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Some legal aspects of the trade liberalization between Albania and EU under the Stabilization and Association Agreement

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Abstract

The road of EU integration of Western Balkan Countries is paved by the achievement and successful implementation by this counties of the Stabilization and Association Agreements they have contracted with EU and its Member States. Albania’s reform agenda under the Stabilization and Association Agreement covers areas ranging from political dialogue, regional cooperation

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and legislation harmonization to Community freedoms in the movement of goods, services, workers and capital, and mutual co-operation in justice and home affairs. Even though the Stabilization Association Agreement between European Union and Albania entered into force in 1 April 2009, a part of it concerning trade relationship, under the designation “Interim Agreement”, has entered into force three years before, which shows the importance of trade liberalization between the contracting parties. Besides the legal framework, the Stabilisation and Association Agreement has determined the asymmetrical liberalization of trade between EU and the Republic of Albania in favour of the last.

The paper will be focused on the trade-related aspects of the EU-Albania, the domestic legislation allowing for the liberalization. It will specifically analyze the scope of the Free Trade Agreement, the gaps and obstacles into the domestic legislation that have to be harmonized with the EU Acquis, as well as the implementation steps to be followed in order to complete the obligations successfully. Its purpose is to assess the possible economic implications of the SAA and identify the challenges Albania is or will be facing in fulfilling the obligation it has contracted under this agreement.

**Keywords:** Stabilization and Association Agreement, trade liberalization, asymmetrical liberalization, free movement of goods.

### 1. INTRODUCTION

The Stabilization and Association Process was initiated by the European Union during the NATO campaign in Kosovo as a distinct upgrading of the EU’s previous Regional Approach to south-eastern Europe, in the context also of the Stability Pact and of the general realization that the region was a test for the very concept of a coherent Common Foreign and Security Policy. The Process combines new contractual relationships with trade preferences and financial assistance to support the countries’ progress in meeting the requirements for EU membership. In this context, the SAP rests on four building blocks: i. Stabilization and Association Agreement (SAA), which consists of a legally binding agreement between the EU and each country in the SAP; ii bilateral Free Trade Agreements between all countries participating in the SAP; iii trade preferences, which unilaterally grant almost totally free

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access to EU markets for goods from the Balkans; and iv financial assistance planned in consultation with the partner countries, EU member States and the international community. 4 Towards the trade aspects, SAA agreements proposed formation of free trade areas between this countries and the Union after certain transitional period. The SAAs also covered certain aspects for competition, state aid, intellectual property protection and trade in services5.

Launched in May 1999, the SAP represents an overarching reform agenda to support Albania’s economic transition and to strengthen integration with the EU Single Market.

The EU-Albania SAA, entered into force in 2009, aims to support Albania’s economic transition, as well as to strengthen its integration into the EU Single Market. Albania’s reform agenda under the SAA is impressive, covering areas ranging from political dialogue and regional cooperation to Community freedoms in the movement of goods, services, workers and capital, and mutual co-operation in justice and home affairs. It requires extensive trade liberalization vis-à-vis both the EU and other countries in the region and provides for substantial non-tariff liberalization through the gradual harmonization with EU structures and directives in the areas of standards, certification, customs administration, competition, and intellectual property rights. The Stabilization and Association Agreement between European Union and Albania envisages the creation of a free trade area between the European Community (now that Lisbon entered into force, European Union) and Albania, where the signatory parties are to create a common area where goods will freely move, without technical and physical barriers. The SAA provisions on free movement extend on the products originating in Albania and the Community, which are products totally produced or transformed in a sufficient extent in the exporting country.6 Products are considered originating in the Community or the associated country, where their respective origin is certified by a certificate issued from the custom authorities of the exporting country.7

Having in mind the fragile competitiveness of the products originating in the associated country, an abrupt opening of the domestic market with that

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4 European Commission, The Stabilization and Association Process for South East Europe, Brussels (various years).
7 This formalities are foreseen in the Protocols attached to the SAA
of the Community’s would inevitably cause economical damages to the first. The immediate access of the community’s products or companies within the territory of the associated country would cause the failure of some industries or undertakings therein, which of course would have its social impact.

Since the SAA aims to establish an economic and political stability in Albania⁸, the Parties have agreed to gradually establish this free trade area over a period lasting a maximum of ten years, starting from the date of entry into force of this Agreement.⁹ The main feature of this trade liberalization is its asymmetric approach (in favor of the associated country), which extends to i) the free movement of goods and ii) other areas closely linked to free trade, such as effective competition, public procurement etc. Another aspect of the asymmetric approach of this agreement is the financial assistance provided by the Community to the associated country in order to achieve the objectives determined. The trade liberalization offered by the EU is an asymmetric one, meaning that the associating courtiers will have better access in the European market. The Europe will open the trade for them more rapidly than they will do for the European exporters.¹⁰ As will be shortly explained on following, the contracting parties of the SAA are to abolish the custom duties, quantitative restrictions and other equivalent duties or measures, and to restrain from enacting new measures which would obstacle the free movement of goods, in accordance with the respective provisions of the General Agreement on Trade and Tariffs (GATT).¹¹ The contracting parties of this agreement should also exempt from any protective measure for their respective economies.

According to the “standstill” clause, the agreement forbids in principle the emerging of new custom duties or charges having equivalent effect, or the increase of those duties already applied, in trade between the Community and Albania.¹² It also provides that “From the date of entry into force of this Agreement no new quantitative restriction on imports or exports or measure having equivalent effect shall be introduced, nor shall those existing be made more restrictive, in trade between the Community and Albania”.¹³

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⁸ See further article 1 of the SAA
⁹ Article 16 of the SAA
¹⁰ “Main features of stabilization and association agreements and the differences with Europe agreements “, Aida Gugu (L.L.M.)
¹¹ Albania ratified GATT in 2000
¹² Neni 33 i Marrëveshjes së Stabilizim Asocimit.
¹³ Article 33 /2 of the SAA
The Stabilization and Association Agreement does not prevent the creation or the maintenance of other free trade areas, or other regimes of trade liberalization established in the associated country, provided that the provisions of the SAA are not breached. This Agreement does not prejudice the other agreements entered into force before it, between one of the ratifying countries of EU or the associated country. On the other hand there is a restriction, since there is the obligation of the associated country to consult the Stabilization and Association Council that the interests foreseen in this Agreement are not undermined or violated during the application of other international or regional trade agreement. Under the Community perspective, we can say that this provision implicitly refer to the community principle of solidarity, which is one of the founding principles of the European Union, which requires for the Member States to abstain from any action that might infringe or risk the interests and the objectives of the Community.

The protective trade measures foreseen by the SAA, as instruments that forsake the economy of both contracting parties, are the anti-dumping measures and general safeguards clause. Article 37 of the SAA foresees anti-dumping measures in accordance with article VI of GATT. The exportation of a product with a price less than it’s trade price of this product or other similar products in the internal market, would cause an unfair competition between the exporting and the importing country, risking their economical development. Each contracting Party may take the necessary measures against these practices, but should in each case inform for this the Stabilization and Association Agreement. The SAA provides the right of both, the Community and the associated country, to take protective trade measures, (the so-called the general safeguard clause). Where any product of one Party is being imported into the territory of the other Party in such increased quantities and under such conditions as to cause or threaten to cause: serious injury to the domestic industry of like, or directly competitive products, in the territory of the importing Party; or serious disturbances in any sector of the economy, or difficulties which could bring about serious deterioration in the economic situation of a region of the importing Party, the importing Party may take appropriate measures under the conditions and

14 Neni 36 i Marrëveshjes së Stabilizim Asocimit.
15 Article 10 TKE.
in accordance with the procedures laid down in this Agreement.\textsuperscript{17} It should be stressed that this measures must respect the proportionality principle, and measure that trespass what is necessary will fall out of this provision and should be considered to be in breach to the Agreement. Lest, but not less, the country that take this measures should inform the Stabilization and Association Council, which should take any decision needed to put an end to the difficulties arising from the application of this measure. If the Stabilization and Association Council or the exporting Party has not taken a decision putting an end to the difficulties or no other satisfactory solution has been reached within 30 days of the matter being referred to the Stabilization and Association Council, the importing Party may adopt the appropriate measures to remedy the problem.\textsuperscript{18} In case of emergency, the interested Party may take the appropriate measures without any prior examination, provided that it informs the other Party and the Stabilization and Association Council on that. The provisions of the SAA regarding the protective trade measures are similar to Community provisions ruling the flows of goods\textsuperscript{19}, and the Community principle of proportionality apply the same to this protective measures as well.\textsuperscript{20}

Article 42 of the SAA provides some restrictions on the free movement of goods, which correspond to Article 30 of the treaty of the European Union, regarding the public order, public security, public health.

