18.6 m³/s. In addition to water flow in hydrography important role plays artificial reservoirs and irrigation channels. In the district of Fieri were built 14 artificial lakes for irrigation of agricultural land. Largest among them is the reservoir of Kurjanit with capacity 31 000 000 m³, and 54 000 hectare irrigation skills.

1.4. Vegetation

Deltas of the river Seman and Vjosa, forests and endless fields’ spaces are more frequent places of that coast. Fieri district is part of the Mediterranean climate field zone, central Mediterranean field sub-area, and in phytoclimatic area of Qarri or of Mediterranean shrub; it is in terms of average development of flora and fauna. In the district of Fieri forest areas occupy 9 976 hectares with a variety of over 120 species of trees and over 1 300 herbaceous species, of these 6 176 hectares are protected forest and 3 800 hectares are productive forest. This reserve forest lies mainly along the Adriatic coastline.

1.5. Climate

Fieri is part of the Mediterranean climate field zone, central field sub-area. This climate is characterized by mild and wet winter and hot and dry summer. Restriction on the east and southeast region with mountains and hilly ridge increased influence of Mediterranean hilly climate. The values of temperature and amount of rainfall measured at meteorological station of the district shows that annual average temperature is 15°C. Most cold month
is January with average temperature 7.2°C, while the hot month is July with average temperature 23-24°C. On 26 January 1954 is recorded the absolute minimum with -13°C value, while in 18 July 1974 is registered the absolute maximum with value +40°C. The annual temperatures amplitude is not very large, in Fieri they reach 16.6°C value and in Roskoveci 17.4°C value, etc. The precipitation here has Mediterranean regime and they mainly fall in the form of rain during the half cold year. The wet months are January and December. Their annual average amounts vary from 986 to 1 000 mm. The driest month is July with only 200 mm of rain. Snow is a rare phenomenon. Maximum intensity of rainfall within 24 hours is 161.1 mm and is registered on 24 July 1966. Solar radiation is another important climate element. The amount of solar radiation enrolled is 226.32 kWh/m² counting 2 792 hours of sunshine per year. This amount is not distributed equally throughout the year. In July was recorded the largest amount of sunny hours, 390 hours. On the average only 23 days in a year are without sun. Winds that permeate district of Fieri are Murlani, Shiroku, Juga and breeze. Murlani feels in the winter period. It is cold and faster wind, bringing dry cold. Shiroku is warm and humid wind, which brings turbulent weather with overcast and precipitation. Juga are typical and humid wind. All climatic elements address above determines characteristics of a suitable climate for economic development, (Climate of Albania 1978).

2. THE METHODS OF THE STUDY

Basic methods used on this study are: method of implementation of measurements, data analysis and prognosis method. Studies on the use of energy from wind and sun, in the district of Fieri, now are oriented only on the measurements of the wind speed and solar radiation intensity. Concretely were measured speed, calm, wind directions and intensity of solar radiation. The wind speed measurements are made in three meteorological stations deployed in various places: Fieri, Roskoveci and Mallakastra. For wind speed, measurements are made with anemometer in height 10 m from the ground, and study for radiation intensity and its amounts is made for weather conditions with and without cloudiness. While the determination of sun hours was made against the angle of sun rays on the surface of earth. In analogy to geographical position, relieve, climate is taking into consideration values for wind speed and solar radiation from other meteorological stations situated in Kuçova and Lushnja districts.
2.1. Method for wind measurements

The direction of the wind measured by a meteorological weather vane, which is wide with fixed wings at the end of the axis. Direction of the wind is shown by an arrow fixed on the shaft, or by an electric meter located at a certain distance and controlled by the weathercock. Direction of the wind is estimated by the scale 360°. According to this scale the direction 0° shows north, direction 90° shows east, 180° shows south and the direction 270° shows west, (Wind Power, Daniel M. Simmons, London, England 1975). The speed is measured with a simple instrument called anemometer.

The most common type of them has three or four cups stuck in the stairs of the rotational axis. Centrifugal angular speed of rotation is calibrated in terms of linear speed of the wind. Usually the used unit is m/s or km/h. Institute of Energy, Water and Environment is the only institution that performs measurements of the wind in the main meteorological stations in a standard height of 10 m above the surface of the earth in every 3 hours a day.

2.2. Method for the amount of solar radiation measurements

All major meteorological stations measure daily the hours of bright sunshine, \( n \). It is traditionally measured by a Campbell–Stokes recorder, which comprises a specially marked card placed behind a magnifying glass. When the sun is ‘bright’ a hole is burnt in the card. The observer measures \( n \) from the total burnt length on each day’s card. Sunshine hours are also measured by electronic devices, but it is perhaps surprising how often the traditional measurements are continued. (Renewable Energy Resources, 2006).

3. RESULTS AND DISCUSSIONS

3.1. Presentation and the analysis of measured values

In the district of Fieri the areas with better features for wind speed and wind directions is the coastal and hilly area, for example the hill of Peshtani and for the solar radiation is mostly the coastal area throughout its line up to the village Seman. The results for wind speed and solar radiation are presented in the tables and on the graphs below. In the table 1 and graph. 1 are presented the occurrence distribution in percentage (%) of wind directions during the year along with its calm. In the district of Fieri the wind directions
happened more often during the year are those of southeast, east quadratic and after them comes the northwestern quadratic, constituting 17.7%, 14.8%, and 13.8% of cases, respectively.

In a small percentage happened the south, north and western winds. For analogy with two other stations located in Lushnja and Kuçoğa, we noticed that in the district of Fieri the prevalence of wind from the northwestern direction is more favorable, while the prevalence of wind directions from east and southeast, might take into consideration. Another feature for these three stations is that in any of them we could not find the dominance of wind direction from south and north. Calm in the district of Fieri is smaller than it is for Lushnja and Kuçoğa, whose values are almost twice higher, it clearly shows that the occurrence of wind in the district of Fieri is twice higher than the other two stations; we are referring the data contained in table 1 and graph 1. The wind speeds in the territory of the Fieri district are depending on the period of the year, as is obviously seen from the data shown on the table 2. Larger values of wind speed are observed in the spring season with value 3.1 m/s and in winter with value 2.9 m/s. Average speeds ranging Fieri area between those values, the observed minimum is 2.5 m/s in September and the received maximum is 3.3 m/s observed in April, with an annual average 2.8 m/s. These values are observed particularly in its coastal area, characterized by high wind speed. In the analogy with two other stations located in Lushnja and Kuçoğa, we noticed that in district of Fieri is observed largest wind speed, making this district more favorable from this point of view than the other two stations, referring the data contained in the table 2 and graph 2. For maximum speed with a recurrence period once per 10 years are distinguished regions with wind speed 15 m/s, 25 m/s and 33 m/s, (Climate and hydrological features of Western Lowland, 1985). Table 3 and graph 3 present monthly data amount of total solar radiation (kWh/m² per month) for our three stations: Fieri, Lushnja and Kuçoğa. From the analysis made on the monthly data amount of total solar radiation on the district of Fieri we can say that the registered calculated amount of solar radiation is 67.15 kWh/m² the minimum value taken in December and the calculated maximum is 226.32 kWh/m² in July, table 3, counting in total 2 840.1 hours of sunshine a year, table 4, graph 4 and 341 sunny days a year, table 5. The annual value of the total radiation amount in the district of Fieri is 1686.53 kWh/m², this is very significant value compared with two other stations, the annual value of Lushnja is 1543.44 kWh/m² and the annual value for Kuçoğa is 1588.08 kWh/m², giving Fieri’s district better real possibilities than the two stations in question, table 3 and graph 3. In analogy with two other
stations, Fieri district registers an average of 391 hours of sunshine and 31 days of sunshine, the observed maximum was in July with 120.2 hours of sunshine and 25 sunny days, the average minimum was observed in December, table 4, 5 and graph 4. Value, higher than the observed values on the stations of Lushnja and Kuçova, where the maximum observed values for these stations are 360.4 and 358.8 hours of sunshine in July and the minimum observer is 105.5 and 118.7 hours of sunshine in December, respectively. In table 6, is given the annual distribution amounts of total daily radiation in overcast weather and real weather conditions for vertical sides of buildings, returned from the west, east, southwest, south, north and northwestern. From the received results we notice that the vertical surface from south orientations are more favorites on taking energy radiation from the sun in the winter months, while in summer season these surface take comparable heat amounts, (Meteorological and hydrological studies, 1984). From contemporary literature it is known that the solar radiation amount of 1.74 kWh/m² defines an additional heating of the buildings by 4°C (4). We used the recording data in four main actinometrical stations and in five secondary stations (heliographic), (Climate and hydrological features of Western Lowland, 1985).

3.2. Wind energy resources and plotting maps of their potential

The evaluation of wind today is given by its parameters such as its speed and power expressed in W/m² of rotor surface or in potential wind power per year, which is expressed in kWh/m². Presentation of their potential on maps is given in three forms. Wind resources are estimated with coefficients that moving from 1 to 7. The areas designated for 4 value shows that there is a technology for wind turbines, the coefficient 3 shows that there is possible to develop a technology for wind energy, the potential is in the parameters requiring by this technology. The surfaces with coefficient 2 are border levels of potential for energy, while the 1 value shows that in these areas it is impossible to develop this technology. It is understood able that rates above 4 show the surface where wind potential is high. It should be noted that wind turbines convert wind power into electricity. The wind speed for which the turbines might put in motion varies from a minimum of 2.5 m/s till to a maximum 25 m/s. In cases where the wind speed is less than the minimum required, the turbines aren’t in motion but also in cases when the velocities of the wind are too large, depending on the parameters of the turbines, they switched to not causing serious damage on the mechanical structure and their electronics (Renewable Energy Resources, 2006).
CONCLUSIONS

Demand for energy is related to the climatic conditions. Trends in today’s temperatures values are increasing due to the climate change, which will reduce demand for space heating, especially in winter, but will increase demand for cooling space and refrigerating in the hot months. Seasonality of non equilibrium supply-demand of the area will become more and more critical: meanwhile the summer demands grow along with the temperatures; hydro energy production in the summer seems to be most affected by the depressed rainfall. At the same time, demands for irrigation in agriculture will increase, running more with the demands for water of the small hydropower plants.

- In the district of Fieri, is a broad area along the coastline and are hilly areas that have very good potential of the wind speed and solar radiation, making those areas favorable on using the renewable energies, for this study sun and wind energy. These areas present very good opportunities for using wind energy and a very good regime for solar energy with high potential of solar radiation.
- Lack of electricity which can be obtained from wind does not come from the lack of wind energy potential in this areas but because the evaluation of wind power has been in a low level.
- Monitoring the wind energy over 50 m height, wind speed in this height reaches the value 6-8 m/s with a power density 250-600 W/m².
- The duration of sunny days during the year in this district, compared to the stations located in Lushnja and Kuçova is very promising. Specifically for the district of Fieri are 341 sunny days per year, we can say that this district offers very good conditions for the use of renewable source, called solar energy.
- Solar radiation values vary with different values during the year because it depends from the orographic terrain and from the geographical positions, which are different.
- In this district should be shown a special interest for obtaining hot water for sanitary and technological needs and for producing electricity from the solar energy, saving in that way not only the electricity consumed so far but also protecting the old transmission electricity system distribution.
Geographical position of Fieri district and all physical-geographical elements as the climate formation factors mentioned above, combined with each other providing this district the most necessary and indispensable conditions for the socio-economic development, making it one of the main actors in the socio-economic development of the country.

Energy-Market background

Energy sector in Albania is characterized by an increase in energy demands from the industry and consumers. In fact only 70-80 % of these requirements are filling up from the domestic production and import. More specifically, the requirements in the winter period reach 25-27 million kWh/day, while domestic production reaches to the 10-12 million kWh and imports to the 8-10 kWh/day.

Hydro energy, or energy produced by the hydropower is nowadays the most dominant energy of the domestic production presented by large and small hydropower. We should emphasize that the resources of Albania are very large, only 35 % of them are used. Many of the existing hydropower plants require investment.

Wind energy, wind energy resources are almost non explorations in Albania even for our study area. They are present in some areas of the country and especially in the Western Lowland, particularly along its coast and hills. Historic monitoring of wind power is not complete, while for heights over 50 meters; wind speed reaches 6-8 m/s with a power density of 250-600 W/m².

Solar energy is very appropriate in Albania, considering the fact that we have over 250 sunny days per year in the country. Establishment of solar panels in the country and particularly in the district of Fieri has positive potential for residential customers and the services sector, particularly.

RECOMMENDATIONS

The availability of wind resources in Albania is not known because the wind field maps based on the data measured at 10 meters altitude from the surface earth (according to the World Meteorological Organization Standards), and not in 80 m height as the turbines will be placed. Especially for hilly terrains has not accepted model for extrapolation. These tests make the wind
farms vulnerable for the climatic uncertainties which affect in the design and in the optimal parameters. However, if the changes in speed and/or in wind direction will occur, this could mean that would need a re-optimization of design and operation of wind power plants to ensure that they do not go out their generation optimal functioning.

Power system in the district of Fieri is based mostly from the electricity produced by thermo power plant. The climate of Fieri district is a typical Mediterranean climate, with hot and dry summer. This climate can prevent periodically the hydroelectric system for producing necessary energy capacity (based on water resources of Albania). In present conditions of market economy together with the transformations in the management of the existing energy system, the studies and the projects for involved in the game the other sources of renewable energy is supported by the government and the international factors. There are very good opportunities for the use of energy resources, such as solar (about 226.32 kWh/m²). In hilly and coastal areas, the average wind speed is about 2.5-3.3 m/s (Climate of Albania, 1978).

- We recommend that the renewable energy sources (wind energy, solar energy) will not replace immediately the non renewable sources of energy for this district.
- By providing this, we will reduce pollution in the atmosphere, by thinking that this district is in the second environmental hot area.
- It is presented as a very good area for implementation of these projects, protecting the environment which directly affects in his social life.
- In this study we recommend, based on the Directives 2001/77/EC, 2003/54/EC, 2003/55/EC of the European Community for development of renewable energy and the Kyoto Protocol for reducing greenhouse gas emissions to an order value, 5.2 % less than the emissions caused in 1990, as possible that in the year 2025 a considerable amount of the total electricity of this district to be produced from the wind and the sun.
- The use of collectors valid on solar heating, which provides many economic facilities and a lot of interest to the consumers, businesses, agri-businesses and tourism development.
- The use of solar panels valid for generating electricity using sun as renewable source has positive potential particularly for residential customers and the services sector.

In these conditions, can be used wind and sun energy resources that fulfill the appropriate parameters for the utilization of those technologies. The utilize of renewable energy should begin as soon as possible.
Requirements to be executed for the present and the future are:
1) The installation of solar systems in households.
2) Installation of solar systems in public and private sector service.
3) Inclusion of solar collectors for hot water production, offering fiscal facilities.
4) The installation of wind turbines on public and private sector service, maintaining protected areas located in this district some of which have acquired special status.

During the study are considering two orientations; the use of wind energy from wind turbines and the use of electricity and heat water from solar and collectors panels, respectively.

Expected in the future that renewable energy sources will occupied the bigger part of the country’s energy market in general and in particular for the mention district.

**BIBLIOGRAPHY**

The study zone, it is clear that the district of Fieri takes place on the section where the lasting of the sun radiation in hour is, 2 800 hour with sun in a year.
Fig. 3: Global Radiation for Europe and Albania, the years 1981-1990 (in kWh/m²)

Fig. 4: Lasting of the solar radiation in hours for Albania and the study zone
### THE TABLES

#### Tab. 1. Annual occurrence in percent (%) of wind directions

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#### Tab. 3. The monthly amount of total solar radiation (kWh/m² per month)

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#### Tab. 4. Factual lasting of solar radiation (in hours), the 25 years average (1956-1980)

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#### Tab. 5. The average number of days with sun, the 25 years average (1956-1980)

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**Tab. 6.** The annual dispersal of daily amounts of the total solar radiation that falls in the vertical surface of the buildings (kWh/m² a day)

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**GRAPHICS**

![Annual occurrence in (%) of the wind directions](image)

**Graf.1.** Annual occurrence in percent (%) for wind directions
**Graf. 2.** Wind velocity in m/s, the 25 years average (1956-1980)

**Graf. 3.** The monthly amount of total solar radiation (kWh/m² a month)
Graf. 4. Practical lasting of solar radiation (in hours), the 25 years average (1956-1980)
Nonpoint pollution in Aragon: emission loads and control issues

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Abstract

This paper evaluates nitrogen pollution loads from irrigation return flows in the Spanish region of Aragon. Percolation and nitrogen leaching estimates are found for each municipal area based on crop surface, irrigation systems, climate, and crop management data. Aggregate nitrogen discharges at watershed and county level are then calculated and compared with results published in monographic studies and nitrate concentrations in watercourses.

This paper aims to contribute to future proposals of the Water Framework Directive for nitrate pollution abatement measures. The relevance of this issue is increased by the fact that the Ministry of the Environment and various ecological organizations are under the false impression that diffuse pollution can be solved by raising water prices. Water pricing is in fact highly inefficient and severely prejudices the interests of farmers, and is thus the least desirable of all potential instruments for the control of diffuse pollution.

Key words: Diffuse pollution, Nitrogen leaching, Percolation, Middle Ebro Valley, Water.
1. INTRODUCTION

Concern over the environmental costs of nitrate pollution from agricultural sources has risen in recent years. Between 50 and 90 percent of the nitrate loads in EU watercourses is caused by agricultural practices (EEA 1999), in particular the overuse of nitrogen fertilizer. Additional factors, such as deficient crop management or low irrigation efficiency, have also degraded water quality in recent decades. Irrigation return flows with high nitrate concentrations have a negative effect on both the physical and chemical properties of the waters in catchment areas. The increase in nitrogen concentration, both in surface and ground water, results in the eutrophication of rivers, reservoirs, estuaries and coastal waters.

It is hard to assess the impact of nitrogen pollution from irrigation on rivers and aquifers, but it may impair water quality to the point of rendering it unsuitable for other purposes. Excessive inputs may even pose an ecological and public health risk. Nutrient (nitrogen, phosphorous and potassium) enriched surface waters stimulate the growth of aquatic plants, which, as they grow, die and decompose, deplete the oxygen level in the water, thus causing death by asphyxiation to any life within it.

In 1991, the European Union drew up the Nitrate Directive in order to reduce and prevent ground water pollution from agricultural nitrate, and to protect public health and aquatic ecosystems. This Directive was incorporated into Spanish legislation in 1996. In Spain, as in other countries, however, the implementation of the Directive was quite flawed, since all the affected aquifers were not declared and the adopted measures were not very effective. The Directive sets forth guidelines to reduce aquifer pollution from nitrates and obliges governments to elaborate codes of good practices for the use of nitrogen fertilizers, with a view to curbing ground water pollution.

The consumption of nitrate-contaminated water poses a public health risk and can cause a disorder known as methemoglobinemia. Health authorities both in Spain and the European Union have set the tolerance threshold for nitrate concentration in drinking water at 50 mg NO$_3$-l$^{-1}$.

The use of chemical fertilizers rose sharply in Europe during the second half of the twentieth century, though it leveled out in the final decades. The average use of nitrogen per hectare in countries such as the Netherlands or Belgium is above 150 kg/ha, while the Spanish average is 68 kg/ha, which is
close to the E.U. average of 70 kg /ha. Excess nitrogen in the soil averages 40 kg/ha in Spain, which is well below the 215 kg/ha of the Netherlands and the 100 kg/ha of Belgium and Germany (EEA 2003).

Overuse of nitrogen fertilizers in Spain is a major problem in intensive irrigation areas, such as the Mediterranean coast and some of the Castilla La Mancha, Ebro and Guadalquivir watersheds, where nitrate concentrations range between 50 and 100 mg NO₃⁻/l. Aragon registers its highest levels in the alluvial aquifer of the Ebro river and the upper course of the Ebro, where it flows through Zaragoza, taking in water from the Gallego and Huerva tributaries and return flows from irrigation ditches. With a view to reducing diffuse pollution, it is important to estimate the pollution load from irrigation returns to surface waters, and assess the damage to fluvial ecosystems from environmental pollution.

The need for regulation and control of water pollution from irrigation return flows in Aragon has been highlighted in Isidoro (1999) and Causape (2002). These researchers, who claim that the high level of nitrate pollution is due to inefficient irrigation and the misuse of fertilizers in irrigated areas, propose a range of alternative pollution control instruments.

2. IRRIGATION IN THE MIDDLE EBRO VALLEY

The mechanization of agriculture during the nineteen sixties brought with it an increase in the use of mineral fertilizers. The application of nitrogen fertilizer in Spain increase between 1960 and 1990 from 0.24 to 1.12 million tones, which explains the increase in nitrogen pollution in the country’s watercourses.

This paper investigates diffuse nitrate pollution from irrigation return flows in Aragon, and estimates the mass transfer of nitrate for year 2002. All of the crops cultivated in the counties of Aragon were examined, taking into account the irrigation system, the area under cultivation, climate, soil type, and crop water and nitrogen fertilizer consumption.

Of Aragon’s thirty-three counties, the analysis covered the twenty-one that are located in the Ebro basin, where there are large expanses of irrigated crop cultivation. Some individual municipal areas have over 250 hectares under irrigation.

Aragon has several large collective irrigation networks: the Aragon and Catalonia canal, the Cinca canal, the Monegros canal, and the Bardenas canal.
The irrigation area in Aragon is up to 400,000 ha. The majority are gravity fed systems, this being the dominant form of irrigation, covering 80 percent of the total irrigation surface, while sprinkler and point source systems account for 18 and 2 percent, respectively. The newer irrigation areas use sprinkler or point source irrigation systems, which help to increase efficiency and reduce water loss and the drainage of pollutants. Irrigation efficiency is defined as the amount of water absorbed by the plants in relation to the total amount of water used to irrigate scheme.

Not all the irrigation water not absorbed by the plants is lost through surface runoff, deep percolation, and evaporation. The irrigation efficiency rates used in this paper are 0.6 for irrigation by flooding, 0.75 for sprinkling, and 0.9 for point source irrigation. The crops with the largest irrigation surface in the midcourse Ebro valley are alfalfa, corn, barley and wheat.

**Figure 1. Distribution of total irrigation surface by crop type**

Percolation and nitrogen leaching levels are determined by irrigation system and crop type. When nitrogen fertilizer is applied to crops, some is taken up by the crop, some accumulates in the soil, some is lost in volatization, and some through drainage by percolation or surface runoff. Water courses are polluted by nitrate discharges from percolation and runoff.

A model was created to assess the level of nitrate pollution in the midcourse Ebro valley by estimating nitrogen discharge loads. Figure 2 gives the evolution of nitrate concentrations in Castejon, Zaragoza and Sastago for the
period 1982-2001. The lowest concentrations are found in Castejon and the highest in Sastago and Zaragoza, though average levels remain below 50 mg NO\textsubscript{3} /l.

**Figure 2. Nitrogen concentration in river Ebro (1982-2001).**

3. **PERCOLATION AND NITROGEN LEACHING LEVELS**

The variables involved in the amount of nitrogen leached by crops include crop type, soil type, climate, fertilizers, and crop growth management. In this paper, nitrogen leaching from crops is estimated by means of the EPIC (Environmental Policy Integrated Climate, Mitchell et al. 1996) crop growth package. This enables us to simulate the relationship between crop growth in the soil, the amount of irrigation water applied, climate, crop type and crop growth management. This produces an estimate of the percolation volume and nitrogen leaching level. The EPIC package was chosen because of the major advantage offered by its being especially designed to examine environmental factors. The results yielded by the EPIC package were validated with experimental data\textsuperscript{1}.

---

\textsuperscript{1} Farmer surveys and field tests were used in the validation (Martinez 2002).
Table 1. Nitrogen fertilization and leaching by irrigation system and crop type.

<table>
<thead>
<tr>
<th>Crop</th>
<th>Sprinkle</th>
<th></th>
<th>Gravity</th>
<th></th>
<th>Drip</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>kg N-NO₃⁻</td>
<td>kg N-NO₃⁻/ha</td>
<td>kg N-NO₃⁻</td>
<td>kg N-NO₃⁻/ha</td>
<td>kg N-NO₃⁻</td>
<td>kg N-NO₃⁻/ha</td>
</tr>
<tr>
<td>Wheat</td>
<td>150</td>
<td>17</td>
<td>150</td>
<td>31</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Barley</td>
<td>150</td>
<td>12</td>
<td>150</td>
<td>22</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Corn</td>
<td>400</td>
<td>70</td>
<td>400</td>
<td>180</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sunflower</td>
<td>100</td>
<td>6</td>
<td>100</td>
<td>22</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Alfalfa</td>
<td>75</td>
<td>21</td>
<td>75</td>
<td>31</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Rice</td>
<td>-</td>
<td>-</td>
<td>200</td>
<td>50</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tomato</td>
<td>-</td>
<td>-</td>
<td>200</td>
<td>25</td>
<td>200</td>
<td>15</td>
</tr>
<tr>
<td>Green pea</td>
<td>-</td>
<td>-</td>
<td>100</td>
<td>25</td>
<td>100</td>
<td>15</td>
</tr>
<tr>
<td>Apple</td>
<td>-</td>
<td>-</td>
<td>100</td>
<td>25</td>
<td>100</td>
<td>15</td>
</tr>
<tr>
<td>Pear</td>
<td>-</td>
<td>-</td>
<td>100</td>
<td>25</td>
<td>100</td>
<td>15</td>
</tr>
<tr>
<td>Peach</td>
<td>-</td>
<td>-</td>
<td>100</td>
<td>25</td>
<td>100</td>
<td>15</td>
</tr>
<tr>
<td>Grape</td>
<td>-</td>
<td>-</td>
<td>100</td>
<td>25</td>
<td>100</td>
<td>15</td>
</tr>
<tr>
<td>Olive</td>
<td>-</td>
<td>-</td>
<td>100</td>
<td>25</td>
<td>100</td>
<td>15</td>
</tr>
</tbody>
</table>

Table 1, which presents the nitrogen fertilization and leaching data per crop and irrigation system, shows that corn not only uses the highest quantity of nitrogen fertilizer per hectare (400 kg N-NO₃⁻/ha) but also covers the largest irrigation surface. Nitrogen leaching level from irrigation return flows in Aragon averages 41 Kg N-NO₃⁻/ha. In the paragraphs that follow we will present the nitrogen percolation and leaching data by county and watershed.

3.1 Results by county

Table 2 shows the results for each county considered, including irrigation surface, volume of water applied, percolation volume, and nitrogen leaching level.

The Monegros county has the highest irrigation water consumption, followed by Cinco Villas, Zaragoza and Cinca Medio, which has a large irrigation surface. The Bajo Cinca county also consumes a considerable amount of water because of the large surface used for fruit crops (peach, pear and apple).
Alfalfa and rice have a high water requirement, which explains the high consumption levels exhibited by Monegros, Cinco Villas and Zaragoza. The highest per hectare water consumption levels are registered by Zaragoza, Calatayud and Monegros and the lowest by Campo de Belchite and Teruel.

Percolation is linked to water consumption, the largest percolation volumes being found in Monegros, Cinco Villas, Zaragoza and Cinca Medio. Since percolation also depends on crop type and irrigation system, there are
counties with a high volume of percolation per hectare such as the Ribera Alta del Ebro or Calatayud. Zaragoza has the highest percolation per hectare and Campo de Carinena the lowest.

In terms of nitrogen leaching, meanwhile, Monegros has the highest level, followed by Cinco Villas and Zaragoza. Top of the table with respect to nitrogen leaching per hectare are Zaragoza, Ribera Alta del Ebro and Bajo Aragon, with scores of 63, 59, and 58 kg/ha, respectively.

Observation of the data shows that the counties with the largest surfaces of corn, alfalfa or rice under irrigation by flooding are those with the highest water consumption, and thus the highest levels of nitrogen discharge.

4. RESULTS BY WATERSHESD

The nitrogen leaching and percolation levels per watershed are shown in Table 3. The Ebro watershed has the highest nitrogen leaching level, both in aggregate and per hectare terms. Cinca and Arba take second and third place because of their large irrigation surface. Nitrate mass transfer per surface unit is at its highest level in Regallo, with a yearly average of 71 kg N-NO3ˉ/ha, followed by the Ebro watershed with 54 kg/ha, Gallego with 50 kg/ha, and Queiles and Flumen with 49 kg/ha. The Cinca, Ebro, Arba and Flumen watersheds have the highest percolation levels because of the large amount of irrigation water used per unit of irrigation surface.

The results for the Cinca watershed stand out from the rest shown above because of a high level of water consumption coupled with a low level of nitrogen leaching per hectare. The explanation for this is to be found in the low fertilization dosage levels used in the Cinca watershed, where the main crops are alfalfa and fruits, both of which are low in fertilizer and water requirements.

Total nitrogen leaching in the whole of the midcourse Ebro valley stands at 16,300 Tm N-NO3ˉ. The Ebro watershed generates a nitrogen discharge load of 3,500 Tm N-NO3ˉ, due to the large surface used for flood-irrigated corn cultivation. Discharge levels are also high in the Cinca, Arba and Flumenwatersheds.

The highest percolation volume (184 hm³) is registered by the Ebro watershed. This is largely caused by the cultivation of alfalfa, which covers 60 percent of the irrigation surface and requires large quantities of irrigation water, a high volume of which is lost through percolation.
Table 3. Results by watershed

<table>
<thead>
<tr>
<th>Watershed</th>
<th>Surface (ha)</th>
<th>Irrigation (hm³)</th>
<th>N leaching (Tm N-NO₃⁻)</th>
<th>Percolation (hm³)</th>
<th>Leaching (kg N-NO₃⁻/ha)</th>
<th>Percolation (m³/ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ebro</td>
<td>65786</td>
<td>516</td>
<td>3.52</td>
<td>184</td>
<td>54</td>
<td>2.797</td>
</tr>
<tr>
<td>Gállego</td>
<td>10998</td>
<td>68</td>
<td>555</td>
<td>24</td>
<td>50</td>
<td>2.177</td>
</tr>
<tr>
<td>Cinca</td>
<td>107532</td>
<td>625</td>
<td>3.038</td>
<td>196</td>
<td>28</td>
<td>1.827</td>
</tr>
<tr>
<td>Aragón y Yesa</td>
<td>3239</td>
<td>13</td>
<td>68</td>
<td>5</td>
<td>21</td>
<td>1.534</td>
</tr>
<tr>
<td>Arba</td>
<td>66208</td>
<td>368</td>
<td>2.62</td>
<td>143</td>
<td>40</td>
<td>2.156</td>
</tr>
<tr>
<td>Alcanadre</td>
<td>29212</td>
<td>192</td>
<td>1.378</td>
<td>56</td>
<td>47</td>
<td>1.911</td>
</tr>
<tr>
<td>Guatizalema</td>
<td>6610</td>
<td>43</td>
<td>287</td>
<td>12</td>
<td>43</td>
<td>1.885</td>
</tr>
<tr>
<td>Flumen</td>
<td>44095</td>
<td>321</td>
<td>2.153</td>
<td>122</td>
<td>49</td>
<td>2.77</td>
</tr>
<tr>
<td>Queiles</td>
<td>3493</td>
<td>16</td>
<td>170</td>
<td>6</td>
<td>49</td>
<td>1.821</td>
</tr>
<tr>
<td>Huecha</td>
<td>7948</td>
<td>47</td>
<td>341</td>
<td>19</td>
<td>43</td>
<td>2.363</td>
</tr>
<tr>
<td>Jalón</td>
<td>25165</td>
<td>125</td>
<td>831</td>
<td>37</td>
<td>33</td>
<td>1.489</td>
</tr>
<tr>
<td>Manubles</td>
<td>933</td>
<td>7</td>
<td>26</td>
<td>3</td>
<td>28</td>
<td>2.707</td>
</tr>
<tr>
<td>Ginel</td>
<td>323</td>
<td>3</td>
<td>13</td>
<td>1</td>
<td>40</td>
<td>3.346</td>
</tr>
<tr>
<td>Aguas Vivas</td>
<td>4035</td>
<td>14</td>
<td>89</td>
<td>5</td>
<td>22</td>
<td>1.222</td>
</tr>
<tr>
<td>Matarraña</td>
<td>2540</td>
<td>13</td>
<td>72</td>
<td>4</td>
<td>28</td>
<td>1.562</td>
</tr>
<tr>
<td>Jiloca</td>
<td>14279</td>
<td>54</td>
<td>442</td>
<td>19</td>
<td>31</td>
<td>1.35</td>
</tr>
<tr>
<td>Martín</td>
<td>4000</td>
<td>23</td>
<td>102</td>
<td>9</td>
<td>25</td>
<td>2.204</td>
</tr>
<tr>
<td>Regallo</td>
<td>4542</td>
<td>31</td>
<td>323</td>
<td>12</td>
<td>71</td>
<td>2.678</td>
</tr>
<tr>
<td>Guadalope</td>
<td>8101</td>
<td>44</td>
<td>246</td>
<td>16</td>
<td>30</td>
<td>1.983</td>
</tr>
<tr>
<td><strong>Total Aragón</strong></td>
<td><strong>409.039</strong></td>
<td><strong>2.526</strong></td>
<td><strong>16.273</strong></td>
<td><strong>874</strong></td>
<td><strong>40</strong></td>
<td><strong>2.137</strong></td>
</tr>
</tbody>
</table>

5. COMPARISON OF EMISSION LEVELS AND POLLUTANT LOADS IN WATER COURSES

Estimates of municipal emission loads of nitrate leached through irrigation drainage in Aragon are around 16.300 tons N-NO₃⁻. These estimates are then compared with the nitrate concentration in watercourses based on readings taken at the CHE (Ebro basin authority) measuring stations. The nitrate pollution load in watercourses is estimated by multiplying river flow by nitrate concentration based on Ebro Water Board data.
The estimated emission levels are validated by readings of Ebro River nitrate concentration taken at the Pignatelli and Asco stations, i.e. the points where the river Ebro flows into and out of Aragon.

Table 4. Nitrate loads in the Ebro and nitrogen emissions from irrigation (2002)

<table>
<thead>
<tr>
<th>Measuring station</th>
<th>Pignatelli</th>
<th>Ascó</th>
<th>Loads</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CHE Measurement</td>
<td>CHE Measurement</td>
<td>Estimate</td>
</tr>
<tr>
<td>Water flow (hm³)</td>
<td>4.840</td>
<td>11.132</td>
<td></td>
</tr>
<tr>
<td>Water percolation (hm³)</td>
<td></td>
<td></td>
<td>874</td>
</tr>
<tr>
<td>Nitrogen load (Tm N-NO₃⁻)</td>
<td>10.931</td>
<td>26.394</td>
<td></td>
</tr>
<tr>
<td>Emission from irrigation (Tm N-NO₃⁻)</td>
<td></td>
<td></td>
<td>16.273</td>
</tr>
</tbody>
</table>

The nitrate emission loads from nitrates leached through irrigation drainage in Aragon should be roughly equal to the difference between the nitrate pollution load readings taken at the Pignatelli and Asco measuring stations (table 4).

Other components that add to the pollutant emissions, however, include emissions from non-irrigated crops, and nitrate loads from urban or industrial sources. Meanwhile, the transport and fate processes of nitrates leached at the source (at plots) reduce the nitrate pollution load. One example is the filtering that takes place on wetlands, which reduces the amount of pollutants arriving into watercourses. It is also worth noting that the concentration of nitrates is reduced at the Mequinenza and Ribarroja reservoirs.

In the Arba and Flumen watersheds, a comparison was made between the nitrate load carried by the two rivers and the nitrate emissions via leaching from irrigation (Table 5). There is a measure of error in the water flow estimate for the Arba watershed, due to inaccuracy in the Ebro basin authority estimation of the Arba river flow. The nitrate load estimate for the Arba is roughly the same as for the emissions from irrigation in the watershed.

The estimated annual nitrate load for the River Flumen, meanwhile, is considerably lower than the estimated emissions from irrigation. The first of these estimates may be unreliable, however, because it is based entirely on readings taken on two daily readings that may not necessarily represent the situation for the whole year.
Table 5. Nitrate load in the Arba and Flumen, and emissions from irrigation (2002)

<table>
<thead>
<tr>
<th>Basin</th>
<th>Arba</th>
<th>Flumen</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CHE Measurement</td>
<td>Estimate</td>
</tr>
<tr>
<td>Water flow (hm³)</td>
<td>290</td>
<td>222</td>
</tr>
<tr>
<td>Water percolation (hm³)</td>
<td>143</td>
<td>138</td>
</tr>
<tr>
<td>Nitrogen load (Tm N-NO₃⁻)</td>
<td>3.168</td>
<td>1.165</td>
</tr>
<tr>
<td>Emission from irrigation (Tm N-NO₃⁻)</td>
<td>2.720</td>
<td>2.235</td>
</tr>
</tbody>
</table>

6. COMPARISON OF RESULTS WITH THE VIOLADA IRRIGATION DISTRICT

In this section we compare the data presented by Isidoro for the Violada irrigation district, with our estimates for the Almudevar municipal district. The Violada irrigation district includes the municipal district of Almudevar, and part of the Tardienta and Gurrea de Gallego municipal districts. The Violada irrigation district has an irrigation surface of some 3.600 ha, while Almudevar municipal district has about 3.200 ha. The comparison is therefore made between the results for the Violada irrigation district studied by Isidoro (1999), and the findings of this study for the Almudevar municipal irrigated area, which do not fully coincide.


The main crops grown under irrigation are corn and alfalfa, along with some wheat, barley, sunflower and rice (Figure 3).

Figure 3. Irrigated crops in the Violada district and in Almudevar (ha)
Isidoro (1999) estimates nitrate emission levels of 249 Tm N-NO$_3^-$ for 1995 and 266 for 1996 in the Violada irrigation district. Our estimate for the Almudevar area in 2002 is 215 N-NO$_3^-$ (Table 6). The Violada district uses some 35 hm$^3$ of irrigation water, while Almudevar uses about 23 hm$^3$. This difference in volume reflects the difference in size between the irrigation surfaces in Violada and in Almudevar, but is also largely due to the fact that the 2002 corn surface was smaller in Almudevar than in Violada in 1995 and 1996. Since corn is associated with high nitrate emissions, the size of the corn surface has a significant impact on nitrate emission levels.

Table 6. Results for Violada and Almudevar

<table>
<thead>
<tr>
<th></th>
<th>Violada</th>
<th>Almudevar</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Irrigated area (ha)</strong></td>
<td>3510</td>
<td>3580</td>
</tr>
<tr>
<td><strong>Fertilizer (Tm N-NO$_3^-$)</strong></td>
<td>950</td>
<td>1160</td>
</tr>
<tr>
<td><strong>Irrigated water (hm$^3$)</strong></td>
<td>35</td>
<td>36</td>
</tr>
<tr>
<td><strong>Nitrogen emissions (Tm N-NO$_3^-$)</strong></td>
<td>249</td>
<td>266</td>
</tr>
<tr>
<td><strong>Percolation (hm$^3$)</strong></td>
<td>18</td>
<td>19</td>
</tr>
</tbody>
</table>

7. CONCLUSIONS

This paper has estimated nitrate emission levels from irrigation sources in Aragon for the year 2002. The data used in the estimation include municipal crop surface, meteorological data to calculate crop water requirements, and crop tillage operations data. The EPIC crop growth package was used to estimate percolation and nitrogen leaching. Estimates at municipal level were first made, and then they were aggregated by county and watershed.

Aragon has a total irrigation surface of 410,000 ha, with alfalfa, corn, barley and wheat covering the largest areas. The amount of water used for irrigation totals 2.530 hm$^3$, while 870 hm$^3$ are lost through percolation. Nitrogen emissions through nitrate leaching totals 16,300 tones N-NO$_3^-$, with an average of 67 kg N-NO$_3^-$/ha.

The Ebro, Cinca and Arba watersheds have the highest nitrogen emission levels, due to their large irrigation surfaces. The counties that generate the highest levels of nitrogen emissions are Monegros, Cinco Villas and Zaragoza, again because of the size of their irrigation surfaces, while the counties
of Zaragoza, Ribera Alta and Bajo Aragon top the table in terms of nitrogen emissions per hectare.

These data relating to diffuse nitrate pollution from agricultural sources are of great importance for the establishment of pollution abatement measures. The policy instruments typically considered for the abatement of diffuse pollution include taxes on the pollutants used in production, such as nitrogen fertilizers; irrigation water taxes; limits on the use of nitrogen fertilizer and water; pollutant discharge permits; and the application of sanctions when nitrate concentrations in watercourses exceed certain predetermined standards.

A water tax is the type of measure advocated by the Water Framework Directive in order to apply the principle of “full cost recovery”, which ultimately means increasing the price of water for farmers. Water pricing is the measure currently being promoted by both the Environment Ministry and ecological organizations. Martinez and Albiac (2004 and 2006) reject the water-pricing alternative, showing water price increments to be a highly inefficient measure that generates a high cost to farmers in terms of net income, while having very little impact in reducing diffuse pollution. Any other measure is preferable to raising water prices. Potential alternatives include regulating the use of nitrogen fertilizer, raising the price of nitrogen fertilizer, introducing nitrogen emission permits, or imposing sanctions for excessive nitrogen concentrations in watercourses. All of these are more cost-efficient, less detrimental to farmers, and more beneficial to general public welfare.