The free movement of goods within the Internal Market was achieved by the abolition of the customs duties\textsuperscript{21} and charges having equivalent effect, quantitative restriction and other measures having equivalent effect\textsuperscript{22}. Following the same rational for the creation of a free trade area between the Parties, the SAA foresees that all the custom duties, quantitative measures and all charges and measures having equivalent effect, are forbidden by the entering into force of \textit{this Agreement} between Albania and the European Community\textsuperscript{23}

\textsuperscript{17} Article 38 of the SAA.
\textsuperscript{18} Article 38 p.5 of the SAA.
\textsuperscript{19} See the rational of article 95 § 10 of the Treaty of the European Union.
\textsuperscript{21} Article 23 of the ECT.
\textsuperscript{22} Article 28 of the ECT.
\textsuperscript{23} The Interim Agreement made it possible that the provisions on free movement of goods of the SAA enters into force before the SAA. In fact, the Interim Agreement entered into force into 2006, while SAA 3 years later 1 April 2009.
2 THE ASYMMETRIC TRADE LIBERALIZATION OF GOODS.

With respect to the principle of asymmetric trade liberalization for the Parties in this Agreement, as well as the sensitivity of certain products toward the opening of markets, the SAA has set up a clear system of the trade regime for determined products, in determined period of time.\textsuperscript{24} As cited above one of the characteristics of a SAA is the establishment of a asymmetric trade liberalization in favor of the associated country, in order to protect their fragile economies from the fierce competition of a giant market such is that of the Community. We should stress that was not the SAA the first agreement between this parties to constitute such a trade regime. Since in 2000 the European Commission through the Regulation 2000/2007 created a preferential trade regime in favor of Albania, which consisted in the abolition of all the tariffs and duties for industrial and agricultural products from Albania, subject to the baby-beef, eggs and some fisheries.

Analyzing the SAA, it’s Annexes and Protocols\textsuperscript{25}, we can divide products, subject of these provisions, into five category: i) industrial products\textsuperscript{26} ii) agricultural products\textsuperscript{27} iii) Fish and fishery products\textsuperscript{28} iv) wines, spirit drinks, aromatized wines\textsuperscript{29} v) iron and steel products\textsuperscript{30}, for each of which there is established a particular regime of asymmetric liberalization with respect to their sensitivity in the Albanian economy.

\textsuperscript{24} Manual per gjyqesorin Shqiptar. Marreveshja e Perkohshme Shqiperi-BE, Tirane 2007, Ministria e Integrimit RSH dhe Ambasada Britanike ne Shqiperi, fq 22.
\textsuperscript{25} Annexes and Protocols are an integral part of the Stabilization and Association Agreement. See article 129 of the SAA.
\textsuperscript{26} Chapter 1 of Title IV of the SAA; Annex I – Albanian tariff concessions for Community industrial products.
\textsuperscript{27} Chapter II of Title IV of SAA; Annex II(a) – Albanian tariff concessions for agricultural primary products originating in the Community; Annex II(b) – Albanian tariff concessions for agricultural primary products originating in the Community; Annex II(c) – Albanian tariff concessions for agricultural primary products originating in the Community; Protocol 2 on trade between Albania and the Community in the sector of processed agricultural products.
\textsuperscript{28} Chapter ; Annex III – Community concessions for Albanian fish and fishery products.
\textsuperscript{29} Protocol 3 on reciprocal preferential concessions for certain wines, the reciprocal recognition, protection and control of wine, spirit drinks and aromatised wine names.
\textsuperscript{30} Protocol 1 on Iron and steel products.
2.1. Industrial products

The asymmetric liberalization of industrial products\(^{31}\) is made obvious by a comparison of article 18 and 19 of the SAA. Article 18 foresees the abolition of all Community custom duties on industrial products originating in Albania; by the date of entering in force of this Agreement, these products will enter the Community duty-free. Article 19 provides the same for industrial products originating in the Community; on the date the Agreement enters into force, customs duties on imports into Albania of goods originating in the Community shall be abolished. An exception is provided for industrial products originating in the Community, foreseen in the Annex 1 of the SAA, which are deemed to be sensitive for the Albanian economy and would cause economical difficulties for the last if their flow is liberalized immediately. The customs duties for these products (such as Salt suitable for human consumption, gas oil, shampoo, soap etc) originating in the Community would be reduced progressively, following a timetable:
- on the date of entry into force of this Agreement, the import duty shall be reduced to 80% of the basic duty;
- on 1 January of the first year following the date of entry into force of this Agreement, the import duty shall be reduced to 60% of the basic duty;
- on 1 January of the second year following the date of entry into force of this Agreement, the import duty shall be reduced to 40% of the basic duty;
- on 1 January of the third year following the date of entry into force of this Agreement, the import duty shall be reduced to 20% of the basic duty;
- on 1 January of the fourth year following the date of entry into force of this Agreement, the import duty shall be reduced to 10% of the basic duty;
- on 1 January of the fifth year following the date of entry into force of this Agreement, the remaining import duties shall be abolished.

Regarding charges having equivalent effect with custom duties\(^{32}\), quantitative restrictions\(^{33}\), measures having equivalent effect,\(^{34}\) over industrial goods, the same regime is applied either for imports or exports.

The SAA among the industrial products, distinguishes two categories for

\(^{31}\) Listed in Chapters 25 to 97 of the Combined Nomenclature (see Article 16).

\(^{32}\) Article 20 over imports, Article 21.1 over exports.

\(^{33}\) Article 18/2 of the SAA and Article 19/3 of the SAA

\(^{34}\) World Bank report on CEFTA
which a different regime would be applied, namely: i) for products covered by the Treaty establishing the European Atomic Energy Community, trade between Parties shall be conducted in accordance with the provisions of that Treaty, and secondly ii) the iron and steel which for their importance in the development of Albania, shall be part of Protocol 1.

2. Agricultural products.

The second chapter of Title IV of the SAA entitled “Agriculture and fisheries”, has provisions for both kind of products-agricultural products and fisheries-, as well as a reference to Protocol 3 on wines and spirits, but for the sake of this article, will be analyzed apart.

The legal framework of the agricultural products is not limited to article 24-31 of the SAA, but extends further in details in its Annexes and Protocols. For agricultural products there is a different regime in comparison with the industrial products, which has particular restrictions both in quotas and duties, for a certain period of time, with respect to the sensitiveness of each product and whether they are primary industrial products, or processed.

Primary agricultural products are those agricultural products that are taken from the soil or the tree and used for consumption, as raw material, or that are further processed, such as fruit, vegetables, etc. Processed agricultural products are those products subject to the processing operations, through which the primary products added its value, such as: jam fruit, cheese, chocolate etc.