In conclusion, to design and implement the Program of Measures of the Water Framework Directive, the water authority needs reliable data concerning the generation of nonpoint source pollution, the transport and fate of these pollutants, and an assessment of the harm to aquatic ecosystems from pollutants in watercourses. Without such data it is impossible to devise rational strategies to control diffuse pollution.

Neither the Environment Ministry nor other administrative bodies with authority over water resources are currently generating these crucial data, the collection of which requires resources and time. The danger that exists therefore is that, in the absence of the necessary data, the Environment Ministry will opt for the “simple” solution, which is to raise water prices: a measure that not only harms farmers but is also inefficient in curbing pollution.
Bibliography


A Study of Investments in the Real Sector in Tetova

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Abstract

In this study we analyze the realized investments of businesses in municipality of Tetovo. The study treats structure of investments for a sample of selected companies. The study covers also the investments according to businesses sector. Investments analysis and financing sources play key roles not only for businesses, but also for local economic development. Study shows that on all enterprises in Tetovo, the majority are micro-fi rms (family businesses up to seven employees); small and medium enterprises and a few are large companies. Based

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on the structure of assets with which these firms realize their businesses, there is a different proportion between long-term and short-term assets (Hansen, 1999). In the period from 1988 to 1990, companies in our country as in municipality of Tetovo had a lack of short-term assets on behalf of long-term assets (construction buildings and different types of equipment). This phenomenon of starting up and realizing the business is current even nowadays, when the majority of small and medium enterprises manage to provide long-term assets disregarding short-term assets. This implies that a certain number of subjects in Tetovo have sacrificed the short-term assets on behalf of the long-term one.

However, structure of companies’ assets is affected from external economic environment and country’s investment policy. National economies without taking in consideration the level of development, in a frame of political economy implement certain investment policy. Investment policy as important segment of political economy, day after day gets significant role in function of economic development. Investment policy represents main intersystem of general economy political system, from which depended economy efficiency of a country. Meanwhile, policy economical efficiency depends from volume, structure and efficiency of investments. From those three elements depend also goals realizing expounded of economical and social development, whether in short-term or long-term periods. So, in generally, we can say that volume and structure of investments depended from technique-technology development and functionality approach of general economic-social system.

**Key words:** investments, financing sources, local economic development.

1. **INTRODUCTION**

Key characteristic of investments policy for certain period is orienting investments in line of increasing assets-capital funds. Such a policy has positive effects, inter alia, increase of social and individual standards. Investment policy affects technical composition of investments and due to this fact, it is concluded that technical composition of investments widely affects economical dynamics and developments.

In investment process the future is unsecured, and risk and return are very evident. The essential and investment effects are consisted of a correlation between return and risk. View from microeconomic aspect, investments present economic activities which are complex with interest, and responsibility
followed in every time with unsecure and high level of risk. Investment management or investment decision presents a more complicated process of entity managing. It helps a manager to realize investment of capital at project which brings more profits. All this requires synergy of manager in aspect of knowledge, modern techniques, and accumulated experience-skills.

Notion investment derived from Latin word *Investicio* which means engagement in something that is real; or with other words investments in wealth. It means increasing capital funds. Some authors word etymology link with Latin expression IN VEHO which means engagement on something and always is followed with term PECUNIAM which means wealth, so engagement in wealth.

## 2. THEORETICAL FRAMEWORK CONCERNING INVESTMENTS AND FINANCING SOURCES

Investment decision is a key point for a manager. One side of coin is where to invest money. And the second one is how to finance project(s). Booth, investment and financing source are important in a decision-making process.

According to Masse (1959), investments are transformation act of financial assets to real goods and as a result of financial assets transformation to real goods, means own investments are real goods.

Depallens and Jobard (1990) says that with investments are not understanding just money transformation to fixed funds, but also in performing others operations which company uses for a longer period. In many cases fixed assets are tangible, such as machinery, buildings, equipments, and so on. But, there are also intangible assets (long-term) such as patents, trademarks, etc.

However, before a company invests in assets, it must analyzed own assets. This dilemma concerns the left-hand side of the balance sheet. Of course, the types and proportion of assets the firm needs to be set by the nature of the business (Ross *et al.*, 2007). On the other hand, how to finance projects concerns the right-hand side of the balance sheet. In principal, there are two ways in financing projects. The first one is via debt. The second one is via capital. How much debt and equity should have a company is another question known as capital structure dilemma.

The theories of capital structure are among the most interesting in the field of finance. They give explanations in questions like how much a company should borrow, what is relationship between capital structure and its company value, how a company chooses its capital structure, and so on. Even though
there is no exact formula available for establishing optimal target debt and capital ratio, the empirical studies indicate that profitability, types of assets, taxes, differences across industries, uncertainty of operating income, etc. should be considered when formulating capital structure policy.

3. DESCRIPTION OF DATA AND METHODOLOGY

Data analyzed in this study are derived from different sources, i.e. statistical summary, companies’ annual reports as own realized surveys.

According to size of enterprises in municipality of Tetovo, the majority represent micro-firms (family businesses up to seven employees); small and medium enterprises and a few large companies.

There have been considerable investments in the municipality of Tetovo, especially in the production sector such as machines and other equipment in almost all industries including agriculture, textile, wood, plastic and rubber, paper and leather, chemical industry, etc.

The biggest parts of these investments have been made by the non-financial sector, financial subjects, households and the state.

If we analyze these investments in fixed assets, according to the allocation of investments, we get this information as in table 1.

| Table 1. Investments in fixed assets, according to their allocation (all subjects) | (in millions of denars) |
|---|---|---|---|---|
| City | Total | Manufacturing industry | Electricity, gas and water supply | Construction | Communications and connections |
| Tetovo | 251 | 113 | 6 | 96 | 36 |
| Source: Statistical Summary: Construction from 2002-2006, Skopje, Tetovo 2007 |

If we analyze the investments in fixed assets means according to their allocation and technical structure, we can see that investments in the municipality of Tetovo in relation to the overall investments in Macedonia reach 0.73%; the participation of investments in manufacturing industry is 1.78%, in electricity, gas and water supply – 0.11%, in construction – 2.11%, in communications and connections – 0.56%.
As we can see from table 2, the major percent of investments in fixed assets go to buildings, infrastructure, etc. Based on obtained data, we have used qualitative analysis and relevant suggestions are given.

Table 2. Investments in fixed assets according to their allocation and technical structure in Tetovo (all subjects) (in millions of denars)

<table>
<thead>
<tr>
<th>City</th>
<th>Total</th>
<th>Different buildings and infrastructure</th>
<th>Domestic machines and equipment</th>
<th>Imported machines and equipment</th>
<th>Cultivated means</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tetovo</td>
<td>523</td>
<td>298</td>
<td>7</td>
<td>209</td>
<td>9</td>
</tr>
</tbody>
</table>


As we can see from table 2, the major percent of investments in fixed assets go to buildings, infrastructure, etc. Based on obtained data, we have used qualitative analysis and relevant suggestions are given.

Table 3. Investments in fixed assets, according to their allocation (all subjects) (in millions of denars)

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Total</th>
<th>Manufacturing industry</th>
<th>Electricity, gas and water supply</th>
<th>Construction</th>
<th>Communications and connections</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tetovo</td>
<td>251</td>
<td>113</td>
<td>6</td>
<td>96</td>
<td>36</td>
</tr>
<tr>
<td>Total in R.M.</td>
<td>34.544</td>
<td>6.366</td>
<td>5.446</td>
<td>4.549</td>
<td>6.409</td>
</tr>
</tbody>
</table>

The participation of all subjects’ investments from Tetovo compared to overall investments in Macedonia

| Participation % | 0.73 | 1.78 | 0.11 | 2.11 | 0.56 |


4. ANALYSIS AND DISCUSSION OF RESULTS

Even though obtained data represent minor percent of investments compared of the country overall percentage (0.73), relevant suggestions and recommendations can be given to companies. Data showed that manufacturing industry is the sector which accumulates more investments in fixed assets. It followed by constriction, communication and connections, and electricity, gas and water supply. Percentage of investments in fixed assets indicates that they depend from nature of business sector. Manufacturing industry uses a lot of machinery, equipments, land, and other long-term assets. Due to this fact, as sector has the majority of percentage of investments in fixed assets.

However, long-term and short-term assets proportion is neuralgic point for the most analyzed companies. They have blocked theirs money in different long-term projects without appropriate returns. Due to this fact, companies’ liquidity is worsened. On the other hand, if we analyze the companies in Tetovo with regard to their short-term assets, we will see that the biggest part of their structure is organized upon the accounts receivables, which, at the same time, represent the most neuralgic point in terms of the collecting money of debtors. The entrepreneurs
hardly manage to reimburse these demands on a timely manner; therefore they also have difficulties in maintaining their liquidity. This creates obstacles in terms of using their money from sales and is forced to approach the financial mediators. This situation makes the entrepreneurs prolong the terms of supply payment financing their businesses by debts. The financial potential of these companies could be continuous, mid-term, and long-term (Spasov, 1993). The accumulated profit, amortization, and short-term receivables represent a source of self-financing. On the other hand, other financial sources are debt financing—bank loans and accounts payables. In order for these companies to keep their level of liquidity and solvency, they have to base their businesses upon the principle that the short-term assets should be financed by short-term sources, whereas the long-term active should be financed by long-term sources.

<table>
<thead>
<tr>
<th>Association</th>
<th>Capital investments</th>
<th>Level of capacity usage</th>
<th>Origin of raw materials %</th>
<th>Employees</th>
<th>Realization</th>
<th>Realization (% Export/ country)</th>
<th>Production rise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td>€</td>
<td>%</td>
<td>Export</td>
<td>Import</td>
<td>Nr</td>
<td>€</td>
<td>2006/7</td>
</tr>
<tr>
<td>1 Molika</td>
<td>300.000</td>
<td>80</td>
<td>90.0</td>
<td>10.0</td>
<td>40</td>
<td>1.200.000</td>
<td>85.0</td>
</tr>
<tr>
<td>2 Inter-Fantasy</td>
<td>150.000</td>
<td>60</td>
<td>80.0</td>
<td>20.0</td>
<td>50</td>
<td>2000.000</td>
<td>40.0</td>
</tr>
<tr>
<td>3 Helga Company</td>
<td>18.000</td>
<td>70</td>
<td>90.0</td>
<td>10.0</td>
<td>55</td>
<td>860.000</td>
<td>75.6</td>
</tr>
<tr>
<td>4 Kokra e Artë</td>
<td>1.300.000</td>
<td>30</td>
<td>70.0</td>
<td>30.0</td>
<td>15</td>
<td>1300.000</td>
<td>/</td>
</tr>
<tr>
<td>5 Alpi</td>
<td>200.000</td>
<td>40</td>
<td>/</td>
<td>100.0</td>
<td>14</td>
<td>510.000</td>
<td>/</td>
</tr>
<tr>
<td>6 Eko Sharr</td>
<td>30.000</td>
<td>60</td>
<td>/</td>
<td>100.0</td>
<td>28</td>
<td>2000.000</td>
<td>/</td>
</tr>
<tr>
<td>7 Sharr Produkt</td>
<td>10.000</td>
<td>40</td>
<td>/</td>
<td>100.0</td>
<td>7</td>
<td>278.000</td>
<td>/</td>
</tr>
<tr>
<td>8 Suva Fix</td>
<td>300.000</td>
<td>50</td>
<td>10.0</td>
<td>90.0</td>
<td>20</td>
<td>1.076.000</td>
<td>60.0</td>
</tr>
<tr>
<td>9 Agropal Comp.</td>
<td>13.000</td>
<td>40</td>
<td>/</td>
<td>100.0</td>
<td>18</td>
<td>300.000</td>
<td>15.0</td>
</tr>
<tr>
<td>10 Ne-Pa Plast</td>
<td>12.000</td>
<td>70</td>
<td>30.0</td>
<td>70.0</td>
<td>12</td>
<td>315.000</td>
<td>100.0</td>
</tr>
<tr>
<td>11 Green product</td>
<td>15.000</td>
<td>65</td>
<td>20.0</td>
<td>80.0</td>
<td>14</td>
<td>750.000</td>
<td>85.0</td>
</tr>
<tr>
<td>12 Xhegi Komere</td>
<td>20.000</td>
<td>65</td>
<td>/</td>
<td>100.0</td>
<td>5</td>
<td>300.000</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Survey realized by economic subjects in Tetovo, October, 2007.
In a questionnaire realized with managers of small and medium companies, it was confirmed that accessibility to financial market is difficult in terms of cost and technical difficulties. In the same questionnaire, in question if they are aware for financial market in Macedonia, major of them gave negative answers. For them is very important trade credit. Trade credit (difference between accounts payable and account receivable) is considered relevant source in business financing at small and medium companies. Trade credit is the highest short-term financing and represents about half of short-term liabilities at trade businesses (Ciceri and Xhafa, 2005).

Table 4 shows the potential for investment financing, number of employees, origin of inputs and outputs, values of sales as well as the rise or fall of sales in 2006/2007.

5. CONCLUSIONS AND RECOMMENDATIONS

In this study we sought to analyzed investments and financing sources for companies in municipality of Tetovo. It was demonstrated that types and proportion of companies’ assets are decided by the nature of the businesses in which they operate. As some sectors were founded to have higher percentage of investments in fixed assets, others were founded to have fewer. However, generally speaking liquidation was a key problem for analyzed companies. In order to revive and develop the production sector in the Tetovo region, apart from measures of the macro-economic policy, which are expected to create better conditions for the development of the production sector, other efficient measures to boost the existing companies need to be undertaken. These are as follows (SEEU, 2008):

- Revitalization of the existing companies in the production sector, which have problems with their re-construction;
- Production increase by using technological procedure optimization methods and a maximal utilization of capacities;
- Innovation and technological development; engagement of modern machines and equipment, automation of the production process;
- Motivation and support for companies in mountainous regions which deal with food production;
- Use of concessions to attract foreign capital;
- Technical support in the implementation of quality standards and licensing according to ISO 9000, HACCP, ISSO 14000, ISO 14001, etc.
Usage of all material and mineral resources in function of the increase of production;
Usage of credit lines (loans) from outside to support production in companies;
Support for the production sector in the integrative processes in world economy, especially in EU countries and creating conditions for free exchange of goods, capital, labor, and knowledge;
Realization of differentiated credit support for production companies in Tetovo.

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Banking Portfolio Impairment Test Outcomes According to International Financial Reporting Standards

[Real Case: BIS Banca Implementation]

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Abstract

The objective of this research paper is to identify, assess and manage the translation and transplanting process from current accounting framework of banking system with the International Financial Reporting Standards (IFRS). It aims to some loss concerns incurred but not reported in a loan portfolio, which may distort the reporting of financial position and performance by risking the readers to undertake wrong decisions. At this point, there are in this paper some challenging accounting updates to mitigate the risk of asymmetric information, moral hazard and adverse selection in a commercial bank loan portfolio in emerging economies where the accounting information is upgrading with international standards. Furthermore, the required input parameters are defined consistently and fully compliant with international accounting standards serving to mandatory bank risk identification, measurement and mitigation, by finding out in time the signs of impairment. The study has been implemented in BIS Banca Albania and being extended in four stages:

Stage 1, the diagnostic development of the current status.
Stage 2, the detailed assessments on all ingredients of loans portfolio.

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Stage 3, the recognition of impairment loss, recoverable amount and/or asset’s cash-generating units,
Stage 4, the determination of rating scales according to risk identification per each asset portfolio ingredient.

Key words IFRS/IAS Accounting Framework, Fair Value, Discounting/DCF, Effective Interest rate Method, Impairment Identification/Measurement & Test, Loan Loss Provisioning/Risk Rating Scale, Posting

1. INTRODUCTORY ISSUES

This paper addresses challenges to the successful implementation of international accounting standards in commercial banks, by dealing with asset quality issues focused on impairment loans presence.

It describes and outlines the methodological approach followed, diagnoses the identified problems and makes suggestions for initiatives that could enhance the implementation of international accounting standards.

The International Financial Reporting Standards are the assurance framework to produce and provide relevant information to a broader set of interested parties interrelated with a commercial bank activity. The principles of full information and periodic profit calculation are governed by the basic principles of clarity, relevance, comparability and reliability [accurate, objective, prudent and complete] to give true international comparability.

Valuing the loan portfolio of a commercial bank is an increasingly important enterprise for a number of reasons. Actually all the banks in Albania are mostly structured with foreign capital. The merger wave during the last 5 years was an impregnable force within the banking industry of Albania. Both acquiring and target banks needed an overall loan portfolio assessment according to market value in order to negotiate reasonable terms of the business combination. Our banking system experienced an intensive campaign of acquisitions motivated by a perception of a positive capital base, market opportunities and sustainable profitability.

The commercial banks in Albania are required by Ministry of Finance (MoF) to translate existing accounting according to the International Financial Reporting Standards [IFRS]. This implies to examine the total asset portfolio quality for the presence of Loan Impairment.

Commercial banks are unique, compared to other financial institutions and corporates, because they play a pivotal role in the payments system,
enjoy tremendous leverage in balance sheet structure, and by the recent crisis development should be supervised more intensely. Further, financial and regulatory accounting standards now require a disclosure of the fair value of financial assets and liabilities. It is a practical response to a latent call for greater transparency coming out from shareholders, depositors/creditor and other stakeholders, and regulatory authorities [Bank of Albania].

In contrast to Bank of Albania Manual of Accounting, the idea of creditor protection is served through transparent and economically relevant information rather than through conservative accounting, which tends to understate assets, and consents the formation of undisclosed reserves.

So far, the subject matter of the work was ‘the identification, measurement and posting into accounts of the impaired loans’ by performing a full range impairment test on loans portfolio of BIS Banca [Veneto Group]’. It covered a time segment by the end of 2008 and the first semester of 2009’.

It assembled a tutorial profile, designed to resolve the complexities of impairment loans assessment in general and the application of IFRS eligible models in particular.

What worked out do not intends to make the reader an expert in the field but at least equip with the working tools and applications used and awarded to be very factual.

2. DIAGNOSTICS PREROGATIVES

It is very important to find out that market forces are diverting all banking structure to be highly responsive in full compliance with high standards of international accounting, but our experience advises that there are some countervailing disincentives operate to discourage such compliance. More emphasis should be placed on effective accounting and auditing translation process into IFRS to underpin such institutionalized regulation.

Any reader of this prose must keep in mind that international accounting and auditing standards themselves do not set out requirements as to how such effective regulation should be exercised. Guidance is not provided on how to “import” international standards into national legislative and regulatory systems, on the design and operation of appropriate regulatory frameworks, or on the interfaces with other regulatory instruments and institutions (such as those for banking and securities regulation) which could contribute to the monitoring and enforcement of international standards.
As currently drafted, international accounting and auditing standards implicitly assume the existence of legal, institutional and policy conditions ("preconditions") which are often undeveloped or still absent in Albania.

The IFRS concerns should be prioritized towards bank assets quality, and to this point we have to endorse the proactive role of high-quality external financial reporting, and prompt the efforts to promote the implementation of most prominent operational course.

There is an urgent need the BoA and MoA, we propose to specify by scaling up the circumstances in which the use of “full” IAS/IFRS is appropriate, and to develop different standards that would meet the needs applicable to the users of financial statements of other entities, particularly on loans quality.

Many of us continue to have misunderstandings with respect to the very nature of international standards, which complicates efforts to plan, define and measure progress towards successful implementation.

Lack of human and financial resources is a significant impediment to the implementation of international standards. Mobilizing the necessary resources on a sustainable, long-term basis is a major challenge.

The model introduced in BIS Banca may be applicable in all commercial banks portfolios within Albania, where the relative compatibility of the ingredients converges, and where exists an propensity to easy access to emerging international best practice and consensus. Such tenets should explicitly consider these inherent limitations.

Taking into account this climate we started up by designing and putting into operation an examination process, which involved:
(a) Identification Approaches;
(b) Measurement Techniques;
(c) Defining the Loan Loss Provisions [LLP];
(d) Correct Posting into Accounting;
(e) Checking and measuring the Effects on Loans Portfolio;
(f) Re-examination of the Bank’s Equity Position;
(g) Disclosing in full compliance with IFRS;

3. IMPAIRMENT IDENTIFICATION APPROACHES

The International Financial Reporting Standards (IFRS) require a periodic audit of the possible indicators for a sustained impairment. The polygonal goal of this requirement includes the following most crucial concerns:
✓ To avoid that **loans be quoted higher than their attainable value**;
✓ To determine the **Mandatory Risk Identification & Loan Loss Provision magnitude**;
✓ To customize the **Procedures on Risk Measurement**, and **Risk Audit** on loans portfolio;
✓ To find out systematically the **Signs of Impairment on Every Balance Sheet Date**;

The widespread arguments that emerged from the study findings shed light on the most common categories of obstacles encountered. Fundamental to the identification of the impairment loans was a clear understanding of what an impairment is, what approaches and benchmarks requires, and what it means to adopt them. Failing this, the banks are unable to set concrete implementation targets or to measure progress in reaching those targets.

The paper suggests that clarity of understanding helps to explain the significant gaps between prior self-assessments of compliance and those required by IFRS.

**The First Step** was dedicated to the **identification of sources for loan impairment** on qualitative and quantitative premises, taking into account the assessment of **BIS Banca’s financial standing, history of transactions, and legal/contractual risk [shareholders, CB, Depositors, Borrowers]**.

**The Second Step**, was centered on **Data Base Configuration** for all the following components:
(a) Level of the Loans Portfolio at Risk,
(b) Inventory of Loss-Incurring Events,
(c) Inventory/Segmentation of Loans per Debtor/Risk Category [breach of agreement/contract, bankruptcy, dormant, ecc.];
(d) Reconfiguration and Checking with Bank of Albania provisions standards [Past Due, Special Attention, Sub-standards, Doubtful, and Default].

**The Third Step**, was the construction of a guideline for the **Detailed Assessments** by discriminating cases **With No Objective Evidence Of Impairment** (in line with IFRS 39).

During these stage of the project we faced with confusing interpretation of the impairment concept because the IFRS 36 covers impairment in physical/material assets and IFRS 39 deals with impairment in financial assets, which was our case.

Another concern is that the non standard way of IFRS interpretation may hamper rigorous and uniform application of them. From our contacts with other banks risk managers we deduced that some of them have adopted only
selected standards or selected paragraphs of a standard, by advocating the thesis that adopted IFRS should enter in force as of a particular date in the past, with no account taken of changes since then.

These misunderstandings provide high risk of a false understanding of the actual standards gap and the true implementation challenges they face.

Also fundamental to the identification of *impairment* according to *IFRS* and *Basel II* should be an unequivocal relationship between the Prospective Risk [expectations] and actual risk present in the loan portfolio. This forwards a special attention to measurement techniques.

### 4. MEASUREMENT TECHNIQUE SELECTION: *THE ALGORITHM*

The optimal decision regarding which is the proper measurement technique on impairment loans led to a detailed design of the *Algorithm*. The drafted protocol included these ingredients:

1. The risk detection per individual loan contract made up the transition from initial risk perception to a real one.
2. Objective Evidence of Impairment was developed in accordance with §59 IAS 39, by finding out each individual credit exposure.
3. The review of the optimal decision and shifting up to a rational decision by putting as the most emergent objective the Asset Impairment Test for each credit file in detailed reference and compliance with IFRS 36, IAS 39, IAS 38, etc.
4. The impairment loss recognition and calculation process has included:
   (a) the ‘impairment and uncollectibility financial assets’,
   (b) the estimated recoverable amount plus fair value of collateral with the carrying amount of the loan.
   (c) the posting protocol and the display of the difference in the Balance Sheet [Acc., ‘Provision for Possible Losses On Loans and Advances’ (i.e. the result of impairment test).]
   (d) the opening and activating the account ‘Allowance for loan losses’ and providing the protocol how to review periodically the effect of impairment in loan loss provision.
5. The Measurement/Calculation of the impairment was correlated with the paths based on the following itinerary:
   (a) The decision to implement ‘The Accrual Interest Measurement/Calculation Approach’ in full compliance with IAS 18;
(b) The application of Appropriate Valuation Model as described in IAS 28.23 in connection with impairment test.
(c) The categorization of Loan Loss Provisions,
(d) The Alternative Valuation of Individual Asset,
(e) The Reversal of Impairment Loss,
(f) The Non-Recognition of Impairment Losses,
(g) The Allocation of Individual Loan Loss Provisions,
(h) The Allocation of Portfolio Based Loan Loss Provisions, and
(i) The Back Testing.

Preparing the conclusive stage, by redesigning and/or restructuring:
(a) The Data Flow [Input, Processing and Information Output] between Risk Department and Accounting Department;
(b) A Sustainable Standard/Systematic Procedure on impairment testing

There are some discrepancies amongst company law, accounting law and IFRS. The company law does not authorize a company to account for the amount of the correction of an error retrospectively. IAS/IFRS require retrospective accounting so that the correction of an error is excluded from the determination of profit or loss for the period in which the error is discovered. Such inconsistencies generate difficulties to divert on IFRS, even more it risk to become unable to comply with both domestic law and international standards.

Despite this, there is also another concern, because it is not clear that the company law may authorize a statutory auditor to disclaim his or her opinion. This would conflict with ISA, which requires an auditor to disclaim an opinion when the possible effect of a limitation on scope is so material and pervasive that the auditor will not been able to obtain sufficient appropriate audit evidence.

We must consistently take into consideration that IAS/IFRS are standards for the preparation of general-purpose financial statements, aimed at meeting the needs of a wide range of users, but predicated on the assumption that placing primary emphasis on the needs of shareholders will result in measurement, recognition and disclosure requirements that also meet the needs of other users.

The banking industry in Albania is more than 70% owned by foreign shareholders and almost from EU countries with accounting standards converging progressively with IFRS. Lack of appropriate linkages between general-purpose financial reporting and regulatory reporting [Bank of Albania reporting] in banking system within Albania creates an inconsistency, because
BoA has the power and authority to impose different special-purpose financial reporting obligations designed to meet its specific needs on the quintessence of prudential and supervisory purposes reporting.

5. THE APPROACH FOR LOAN LOSS PROVISIONS & RISK INDEX

What emerged from the selection of measurement technique was the apprehension how to manage the interface between general-purpose and regulatory reporting.

It is customary to encounter cases where rules designed by BoA for regulatory reporting on loan loss provisioning in the banking sector, or on the timing of income recognition, have an impact on the general purpose accounting information, particularly when a single set of financial statements is intended or required to meet both objectives.

Hence, the requirements of regulatory reporting we expect to conflict with those of IFRS, thereby precluding conquering implementation.

A temporary solution may be the convention that the banks should have the option of preparing additional financial statements in which full compliance with IFRS. This may threat for high cost implications, may breed significant uncertainties among users as to which are the “real” figures.

In addition, financial statements prepared and audited on a deliberate basis typically fall outside the scope of BoA regulatory regimes, thereby often reducing the reliance users can place on them. The advancement is promising when, instead of inserting special-purpose requirements in the rules governing general purpose reporting, the regulatory authorities [BoA and MoF] acknowledge the existence of parallel systems, and seek to minimize differences between them. To this point, it was highly probable to face a gap between portfolio at risk according to BoA criteria, which is quite similar with Basel II and relatively far away from IFRS viewpoint. Bank of Albania uses 5 categories on risk segmentation of loans portfolio [1-Past Due, 2-Special Attention, 3-Sub-standards, 4-Doubtful, and 5-Default].

Alternatively, we proposed 10 categories Risk Rating Scales according to risk identification & measurement per each asset portfolio ingredient.
1) 0.5 Minimal Risk: Externally top rated corporate (AAA) (e.g. government linked companies in externally AAA-rated OECD countries)

2) 1.0 Excellent credit standing: Best rating that can be achieved from a customer. The company has a very strong equity base and a healthy financing structure.

3) 1.5 Very good credit standing: All payments – capital and interest – can be fulfilled also in the long run is very high. The company has a strong equity base and healthy financing structure.

4) 2.0 Good credit standing: All financial obligations can be expected to be fulfilled in the medium term. Good equity base and healthy substance.

5) 2.5 Average credit standing: No interruptions of the servicing of principal and interest payments. Reasonable financing structure with satisfactory equity base.

6) 3.0 Mediocre credit standing: No interruptions of principal and interest payments, however increased sensitiveness to economic environment. Limited financing flexibility.

7) 3.5 Weak credit standing: Weak profitability and has only Limited Financial Flexibility, which could negatively affect timely servicing of principal and interest payments.

8) 4.0 Very weak credit standing: (resp. no information): Company with very weak profitability and inadequate financing structure. Can prevent full and timely servicing of financial obligations.

9) 4.5 High probability of default: Company with very weak profitability and problematic financing structure. Partial loss of principal or interest has to be factored in. Work out case.
10) 5.0 Default (definition based on Basel II (EU Paper, Annex VII, Part 4, § 44)): Financial obligations could not be completely fulfilled in time.
11) UNRATED—Loans which are not rated yet

6. TRANSITION MATRIX, MIGRATION RATE AND POSTING

The above suggested risk rating scales are the guideline for the Transition Matrix and Migration Rates. It is also co-dependent with respective class arrangement as per Private Individuals, Micro/ SME’s, Corporations going further as per class account, subclass account, analytic account, etc.

Checking all loan contracts files to examine the risk rating scale class insertion was correlated with the status of collateral presence, its quality and market value recent history. Consequently, a reassessment of collateral on all inventorized Collateral Dependent Loans [recommending TeGOVA standards] enriched the incorporation of loan loss provisions for contingent liabilities and commitments. All loan origination contract hosted a collateral sub-contractual component.

Finally a Risk Index was calculated based on the following formula:

$$RI = \frac{[E(ROA) + \text{CAP}]}{\sigma_{ROA}}$$

where

$$RI = f (\text{credit risk, interest-rate risk, liquidity risk, .....})$$

Before going beyond to posting operations were disclosed all accounting definitions dependent to the IFRS translation standpoint.

The crucial accounting concepts referred to impairment are:

7. IMPAIRED ASSETS

An asset is considered an Impaired Asset when its Carrying Amount[1] > its Recoverable Amount[2].

[1].CARRYING AMOUNT =the amount at which an asset is recognized in the balance sheet after deducting accumulated depreciation and accumulated impairment losses.

[2]RECOVERABLE AMOUNT=The higher of an Asset’s Fair Value less costs to sell (sometimes called net selling price) and its value in use.

✓ The Fair Value =the amount obtainable from the sale of an asset in a bargained transaction between knowledgeable, willing parties.
✓ Value in Use=the discounted present value of estimated future cash flows
expected to arise from the continuing use of an asset, and/or from its disposal at the end of its useful life.

| Recoverable Amount: IAS 36 -19,20,21 |
| Fair Value Less Cost to Sell: IAS 36 -25, 26, 27 |
| Value in Use: IAS 36 -30 |
| Cash Flow: IAS 36-33,34,44, 50 |
| Discount Rate: IAS 36 -55,56,57 |

The Contractual Cash Flows & Historical Loss Experience claim the difference between Basel II and IFRS-reporting, because Basel II encourages the usage of ‘probabilities of default’ in order to quantify ‘expected losses’ whereas IFRS requests that only ‘incurred losses’ may be reported (IAS 39.BC1 09).

The IAS/IFRS key reference for tangible assets impairment is the IAS 36 ‘Impairment of Assets’, which states that the impairment has to be identified at each balance sheet date. The proposed/accepted formula:

Carrying Amount >Net Selling Price and its Value In Use

The impairment examination approach was based according to external sources and internal ones.

In the asset impairment from External Sources we included the following indices:
1) The market value declines [non available in Albania];
2) The negative changes in technology, markets, economy, or laws [non measurable];
3) The increases in market interest rates [questionable]
4) The bank stock price is below book value [[non available because there is not a Stock Market in Albania];

Meanwhile in In the asset impairment from Internal Sources the following indices were included:
1) The obsolescence or physical damage;
2) The asset item is part of a restructuring or held for disposal;
3) The presence of worse economic performance than expected;

8. ASSESSMENT AND RECOGNITION NORMS

According to IAS 39 the Bank should assess at each balance sheet date any indication that an asset may be impaired. If Yes, IAS 39.63 (for financial assets CARRIED AT AMORTIZED COST), IAS 39.66 (for financial assets
carried at cost) or IAS 39.67 (for available-for-sale financial assets).

**Impairment Loss** should be recognized as an expense in the income statement!

The assessment is done for Assets Held to Maturity or Loans Receivable carried at amortized cost and the formula applied is:

Effective Interest Method minus Use of Allowance account.

The Amount of the Loss here is the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate! [(see IAS 39.46(c) and IAS 39.AG80 and AG81)].

It is very important to accentuate that Assets available for sale were excluded from impairment test.

Taking into consideration that there is no active market for financial instruments, we suggested fair value assessment by using a **Valuation Technique (VT).**

The valuation technique we selected was configured one which contains parameters of recent arm’s length market transactions, the current fair value of similar instrument, DISCOUNTED CASH FLOW and OPTION PRICING MODELS [Our Suggestion].

The Objective for this selection is To establish what the transaction price would have been on the measurement date in an arm’s length exchange on normal business considerations.

From impairment loss examination were exempted Short term loans (<1 year) /fair value = carrying amount [including accrued interest]. A comprehensive approach was devoted to Floating Interest Rate Loans & Advances (IAS 39.AG6-8) and Fixed Interest Rate Loans & Advances (IAS 39.AG6-8).

The Decision Tree Scheme for Loans and Advances to Banks and/or to Customers IAS 39, 58 is as following:

**9. IMPERATIVE TENETS**

Impairment loss is recognized only when it has been incurred (IAS39. IN20). Loan Loss provisions are categorized as:

(a) Individual loan loss provisions (individual value adjustments) for claims in the balance sheet (IAS 39.63) and for off-balance sheet items and

(b) Portfolio based loan loss provisions for groups of financial assets with similar credit risk characteristics (IAS 39.64).
(c) Provisions for contingent liabilities and loan commitments

The Carrying Amount of the asset shall be reduced either directly or through use of an allowance account (IAS 39.63).

The amount of the loss shall be recognized in profit or loss [Acc. Posting].

The Collateral is not recognised in the IFRS-balance-sheet as an asset separate from the impaired financial asset before foreclosure.

**IFRIC 10: ‘Interim Financial Reporting and Impairment’**

<table>
<thead>
<tr>
<th>Fixed Interest Rate Period</th>
<th>Yes</th>
<th>No, Shorter than 1 year, then</th>
<th>CARRYING AMOUNT = FAIR VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is the Remaining Maturity ≤ 1 year</td>
<td>Yes</td>
<td>No, Shorter than 1 year, then</td>
<td>CARRYING AMOUNT = FAIR VALUE</td>
</tr>
<tr>
<td>Provision for Possible Loan Losses</td>
<td>Yes</td>
<td>Yes then</td>
<td>CARRYING AMOUNT = FAIR VALUE</td>
</tr>
</tbody>
</table>

**FAIR VALUE CALCULATION WITH DISCOUNT CASH FLOW METHOD**

1. Selection of Loans/advances to customers for which Discount Cash Flow Method has to be applied (ref. the Decision Tree).
2. Calculation of Present Value by using Actual Prime Rate + Extra Charge (adequate for the actual rating class of the customer).


**IAS 34.28 requires an entity to apply the same accounting principles in its interim financial statements** as are applied in its annual financial statements but also states that “the frequency of an entity’s reporting (annual, half-yearly, or quarterly) shall not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes shall be made on a year-to-date basis.” IAS 36, paragraph 124, states that “An impairment loss recognised for goodwill shall not be reversed in a subsequent period.”

IAS 36.124, states that ‘an impairment loss recognised for goodwill shall not be reversed in a subsequent period.’

IAS 39.69, states that “Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss.”

IAS 39.66, requires that impairment losses for financial assets carried at cost (such as an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured) should not be reversed.

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So far the main issue is:

Should an entity reverse impairment losses recognized in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost if a loss would not have been recognized, or a smaller loss would have been recognized, had an impairment assessment been made only at a subsequent balance sheet date?

This Interpretation states that:

where an entity has recognized an impairment loss in an interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost, that impairment should not be reversed in subsequent interim financial statements nor in annual financial statements.

*The IFRIC* concluded that:

— An entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

— An entity shall not extend this consensus by analogy to other areas of potential conflict between IAS 34 and other standards.

The Interpretation should be applied to goodwill prospectively from the date at which the entity first applied IAS 36, and to investments in equity instruments or in financial assets carried at cost, prospectively from the date at which the entity first applied the measurement criteria of IAS 39.

Therefore, the prohibitions on reversals of recognized impairment losses on goodwill in IAS 36 and on investments in equity instruments and in financial assets carried at cost in IAS 39 should take precedence over the more general statement in IAS 34 regarding the frequency of an entity’s reporting not affecting the measurement of its annual results.

*IAS/IFRS and Calculation Procedure and Impairment Test Results*

The common calculation procedure remains unchanged and is as follows [IAS 39.63]:

<table>
<thead>
<tr>
<th>Step</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Full Exposure of Asset’s Carrying Amount = All Amounts Due [principal, interest, discounts]</td>
</tr>
<tr>
<td></td>
<td>Minus (−)</td>
</tr>
<tr>
<td>2</td>
<td>Present value of expected future cash flows [discounted at the financial instrument’s original effective interest rate] = Estimated Recoverable Amount = Market Value (in case of Secondary Market price quotations)</td>
</tr>
<tr>
<td></td>
<td>Minus (−) Fair value of the collateral (if any; Note: fair value less costs for obtaining the collateral)</td>
</tr>
<tr>
<td></td>
<td>Equal= Valuation Adjustment Requirement (If &gt;0)</td>
</tr>
</tbody>
</table>
The calculation is based on the *days past due (dpd).* The exchange rates at the year-end used by the BIS Banca in the preparation of the consolidated financial statements are as follows:

**31 June 2009**

| Lek/1 US Dollar | 94.5462 |
| Lek/1 Euro | 131.9332 |

<table>
<thead>
<tr>
<th>IFRS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lek=Reported Currency</strong></td>
<td><strong>ALL</strong></td>
</tr>
<tr>
<td><strong>31 June 2009</strong></td>
<td><strong>Past Due Days [pdd]</strong></td>
</tr>
<tr>
<td>Total Loans Portfolio</td>
<td>3,381,888,556.63</td>
</tr>
<tr>
<td>Total Impairment Loss IFRS</td>
<td>90,249,263.86</td>
</tr>
<tr>
<td>Rating Scale 5 [Default]</td>
<td>L 81,780,932.87</td>
</tr>
<tr>
<td></td>
<td>L 8,468,330.99</td>
</tr>
<tr>
<td>Rating Scale 4,5 [High Probability of Default]</td>
<td></td>
</tr>
<tr>
<td></td>
<td>L 267,278.09</td>
</tr>
<tr>
<td></td>
<td>L 1,013,108.34</td>
</tr>
<tr>
<td></td>
<td>L 1,018,651.91</td>
</tr>
<tr>
<td></td>
<td>L 1,307,957.54</td>
</tr>
<tr>
<td>Rating Scale 4 [Very Weak Credit Standing]</td>
<td></td>
</tr>
<tr>
<td></td>
<td>L 4,194.98</td>
</tr>
<tr>
<td></td>
<td>L 1,358,705.58</td>
</tr>
<tr>
<td></td>
<td>L 2,027,589.45</td>
</tr>
<tr>
<td></td>
<td>L 448,343.52</td>
</tr>
<tr>
<td></td>
<td>L 677,623.49</td>
</tr>
<tr>
<td>Rating Scale 3,5 [Weak Credit Standing]</td>
<td></td>
</tr>
<tr>
<td></td>
<td>L 8,050.54</td>
</tr>
<tr>
<td></td>
<td>L 129,524.74</td>
</tr>
<tr>
<td></td>
<td>L 207,302.80</td>
</tr>
<tr>
<td>Rating Scale 3 [Mediocre Credit Standing]</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Rating Scale 2,5 [Average Credit Standing]</td>
<td>0</td>
</tr>
<tr>
<td>Rating Scale 2 [Good Credit Standing]</td>
<td>0</td>
</tr>
</tbody>
</table>

Here below is prepared a proper structure of Risk Rating Scale for BisBanca:
## Detailed Information per Rating Scale 5

<table>
<thead>
<tr>
<th>Rating Scale 5 [Default] Impairment Loans</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>5,241,573.44</td>
</tr>
<tr>
<td>B</td>
<td>3,941,183.55</td>
</tr>
<tr>
<td>A</td>
<td>2,740,338.59</td>
</tr>
<tr>
<td>A C</td>
<td>3,458,988.72</td>
</tr>
<tr>
<td></td>
<td>7,194,713.33</td>
</tr>
<tr>
<td></td>
<td>...</td>
</tr>
<tr>
<td>TOTALI</td>
<td>81,780,932.87</td>
</tr>
</tbody>
</table>

### IFRS/Bank of Albania Comparative Table on Loan Loss Provisioning 31/06/2009

<table>
<thead>
<tr>
<th></th>
<th>IFRS -Loan Loss/Impairment Allowance 90,249,263.86 2.669%</th>
<th>BoA -Loan Loss/Impairment Allowance 84,702,067.93 2.505%</th>
<th>The difference between IFRS and BoA [1-2] +5,547,195.93 2.669%-2.505% =+0.164%</th>
<th>Interest Rate Risk Premium to be applied in Lending Rate 2.669%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>IFRS -Loan Loss/Impairment Allowance 90,249,263.86 2.669%</td>
<td>BoA -Loan Loss/Impairment Allowance 84,702,067.93 2.505%</td>
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</tr>
<tr>
<td>2</td>
<td>IFRS -Loan Loss/Impairment Allowance 90,249,263.86 2.669%</td>
<td>BoA -Loan Loss/Impairment Allowance 84,702,067.93 2.505%</td>
<td>The difference between IFRS and BoA [1-2] +5,547,195.93 2.669%-2.505% =+0.164%</td>
<td>Interest Rate Risk Premium to be applied in Lending Rate 2.669%</td>
</tr>
<tr>
<td>3</td>
<td>IFRS -Loan Loss/Impairment Allowance 90,249,263.86 2.669%</td>
<td>BoA -Loan Loss/Impairment Allowance 84,702,067.93 2.505%</td>
<td>The difference between IFRS and BoA [1-2] +5,547,195.93 2.669%-2.505% =+0.164%</td>
<td>Interest Rate Risk Premium to be applied in Lending Rate 2.669%</td>
</tr>
<tr>
<td>4</td>
<td>Interest Rate Risk Premium to be applied in Lending Rate 2.669%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: No material difference [0,164%]

### Accounting Entries [posting class]

<table>
<thead>
<tr>
<th>Bis Ref. Nr</th>
<th>31 June 2009</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Bad Loans”</td>
<td>- - - - - - -</td>
<td>81,780,932.87</td>
<td></td>
</tr>
<tr>
<td>“Impaired Loans”</td>
<td>- - - - - - -</td>
<td>8,449,892.22</td>
<td></td>
</tr>
<tr>
<td>Allowance for Loan Loss</td>
<td>- - - - - - -</td>
<td>90,249,263.8</td>
<td></td>
</tr>
</tbody>
</table>

### Responsibility Scheme

<table>
<thead>
<tr>
<th>Responsible Depart.</th>
<th>Input</th>
<th>Processing</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Department</td>
<td>Loan Application</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk Department</td>
<td>Output of Credit Department</td>
<td>Risk Identification/ Assessment</td>
<td>Final Opinion on Approval/ Denial --</td>
</tr>
</tbody>
</table>
Risk Department

Data from:
Credit Department
collection/Treasury
Legal Department
Internal Audit
Central Bank
Observers
Market Supervisors
...