2.2.1. Primary agricultural products

Primary agricultural products originating in the Community

Regarding to the primary agricultural products originating in the Community, depending whether they are listed- Annex II(a), II(b) or II(c), a different approach is sanctioned. For agricultural products listed in Annex

35 Article 17/2 of the SAA
36 Article 23 of the SAA, see further a short analyses of Protocol 1.
37 V.supra. 22
38 Tregtia e lire Shqiperi-Bashkimi Europian 25. Per bisnesin.” Ministria e Integrimit Europian.
II(a), which are considered the less sensitive for the Albanian economy- i.e. for example pineapple plants\(^{39}\), vegetable and strawberry plants\(^{40}\), live forest trees\(^{41}\)- all the customs duties and quotas applicable over import should be abolished by the entering in force of the SAA.\(^{42}\) This category of products makes up 40.8% of the agricultural products.\(^{43}\)

Agricultural products considered as being semi-sensitive- i.e. for example: fresh figs\(^{44}\) fresh table grapes\(^{45}\) fresh apricots\(^{46}\) fresh nectarines\(^{47}\) are subject of a different regime. Their liberalization would be progressive following a determined timetable. Customs duties on imports for these products, which are listed in Annex II (b) of the SAA, will be reduced and eliminated as follows:\(^{48}\)

- on the date of entry into force of the Agreement, the import duty will be reduced to 90% of the basic duty;
- on 1 January of the first year following the date of entry into force of the Agreement, the import duty will be reduced to 80% of the basic duty;
- on 1 January of the second year following the date of entry into force of the Agreement, the import duty will be reduced to 60% of the basic duty;
- on 1 January of the third year following the date of entry into force of the Agreement, the import duty will be reduced to 40% of the basic duty;
- on 1 January of the fourth year following the date of entry into force of the Agreement, the import duty will be reduced to 0% of the basic duty. This category of products makes up 29.1% of the agricultural products.\(^{49}\)

The third category of agricultural products, listed in Annex II (c), namely common wheat and meslin seed\(^{50}\), spelt, common wheat and meslin (excluded

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\(^{39}\) HS 0602.90.20  
\(^{40}\) HS 0602.90.30  
\(^{41}\) 0602.90.41  
\(^{42}\) See article 27/3 (a), and Annex II (a)  
\(^{43}\) “Tregtia e lire Shqiperi-Bashkimi Europian 25. Per bisnesin.” Ministria e Integritit Europian.  
\(^{44}\) HS 0804.20.10  
\(^{45}\) HS0806.10.10  
\(^{46}\) 0809.10.00  
\(^{47}\) HS 0809.30.10  
\(^{48}\) See article 27/3 (b) and Annex II (b)  
\(^{49}\) Tregtia, ibid.  
\(^{50}\) HS 1001 90 91
seed)\textsuperscript{51}, originating in the Community, would be subject of a quota: their import shall be duty-free by the entering into force of this Agreement within a quota of 20,000 tones. Above this quota, a custom duty of 2\% will apply.

In conclusion we may say that the extent of trade liberalization for agricultural products originating in the Community is 69.9 \%, which makes up 68.3 \% of the total value of import in Albania.\textsuperscript{52}

\checkmark Primary agricultural products originating in Albania.

The SAA provide almost a total liberalization of agricultural products originating in Albania, providing the maintenance of custom duties, or quotas, only for a limited range of products. The Community shall abolish the customs duties and charges having equivalent effect on imports of agricultural products originating in Albania, other than:

1. Bovines, fresh or frozen beef, salty beef\textsuperscript{53} originating in Albania-should be subject of custom duties or charges having equivalent effect when they are imported in the Community

2. Fruits and vegetables\textsuperscript{54} originating in Albania, for which the Common Customs Tariff provides for the application of ad valorem customs duties and a specific customs duty- the elimination shall apply only to the ad valorem part of the duty\textsuperscript{55}

3. Sugar originating in Albania, under heading 1701\textsuperscript{56}, 1702\textsuperscript{57} of CN-shall be imported into the Community duty-free, within the limit of an annual tariff quota of 1 000 tones\textsuperscript{58}.

\textsuperscript{51} 1001 90 99
\textsuperscript{52} Tregtia, ibid.
\textsuperscript{53} Namely under headings Headings 0102, 0201, 0202 of the CN
\textsuperscript{54} Under the heading 0700 and 0800 of the Combined Nomenclature of goods.
\textsuperscript{55} Article 27, second paragraph.
\textsuperscript{56} Sugar produced from sugar cane or beet sugar and saccharine, chemically pure, in solid state. Untreated sugar, not containing additional flavouring of colouring substances.
\textsuperscript{57} Other sugar, including lactose, maltose, glucose and fructose, chemically clean, in solid state, not containing any additional flavouring or colouring substance, artificial honey, whether or not mixed with the natural honey; caramel
\textsuperscript{58} Article 27/2.
2.2.2. Processed agricultural products.

As provided by Article 25 of the SAA, processed agricultural products would be subject of the arrangement laid down in Protocol 2. Even in this Protocol the liberalization is approached depending on the sensitivity of the products and their place of origin. In comparison with the arrangements of primary products, here there is foreseen the freedom of the SAA Council to decide on extensions of the list of processed agricultural products under this Protocol, amendments to the duties referred to in Annexes I and II(b), II(c) and II(d), increases in or the abolition of tariff quotas.\footnote{Article 1.2 of Protocol 2} Regarding the reduce of custom duties provided in this Protocol, the Council it’s authority vested with this power but only in two circumstances:

i) when in trade between the Community and Albania the duties applied to the basic\footnote{Eventhough this article reads “basic” products, there is ground to believe that it relates to the term “primary” used overall in this paper.} products are reduced, or

ii) in response to reductions resulting from mutual concessions relating to processed agricultural products.\footnote{Also in this cases it is provided the method for calculating the reduction of duties. See article 2, sec. paragraph}

\checkmark Processed agricultural products originating in Community

A three level categorization continue to apply even for the processed agricultural products originating in the Community: for less sensitive processed agricultural products, from the moment of entering into force of this Agreement there is neither custom duties, charges having equivalent effect, or any quota, nor quantitative restriction or measures having equivalent effect. For other semi-sensitive processed agricultural products may be either any restriction in quota, or a liberalization that will follow a determined timetable. The less sensitive products, i.e. chewing gum\footnote{1704 10}, toffees, caramels and similar sweets\footnote{1704 90 75}, chemically pure fructose \footnote{1702 50 00}etc, all listed in Annex II (a) of Protocol two, would be imported into the Community duty-free by the entering into force of this agreement. Annex II (b) of Protocol II has provisions for the abolition of
custom duties, but within a quota for certain products; for example it provides
that spirits obtained by distilling grape wine or grape marc, in containers
holding 2 liters or less, would be imported duty-free in the Community. A
similar timetable as the one for the primary agricultural products\textsuperscript{65} is provided
for the processed products listed in Annex II (c) of Protocol 2.

A different regime is applied for products listed in Annex II(d). For the
processed agriculture products listed in this Annex, the MFN custom duties
will continue to apply on the date of entry into force of the Agreement.

\textbf{\textit{Processed agricultural products originating in the Albania}}

For the processed agricultural products originating in Albania e full
liberalization of trade is provided. All the products listed in Annex I of
Protocol 2, which makes up 93\% \textsuperscript{66} of the processed products, will enter the
Community duty-free, by the entering into force of this Agreement.

\textbf{2.3 Fish and fishery products}

The asymmetric liberalization of this category of products is the other
way around of the liberalization analyzed so far. Fish and fishery products
originating in the Community are imported into Albania without customs
duties, CEE\textsuperscript{67}, quantitative restrictions or MEE,\textsuperscript{68} while the fish and fishery
products originating in Albania will enter the Community duty-free, only
within the determined quotas in this Agreement, following a determined
timetable\textsuperscript{69}. Even if in first sight, it seems that SAA in this regard sets up a
trade liberalization in favor of the Community, it is not exactly as such. The
abolition of duties and charges of products originating in the Community is
not result of the SAA provisions, but of the General Agreement on Trade
and Tariffs, ratified by Albania in 2002. It’s from this date and on that these
products originating in the Community enter Albania duty-free. Anyway, it
should be stressed that SAA establishes favorable conditions for fish and

\begin{itemize}
  \item [\textsuperscript{65}] V. supra 43
  \item [\textsuperscript{66}] Tregtia., ibid
  \item [\textsuperscript{67}] Art.28 p.2
  \item [\textsuperscript{68}] Art. 26p.2. Regarding quantitative restrictions, and MEE the same regime is applied even
      for fish and fishery products originating in Albania (see art. 26 p1)
  \item [\textsuperscript{69}] See Article 28 p1 and Annex III of the SAA
\end{itemize}
fishery products imported into the Community. After this Agreement enters into force, all customs duties on imported fish and fisheries originating in Albania shall be abolished when they enter the Community, subject to products listed in Annex III. The category of sea products listed in this Annex would profit some concessions: imported less than the determined quota fish and fishery product originating in Albania enter the Community duty-free; above the determined quota the MNF custom duty, or a percentage of it, reduced by year in year, would apply.