Risk Monitoring
[Operative]
Collateral Evaluations...
Impairment Test
Provisioning -BoA
[monthly]
Provisioning -IFRS
[Each Balance Sheet
Date]

Risk Premium Adjustment
[Nominal Interest Rate]
In subsequent lending contracts

Acronyms


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    ctle�行eutiveboard.com www.bankofalbania.org www.aicpa.org
Accounting Standards in Albania

(Study Case: Challenges of first time application of AS in Albania)

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Abstract

International Accounting Standards (IAS) and National Accounting Standards (NAS) issued by National Accounting Council were mandatory in Albania from January 2008. The Law “On Accounting and Financial Statements” has determinate the economic units which will apply IAS and NAS. This paper will present a brief history of the development of national accounting standards in Albania and discuss the factors that led to the acceptance of them. The paper will then consider the case of application of Accounting Standards in Albania during 2008 and problems faced from

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economic units during the first year of application as well. We used a narrative model to analyze the database we charged using direct interviews and questionnaires made to economic units. Based on this model we reached the conclusions which are also based on our professional experience.

**Keywords:** International Accounting Standards (IAS), National Accounting Standards (NAS), Financial Statements (FS), accounting policies, application.

1. INTRODUCTION

Changes in the ‘90s economic system, from a centralized economy to a market economy, required the creation of a new legal and institutional infrastructure in accounting. This could be realized only by initiating a deep reform in this direction.

The accounting legislation was created and developed taking into consideration mainly the Western legislation and to some extent the experience of Eastern countries, which were in transition. At the same time our country’s achievements in every field of economy and finance were considered as well. The reform in accounting has its beginnings with the approval of the Law no. 7661 dated 19.01.1993 “On accounting”, which defines the general obligations, the principles and rules for accounting, preparation and presentation of financial statements, as accounting product. Codifying *the general accepted accounting principles* as well as several accounting norms, the Law stipulated the establishment of a normalized accounting in Albania.

In the same year, in support of the above law was drafted and approved the General Accounting Plan². This Accounting Plan contained the entirety of methodological and technical procedures adjustments for accounting and for preparation of financial statements, to the extent that such arrangements were common to the various economic units. The regulations dealt with in this accounting plan were focused on units regardless of their economic activity (production, trade, services). The General Accounting Plan was also drafted on the basis of a perspective view by addressing the elements that were not yet put into practice.

Nevertheless, the socio-economic development of the country, the making more complex and rigorous of the financial reporting and international auditing, the commitment of the Government to sign the Stabilization &

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² General Accounting Plan– Ministry of Finance and Economy, 2003
Association Agreement with EU, made that the demands up till then of the financial reporting to be considered insufficient. These were the reasons that the National Accounting Council took the initiative for drafting the new Law “On Accounting and Financial Statements”\(^3\). This law aims to address many of the shortcomings of previous accounting claims and financial reporting since the accounting requirements in the previous law and General Accounting Plan did not provide a high quality financial reporting for the economic entities of public interest. The new Law provides necessary authorizations to solve different problems and requirements through accounting standards. The law has specified the types of accounting standards (national or international) to be applied in the Albanian economic entities, concerning the groupings of proper entities that will be obliged to implement these standards.

According to this law, the National Accounting Council is the only body which compiles the national accounting standards in accordance with the requirements of this law and in coherence with international accounting standards. According to the new Accounting Law, approved in 2004, the standards would be mandatory for implementation since January 2008.

Like any other process, their implementation will face its difficulties. This will be in particular the essence of the article, identification of problems and difficulties encountered in the first year of Standards implementation and recommendations for their solution.

### 2. THE NECESSITY FOR IMPLEMENTATION OF ACCOUNTING STANDARDS

Standardization of accounting (as in national and international level) and restriction of the entity rights to elect its accounting policies to prepare the financial statements is supported by various arguments, some of which are as follow:

- reduction or elimination of confusing variations in the methods used for preparation of financial statements;
- provide a significant basis for debates and discussions on improving accounting practices;
- obligation of economic units to publish accounting policies used in preparing financial statements which increases the information and their transparency;

it is a matter of fact that Standards have a less coercive character than the legal arrangements, which makes them more acceptable for economic units and compilers of financial statements.

While yesterday the emphasis was on the accounting practices harmonization, therefore to increase their compatibility, nowadays the tendency is toward development and consolidation of accounting practices standardization. In other words, currently it is directed to the same strict rules. At the international level among the reasons for the accounting practices standardization we mention:

- **The globalization of the world economy** which makes that the connections and exchanges between economic units can be diverse. The mere creation of multinational companies requires that financial statements compilation of the group member’s be supported on the same basis to enable later the parent entity statements consolidation;

- **The need to enter into foreign capital markets.** It is known that the committees for organization of capital markets have the implementation of accounting standards set by them as a condition for their quotation. The implementation of the same reporting standards would be an essential element to ensure transparent and comparable information of financial statements. This, will then ensure the efficient functioning of these capital markets, nationally or internationally.

- **Processing cost of financial information.** In support of the above arguments, the cost factor should be considered as it would not be necessary the preparation of financial statements twice, once in accordance with the local GAAP and once with the Accounting Standards. **Drafting of the International Accounting Standards increases economic entity’s performance in many aspects. One of them is the cost factor, as they conclude that the harmonization of Accounting Standards will reduce the costs of doing business, especially between different countries that will contribute to increase the efficiency of market regulations and will reduce the costs of drafting and analysis of financial statements in the international context**.

- While in terms of Europe, the developments of the last two decades must be added to the above mentioned factors. **Inclusion of more states in a single organism (EU),** besides others, requires the same position of accounting policies. The transition towards a single currency

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4 Houston and Reinstein (2001)
strengthened the tendency for having the same rules in establishing the financial statements. In this spirit, the fourth directive\(^5\) was approved for the establishment of financial statements and the seventh directives\(^6\) for the consolidation of financial statements. Standardization of accounting policies within this grouping would help in an easier transition through standardizing worldwide accounting, as a group entirely.

But not only theoretically, but also practically, is proven that reporting under Accounting Standards gives a realistic picture of opportunities in the future and of the financial situation of economic units. Accounting Standards by emphasizing on the fair value and revaluations give a true reflection of the real estate values. Under the same logic, the intangible assets have a higher value on the balance sheet which reflects their real value. The positive effects of Accounting Standards extend in the comparison of financial statements between different economic units, too. Reporting under Accounting Standards increases comparability between units in different countries whether or not part of the same sector. This is very important if judged from the perspective of investors.

So, the reasons for the necessity of implementation of Accounting Standards will be classified:

- Economic reasons;
- Reasons for a true and fair financial reporting.

Although the general interest was mention above, the greatest interest in using the Accounting Standards is the impact they have on financial statements. “Examining financial statement implications is important because, while IAS\(^7\) adoption might lead to indirect economic consequences … the only direct effects … are changed financial statements …” \(^8\). In fact, many economic units, recognizing Accounting Standards, have more facilities in the implementation of new accounting definitions and new procedures for measurement and evaluation, in comparison with the detailed and exhaustive reporting of their operations and activities to satisfy the needs of a wide range of financial statements users.

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7 IAS – International Accounting Standards – www.iasb.org  
8 Hung and Subramanyan, 2004, p.4. “” (p.36)
Moreover the accounting product of a country is being used in other countries. This is the main reason why the accounting standards are being required to be the same in international level. The pressure comes from internal and external factors.

The insertion of foreign equities through branches, local office and economic unions in Albania, is an external factor for the settlement of an appropriate financial reporting according the Accounting Standards. The opening of the Albanian economy and the requirements of the market equities for transparency and comparability were the main reasons for the usage of the Accounting Standards. The existing law and the General Accounting Plan could not any longer fulfill the requirements of the different users of the Financial Statements.

The new Basel II “International Capital Framework”° agreement, originated as well a big change in loan granting policy. International organizations that have been crediting for different economic units require a compulsory reporting according to those standards.

The internal factor firstly comes from the government itself, which according to the fulfillment of the association - stabilization agreement requirements and the achievement of the conditions for becoming an EU candidate; draw an implementation strategy of the International Accounting Standards in Albania. Budgetary and fiscal entities are also part of the internal pressure because their job gets complicated when they have to elaborate for their purposes the financial information of the foreign economic units. It is obvious that the application of different accounting principles will lead to differences in financial statement account.

But not only this, the pressure is exercised from the ones which prepare the Financial Statements, as well as from the users of the FS. From Financial Statements compiler perspective, the application of the Accounting Standards is a huge release due to the fact that they should not prepare Financial Statement once according Alb GAAP and then according the Financial Standards for company in other places in the world. While, from the point of view of the

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economic units in Albania, the growth of funds and the establishment of units with common equity requires the necessity of using the Accounting Standards. The reporting in accordance with the Accounting Standards, which means using the same language with other countries regarding the financial report, will especially increase first the possibility for the integration of Albania in EU and, second, the overall economic globalization.

4. ACCOUNTING STANDARDS AND STEPS FOLLOWED FOR THEIR APPLICATION IN ALBANIA

a) National Accountings Standards

Since 93% of the business structure in Albania is composed by small to mid size economic units, it was considered reasonable to draw the National Accounting Standards. The main argument was the cost effectiveness in preparing the financial statements. It is known that the usage of IAS from small to mid size units is not cost effective because the range and size of the information that those introduce are not material compared with large economic units. Meanwhile, the implementation of IAS requires a very well trained and larger staff. The difference in benefiting from information will be relatively small.

In this context the National Accounting Council, the only organization responsible for preparing National Accounting Standards, aiming the fulfillment of its duties and objectives, realized a set of 14 National Accounting Standards through a project financed and assisted from the World Bank and helped by the foreign company “Price Waterhouse Coopers”. It was also supported from the Albanian government. These domestic standards were compiled in coherence with International Accounting Standards. The domestic standards are fewer in number and content compared with the International Accounting Standards. In their content they only include the main lines of the IAS, by considering just briefly or not at all, some of the IAS. Among the IAS not included are IAS 26, IAS 29, IAS 31, IAS 33, IAS 34, IAS 40.

After two years of work for finalizing this huge and valuable project, for reforms in the Albanian accounting field, on 1 January 2008, all the units

10 Results on structural survey of economic enterprises – www.instat.gov.al
11 Standardet Kombëtare të Kontabilitetit – www.minfin.gov.al
defined by the law “For Accounting and Financial Statements“, started the application of National Accounting Standards. According to this law the economic units are divided into the ones that are obligated to use IAS and NAS. National Accounting standards must be applied from all profitable economic units, placed in the Albanian territory, subject of the law “For Accounting and Financial Statements“(excluding those obligated to apply IAS). Also in 2009 was compiled the Standard 15\(^\text{12}\). This standard was compiled for the micro units, noting that during 2008 the application of the Accounting Standards was an unnecessary process for these units. Their turnover, the small number of employees and the additional cost were the main arguments that needed the preparation of this Standard.

The approval of the standards was followed by their publication and preparation of many other materials needed for training and further qualification of the compilers of the Financial Statements. The process of applying the standards was considered from the only organism that has the authority of compiling the standards, as a chain process which should have all the links completed. The training and qualification of the FS compilers was one of the most important links. In this context, right after the ratification of Accounting Standards, was organized the work for the publication of many supportive materials as for example, guiding list of accounts, financial statements and the way to prepare them. Also many other materials with informing and explanatory nature according the correct application of Accounting Standards were provided. Following the same logic, many other professional organisms were involved in the publication of the necessary literature to assist the financial statement compilers.

**b) International Accounting Standards**

We saw above the criteria for the economic units that are obliged by law to follow NAS. While the economic units which are obligated by law to follow the IAS should meet the following criteria:

a) from companies listed in an official stock-market of securities and their branches, subject of the consolidated accounts;

b) from secondary level banks, financial institutions, similar to banks (non-banks institutions), insurance and reinsurance companies, securities fund

and all the companies that are licensed to perform investing activities in the securities, even if they are not listed in an official securities stock-market;

c) from other large economic units, not listed in an official securities stock-market, exceeding the limits stated by the Council of Ministers for the annual revenues and number of employees.

While regarding the application of the IAS by the units obliged by law to do so, the utilized literature was the English one, meaning IAS and the materials that aided in analyzing them. Translating them into the Albanian language has been an overdue process and even today we can only find them in an electronic format in the official website of the Ministry of Finance, but not in a printed out version. What helped the Albanian economic units that applied by law the IAS for the first time, (excluding Secondary Level Banks and Insurance Companies), were some modest training materials of professional organisms, as well as the assistance of the big auditing firms.

5. THE CHALLENGES OF APPLYING FOR THE FIRST TIME THE ACCOUNTING STANDARDS IN ALBANIA

a) National Accounting Standards

The compliance of the National Accounting Standards was a process that lasted for about two years. Right after their conclusion, they were announced obligatory to be used as of January 1st 2008. The year 2008, as the first year for the application of the standards, would be the indicator for the success or failure of the implementation process for the domestic standards. The information shown in Annex I was gathered from the studies performed in a group of 150 economic units, subjects of NAS and 50 economic units, subjects of IAS. From the gathered data was observed that the economic units faced some problems and difficulties in applying for the first time the Domestic Standards. Interviews and questionnaires prepared for the purpose of data gathering formed two groups of answers according to:

- applying or not the NAS;
- the quality of their execution;

In the first group of answers was observed that the implementation process, for a substantial number of economic units, was characterized by a low level of knowledge from the compilers of the financial statements regarding the
domestic Accounting Standards. The professional organisms, in year 2007, started the first initiatives to train the financial statements compilers for those standards. Since the human recourses and the logistics capacity were limited in proportion with the training demand, the number of the trained persons in this first year was relatively small. Also, talking always in this context, not in each economic unit, the management was subject to and interested in qualifying the adequate staff related to the Standards. This is also due to the fact that the business in general did not have the needed sensibility to understand the importance of applying the Accounting Standards. The level of knowledge for their importance during the surveys appeared very low.

Another reason why the standards were not followed in an obligatory and correct way from this group of economic units was also the fact that in the Law “For Accounting and Financial Statements” were missing the proper penalties for not applying in an obligatory way the Standards. The Albanian culture of reporting is more oriented to fulfill the needs of the fiscal legislation rather than the other users. This led to the fact that even for the year 2008, the economic units were careful in their financial reporting regarding the fiscal, and not in the application of the Accounting Law and of the National Standards.

In the other group of economic units, with a considerable sensibility connected with the importance of applying the Standards and the legal obligation to do something like this, was noticed that the nature of the problems was technical. The problems and difficulties that were faced by those units during the application for the first time of the NAS were as follows:

1. transition problems, of passing from one domestic GAAP to the Standards;
2. the measurement, evaluation and reporting of the financial statement elements;
3. the new financial statements.

The transition problems: mainly involved the previous balance sheet elements which were going to have a new accounting treatment in the successive period. It is worthwhile to mention some of them. Referring to Foreign Exchange differences an example is the fact that the economic units had large amounts of such differences in the conversion of assets and liabilities accounts. With the new standards the conversion differences were going to be part of the Income Statements. How were those differences supposed to be treated in the beginning of 2008? Secondarily, how were supposed to be handled the start-up expenses by the economic units? They were assets
account, while taking into consideration the new standards another accounting treatment was needed.

The measurement, evaluation and reporting problems: The problems mainly involved the new concept of evaluating the elements of the Financial Statement, primarily the problems of the fair value. According to the fix assets, given that in Albania there is no market for them, then the issue of their reporting in the fair value represents a problem for those economic units. While the use of alternative methods requires a qualification of the staff appointed to the compilation of the Financial Statements. Referring to the intangible assets and obligations, there has been no effort made by the economic units to present them by the fair value, because except of the insufficient qualification of the staff, a considerable influence came from the reporting culture, which as analyzed above is oriented toward the reporting for fiscal purposes. According to this view, the economic units did not exercise a serious effort to achieve a realistic and correct financial performance for the year 2008.

The problems faced while preparing the new financial statements:
This statements which were different from the previous ones, first of all brought problems concerning the formal part of the compilation. Presenting the information in a certain way for a long period created problems while adopting. It was time then to overbear some concepts like:

a) From 2 Financial Statement and 3 reporting for fiscal purposes, with the new Standards 4 obligatory statements and disclosures should be prepared;

b) The classification of assets and liabilities accounts, which was going to be prepared in the opposite way with the previous presentation; (example: from more liquid to fix assets)

c) The presentation of the fix assets in the balance-sheet, was going to be for carrying value,

d) The presentation of the Income Statement was going to be prepared in an only statement (regarding nature or function) introducing some accounts in the net value (allowing compensation); they were introduced separately using the domestic GAAP;

b) National Accounting Standards

Due to the fact that the biggest part of the economic units implementing IAS were banks and insurance companies, no problems were faced during
their implementation. This due to the fact, that since 2005 these economic units were preparing Financial Statements according to the IAS in order to report to mother companies. The units using the International Accounting Standard for the first time had considerable problems. They faced similar problems with those units that applied the NAS. The problems mainly had interpretational and practical nature. For example; concessive companies had problems related to IFRC 12. It is further emphasized that a general problem was the missing references in industry and sector range for the evaluation of the assets fair value and financial instruments risk.

CONCLUSIONS

Various problems and difficulties faced from the economic entities during the first time application of International and National Accounting Standards in Albania are exposed throughout this article. The reasons why these phenomena are faced from economic units are given during their analytical treatment as well. But, to ascertain doesn’t mean to give the solutions. Nevertheless, their ascertainment is the first step toward relevant solutions.

As a conclusion, in brief, we can say that the difficulties and problems faced from economic units, as mentioned above, are of technical and bureaucratic character.

*Of technical character* – we can group all those reasons related with new accounting approach, in particular those like the assessment by fair value of financial statements elements. In the same grouping there are some new considerations about some balance sheet elements, which are not any more part of it, but they belong to the profit and loss statement. The difficulties of accurate interpretation of Standards or IFRIC’s, like as IFRIC 12 are included in this group as well.

*Of bureaucratic character* – the delays in publishing the International Accounting Standards in Albanian language and other supporting materials related to them. Furthermore, part of this group is the modest campaign of professional organisms in training professionals for compiling financial statements for International and National Accounting Standards. Of a great importance to be exposed is the engagement of responsible actors in increasing the business environment awareness regarding firstly, to the legal obligation, and secondly to the importance of Standards implementation.
RECOMMENDATION

Following the conclusions, relevant recommendations are given thanks to research made from the authors and not as a pronouncement from the National Accounting Council of Albania.

Regarding the technical reasons, priority has to be given to the encouragement of professionals, accounting educators and professional organisms to publish technical supportive materials in order to assist the compilers preparing qualitative financial statement in one hand, and on the other to facilitate the users to read and understand properly the financial statements. The continuous process of training and qualifications on compilation of financial statements should be an important contribution of professional organisms. This process has to be in a progressive manner, so to include within itself the potential compilers of tomorrow. This means that university curriculums have to be the beginning of accounting professional. University education has to be the foundation and theoretical ground of future professionals in accounting.

Regarding the bureaucratic reasons, there is no room for delays in the publication of basic materials such as the case of International Accounting Standards or other additional and supportive materials that we find still nowadays published only in English. The business environment awareness should have a great significance on the importance of implementing the Accounting Standards. The business Community, in particular their senior leadership must understand that the financial statements are produced not only for the Tax Office but for many other users as well. Therefore, the correct implementation of Accounting Standards means approaching them in general and not in a selective way. In other words, if we take a practical example as ‘the reevaluation of the long-term material assets’, since due to the tax purposes these are unknown incomes or expenditures, we should not overlooked that it is mandatory to be done at least 1 times a year according to NAS 5 and the Law “On Accounting and Financial Statements”.

In this context, we consider the amending of the Law “On Accounting and Financial Statements”, very important part of which are appropriate penalties in case of his violation as a very efficient solution to business awareness for the obligatory implementation of the Accounting Standards. The liberal spirit of law enforcement in this case does not help the integration process because
the lack of penalties was one of the reasons why Standards have not been implemented in a considerable part of economic entities, as a consequence of which the implementation process is delayed and the chances for improving the quality and comparability of financial statements are reduced.

At the present we must change our traditions concerning the financial information reporting. Nowadays being an aspirant country to join the EU, we must think and act as such. The opening of capital markets, the signing of the Stabilization and Association Agreement, the signing the free trade agreement and Europeanization of the Albanian economy requires transparency and the same accounting language. Fulfilling these conditions will facilitate procedures for EU integration of Albania.

### Annex 1

Following are some of questions and answers of questionnaires addressed to 200 economic units were as:

<table>
<thead>
<tr>
<th>Questions</th>
<th>International Accounting Standards</th>
<th>National Accounting Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did your unit apply Accounting Standards during 2008?</td>
<td>YES 50  NO 0  Open 55  NO 95</td>
<td></td>
</tr>
<tr>
<td>Did management have the right information regarding the legal obligation, as per Law, to apply Accounting Standards?</td>
<td>YES 50  NO 0  Open 28  NO 122</td>
<td></td>
</tr>
<tr>
<td>Was the staff trained to implement the new accounting standards?</td>
<td>YES 50  NO 0  Open 42  NO 108</td>
<td></td>
</tr>
<tr>
<td>How were handled the conversion differences, carried from 2007, in opening balance of 2008?</td>
<td>Open</td>
<td>Open</td>
</tr>
<tr>
<td>How were handled the start – up expenses, carried from 2007, in opening balance of 2008?</td>
<td>Open</td>
<td>Open</td>
</tr>
<tr>
<td>How much does fiscal legislation impact the financial reporting?</td>
<td>Open</td>
<td>Open</td>
</tr>
<tr>
<td>Which methods were used in evaluation of fix assets and intangible assets at the end of 2008? (Fair value / Book value)</td>
<td>Open</td>
<td>Open</td>
</tr>
<tr>
<td>Had the unit faced problems in preparing the new FS of 2008? Specify __________</td>
<td>Open</td>
<td>Open</td>
</tr>
</tbody>
</table>
Economic unit surveyed:

150 economic units subject of NAS, 50 economic units subjects of IAS
- 37 trading sector
- 15 production sector
- 31 construction sector
- 7 oil
- 39 services sector
- 4 secondary level bank
- 3 insurer companies
- 12 services providers companies
- 9 construction and production sector
- 23 trading sector

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THE ROLE OF THE RURAL BANK IN THE ECONOMIC DEVELOPMENT OF OUR COUNTRY

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Abstract

The main purpose of this research is the review of the opportunity of the creation of a Rural Bank in the circumstances when from one hand Albania has created a history of stable politics and mechanics of the market and from the other hand have been accumulated many businesses in the rural areas with longevity over 3 years, which means that is being created a trend for functional connections between the natural resources and the human ones. The research is based in preceding institutional relations and information that have not casted this idea but they offer data that speak for the creation of a Rural Bank. Until now the rural areas mostly are involved in the anti poverty program, in the mean time in many localities and rural environments is needed to be passed the development policies and parallel to them in the financial institutions of a rural bank nature. The definition of the potential demand for microcredit and microfinance products in the Rural Areas originating from the existing structures of the banking industry/institutions is the next aspect seen from the critical prospective as to what need be done more from the multitude of the 17 banks.

Key words: Albania, microcredit, microfinance, Rural Bank.

1. METHODOLOGY

The methodology of the study is based in a geographical and economical spread of the data collection and processement, respecting a proportional separation between the north and south areas and with a spreading tendency from west to south. This for the fact that such is the spread of the rural areas with higher investment scale. The basis of the data that touches the study includes the circuit of Shkodra, Kukes, Puka, Peshkopia, Vlora, Gjirokastra and Korca. Excluding the spreading criteria the study is based also in the indexes of the presence of the banking products in these areas that generally results low. In the communication with the banks, the focus has been the group of microcredit for the businesses with rural character [agricultural and non-agricultural], for example for production/micro production, trade, village tourism etc, according to the present opportunities that are valuated from the banks in the sub rural areas and/or rural.

The last direction that is taken in consideration is connected with the governmental political analysis as to at what level it can be supported the
creation of a Rural Bank. Since the products of the microfinance form a wider community than the microcredit products, in the research time line a segment with weight is the data base for the products of the other suppliers of the financial services, such as the insurance agencies, governmental programs, different donators, and the initiatives of different interest groups.

2. THE HISTORY OF RURAL BANKS

The opening of the agricultural bank has always been of special importance for the economy of our country since:
1. Turkish Agricultural Bank (1888) in the Ottoman Empire;
2. Agricultural Bank (1937) in the Zog Kingdom;
3. The Agricultural Department (1971) in the socialist system

3. THE PROBLEMATIC COMPONENTS THAT ARE CONNECTED WITH THE CREATION OF THE RURAL BANK

The most problematic components are connected with level of acceptance of the market of the real products in the rural areas. In reality today still is not noticed totally and with a uniformly spread the market of the factors of production. For example, the market of the capital goods that are going to be used as a starting point for this business but also as a credit guarantee presents problems and challenges that need to be overcome in these basic directions:

1-The capital instrumentalism of the agricultural and rural lands is challenged from an unstable connection and somewhat fictive between the real owner, the existing owner and the projects and opportunities to invest. The banks offer as a basic argument the lack of the total ownership of lands, the separation of lands, the presence of many owners, etc., that they percept as a danger for the contractual relationship of the investor itself with the firm that he creates with the bank as a creditor. The process of the registration is in continuation but to grow the opportunity of the translating of the lands in capital value, every delay has a high opportunity cost.

2-In the cultivating segment of the land, from an economical aspect is notice that the decision as to what is cultivated is based in traditional factors such as the potatoes in Shishtavec, fruits in Devoll, the vineyards in Permet, apples in Diber etc. but if they analyze the decision as to what to cultivate
with the decision as to what market it is being cultivated is noticed a very weak link. There are many factors here but the main ones are:

(a) There is not stability in the contractual relationships between the rural producer and the distributor. All the chambers of commerce report high indexes for contract choosing. This informs for the lacking business culture, for the unstable relationships and lack of training programs. The banks in all these cases deny the credit giving because they notice the negativity between the efficient project that are proposed but with a high scale of contractual instability. The World Bank [Doing Business As...] mentions the lack of contractual responsibility as the factor with the highest weight that halts the financing that are dependent from the financial feasibility of the project.

(b) The financial non instrumentalism of the trading relationships. In Albania over 90% of the transactions are buying and selling actions without debt instruments such as without checks, without order deposits, without written certificates of debt, etc., from the other hand there is a lack of judicial standards of the contracts, the presence of the ‘gentlemen’ type of contracts, the lack of communications infrastructure. This means, that every crediting institution has disabilities in creating links and controlling verifications with a potential rural debtor.

(c) The lack of the marketing-distribution culture, etc., that lastly is compounded in the lack of logistics, even though is being created a distribution infrastructure very much opportunist. The positive aspects are connected with the fact that in the period of 2005 until now is invested much in the road infrastructure, in some channeling of the rural roads, up to the respective policies of the Ministry of Agriculture, etc., for financing of projects connected with production lines in fruits/vegetables, freezing rooms, butchers, and biological products. These projects are indentified and valued for the positive impact that is expected to be created in the link of values for every knot that links the rural products with the manufacturing industrial zones and the final trading of them, but no so much for the exports that remain in low levels.

4. THE PRESENCE OF BANK IN RURAL AREAS

From the structured analysis of the bank files, is created a powerful material base of data with local character. The indexes where it must be paid attention the most are:

(a) Looking at the data for the total private individuals [PI] and physical persons or the micro firms [Micro], small and medium firms [SME] with the
location and registry as business subjects in rural localities that are presented at the banks as demanders/applicants for micro credit for production lines, manufacturing, services, trade etc., results that the denial coefficient from the banks is very high \[\text{dc}=0.9264\] which means that between 100 applicants only 7-8 are credited.

(c) All the bank that are present in the market Raiffeisen, BKT, NBG, BIS Bank, etc., have mainly 0 lek micro credit for business in rural areas. The only bank that has a value of 15-20\% of its portfolio with micro credit is the ProCredit Bank.

(d) The motive/reason of the denying is linked with the perception of a high risk, lacking of guarantee, even with a lack of uniformity in the credit policies that different banks do for the standards of the goods that are accepted as guarantee. For example, some bank and micro financing associations do not accept the land and real estate as guarantee [e.g. Raiffeisen], and others accept them [e.g. NBG, ProCredit];

(e) The banks have still diversity in the conceptuality and projection of the classified products as a micro credit and micro financing. The diversity that is seen in value e.g. Raiffeisen as a microcredit considers a credit up to 100,000 Euro, ProCredit up to 20,000 Euro, etc. Different practices are noticed also because some banks offer micro credits only for consumption goods; some banks do not offer any [e.g. Intesa Bank, Union Bank, etc.], some banks offer micro but just for urban areas and even less for suburban and rural areas.

(f) The existing banks in the market have not involved any message in the banking marketing, which means that the stumbling factors of the banks confrontation in the rural areas are left unexposed. From one side is noticed that there isn’t offered any bank advertisement for rural micro credits, from the other hand the contribution structure of the rural areas in exports is 60-70\%. In banks is noticed a lag between the contributing sides, e.g. the immigrants, that are over 90\% from the rural areas with the banking technology for the investing of this money, that are almost invested all in urban areas.

5. PHYSICAL INVENTORY OF NATURAL RESOURCES

In Albania, the natural resources that are inventoried up to now have a level much higher than the human resources and this is still going on today. The deep lag between the potential level of needs for labor force and natural
resources is 0.80 – 0.85 or 80 -85%. This means that actually to use the actual resources of the mountainous areas has a covering availability with labor force with only about 15-20%. The lack of the values links makes a chronicle poverty that exists because of the lack of logistics for new businesses, of the non undertaking of strategic remigration of the population towards rural areas. The lag between the natural local resources of the rural areas and the lack of the businesses and labor force in them creates what we call the output gap between the potential and real GDP.

From the study is noticed an argument that these opposition are created because is not taken in consideration the high level of economic and social contribution in the private sector in the rural areas towards its economy and financial system raising thus the deposits, in the mean time the answering of demand with micro financing products from the banking institutions, of the insurances and the micro finances ignore the most weighed potential of the undertaking compared to the presence and the usage of the opportunities and the resources available in these areas. The working solution of this opposition is found in many developing and developed countries which have realized the solution when they have historically been in similar problematic situations. The basis of the solution starts with the improvement in legislation, so for this is proposed the Law for Reinvesting in Rural Communities.

6. MIGRATION, LABOR MARKET AND RESOURCE MARKET

The rural and non-urban areas during the last two decades have experienced a migration process towards the city centers and especially Tirana, with an unstable and inconsistent trend. The similarity of all migrations and immigrations from the suburban and mountainous areas is that has touched the youngest and most active population for labor, averaging age being 15-40 years old, leaving thus in localities the part of the population which is over 45 years old. This analysis has an importance for the impact in the potential debtors’ community for business purposes and for a deepening of the poverty.

The most important migration periods are grouped in the following statement and have these basic characteristics:

3 “Community Reinvestment Act” [1977].
<table>
<thead>
<tr>
<th>Stages</th>
<th>Period</th>
<th>The basic characteristics in/from the Rural Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1990-1997</td>
<td>Migration&gt;Immigration is noticed the movement towards the urban centers [the population of the suburbs of Tirana mainly the Kamza, Sauk, Vore area]; the high migration is noticed from the suburbs of Dibra, Mat, Kukes, and minimal migration is noticed from Malesia e Madhe [from the impact of fuel smuggling]</td>
</tr>
<tr>
<td>2</td>
<td>1997-2000</td>
<td>Migration&lt;Immigration mainly with speed boats, effected from the War of Kosovo (1999). Migration in noticed as a movement towards to cities/areas of west/sea shore. Is noticed the migration from Kukes, Dibra [north], Korca, Pogradeci, Tepelena[south] towards the suburbs of Tirana, the sea shore areas mainly in the suburbs of Durres (ex swamp, the beach), Lezha, Velipoj, Shengjin, Ishem, etc.</td>
</tr>
<tr>
<td>3</td>
<td>2000-2009</td>
<td>Migration, Immigration min., Massive investments [mainly for improving habiting conditions with storehouses 60%; micro production/manufacturing lines 30%; trading places 10%]</td>
</tr>
</tbody>
</table>

- During 1990-1997 the migration has been as a result of basic structural macroeconomic factors that include; (a) the shutting down of massive plants of the unearthing and manufacturing industry in the northeastern areas, (b) the change from ex industrial areas with agricultural underinvestment to abandoned areas, (c) the lack of the labor market and agricultural and farming products because of the effects of the import, and (d) the tendency towards the cities with potential seasonal, construction, tourism jobs etc.

- During 2000-2009 from one side is noticed a systematic decrease of the immigration and from the other hand the stability increases in the urban areas imposing thus the undertaking of the infrastructure and urban investment policies.

- The legislative changes for the conflict withstand with the ex owners have peaked with the politics of the legalizations still in progress.

- Is noticed the problem of the land, property registration, etc., which is considered the most affecting indicator in the halting of the crediting of the suburban and rural areas from the banking system for the sake of the perception of a high risk. Today, it constitutes the legislative challenge most conflictual and complex which is a promoter of the lack of guarantee/collateral and a main stumbling block for the access of banking credit products.
The physical inventorying of the natural resources has the most promising weight of Albania’s confrontation with the market of raw materials [minerals, agriculture, and energy], but in pessimists levels is the low coefficient level of the presence of labor forces for the usage of these sources. The deep lag between the potential level of needs for labor force and natural resources is 0.80 – 0.85 or 80 -85%. This means that actually to use the actual resources of the mountainous areas has a covering availability with labor force with only about 15-20%.

Where:

- Active Labor Force in rural areas;
- Stable businesses with longevity <5 years;
- Stable businesses with longevity >5 years;
- Population at age 55-60 living in rural areas;
- Labor force gone from rural areas towards shoreline areas, urban centers and Tirana.

Up to now all the qualifying studying forces [World Bank, IFAD, GTZ etc.] have invested much in studies and migration funds, but always inside the poverty aspect. We see thus two tendencies:

First tendency values the migration as a supplier of the city with labor force and a decrease all the way to depleting the poverty in the rural areas. In this aspect the governmental politics have a tendency to releasing solution, perhaps because they have valued a potential electorate. From the other hand the movement/massive migration in urban areas has challenged and made noticeable legislative problems in relation to the territorial occupation,
property conflicts, social differentiation, urbanity reviews, legislative etc., all the way to cost adding for legalization, compensation etc.

Second tendency values the migration in the opposite side, as an exhauster of human resources of labor in the rural areas, the separation and their abandonment, and added cost for finding mechanics and political undertaking which must confront a narrower but deeper poverty, even dormant resources and the creation of a wider lag between the potential and the real GDP. From the social aspect this endangers somewhat the long-term separation of the active labor force with the usage of the local natural resources. This way the total ratios of the poverty stay in problematic levels [highest in the region]\(^4\).

7. THE EDUCATION MARKET, THE LABOR MARKET, AND THE CRITICAL IMPACT

Despite the quantitative analysis of the demographic and geo-economical indexes above, in the configuration of the potential businessmen in the rural areas there is an influence from the qualitative indexes as well. The longevity of the education is argued as the growth of the education level, but from the other hand this is being confronted with the quality of the acceptation and graduation from the universities. This endangers creating a generation with a nominal higher education and which in reality get away from the demand for real labor awaiting thus the demand for nominal labor. This aspect threatens the stability of businesses because the young suffer from a high index of the presence in a basic/physical job place, in search for another job. Frictional employment is in high levels. Every young men/women in a year changes on average 2-3 jobs searching for easier jobs; this causes that every investment be stumbled from the danger of the leaking of the labor forces.

8. THE PRESENCE/LACK OF BANKING INSTITUTIONS IN THE RURAL AREAS

The financial danger remains high also for the fact the portfolio structure of the credits for Euro is 70%, and about 30% for Lek, thus for every “bad” credit which is not cashed threatens the exchange reserve. In macro these

\(^4\) WB, Raport Nr. 29257-AL.
are mirrored with non optimistic indexes of the primary deficit, of the real interest rate, of the public debt etc. The banks as the only collecting authorities of the depositable cash, obtain their raw liquidity materials from two main resources: (a) cash from remittances which occupy 15% of the GDP, 70-75% of the exports, 30-35% of the imports and have compensated 33% of the trade deficit of 20085; and (b) cash from exports [for a difference].

The banking activity has a high asymmetry because the credit is offered to all the businesses with a location in the urban areas [98%] and only 2% in rural areas, which has and continues to give an indispensible impact for business creation or transaction in the rural areas that form also the real economy of Albania. In all the relations of the financial institutions and the Bank of Albania6, the micro businesses are not mentioned in the macro analysis, even though from the BA is valued “the Contribution of the small firms in the growth of the service sector, construction, trade, and agriculture, where the micro businesses compound the bigger part of this group, and has been without doubt important in the long-term generating and stability of the Albanian economy”.

From the analysis of the aggregate credit, the credit for private firms has given the main contribution in the spreading with 66% of the credit portfolio in the banking system. At the end of 2008, the credit portfolio was dominated from the trade credit sector [25%], of the construction [15%], and industry [15%]. If in the previous studies the banks expected an increase of the demand for credit, at least 28% in the urban areas [corporate, SME, and consumer credits]7, is being noticed that the credit market is saturating towards the construction corporate, towards the food tech corporate, manufacturing and towards the SME. Today the banks are contracted in the aggregate of the credit, in the mean time they have not undertaken any studies and policies to penetrate with credit the resources which are found at the 85% of the non urban and rural areas.