2.4 Reciprocal preferential trade on certain wines

Article 27.3, Protocol 3 and Annex I\(^70\) envisages provisions for the preferential trade concessions for certain category of wines, subject to the condition that no export subsidies shall be paid for exports made of the quantities of wines prescribed, by both Parties.

Quality sparkling wine, wine of fresh grapes \(^71\)originating in Albania will be imported duty-free in the Community within a quota of, namely, 5000 or 2000 hl. On the other hand, for quality sparkling wine and wine of fresh grapes originating in the Community, Albania will apply a preferential zero-duty within the quota of 10,000 hl. This means that a more preferential regime on favor of the Community is established regarding to custom duties.

The SAA provides that the production of these wines should be in compliance will the oenological rules of the Community legislation and shall be subject to the presentation of a certificate and of an accompanying document, in accordance with Commission Regulation (EC) No 883/2001 of 24 April 2001, for the implementation of Council Regulation (EC) No 1493/1999.

2.5 Steel and iron

The importance these products do have for the Albanian economy makes them part of a particular arrangement, ruled in Protocol 1 of the SAA. An asymmetric liberalization is determined in favor of Albania: steel and iron

\(70\) Annex II of Protocol 3 is not subject of this paper since its provisions regards the reciprocal recognition, protection and control of wine, spirit drinks and aromatised wine names.

\(71\) HS 2204 10, 2204 21, 2204 29
originating in Albania will be imported duty free in the Community, without any charge having equivalent effect, quantitative restrictions, or measures having equivalent effect. On the other hand iron and steel originating in the Community would be subject of customs duties that will be reduced according to a timetable established in this Agreement.

The asymmetric liberalization of trade of these products in favor of Albania, can be assessed also in two other aspects:

1. The Community, upon request, shall provide Albania with the appropriate technical advice to achieve the necessary restructuring and conversion programmed, for viability for its iron and steel industry under normal market condition, within three years by entering into force of this agreement.

2. For achieving this objective, the Community recognizes that during five years after the date of entry into force of the Agreement, Albania may exceptionally, under the conditions provided, grant Staid aid for steel and iron industry.

3. CONCLUSIONS

The economic criterion is an essential one in the road map of reforms Albania must undertake to enter the European Union. SAA, beyond being an instrument of the SAP, and a contractual agreement between the EU and associated country, provides measures to encourage the devolvement of the economy, economic policy and reforms that would help the associated country to build up a functional economy that might be able to enter the Single Market and afford the competition within.

The SAA EU-Albania has set an asymmetric liberalization of trade in favor of Albania, that will lead to the creation of a free trade area between the two Parties within a determined period of 10 years. This paper has shown aspects of this liberalization focused on different category of products foreseen in the SAA, its Annexes and Protocols. The asymmetric liberalization of trade is projected on a timetable within which custom duties, charges having equivalent effect, quantitative restrictions or measures having equivalent effect would be abolished, in respect with the category of the products in this Agreement and their sensitivity for the economy of both Parties.

The asymmetric liberalization aims to stimulate the Albanian exports into the Community, which is foreseen to have an impact on the economical growth of the country. Even though, it should be bear in mind that the removal of the tariff obstacles and liberalization of trade tariffs should be accompanies with
other measures, the abolition of non-tariff obstacles, and of course of reforms and economic policies that would make the Albanian products competitive in the Community Market.

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THE ALBANIAN LEGAL FRAMEWORK ON THE E-BUSINESS DEVELOPMENT AND THE ADOPTION OF THE RELATED EU DIRECTIVES

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Abstract

The development of informative technology brought the change of the business world. The epoch of networked intelligence is not simply a connection of technology, but an intercommunication of people through technology. Through the computer network they can combine their intelligence, knowledge and creativity for new penetrations in the social prosperity and development.

The Electronic commerce (widely known as e-commerce) or electronic business is a modern methodology which directs the usage of information technologies as an essential possibility for businesses. The influence of electronic business in purchases, sales, collaboration among businesses, agreement conclusion, decision-making and the delivery of different services, is so developed that no organization has remained unattached by such an influence. The electronic commerce is actually greatly developed as a result

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of the internet usage increase and is one of the fastest instruments which have the lowest cost too in performing business operations.

Recently, in Albania, there have been progresses in the approximation of legislation and politics with acquis communautaire, especially to those related to the information society, from which we mention: the law “On the personal data protection”, the law “On the electronic communications”, and the most important in this field, the Law approved on February 2008, “On the electronic signature”, and the Law “On e-commerce”, approved by the Parliament on May 2009.

The approval of these laws completes the legal framework and satisfies the engagements undertaken in The stabilization and Association Agreement (SAA). This law is in full conformity to the Constitution, to the provisions assigned in Acquis Communitaire, and especially to the Directive 2000/31/EC of the European Union “Concerning the services of Information Society” (or commonly known as the Directive on e-commerce).

The e-commerce law aims to establish a legal framework in the inner market for e-commerce, a framework which guarantees a legal security for the business and consumer.

It intends to be a law for the assistance of business, able to arrange the electronic method of business operation in our country, to improve the business climate in general and it is part of the legal package called “e-government”.

The paper will treat the way in which has been realized the adoption of EU directives into these laws. Which are the rules for an electronic contract and what provisions this electronic contract must satisfy in order to be effective and valid according to our Civil Code. Which are the European standards on the e-signature. How does these law protects the consumer from the different abuses, what are the competences that these laws recognizes to the Telecommunications Regulatory Entity (TRE) in this field, how this legal framework is expected to develop the Albanian businesses, will be some of the main issues treated in my paper.

**Keywords:** electronic commerce, electronic contract, e-signature, consumer, service provider, data protection
1. INTRODUCTION

Electronic business, often called e-business, can be defined as the application of information and communication technologies in support of all business activity. Electronic Business is the modern form of business organization, which means intensive use of information technology particularly the internet for the implementation of all key business functions.

Electronic commerce focuses on using information technology to enable business and business relationships between individuals and other businesses.

Nowadays, the word “e-commerce” is widely associated with the ability of purchasing various goods through the Internet using secure protocols and electronic payment services. Due to the latest developments in technology, buying or selling goods or services it has become possible for any person with modest skills on computers and with an internet connection available. Anyway, business through computer networks, started at the late 70-s with Electronic Data Interchange (EDI) and Electronic Funds Transfer (EFT). At the 80-s, other forms of E-Commerce such as credit cards, automated teller machines (ATM) and phone banking were available for massive usage and became very popular.

Electronic business has been developed rapidly especially this last 10 years. New developments in the last century, technological developments especially in the field of information technology, made the world change in many aspects, as the standard of living, way of living. The method of development of processes, has also changed the ways of doing business. The development of computer technology facilitated the work almost in every field, it changed everything that shorten the work, progressed the work and anything else that could be done and was very difficult to be realized. Also, as mentioned above, the development of information technology made the business world to change. The computer is getting transferred from a management tool in a tool for communications. The era of network intelligence is not simply a connection of technology, but interconnection of people through technology. This is not a simple connection of computers but also the interconnection of human genius and this is an era of unimaginable opportunities and possibilities.

In order to regulate by law the development and successfully conducting business with the electronic tools in general, but also other activities not only economic, as well as the implementation of EC directives, in our country is being made a progress in the process of approximating legislation and policies with the acquis communautaire, in particular, those related to information society, of which we mention:
1. Law no. 9887, dated 10.03.2008 “On protection of personal data”, compiled in accordance with Directive 95/46 / EC.
4. Law no. 9918, date 19.05.2008, “On electronic communications“.

2. THE ALBANIAN LEGAL FRAMEWORK ON E-BUSSINESS

The fundamental law on e-bussiness, is the law no. 10128, dated 05.11.2009 “On electronic commerce”, which aims to establish the rules of doing business electronically. This law is in full conformity with the Constitution, the provisions set out in the Acquis Communautaire, particularly with European Union Directive 2000/31/EC “On information society services”. Directive 2000/31/EC of the European Parliament and Council dated on 08/June/2000, is dedicated to the legal aspects of the information society’s services, in the common market (commonly known as the Directive on e-commerce).2

This directive provides for the obligation of member states to provide for in their legislations the possibility to conclude contracts through electronic means. It determines a variety of rules related to the contractual process such as – the obligations of the service provider to inform the consumer about the technical steps for the conclusion of the contract and also to create the technical possibilities to the services; the possibility to correct the order; rules related to the contract’s language; and other rules.

The Albanian law on e-commerce, aims to be a law for the assistance of business, for the creation of facilities in performing commerce electronically, and also for the improvement of business clime in general, creating in such a way the bases for a stable economical development of the country and the absorption of foreign investments. The law was approved according to the engagements of Albania in the framework of the SAA (Stabilization and Association Agreement) and in full conformity to the basic European standards assigned by acquis communautaire in this field and especially to the directive 2000/31/EC of the

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2 Directive 2000/31/EC of the European Union “Concerning the services of Information Society”.

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European Union, “Concerning the services of the information society”, known differently as the directive for e-commerce. The Law “On electronic commerce” is one of the most important laws in the context of information society development. Electronic commerce as a key element in international trade, said simply, is the trade made possible electronically. This law aims to create a legal framework in the internal market, the framework that will guarantee legal certainty for business and consumers. The object of this law is the establishment of rules for commercial transactions electronically, through the services offered by information society, also, rules for the protection of persons that participates in this field, for the legal protection of customer privacy or confi dential data of participants and to ensure the free flow of information services, defining the responsibilities of providers of information society services.

Types of transactions in electronic commerce are:

- B2B (Business to Business), usually manufacturers selling to distributors;
- B2C (Business to Consumers), businesses selling goods or services to the general public;
- C2B (Consumer to Business), mainly consumers having bidder businesses for their projects;
- C2C (Consumers to Consumers), usually websites organizing auctions or forums where individuals can buy or sell through online payment services.

Commercial activities conducted electronically has to respect and rely on market economy principles such as: equality of participants, free will, contractual freedom, development of free entrepreneurial activity and free movement of goods, services in the territory of the Republic of Albania.

Electronic commerce consists in carrying out trading activity for goods and/or services through the exchange of electronic documents. Information society services are services provided through payment, in distance through electronic means and at the request of individual service recipients. They include the sale of goods and services, access to information or advertising on the internet and access to public services communication networks, data transmission or data sustain the recipient’s public communications network.

Definitions of information services society, is expressly set out in Article 3 of Law nr.9918 “On electronic communications in the Republic of Albania”, law adopted in the framework of the approximation with EU legislation, under which:

“Information society services” means services provided through payment, in the distance, through electronic means and at the request of individual service recipients.
“The distance” means that the service is provided without a need to both be present at the same time.

“Through electronic means” means that the service is sent from point of origin and final destination obtained through electronic processing equipment (including digital compression) and data storage. Sending, receiving the full transmission is done by cable, radio, optical equipment and other electromagnetic means.

“At the request of individual service recipients” means the services provided through the data transmission request to the recipient individual.

In the context of electronic commercial activity, the service provider of information society, should ensure the fulfillment of certain standards of which, respect of human rights, protection of consumers and investors, protection of minors, respect of national security, national and public safety, etc..

Specifically, it involves creating a specific legal relationship, in which parties have no direct contact, but details of the contract, as well as information on the various procedural steps, to be followed for the contract, the contractual conditions parties, the technical means for identifying and correcting errors before submitting the request/message and the languages offered for the contract, must be provided electronically.

However, like all other contracts, the contract for electronic commerce is subject to regulations stipulated in the provisions of the Civil Code of the Republic of Albania.

The Law gives importance to the respect of prior acceptance by the recipient, in commercial communications. If the recipient of commercial communications through electronic mail does not give approval, the commercial communication is not allowed. This requirement is stipulated in Article 6 of EU Directive 2000/31.

Given that the object of this law is electronic commerce, articles related to the electronic contracts, refer to the Civil Code, too (Articles 659-704, which regulates contracts generally). But also, taking into account the specifics of these kind of contracts linked electronically, the law stipulated that the validity of the above contract, except as conditioned above, is conditioned also by respecting the specific requirements of the contract form, and the requirements of the law nr.9902 dated 17:04 .2008, “On protection of consumers”.

Legal regulation of the electronic contract, on the rights and obligations of the contract parties is provided by the articles 13 and 14 of the law, which provided that the provider of goods and/or service must give complete information in a clear and understandable way, and before the request by the recipient of service is made, for:
a) various procedural steps, to be followed for the contract;
b) the terms of the contractual parties;
c) the technical means for identifying and correcting errors before submitting the request / order;
d) the languages offered for the contract;
e) whether the contract will be archived on the service provider and if you have access to this contract.

In cases where contract parties who are not consumers, have agreed not to enforce the provisions in the preceding section, the information service provider, based on Article 16 of Directive 2000/31 of the EU, refers to the Code of Ethics describing the method of consultation of this code in electronic form.

The Authority responsible for ensuring compliance and enforcement of legal provisions, is the Authority of Electronic and Postal Communications (TRE), whose powers are provided in the law for electronic communications in the Republic of Albania.

The protection of consumer rights in respect of the law is provided for the Consumer Protection Commission. For the purposes of supervision, the service providers offer information to authorized persons for access to computer equipment and provides without delay, transmission of the information and documents that relate to the subject of surveillance. The above authorities have the right to order sanctions in case of violation of the provisions of this law.

Electronic contract is presumed stipulated on the moment that the provider gets a message that contains a statement of confirmation of receipt and acceptance of the offer. However, the proposal and acceptance of the offer, made by the parties in the legal relationship that arises due to electronic commerce between them, are deemed received when the parties, in advance, have proven to each other that they are able to receive them electronically. In this case, the provisions of the Civil Code for accepting or rejecting the offer are applicable, provided in the part for the general conditions of contracts.

In Article 12 of the law in respect of the provisions of Article 9 of EU Directive 2000/31, are listed the contracts exempted from the application of this law as follows:
1. For contracts related to create, change or extinguish rights over immovable property, other than the leasehold on real estate with a term up to 9 years;
2. For contracts that by law require the involvement of courts, the public authorities and professionals who perform or provide a statutory service;
3. For contracts of guarantee and collateral securities, given by persons acting
for purposes different from those of the business, their trade or profession;
4. For contracts provided by the Family Code and legal actions are prescribed by Civil Code Part III Title III “Inheritance by will;
5. Financial services or insurance services, for which marketing is applied in the distance. “

At the same time, in the law “On electronic commerce” are foreseen the cases, which are outside the goal of its regulation, as follows:

a) notaries acts, or other similar actions, directly related to the exercise of public authority;
   It is about legal action that require public certification by a notary or seeking permission from the court.

b) representation of people and protecting their interests before the courts, 
   and in any organ, where a person’s appearance can be made by third parties, through acts of representation; In connection with the provisions of Civil Code Articles 64-78 of it.

c) The activity fee for the participation of players in the betting, lotteries, 
   games of chance, electronic games, and racetrack casinos.
   Also, this law does not extend the effects of legal relationships that are created:
   a) in the taxes field;
   b) for the protection of personal data;
   c) for issues related to the practice of settlement, regulated by competition law.

The law provides that the authority in charge to ensure compliance with and enforcement of legal provisions, is the authority and the Electronic Communications and Postal (TRE), which is the regulatory body, authority, the manner of functioning of which is provided in the law “On electronic communications”.

Another law that is part of the legal package called “electronic government”, is the law “On electronic signature”.

identifying the signatory; c) it is created using means that the signatory can maintain under his sole control and; d) it is linked to the data to which it relates in such a manner that any subsequent change of the data is detectable.

The aim of the law is to provide a modern legal framework, clear and up to date, able to regulate the electronic mode of business operation in our country. Electronic signature is a new term in the Albanian legislation, intended to precede and regulate legal relationships that are carried out on electronic ways. Electronic signature can be used as a mean of verifying the data in any electronic communication, including any electronic documents, e-mail, online procurement, online deals signatures (in this case both parties shall sign the same document), online commerce (e-commerce, etc). Subject to this law might be legal persons, individuals, public and private.