The banks as arguments present as main stumbling blocks these grouped factors:

(a) The high level of risk because of the lack of goods as a guarantee/collateral because it lacks, there is not an active market as for the guarantees [real estate – properties, land, etc.]. The same way for the production factors and their products, there is no guaranteeing alternatives for private

7 World Bank’s Report No. 42061 -AL
business initiatives, instability of labor contracts, seasonality, etc.
(b) The lack of property registration in about 60-70% of the territory.
(c) The high risk level, which is the exposing at the catastrophic hits, greater powers etc., which form the size of the insurance products.
(d) The lack of studies/planning businesses of the feasibility of a micro project for financing.
(d) The coherent crisis increases the banking behavior to not undertake risk

9. THE NEED FOR A RURAL BANK

The existing banks cannot be imposed to enter with credit products into the rural areas. From the other hand the creation of “ideal” conditions that assembles the legal, institutional, and market conditions, needs time. In the mean time the creation of banking institution with a governmental support, would create to the donors and the private businesses, a group which would handle faster and under surveillance the opposite developments mention above. Today we have a fine practice of some micro financial institutions that operate in the Mountainous/Rural areas, as it is FAF which has over 85% of the portfolio in business credit for the rural areas. From the other hand is noticed that the level of intermediation of the funds from the part of FAF is higher [86%] than that of the banking system [67%]. The micro financial credits have modestly supported financial projects for vineyards, tree cultivation, etc.

Compared to the banking system, the Rural Bank finds a “tested” territory that shows positive indexes in the usage scale of the deposits, of the proportion of the assets as credit towards the total assets (88%) and the portfolio in risk 4.5%. In the mean time a part of the rural bank portfolio can keep as a mission and vision the poverty challenge. The sustainability index is also positive because the longevity of the good creditors and the repeating ones is over 5 years. Meanwhile the banks are newer and all of them with a change of respective property in 2-3 business years.

10. THE ARCHITECTURE OF THE RURAL BANK

Our project for a rural bank offers some alternatives:
(a) The creation of a new rural bank. This alternative can be disputed because it has over supply with banks in Albania, notwithstanding it has very
attractive economic parameters, even though with less support from the reality, because it can’t attract private investors and it can remain as governmental entity which will still require privatization.

(b) The transformation of the existing micro financial association in the Rural Bank. This alternative has the lowest cost in funds and time. This must be seen as which micro financial association could be proposed for such a transformation.

(c) The creation of a rural bank as a private subject. Is an alternative with a high cost in funds and time, but it has more sustainability. All the private financial institutions [the banks and the insurance companies] testify for sustainability and well management of a business. The total of micro credits in Albania is around $ 339 mil., where the biggest weight is ProCredit 58%, meanwhile the institutional part of the credits for rural areas belongs to FAF and Saving-Credit Union for $ 57 mil. / Year. If ProCredit Bank has crediting offer for micro businesses [rural and non rural] for 12 times more that FAF or 5 times more that the Saving- Credit Union, the clientele base has no analog differences, because ProCredit Bank a 6 times higher clientele than the FAF and two times more than the Saving-Credit Union.

11. THE GOVERNMENTAL POLITICS WITH POTENTIAL IMPACT IN THE GROWING DEMAND FOR RURAL CREDIT

During the first two quarters of 2009 in the governmental politics the most affecting micro financial happenings in general and with an important impact for the rural areas are:

At 14.01.2009, the Council of Ministers affirmed the decision no. 21 “For the affirmation of the macroeconomic specter and fiscal indexes, for 2010-2012”. This document is part of the Integrated Planning System and has an objective to offer information for the definition of the strategic priorities, aggregate cost and the wanted values in connection with incomes and deficit. In the first part are reflected the economic and fiscal developments during 2008, instead in the second part are forecasted main macroeconomic indexes for the disposable resources of the government and the distribution during 2010-2012.

At 22.01.2009, the parliament of the Republic of Albania decided with law no. 1055 the ratification of the “Agreement of the borrowing between the Council of Ministers of the Republic of Albania and the Islamic Bank for Development
(IDB) for the participation in the project financing for water distribution and the sanitation services in Orikum”. The main objective, in the financing of which the Islamic Bank for Development with participate with a sum that does not pass $13,351,000, is the securing of water, drinkable and without detachment for the habitants and the improving of the environmental conditions. The principal must be paid, for 25 years including the 7 years with no payment, which starts from the agreement date, semiannually.

At 27.01.2009, the Council of Ministers affirmed the decision no. 81 “For the declaration of the economic areas in Lezha and the designation of the contractual authority, for the developer status of this area”. The decision declares economical area, with the status “Industrial Park” the territory of the cadastral area no. 2660 in Lezha, for a period of 35 years. In this area is forecasted to be developed production, industrial and agricultural activities; also trading, import-export, and services activities.

At 05.02.2009, the parliament of the Republic of Albania decided with the affirmation of law no. 10069, the ratification of the “Agreement specter between the Council of Ministers of the Republic of Albania and the Government of the Republic of Italy for cooperation and development”. The agreement of cooperation defines the conditions and the limits through which the Italian Government, through the Italian Cooperation and the fulfilling entities of the initiatives financed from this office, is committed to helping the Albanian Government. The parties are working to promote programs and common projects of developing cooperation. The agreement will be done in all the supporting activities offered from the Italian Cooperation through the adopted financial instruments such as gifts, helping credit, or conditional credit, in the occasion of joint ventures forming.

At 23.02.2009, the parliament of the Republic of Albania ratified with law no. 10079 the “Agreement of the financing through the Republic of Albania and the International Fund for Agricultural Development (IFAD) for the financing of the program “Mountains towards the market””. This program forecasts the perpetual rural poverty reduction through improved opportunities of the poor levels in these areas, to participate and be employed in competitive rural and trading networks of supply, through the widening of the market access, technical expertise and finance. To assist in the financing of his program, the fund for the Agricultural Development bestows to the Republic of Albania a loan in the principal sum of 5,860,000 SDR-s, and a grant in the sum of 260,000 SDR-s.

At 23.02.2009, the parliament of the Republic of Albania decided with
the law no. 10080 the ratification of the “Agreement of the loan between the Republic of Albania, represented from the Ministry of Finance, to the Albania Developing Fund (FSHZH) and KfE-s, Frankfurt am Main, for the financing of the project “the Program for Water Supply of the Rural Areas (Phase 2)”). The provided loan from KfE, which is forecasted not to surpass the sum of 1.5 million Euro, will be used for the rehabilitation and the construction of the water supply system in the rural area and if needed for the basic system of the water drainage system.

12. THE CONTEXT OF THE RESOURCE VALUATION

The concluding research phase for this case has been the discriminating analysis compared in weighted value and politics between the inventoried resources as short-term investments, the dissemination level, and the reaching of the microcredit and micro financial products in the poorest demographic segments, and the impact that it will have in decreasing poverty for the positions sake in a family business activity or in a link.

The base sector of the natural resources in considered the agriculture and farming as a basic structure from which are being created 4 important derivative structures: (a) Agro tourism; (b) manufacturing; (c) import replacement; and (d) the potential for exports. In macro the analysis is done as in the economic and social aspect [poverty decrease], in the improvement of the wages balances [the decrease of imports and the increase of exports] also in the aspect of employment and the reallocation of the resources.

For the identification of the resources the starting point and the analysis continuation is dependent of the designation of the potential demand for credit. To be realistic, the potential valuation of the resources is done referring in the visited circuits [of Shkodra, Kukes, Puke, Peshkopi, Vlore, Gjirokaster, and Korca], meanwhile that the general methods refer also to the studies taken from EB, IFAD, GTZ, KfE, and the specific studies undertaken for the micro financial institutions and especially FAF, Savings-Credit Union, Besa, etc. From these the biggest weight is distributed to FAF because it has a geographical spread in the rural areas that is more homogenous and more including.

In the identification of the natural resources, the study is focused only in investable resources with small credits and which in the present experience are proved as stable in a global micro financial environment. The resources that need bigger financing/credit are excluded from the valuation, but the
study offers a endeavor to valuate their impact in financial micro credit.

The difference between the expected maximum and minimum level of the debtors is 30%, the difference between the maximal and minimal average sum for credit is 75% and the difference of the total crediting is 2.3 times. In essence this is close to the average variation of the credit size from the minimal level to that maximal. For example the micro crediting group has a maximal level of crediting for $ 6098 [ProCredit] and the minimal level $ 2500-$ 2700. The Rural Bank will have a positive also in the war against the informal crediting market (e.g. loans from acquaintances or private individuals). This remains an active market for the large businesses and the small ones, mainly as a consequence of the impossibility to assure credit in time in the formal credit market.

**CONCLUSIONS**

*Guide-lining parameters for a Rural Bank*

The most important filling indexes that motivate the creation of a Rural Bank and that are taken in consideration are reported as follows:

- The demographics of the potential clients [income status, level of education, civil status, work experience as an immigrant and non immigrant, the women presence, etc.] touches the family debtors to convert with the strength of womanhood and that of the family.
- The size of the family is referred to the average level of 5.5 members. In the qualitative indexes is seen the age difference. In the new families with small children there is a high tendency of labor of the persons outside of the family but with strong recognition character. From the other hand the families with a stable level in business have their kids either schooled or in the process of schooling/qualification tenting thus to serve the family business.
- The education level of the interviewees is considered pleasing. Over 70% of the interviewed have medium and high education.
- The actual financial situation of the clients reflects the cumulative culture of the live hood and employment and created imitation models for the habitant of the mentioned locality. This inspires for the entering of new individuals in business and in all the areas there is a high level of replication. From the interviews results that 5% of the families cover well their basic living and the added elements.
The past immigration and the impact of the returned is reflected in the accasions when out of the country they have worked inside the “rural industry”. These are quality indexes and about 85% of the successful firms are under the effect of the family member that has exported know-how from the immigration. This has effected in the change of the investment structure of the land, where the land occupies 55% vineyard and trees occupy 35% and the difference is in valleys and fields.

The difficulty indexes of the market access are high. The logistic here must start from the creation policies of the market mechanisms and the stability of prices. Many countries of the EU have concrete models to imitate.

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The Social and Economic Impact of Microfinance

[In Living Standards]

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Abstract

The article’s objective is to bring facts/figures regarding the alternative viewpoints interrelated with the level of economic and social impact of microfinance in people’s life in Albania. As far as all the authors agree, Microfinance is still defined reaching the poorest or financially excluded

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people (on low incomes) and potential micro-entrepreneurs with products the
formal banking industry is reluctant to supply, like lending, savings, insurance,
and similar. These services provide to low-income people opportunity to divert
their families from poverty segment and drive up to improved standards of
living through business generation, stable employment and by converging to
a sustainable economic development.

The results of this Quantitative Impact Survey illustrate the considerable
impact of microfinance on enabling access to micro financial services (loan) to
the low income people. The figures and information on Client Satisfaction need
to be reviewed carefully by the management, and in some cases probed further
to understand client preferences so to better adjust products to suit members and
potential members. In this regard it would be useful to compare these findings
with those from the Client Satisfaction focus group discussions to arrive at more
robust conclusions in the last sub-report of the client impact assessment.

Finally, it is strongly evidenced that the evidence of positive impact
of microfinance products (loans) on income should be viewed in close
relationship with the broader macro-economic environmental indicators of
Albania, which are promising.

Key words: Microfinance, economic development, social progress.
its full potential of reaching a large number of the poor, microfinance should become an integral part of the financial sector.

The government’s role is as an enabler, not as a direct provider of financial services. Many governments (GoA) play an important role in setting a supportive policy environment that stimulates the development of financial services while protecting poor people’s savings. The key things that a government can do for microfinance are to maintain macroeconomic stability, avoid interest-rate caps, and refrain from distorting the market with unsustainable subsidized, high-delinquency loan programs. Governments can also support financial services for the poor by improving the business environment for entrepreneurs, clamping down on corruption, and improving access to markets and infrastructure. In special situations, government funding for sound and independent microfinance institutions may be warranted when other funds are lacking.

Microcredit is not always the answer. Microcredit is not appropriate for everyone or every situation. The destitute and hungry who have no income or means of repayment need other forms of support before they can make use of loans. In many cases, small grants, infrastructure improvements (IFAD programs in Albania), employment and training programs, and other non-financial services may be more appropriate tools for poverty alleviation.4

2. RESEARCH OBJECTIVE

A key component of the microfinance institutions is Client Impact Assessment which seeks to answer the following question:

Has participation in microfinance programmes produced positive changes in the lives of program participants and in the communities where they live?

The impact of participation in microfinance programmes occurs at four distinct levels:

✓ the individual,
✓ the household,
✓ the enterprise,
✓ the community,

This research was conducted to assess impact of the microfinance programmes in Albania (loan product) at each of these levels, relating the investigation specifically to the following questions at the following levels of impact.

4 Sundaresan Suresh, Microfinance, Emerging Trends and Challenges, 2008
Impact domains

a) Individual Level
What is the nature and magnitude of changes in people’s lives (women in particular), and in communities served by microfinance services (loan), in terms of empowerment as a result of increased access to the financial services supported by microfinance institutions like FAF.DC (ex-MAFF)?

b) Household Level
What is the nature and magnitude of changes in people’s lives (women in particular) in terms of poverty reduction as a result of increased access to the financial services (loans)?

c) Enterprise Level
Has increased access to financial services (loan) supported the development of client’s productive enterprises?

d) Community Level
Has increased access to financial services generated employment? (only in cases where this was an explicit objective)

3. METHODOLOGY

The research methodology used to answer these questions was a “mid-range” impact assessment. Unlike more rigorous “academic” methodologies, mid-range methodologies explicitly accept some level of reduction in statistical validity so as to accommodate field and resource constraints and to satisfy program requirements for effectiveness and usefulness. The ultimate aim of mid-range methodologies is not to “prove” causality between impact and programme participation, but to establish “plausible association” between the two.

Mid-range methodologies satisfy the criterion of statistical plausibility by adhering to key methodological principles for conducting impact research. They satisfy the criterion of usefulness by employing assessment tools of proven value in evaluating a variety of kinds of impacts at an assortment of levels, which are also both practical and cost-effective to implement.5

The survey focused on collecting a categorical type of data which will

5 Ceku Bardhyl, Kola Forcim, Metoda të Kërimit Shencor, 2008
reflect direction of change as opposed to measuring the exact amount of change. However, when interval level data was reasonably available, it was collected.

4. SAMPLE GROUP

Broadly speaking, the sample was composed of the treatment group and the control group. The target population for the treatment group was “two-year clients”, and included both current and ex-clients. The distribution of current to ex-clients in the treatment group was roughly proportional to the percentage of clients who dropped out of the program over the relevant time period. The control group consisted of pipeline clients, or new program clients, who either have not received their first loan or have received their first loan but have yet to finish their first loan cycle. Following best practice for conducting surveys, the selection of the survey sample was done by first geographically clustering the clients. It is revealed that geographical differentiation (rural, urban and peri-urban) was the most appropriate form of clustering for this survey. The final sampled numbers closely approximated the proportions of clients in terms of gender and percentage of borrowers and savers.

A total of 90 members of the microfinance institution’s clients in Albania were interviewed for this survey.

5. TOOLS

a. Research Tools

The main tool used for this research was based on the classic Impact Survey tool, modified slightly to localize the variables according to the context. The final survey instrument also included some key questions for exited clients from Client Exit Survey tool to identify why clients had left the program and to provide insight into their opinions about the relative strengths and weaknesses of the program. The main modules included:

- Client and household profile;
- Loan use and individual income;
- Enterprise level: income, profit, improvements and assets;

✓ Individual level: savings and enterprise skills;
✓ Family level: assets;
✓ Family welfare and coping;
✓ Client satisfaction with program, and
✓ Reasons for exiting the programme.

Each survey lasted not more than 30 to 40 minutes.

6. DESCRIPTIVE STATISTICS OF THE SAMPLE

Members of the treatment and control groups in the Albanian clients of microfinance matched closely on certain demographic characteristics but are only broadly similar on others. Both the treatment and control groups on total included just over 65% men (67% vs. 23%), treatment group has these figures for male vs. female (75.3% vs. 24.7%) and control group (72% vs. 28%) and are strongly clustered in the age group of 26-45 years (44% vs. 60%). At the same time, the control group, on balance, was younger with 42% of members aged 26-35 and 36% aged 46 or older, compared to 22% and 44%, respectively, in the treatment group. In terms of schooling, the treatment group was also somewhat more educated with 35% having completed at least some years of secondary school, as compared to 28% in the control group. About 10% of treatment groups completed university, compared to 0 % of control group; 40% of the treatment group completed at least some years of primary school compared to 44% of the control group.

7. FINDINGS AND ANALYSIS

The analysis and findings of the data set using the different statistical tests is discussed below. Since the objective was to identify impact at the household, individual and enterprise levels of analysis, the findings are presented accordingly, preceded by findings on overall poverty targeting by microfinance institutions (FAF.DC) in Albania.

❖ Household Level Impacts

Changes in Household Income: The data allow us to conclude that the treatment and control groups differ in terms of changes in household income over the last 12 months.
Table 1. Change in Income over Last 12 Months—Treatment Group (Mature & Ex-Clients) vs. Control Group

<table>
<thead>
<tr>
<th>Change in Household (HH) Income over Last 12 Months</th>
<th>Total N=90</th>
<th>Mature Clients N=52</th>
<th>Ex-Clients N=13</th>
<th>Treat. Group N=65</th>
<th>Control Group N=25</th>
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<tbody>
<tr>
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<td>25.00</td>
<td>69.23</td>
<td>33.85</td>
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</tr>
</tbody>
</table>

It is likely that these findings reflect more factors related to program participation than general economic (or other trends).

Changes in Contribution to Household Income: We can conclude that the treatment and control groups differ in the changes to their contribution to household income over the last 12 months. Respondents reported that it had “increased greatly” over the last 12 months, as for the treatment group compared to control group the figures are (38.8% vs. 0%), with almost 52.2% in treatment group reporting that the amount they contributed to household income had “increased” compared to 4.3% reported by the control group, and for “decreased” we have the figures (2.9% vs. 34.7%) treatment group compared to control group. Once again, this likely reflects more factors related to program participation than general economic conditions or other trends.

Children’s Education: A very high percentage of children in both groups attended school and evidence does not indicate that being Microfinance Institution’s client has an impact on the percentage of children attending school relative to non-members.

Household Asset Acquisition: As reported many members of the treatment group as opposed to the control group (19.1% vs. 0%) reported acquiring a plot of land over the past 12 months. Also the number of clients acquiring other household assets differs significantly between the two groups.

Investment in Real Property: We can evidence that many of the treatment group (13.5% vs. 0%) reported purchasing land over the last 12 months compared to the control group, with the difference being statistically significant. The percentages investing in the remaining real assets also differ significantly between the two groups.
Vulnerability and Coping Mechanisms

Sickness and Disease: There was difference in the proportion of the treatment group and control group adopting any of the coping strategies to pay for health care costs, suggesting again that clients use microfinance loans to finance consumption and emergency needs. A number of widely used coping strategies include, in order or importance for treatment group compared to control group, current income (25.5% vs. 15.3%), handouts from family or friends (14.8% vs. 42.3), selling assets (14.8% vs. 34.6%), loans from family and friends (6.3% vs. 38.4%).

Emergencies and Crises: Again, there was difference in the proportion of the treatment and control group adopting any of the coping strategies to pay for unusually large or unexpected expenses. Primary coping mechanisms in control group were: loans from family and friends (19.23%), handouts from family or friends (19.23%), compared to the figures of (4%) and (14%) for the treatment group. While for the treatment group the primary coping strategies are current income (26%), microfinance loan (24%), withdrawing savings (12%) compared to the figures of (5.3%), (2.5%) and (11.5%) for the control group.