The Law is in accordance with Article 2 of Directive 99/93 of the EU, provides two types of electronic signatures: Advanced electronic signatures that are signatures that are exclusively for a specific holder of the signature code and electronic qualified signature that is a kind of the electronic signature advanced.

Chapter II of the law is dedicated to the legal validity of electronic signatures and exclusion cases.

The law provides that legal acts designed by natural and legal persons, public and private, can be done through an electronic document, which is attached to a qualified electronic signature. Electronic document, which bears the name of the signatory and his qualified signature, has the same legal validity and probative force of the written form.

The Law, for the qualified signature, which meets the provisions of law, gives the same legal value and probative force in written form. So electronic signatures are different types, so their legal power is different too. The law determines the equality of legal actions made by qualified electronic signatures with those made manually. While, legal actions committed to electronic signature, but not qualified, are evaluated depending on the extent of security they provide.

We emphasize also that the law stipulates that the use of electronic signature is voluntary, except when otherwise provided by law. So, any person or legal entity is free to select the method of action for a legal action. We have to do with the principle freedom of choice.

Also, already in the law is provided that administrative activities of public bodies, can be performed using an electronic signature, provided that legal provisions may require the fulfillment of additional conditions for use of electronic signatures.

In cases where the legal action sought to be accomplished through an
electronic signature, is a contract, then each of the parties must sign the same electronic document with qualified relevant electronic signature.

The law provides the cases when an electronic signature can not be used, as follows:

- The legal actions in the areas of family law and the right of inheritance, which are subject to special legal requirements;
- The legal actions, which require statutory certification, a notary act or a court authorization;
- The legal actions associated with property guarantee electronic form; and in cases where the law does not allow the use of electronic form.

We stress that these are ways of regulating the legal action, of which is defined in special laws. These are, more or less, the same exceptions provided in the law on electronic commerce.

Given that the electronic signature aims the use of electronic data to perform the legal action, it is important the security on authenticity of data exchanged online. Therefore the law in its Article 8 says that the contents of a document signed by a qualified electronic signature is presumed to be true and it is not changed, as long as not proven the opposite. And if it is determined that an electronic signature, does not meet the conditions laid down in law for electronic signature security, then this e-signature is evaluated invalid.

The law provides the way to be followed by legal persons or individuals wishing to use qualified electronic signature in their commercial activities. So they can address the state authority in whose jurisdiction the registration of providers of this service is provided. This service makes identification of these persons, and having his consent shall have the right to use the personal data of the person, in order to ensure accurate identification of the applicant. The service provider gives a control code signing for each identified person. This certificate may also include information relating to the authority to act on behalf of a third person, as well as data related to the particular profession or quality of the applicant. However, these additional data should be verified anyway.

A special importance is been given by law to the standards to be met during the conduct of electronic signatures activity in order to ensure protection of data from counterfeiting, security of secrecy codes, confidentiality of personnel and products, security tool creation signature. Means provided by law for establishing the safety of signing, identify forged signatures and false information and provide protection against unauthorized use of signature codes. In each case, the certification service provider is obliged to inform the applicant about measures necessary to increase the security of electronic qualified signatures and for their testing.
These conditions are necessary because these are legal relations, forms of which are not equal to traditional, manual signature of document in the presence of the other party or parties, but at a distance relationship. So the security conditions, always need to grow, must be much higher, given that the electronic signature is used in relationship of business-business, business-individuals, public administration-business, etc..

The law also defined other terms such as qualified Time Stamp, for receiving of which should be completed the same conditions as for certification of electronic signatures. Qualified Time stamp is a tool which does not verify the authenticity of the document, but confirms that electronic data are presented in a certain time. The foregoing are necessary to protect the interests of all parties affected by law enforcement.

In Chapter VII of the law, is regulated the protection of personal data. Thus, the law establishing that certification service provider uses only the personal data that are needed to meet certification services, and to the necessary extent for the purposes of issuing and maintaining the certificate, these data are taken directly from the holder of the signature code or by third persons, with the consent of the holder of the signature code.

Personal data can be delivered to the State Authority, with his request,:

a) when it is necessary for the prosecution of criminal acts or violations of law and when such a request comes from the bodies charged by law to investigate them;
b) to avoid danger, which threatens national security or public order;
c) to perform duties that the law has imposed fiscal authorities, customs or other authorities in the investigation of legal violations;
d) when is provided in a court decision.

For the protection of personal data, as an important step in the integration process of our country, has been approved the law nr. 9887, dated 03.10.2008 “On protection of personal data”, law drafted in accordance with Directive 95/46, the European Union.

Electronic Signatures and foreign products are recognized and enforced in accordance with related agreements of Republic of Albania with other states for their acceptance and exchange of data. But it is imperative that foreign providers have their local representative accredited under Albanian law.

Rules over electronic signature makes a detailed arrangement of how to operate a electronic certification service provider, in order that this service of offering certification to be counted for.
3. CONCLUSIONS

Adoption of the laws mentioned above, meet the commitments undertaken in the Stabilization and Association Agreement. This legislative package is in full compliance with the Constitution, the provisions set out in the Acquis Communautaire, and will give new impetus to the development and successful conduct of electronic business in our country. These laws have been approved in conformity with the Directives of the European Union, respectively 95/46/EC, 99/93/ec, 2000/31/EC.


Directive 1999/93 of the European Parliament and the Council on certain legal aspects of electronic signatures, provides that electronic communication in general and in particular electronic commerce require the use of electronic signatures, electronic signatures has also been used to strengthen credibility and acceptance of their actions, use of new technologies, so the free movement of goods and services not only in domestic market but also beyond.

The law on e-commerce, a very new one, was necessary to be approved, now that the increase usage of internet is evident in the Albanian society. Its application is connected, among others, also to the respect of the conditions provided on the electronic signature, electronic communications law and in the law for the consumers’ protection. The approval of this law has a special importance as it regulates a legal relation conceived differently from the standard legal relations.

Being a new law approved recently by the Albanian Parliament, we have to wait a little to see how good this law is, if it will be known quickly by the Albanian businesses and consumers and also how effective it will be to prevent the abuses in the “electronic world”, that develops every day more and more, and surely more than legal regulations.

Enforcement of laws in practice is intended to provide greater opportunities for free movement of goods and services. This affects the development of free trade through increased market competition and creates advantages for foreign investments.


3. Law no. 9918, dated 05.19.2008 “On Electronic Communications In the Republic of Albania”,


5. Law no. 10128, dated on 05.11.2009 “On e-commerce.”


8. Law no. 9887, dated 03.10.2008 “For the personal data Protection.
   http://www.asil.org/ilib/ilib0104.htm#04 International Law in brief
SME AND ECONOMIC DEVELOPMENT OF THE BALKANS.
THE IMPORTANT ROLE OF BUSINESS ANGELS IN THE GROWTH OF START-UP FIRMS

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Abstract

In recent years, the increased interest of international investors towards the Balkans was mainly due to the great dynamism of the local governments

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that have, on one hand, liberalized high-technology sectors such as energy, transport, telecommunications, and on the other one, worked reforms (especially in Albania), aimed at improving the business climate of the area, in order to attract foreign investors able to develop the country’s economy with their technology and their know-how.

Thus, streamlining bureaucracy and reducing costs for business creation, improving information about credit, strengthening investor protection, the Law on Collective Investment and the reduction in taxes on individual and business income are just some of the reforms, undertaken by the Albanian Government, that have led the country to a significant increase in FDI (Foreign Direct Investment).

However, as it can be noticed, in order to secure important competitive advantages in key technology sectors, start-up SMEs (Small and Medium Enterprises), need investors who are able to provide financing (banks and venture capital funds) as well as to take an active part in the business life, using their managerial know-how, and their contacts in order to plan winning strategies.

This need has given rise, first in the U.S. and then in Europe, to the figure of the Business Angel, a sort of guide within companies, playing an active role in such matters as advising profitable investments, planning winning strategies, cautious fiscal policies and fair personnel management.

Therefore, the aim of this work is to understand how the development of the Balkans depends increasingly on the creation of new businesses, especially high-tech and how their performance on the market cannot disregard the introduction of the Business Angel into their organizational fabric.

So, starting from the analysis of the Balkan scenario which has just described, we will examine the important role that Business Angels have assumed for the growth of SMEs, especially start-up firms bearing, in addition, clear prospects for growth.

Then, the present paper will first highlight the functions, organization and the benefits deriving from the use of Business Angels to SME development in the countries of the area.

Afterwards, it will point out the main differences between Business Angels and Venture Capitalists, and the motivations driving entrepreneurs, on one hand, to prefer the former as the main actors of the informal venture capital and, the European Commission, on the other one, to encourage the use of these figures which are considered among the best to revive the continental economy after the recession caused by the world financial crisis.

Finally, we will examine the Italian Association of Business Angels
(IBAN), which has now been operational for a decade, as well as the good practices implemented in the rest of Europe, to consider the opportunity of creating in Albania, and more generally, in the Balkans, an association promoting a successful collaboration between entrepreneurs and Business Angels, in order to develop properly start-up businesses.

**Keywords:** SME, economy, business angels, start-up firms.

### 1. INTRODUCTION

The improvement of the business climate in Albania by the local Government, aimed at attracting into the country those foreign investors who are able, thanks to their know-how, to promote the harmonization of the country with Western regulatory, taxation, environmental and technological standards, in view of a forthcoming entry into the EU, turns out to be highly profitable.

In fact, in recent years, the area has seen a remarkable growth in FDI (Foreign Direct Investment), mostly represented by SMEs (Small and Medium Enterprises) involving up to five employees, rising from 158 million Euros in 2003 to 653 million Euros in 2008, with further growth, in the first six months of 2009, up to 436 million Euros, as much as 90% more than the first six months of 2008.³

In particular, Italy turns out to be the main partner of the country, so that to reach, in 2008, the maximum value of 34% for commercial exchange, amounting to 1,510.63 million Euros, a figure that is nearly twice the value referring to 2002, equalling 807.88 million Euros.⁴

In order to achieve such results, the Government has implemented a number of reforms, the most significant of which concerned a reduction in taxation (10% flat tax)⁵ and customs rates (tax exemption for 83% of the industrial products imported into Albania from the EU countries), the creation of simplified corporate patterns as compared to the past, and the streamlining

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of the bureaucratic procedures needed to be granted authorizations and licences to operate in the various industrial and commercial sectors.6

Other important reforms were represented by the sale of the land to foreign investors at the symbolic price of 1 Euro,7 VAT exemption for imports of machinery and equipment8 as well as by providing incentives and preferential financing for the investments made in the country, amounting to 10 million Euros.9

In the present scenario, encouraging the starting up of new companies, foreign entrepreneurs are increasingly entering the market, often in partnership with local operators (mainly under the form of equity joint-ventures) and choosing highly technological sectors bearing great potential for growth (such as the energy and telecommunications sectors), in order to achieve significant competitive advantages.

Nevertheless, despite a general setting which is more and more favourable to the starting up of new companies, the latter are likely to incur, at the same time, deep dissolution in the short term.

Various factors can be mentioned to explain the process above. On one side, the lack of managerial skills by entrepreneurs adopting poor market strategies (due to scant originality of the plans, insufficient data and information, wrong business plans, unreliable working teams) and, on the other one, the impossibility of having access to financial means, due to poor credit granted to institutional investors (banks in the lead), who are not willing to share a plan whose issue is uncertain because of poorly experienced business managers.

Thus, in order to solve the problems analysed above, slowing down the development of start-up companies, the figure of the Business Angel (BA) or informal venture capitalist appeared, namely someone who, having a bent for risk and holding capital, provides companies with financing as well as with his own experience, his managerial skills and his contacts to allow the

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businesses to stand out in highly innovative sectors bearing great potential for profit and development.

2. THE FIGURE OF THE BUSINESS ANGEL (BA)

The BA, a figure first appeared in the U.S.A. during the 80s, developed in Europe as well, in the main industrialized countries (in order of appearance, in the United Kingdom, France, Spain and Italy), working either individually (about 60%) or gathering in networks.

Generally, BAs are men or women aged 35-65, who are greatly experienced in the entrepreneurial sector, investing in start-up companies to be helped, owing to their experience, in the initial phase of development, and to be favoured, afterwards, with the financing of Venture Capital.

Thus, they both play the role of minority shareholders (contributing capital to acquire a stake lower than 30% in the business) and have an active part in the company (through their managerial experience and the network capital used to make winning corporate choices).

The invested capital can range from 25,000 Euros to 250,000 Euros, but it can reach 400,000 Euros, as it is the case in the United Kingdom.

The investment European average equals 80,000 Euros, while in Italy, it ranges from about 120,000 Euros to 150,000 Euros.10

Nevertheless they also have to get a profit for the investments made.

Thus, they generally finance a highly innovative idea allowing a profit higher than 25-30%, by staying in the business for 3 years and 3 months, in order to get it.

However, these investments are not always successful; in fact, statistics show that only 1/3 of the BA involved are allowed to gain up to 500% of the capital invested, 1/3 of them manage to balance the books and for the remaining third the transaction will turn out to be a failure.11

The sensitive role played by the BA within start-up companies is highly

appreciated and encouraged by the European Commission aiming at improving the business climate in the member countries, through introducing the figure of the BA as well, thus reducing the gap, in number, as to active investors from the U.S.A..

In this aim, they have launched the Competitiveness and Innovation Framework Programme (2007-2013), allocating 1 billion Euros in favour of entrepreneurs, a budget that is expected to yield, owing to its lever effect, about 30 billion Euros more, intended for at least 350,000 - 400,000 SMEs.

With regard to this, a significant example is supplied by the “Invest’Essor 92” French BAN (Business Angel Network) that, within 3 years, from 1998 to 2001, thanks to barely 50,000 earmarked grants, allowed about 3.5 billion Euros to be collected to start up businesses, namely about 70 times as much as the financing granted.12

After analyzing and highlighting the role played by the BA within a company, as well as their importance in reviving the world economy, it is suitable to understand the possible advantages coming from their activity in the companies.13

They can be identified as follows:

1) securing a lever effect over other sources of financing, thus creating greater appeal of the company on the market, due to the personal prestige that the BA contributes to the businesses;
2) financing technological projects that are particularly innovative as well;
3) being considered “value added” investors, playing both the role of financial backers and of intellectual capital bearers;
4) investing in companies, mainly during their starting up, without requiring safe revenue; 5) – investing more reduced capital (more suitable for SMEs), compared to Venture Capitalists’ one;
6) providing collateral security to get a loan;
7) allowing higher flexibility in making decisions as regards venture capital funds;
8) making fund-raising less onerous for the company;

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9) orienting investment towards such sectors bearing high potential for growth;
10) allowing better distribution, compared to Venture Capitalists, improving contacts and relationships;

Thus, in the light of what examined above, it is important to identify the reasons that are increasingly leading SMEs to choose the BA as their financial backer rather than venture capital funds.

The first reason can be explained as follows: the BA is mostly an entrepreneur investing personal capital in innovative start-up companies working in those sectors bearing great potential for growth, while venture capital funds are supplied by financial analysts that, using the money invested in the fund, finance developing medium/big-sized companies (even quoted on the Stock Exchange).

Other important differences concern the following: the lower cost of the due diligence carried out by BAs, a more widespread geographical distribution of their presence as compared to venture capitalists, a simplified contract and finally a more active monitoring of the investment, which is totally different from Formal Venture Capitalists’, usually of a strategic nature.

Finally, the weight put on investment return by the BA is definitely surely lower than Formal Venture Capitalists’, due to the lower investment costs of the process.

3. THE BUSINESS ANGELS NETWORKS (BAN)

As shown above, BAs can operate either individually or gathering together in associations, thus creating a network.

About fifty regional networks and national federations of about twenty European countries, among which Italy with IBAN (Italian Business Angels Network), set up EBAN (European Association of Business Angels Networks) having their seat in Brussels (Figure 1).

These networks are often established on a private initiative that, in some cases, can benefit from a public aid.