Enterprise Level Impacts

Enterprise Profits: The results indicate a strong relationship between being microfinance clients and the change in enterprise profits over the last 12 months. We can find a significant impact as it is seen in the table below;

Table 2. Change in Enterprise Profits over Last 12 Months—Treatment vs. Control Group

<table>
<thead>
<tr>
<th>Change in Enterprise</th>
<th>Total N=78</th>
<th>Mature Clients N=43</th>
<th>Ex-Clients N=11</th>
<th>Treat. Group N=54</th>
<th>Control Group N=24</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Profits</td>
<td>Last 12 Months</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decreased greatly</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Decreased</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>7.69</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>25.00</td>
</tr>
<tr>
<td>Stayed the same</td>
<td>17</td>
<td>3</td>
<td>0</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>21.79</td>
<td>6.98</td>
<td>0.00</td>
<td>5.56</td>
<td>58.33</td>
</tr>
<tr>
<td>Increased</td>
<td>30</td>
<td>23</td>
<td>3</td>
<td>26</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>38.46</td>
<td>53.49</td>
<td>27.27</td>
<td>48.15</td>
<td>16.67</td>
</tr>
<tr>
<td>Increased greatly</td>
<td>25</td>
<td>17</td>
<td>8</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>32.05</td>
<td>39.53</td>
<td>72.73</td>
<td>46.30</td>
<td>0.00</td>
</tr>
</tbody>
</table>
Job Creation: The difference in the average number of full-time and part-time employees between the treatment group and control group is statistically significant as it is seen in the tables below;

### Table 3. Job Creation: Number of Full-Time Employees

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Total N=77</th>
<th>Mature Clients N=43</th>
<th>Ex-Clients N=11</th>
<th>Treat. Group N=54</th>
<th>Control Group N=23</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>18</td>
<td>4</td>
<td>0</td>
<td>4</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>23.38</td>
<td>9.30</td>
<td>0.00</td>
<td>7.41</td>
<td>60.87</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>26</td>
<td>13</td>
<td>4</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>33.77</td>
<td>30.23</td>
<td>36.36</td>
<td>31.48</td>
<td>39.13</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>24</td>
<td>20</td>
<td>4</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>31.17</td>
<td>46.51</td>
<td>36.36</td>
<td>44.44</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>9</td>
<td>6</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>11.69</td>
<td>13.95</td>
<td>27.27</td>
<td>16.67</td>
<td>0.00</td>
</tr>
</tbody>
</table>

### Table 4. Job Creation: Number of Part Time Employees

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Total N=77</th>
<th>Mature Clients N=43</th>
<th>Ex-Clients N=11</th>
<th>Treat. Group N=54</th>
<th>Control Group N=23</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>27</td>
<td>8</td>
<td>1</td>
<td>9</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>35.06</td>
<td>18.60</td>
<td>9.09</td>
<td>16.67</td>
<td>78.26</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>24</td>
<td>18</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>31.17</td>
<td>41.86</td>
<td>18.18</td>
<td>37.04</td>
<td>17.39</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>26</td>
<td>17</td>
<td>8</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>33.77</td>
<td>39.53</td>
<td>72.73</td>
<td>46.30</td>
<td>4.35</td>
</tr>
</tbody>
</table>

❖ **Individual Level Impacts**

Empowerment: Treatment group report more high levels of personal empowerment than control group. The mean reported empowerment levels between the treatment and control groups differ significantly on some of the four empowerment indicators when tested for all respondents in the sample.
Table 5. Mean Responses to Indicators of Empowerment

<table>
<thead>
<tr>
<th>Indicator of Empowerment</th>
<th>Total %</th>
<th>Mature Clients %</th>
<th>Ex-Clients %</th>
<th>Treat. Group %</th>
<th>Control Group %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Confidence in the future</td>
<td>4.0</td>
<td>4.1</td>
<td>4.4</td>
<td>4.2</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>24.63</td>
<td>24.92</td>
<td>24.41</td>
<td>24.76</td>
<td>23.53</td>
</tr>
<tr>
<td>Self-esteem</td>
<td>4.1</td>
<td>4.1</td>
<td>4.6</td>
<td>4.2</td>
<td>3.25</td>
</tr>
<tr>
<td></td>
<td>24.84</td>
<td>24.58</td>
<td>25.20</td>
<td>24.76</td>
<td>25.49</td>
</tr>
<tr>
<td>Respected by spouse, family, &amp; friends</td>
<td>4.1</td>
<td>4.2</td>
<td>4.6</td>
<td>4.3</td>
<td>3.25</td>
</tr>
<tr>
<td></td>
<td>25.26</td>
<td>25.25</td>
<td>25.20</td>
<td>25.24</td>
<td>25.49</td>
</tr>
<tr>
<td>Participate in local community</td>
<td>4.1</td>
<td>4.2</td>
<td>4.6</td>
<td>4.3</td>
<td>3.25</td>
</tr>
<tr>
<td></td>
<td>25.26</td>
<td>25.25</td>
<td>25.20</td>
<td>25.24</td>
<td>25.49</td>
</tr>
</tbody>
</table>

Key: 1=Strong disagree; 2=Disagree; 3=No opinion; 4=Agree; 5=Strongly agree

Access to Financial Services

Savings: We can conclude that the treatment and control groups differ in terms of amount saved over the last 12 months. Respondents reported that the amount they had been able to save over the last 12 months “increased greatly” was (36.9%) for the treatment group compared to (0%) for the control group, and (60%) of the treatment group reported that the amount saved had “increased” compared to (8%) of the control group.

Although the proportion of responses between the treatment and control groups differ regarding why respondents save, the responses demonstrate that the treatment group uses savings for “future investments in business” (32.2% vs. 17.9%), “future purchase of basic goods” (18.55% vs. 33.3%) and “medicine or other health reasons” (18.5% vs. 20.5%) compared to control group.

A higher proportion of the treatment group has made a withdrawal from their savings over the last 12 months than control group (60.9% vs. 14.2%).

Credit: Oddly counterintuitive is the finding that a higher percentage of microfinance clients take loans from usury lenders; a higher percentage of non-clients do not take loans from any other source.
**Client Satisfaction:** The level of overall client satisfaction is higher for the current and ex-client groups than for control group (4.5 vs. 3). For loan products policies, staff and management, current clients consistently give high satisfaction evaluations, while ex-clients express strong satisfaction with loan products and policies and staff and management, as (4.5 vs. 3.3), (4.5 vs. 3.5) compared to control group.

**Client Exit:** The main reasons cited for leaving the microfinance institutions fall under the following categories:

- Clients business reasons (which received 50% of total responses), was by far the most frequently mentioned reason;
- Problems with loan policies and procedures, followed in order, personal reasons, and community and economic reasons (which received 33.3%, 11.1%, and 5.56% of total responses) were also mentioned.

Of the above categories, personal and community and economic reasons appear to be driven by factors outside of management control.

**CONCLUSIONS**

The results of the quantitative Impact and Client Exit Survey illustrate the considerable impact of the Microfinance Institutions in Albania on enabling access to micro financial services (loan) to the low income people. For sure there is strong evidence of positive impact on the multiple dimensions of household income and enterprise performance. Moreover, there is plenty of evidence to illustrate the role played by Microfinance Institutions in assisting with consumption-smoothing and coping against vulnerabilities. For example, there is strong evidence that clients use their loans to finance product and service purchases, an option that is not available to non-clients who depend on gifts from friends and family to help them tide over difficult times.

The figures and information on client satisfaction need to be reviewed carefully by the management, and in some cases probed further to understand client preferences so to better adjust products to suit members and potential members. In this regard it would be useful to compare these findings with those from the Client Satisfaction focus group discussions to arrive at more robust conclusions in the last sub-report of the client impact assessment.

Overall, it is important that the evidence of positive impact of microfinance
products (loans) on income is viewed related with the broader macro-economic environment of Albania, which is progressing.

**Acronyms**

FAF.DC = First Albanian Finance Development Company  
GoA = Government of Albania  
IFAD = International Fund for Agricultural Development  
MAFF = Mountain Areas Finance Fund

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THE APPLICATION OF INTERNATIONAL STANDARDS
OF ACCOUNTING AND AUDITION IN THE TRANSITION
COUNTRIES

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Abstract

The economic developments, especially the economic globalization, have made possible that the economic-financial decisions have an increasing importance in the international rank. By now, the main international factors have converged into the same attitude regarding the “common language” of the financial information being published through the financial statements, economic entrepreneurships of the different countries of the world.

This language will be the one of the international accounting standards, the implementation of which, has been declared as an obligation at least, for the entrepreneurships quoted in the national and international financial markets.

In this framework, many countries, separately or grouped in specific organisms, such as the European Union, have taken reforming initiatives in their accounting regulating disposition. This process has already started even in the so-called transition countries or the ones that joined late in the market economy, such as Poland, Czech Republic, Russia, Bulgaria, etc.
The reforming process in accounting is not easy or without problems, for every country that has not developed its regulating disposition, according the Anglo-Saxon practice and concepts, especially for the countries that joined late the market economy. In this process where our country aiming the membership in the European Union, is involved, is a process which is seen in the law nr. 9228, date 29/04/2004 “For the accounting and financial statements”.

**Key words:** Accounting, European Union, financial statements.

1. ALBANIA IN THE IMPLEMENTATION OF THE ACCOUNTING STANDARDS

In the law nr 9228 date 29.04.2004 “For the accounting and financial statements”, article 4 there are defined the accounting standards for the compiling of the financial statements as follows:

a. The economic units that implement this law, except the cases foreseen in the points 2 and 3 of this article, implement the national accounting standards for the compilation and publication of the financial statements. The accounting standards are compiled by the national Accounting Council and within a month, they are declared as obligatory for implementation by the Minister of Finance.

b. The Minster of Finance, after taking the opinion of the National Accounting Council, he announces the accounting standards obligatory for implementation for the economic public issues, that do not aim to profit.

c. The standards compiled by the International Accounting Standards Board and translated into Albanian, under the responsibility of the National Accounting Council, without changes from the original text in English, are announced by the Minister of Finance and are to be implemented obligatorily:

- By the companied listed in an official bonds stock market and their branches, subject of the account consolidation
- By the banks of second level, financial institutions similar to banks, insurance and re-insurance societies, the funds of bonds, and all the companies licensed to invest in bonds, even if they are not listed in an official stock market of bonds.
By other large economic units, not listed on the official bonds stock market when they exceed the limits defined by the Council of Ministers for the annual income and the number of the employed.

The role of the accountants and auditors in the implementation of the principles and standards of accounting

1. In the past, the Ministry of Finance regulated the right to offer accounting services in Albania, while the New Law on Accounting (2004) is not pronounced regarding this issue. The Ministry of Finance gives the title of Approved Accountant to the individuals that offer external accounting professional services. To receive this title, the person should have at least three years experience in accounting and must have taken successfully an exam administrated by the Ministry of Finance. The companies were asked to prepare their financial statements by an Approved Accountant or by an employee graduated in Accounting, if it was not defined otherwise in another regulation.

2. The Approved Accountants implement rules on preparing the Financial Statements specified in the law of accounting and depending on the model chosen for reporting, the Financial Statements are more oriented towards the needs of the tax organs than of the needs of investors. Although law does not require it, in the actual practise it is required by the Approved Accountants to sign the financial statements and tax statements together with the leading and auditing staff. This practise according to the vast opinion does minimize the risk of inspecting by tax organs. The fact that the tax and unit regulators are not able to understand the difference between the reporting for fiscal intend and the financial reporting, has brought to the actual situation which brings definitely a lack of clarity in the financial statements.

3. About 1,500 Approved Accountants are not regulated after the phase of receiving the title. About half of the Approved Accountants are members of the Institute of the Approved Accountants – IKM (Former LPKM), while the others choose not to be member of any professional organization. This situation brings serious concerns regarding the professional standards and the ethical ones that the Approved Accountants should fill and the influence in the quality of the financial statements that they prepare.

The professional education and qualification
1. The professional education and qualification of the accountants should be revised in order to fulfil the requests of the parties that require their services. There are great challenges related to education, qualification, and authorization of the professional accountants in the country. As for example, the employer does, not take the process of authorization/admission, often into consideration. The reasons include: scepticism on the content of the training and qualification material; the lack of trust on the exam process; the lack of SNRFs. Some employers prefer to sponsor their employees for international qualifications and international diplomas/certificates.

2. In Albania the newly graduated with excellent results are not attracted to the profession of accountant. In general, they are attracted to the carriers where they are highly paid and greater perspectives for a raise in career. Such are the fields of bank and financing. Because of the increasing incredibility, periods where the talented are attracted and they remain there.

3. The teaching program of accounting at the university especially the part regarding the international standards of accounting and the business ethics has some weaknesses. These results were reached during a study made lately by the Pilot Project for the Standardization of the Global Education on Accounting. The program on accounting and ethics is not sufficient and the treatment of SNRFs is minimal as well. Except the reconsideration of the program, it is necessary to ensure efficient sources for an efficient teaching.

4. The actual exam on the professional abilities of the Approved Accounters, is not sufficient to make sure that the successful candidates have the sufficient qualifications. Therefore, there are doubts on the ability of these individuals which through this process have received the title to prepare PF in accordance with the standards.

✓ The number of auditing persons in Albania does not seem to be sufficient to fulfil the demands of the market.

Actually, there are about 150 authorized accounting experts, the majority of which exercise the profession individually. According the calculations of the Ministry of Finance, there are about 2,000 companies, which demand annual auditing. The “short” period of auditing is added to this demand for auditing services, as many companies in Albania should display their financial statements for tax statements to the tax organs not later than March, 31st. In the actual context, the factors of the demand are added to the problem of
poor auditing quality, influenced by the limited public monitoring, the content and quality of education and of the exams, administrated for the demands of professional qualification and the agreements for the price/tariff setting.

 ✓ The auditing profession is partly self-regulated by IEKA and is monitored by the Ministry of Finance supporting the public interest of the government.

However, the actual regulation of the profession by the government is not sufficient to fulfil the role of a public monitor system. A public monitoring system of the legal auditing persons and societies is important to make sure that the systems of quality control investigation and discipline are sufficient to encourageauditions of a high quality. The monitoring of the Ministry of Finance on IEKA is implemented through appointing a main representative and two other representatives (secondary) in the leading organism of IEKA, which is its Council. These representatives approve all the decisions taken by the Council, except the ones related to the professional standards and budget. This organism should be improved, first by making clear the difference between external monitoring of IEKA and the direct involvement of this monitoring in its directing and secondly, by building a system of public monitoring by dividing into phases the key dispositions of the Eighth Directorate of the BE of the Law for Trading Companies, involving but not limiting the: selection of the individuals to participate in the monitoring process according to an independent and transparent contesting procedure; making sure that the system is directed by the majority of the professionals that do not exercise the profession, who have knowledge in the fields related to auditing; and through setting mechanisms of transparency involving the publishing of programs of the annual work and reports of activities. This system should be the final responsible for the public monitoring:
 ✓ Approving and registering the legal auditing persons and legal auditing companies;
 ✓ Adaptation of the standards on ethics, inner quality control for the auditing companies and
 ✓ Continuous qualification, systems of control, quality, investigation and discipline
 ✓ The regulation of the profession by the government of the Ministry of Finance should be strengthened in order to serve as a condition for public monitoring.
The public interested in the auditing profession, is composed of clients, creditors, government, employers, investors, business and financial community and other parties that trust the objectivity and integrity of auditing persons. Every efficient system of the public monitoring, should take into consideration the needs of all these interested parties as none of these parties in its own, does not possess the appropriate and sufficient spectre to reflect sufficiently their different interests.

 ✓ The system for licensing the foreign auditing persons in Albania, is relatively open and with minimal demands.

As it is for the local auditing companies, the licensing of the foreign companies is made by the Registering Commission, composed of five members. The Registering Commission is an independent organism and IEKA appoints in this Commission only one out of the five members. The Registering Commission approves as auditing persons individuals or local or foreign companies to exercise their activity of auditing.

The foreign qualified individuals (with an auditing license from their country) should enter an exam on the Albanian laws related to the legal auditing, in order to show that they have not been suspended/excluded by the exercising of the profession. The foreign companies should be authorized to perform legal auditions in accordance with the applicable legislation in their country of origin and to prove that they are not taken the right to exercise their profession in their country, in order to be registered as approved accountants (the ones that exercise their professions alone) in Albania.

 ✓ The register of the auditing persons, updated and prepared annually by the Commission of Registration, should be improved to provide proper information and in time.

The register contains names and other details connected to the individual members, local and foreign auditing companies. Although it is available for the public, the register is not properly updated in time (it happens actually once a year) and it does not include all the required information to inform the public and to monitor with efficiency the activities of the auditing persons.

 ✓ IEKA has prepared the Code of Ethics for its members based on the Code of Ethics of the IFAC for Professional Accountants. The Code of Ethics of IFAC will be used as reference for the members of IEKA that was published at the beginning of 2007.
There is data that in spite of the independence of the auditing persons by the audited units, the practice is not always implemented/followed. The actual practice in Albania is not matching the demands for independence of the Code of Ethics of IFAC for Professional Accountants.

The actual no respecting of the demands for independence influences negatively on the value of auditing, although there are external profession factors that make the auditing person not act independently (e.g. the limited capacity of the companies to prepare properly the financial statements).

There exists a need for demands of reporting transparency for legal auditors of the economic units with public interest in Albania. Because of the importance of the economic units with public interest for the national economy, firmer rules on auditing are needed, including information on auditing persons that perform the auditing of the financial statements. The reporting of transparency by these units would ease the monitoring and farther supervision and would strengthen the trust of public in legal auditing of the economic units with public interest. The information to be presented annually by the auditing company should include:

1. description of the legal structure and ownership;
2. membership in the network of auditing companies;
3. description of the inner controlling system of quality;
4. information on the tariffs of the legal auditions, other auditing services, tax consulting and non-auditing services.

Implementing the standards of accounting

This section summarizes the analysis of the problem with the standards of accounting and the problems with their matching. The analysis of the problems with the standards compares the demands of the General Accounting Plan in Albania (PKK) with SNRFs to define the important differentiation, which could negatively influence on the reliability of the financial statements compiled according to PKK. The analysis of the problems with the compliance of the financial statements, the legal and voluntary-contractual ones with PKK and SNRFs, respectively aims at identifying the possible lacks.

The analysis highlighted a range of aspects where there could be noticed a differentiation between PKK and SNRFs.

Some main distinctions selected between PKK and SNRFs, which could
have a sensible influence in the financial statements of the economic units with public interest, are:

- A range of aspects related to the non-regulated companies, are treated in none of the standards. They include SNRF 3, Business Combinations; SNRF 5, Long-term Actives Held for Sale and Interrupted Activities; SNK 14, Reporting of Segments; SNK 17, Leasing; SNK 30, Explanatory Notes in the Financial Notes of the Banks and similar Financial Institutions; SNK 31, Interest in Joint Ventures; SNK 34, Intermediate Financial Reporting; SNK 36, Decrease in value of the Actives; and SNK 40, Property for Investment.

- The accounting politics, the explanatory notes, and other ones are limited. The actual demand differs from the SNK 1, Presenting the Financial Statements, as the Statement of the Money Flow and the Statement of the Change of Capital are not required. Other requests such as those specified in SNK 10, Events after the Balance Sheet and SNK 37, Provisions, Debts and Possible Actives are not required.

- The different treatments of main voices which could have an important influence on the financial statements and include:

1. SNK 16, Stable and Embedded Actives (AQT) allows a variety of the methods of amortization in order for the amortisable sums/values of an archive to be distributed on systematic basis during it useful life. PKK allows not only the use of the straight line method (linear) on which basis there is no sufficient reflection in the model of using AQTs and could lead to an under- or overvaluation of the actives and income.

2. SNK 21, Effects of the Changes in Monetary Exchange required that the loss and gains by the monetary exchange to be recognized in the income and expenditure statement, whereas according to PKK, the gains and losses by the monetary exchanges are presented postponed in the balance sheet till the un-registration of the monetary active they are connected to. This could lead to an under- or overvaluation of the total actives or debts in the balance sheet.

3. The consolidated financial statements prepared according to SNRFs often include a considered part of the standard formulations with words, which could not sufficiently match with events and circumstances of the society and reduce the (understanding) importance of the financial statements for the external users. This presents the lack of knowledge and of understanding the SNRFs.
By the analysing of the consolidated financial statements of the economic units, resulted that only a small number is prepared according to SNRFs. Some of the conclusions reached are:

- There is a lack of experienced accountants in SNRF: The companies that were observed are companies created lately with direct foreign investment and present difficulties in employing and keeping the qualified accountants skilled to prepare financial statements according to SNRFs. The problem of the lack of experienced accountants will deepen for the Albanian economic units and their support from the auditing persons may increase the come into force of the Law on Accounting (2004).

- The economic units face considerate difficulties in measuring/evaluating the actives and debts according to SNRFs. The observed societies are companies with direct foreign investment and they do not have inherited issues from the past (e.g. the evaluation of the stable embedded actives where the cost of purchase is not certain). Nevertheless, the economic units in Albania face considerable difficulties in evaluating the stable embedded actives.

- The precise understanding of the actives and debts is a challenge for the economic units in Albania according to SNRFs. Many economic units still try to continue accounting with money (cash) (in basis of cashing and payments) similar transactions or for reporting aim, there exist two diaries to avoid taxes. A large number of societies try as well to keep accounting on basis of rights and debts found and explanatory notes. They have difficulties in identifying the transactions within the group, as in the past this identification was unnecessary because of their focusing on the financial statements of the legal unit or because of the lack of group structures.

Except the banking sector, the quality of the other financial statements prepared according to PKK is weak in general, with many cases of non-matching. These issues are important as in many cases the users of the financial statements can make a decision which is uninformed on their basis, or worse, they cannot receive the proper information that they need in the decision-making.

The financial statements of the sector of economic units are unclear in general. Among 11 financial statements, four of them included more tax statements than financial statements prepared in accordance with PKK and two of them used the accounting based on cashing out and payments.
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