Such aid can take the form either of annual grants or of a prize awarded on a research project submitted to one of the network BAs; it plays a primary role in supporting the regional and local networks bearing operating costs approaching 50,000 Euros to 250,000 Euros per year.
The main task of the BAN is that of promoting contacts between entrepreneurs on one side, and BAs on the other one, at a reasonable cost, in order to set up a profitable partnership for both of these two economic operators.

Other important aims are the following: promoting the acknowledgement of BA networks as well as of the economic role played by BAs, implementing local plans aimed at favouring BAs activities and encouraging exchanging experience between networks to allow a transfer of the best initiatives taken.

However, the BAN also provides a number of additional high value added services, both for entrepreneurs and for angels, such as:

- the creation and handling of co-investment funds to allow public partners to invest in funds on the same terms as BAs;
- favouring the setting up of an angels’ “union” allowing them to collect more financial resources to be invested in significant plans;
- the implementation of “investment readiness” plans (aimed at training entrepreneurs in establishing relations with investors) in order to increase the demand for capital;
- the setting up of BAs’ schools and academies so that they can be increasingly trusted by the various venture capital market sectors.
- The analysis carried out shows the importance of informal venture capital for businesses, especially start-up companies (Figure 2), that often run into problems in raising funds from institutional investors, at a time where credit is highly reduced, due to the serious international crisis involving particularly the world banking system.
However, it is believed that this new source of financing, allowing renewed impetus to those sectors bearing high potential for growth (such as energy and telecommunications), is not yet available for a growing number of start-up companies in Albania, due to the absence of the right conditions for the latter to benefit from it.

Thus, the emergence of an informal venture capital market is definitely linked to the development of a campaign aimed at sensitizing two parties to the matter. On one side, the public authorities, in order to make them understand the important economic role played by BAs, (in the aim of raising state grants so that to keep the national network to be set up); afterwards, on the other one, the local BAN that have to use a share of their budget (as it is the case in Spain, where 10% of the total outlay, namely 130,000 Euros, is allocated for this purpose), to lead the prospective BAs as well as those companies that already involve some of them in their organizational structure, to enter this market.

A second important element is represented by the need for creating, for start-up companies, a regional chain of access to funding, allowing the
entrepreneur to be informed both about all the possible forms of funding available, which he will be able to benefit from along the different stages of the business activity and about the co-financing funds as well as public and private venture capital security systems.

Another important factor is represented by the need for providing tax relief for those investments in companies that are not quoted on the Stock Exchange (such as preferential treatment in case of capital gain or loss) which should be applied either when investing or when paying off capital.

Among the other necessary requirements that should be met to create an informal venture capital market, two of them are worth mentioning. The one involving the recruitment and training of angels (that should be mainly chosen among entrepreneurs that sold their businesses, university students and managers of big companies) as well as that relating to the conclusion of contracts between BAs and entrepreneurs, which have to be characterized by the following elements: easy access, transparency and high quality.

Last but not least, the creation of co-investment funds that, together with angels, invest to increase the overall financial resources available as well as the setting up of an angels’ “union” to allow angels to have access to high-tech sectors (biotechnologies and nanotechnologies) needing huge investment of capital to be developed.

4. THE BA MARKET IN ITALY

After examining the main advantages that the businesses and the economy of a country can take from the introduction of the BA, when considering the various networks set up in Europe, it is important to focus attention on the Italian IBAN started up in 1999-2000, by gathering several regional networks.

Over the years, they became growingly important, at an international level, so that to be awarded a prize, by EBAN), in 2009, for the best “lobbying” activity of the year.14

In fact, it provides for definite tax remission on capital gain involving profits which have been reinvested within two years from the date of their accrual in a start-up company, making capital profitable and limiting financial speculating.

The appreciation of this initiative from sectoral operators is mainly

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due to the huge involvement of private and public institutions as well as of professionals, to the innovative nature of the Italian legislation, the strong consequent fiscal impact on small investment in the informal venture capital and to the opportunity to reproduce such initiative in the whole Europe, considering the fact that a lot of investment transactions are cross-borders, developing beyond the national Italian borders.

Some data on the subject are useful to explain the extent of such phenomenon in Italy.

The latest data recorded, related to the year 2008, show a total value of 31.1 million Euros for investment in the country, thanks to the activity of BAs, thus increasing by 59% as compared to 2007, with 120 angel investing transactions (increased by 18% as compared to 2007) and with an average investment of 213,000 Euros (increased by 15% as compared to the previous year).15

The analysis carried out showed that the Italian Business Angel is, generally, a man about forty, residing in the North of the country, graduated, deeply experienced as a business manager, who, prudently, invests about 10% of his personal assets equalling, on average, 500,000 Euros, in a start-up Limited company (Ltd.), where he acquires minority stakes which are lower than 30% in such sectors as energy, telecommunications or Information Technology.

It is to be noticed that such choice is deeply weighed up, owing to a previous exam of at least 6 projects before making the investment, as well as the willingness (in at least 60% of the cases analysed) to move across regional borders to make this investment.

Finally, he remains an average of three years in the company that he quits after having sold it to a third party (in most cases the business is bought back by the company that suggested the investment), making an average profit of 17% (up to 40%).

It is important to point out that IBAN is able to provide support to businesses operating in a number of industrial sectors.

In fact, among the several successful cases involving businesses that developed thanks to the precious contribution of BAs, the most significant ones are those concerning Achtoons Ltd. Company, seated in Bologna (involving any kind of cultural activity, such as cinema, television, the web, advertising, documentary and educational films), 16 Minteos Company Ltd., seated in

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Turin (involved in the development of innovative technological products for environmental monitoring as well as for preventing natural disasters)\textsuperscript{17} and Roadrunnerfoot Engineering Ltd., seated in Milan (producing and selling aid devices for disabled persons, such as orthopaedic prostheses,\textsuperscript{18}

Thus, as shown above, three completely different sectors, though all of them sharing high technology, aimed at satisfying innovative requirements, in order to achieve significant competitive advantages.

5. THE BEST BA INITIATIVES IN EUROPE

When considering the best initiatives\textsuperscript{19} favouring the development of the informal venture capital in Europe, that could turn out to be as useful suggestions to create a network of BAs in Albania, it can be noticed that such initiatives are of various kinds, all of them allowing the growing development of the BAN, above all in the Anglo-Saxon countries of the Old Continent.

As an example, in Scotland, the Scotland LINC network allowed their BAs to operate together through the Scottish Co-Investment Fund, to invest from 10,000 Pounds to 500,000 Pounds in business deals ranging from 20,000 Pounds to 2 million Pounds.

In the United Kingdom, the Enterprise Investment Scheme initiative is of a different kind; it concerns 20% tax reduction, exempting from taxation those investors that, having obtained capital gains on an investment, are allowed to keep their holding in the business for a period of at least 5 years.

And again, another interesting initiative from the ”Exemplas” BA network, operating in the Hertfordshire region in England, concerns the implementation of an “investment readiness” plan (Fit4Finance) proposed to investors and involving three phases: a first phase of presentation to the different kinds of backers, of what is expected from the entrepreneur business plan, a second one, where the entrepreneur presents the real project and the last one, where professionals give


their advice in order to improve the final result of the Business Plan.

In France, on the contrary, each investment plan suggested by the Ile-de-France region network to an angel, is awarded a prize of 1,000 Euros, up to a maximum of 30,000 Euros per year (corresponding to a maximum of 30 projects), by the Regional Council.

The agreement made between the Belgian Sowalfin company and BAs networks is particularly worth noticing; it provides for a decreasing guarantee ranging from 25,000 Euros to 300,000 Euros, for each business.

Finally, in Catalonia (Spain), the BA local association aims at sensitizing entrepreneurs, investors and managers through a number of campaigns, in order to make them understand the important role played by the BA for the country economy.

6. CONCLUSIONS

The present work has shown as the international scenario is presently going through a phase of constant evolution, owing to the serious international crisis modifying the current world competitive scene.

In particular, in highly dynamic markets like the Balkan one, Albania stands out as a leading reformist country in the area, aiming at attracting those foreign investors promoting, thanks to their technologies and know-how, the harmonization of the local regulatory and taxation system with the one of the EU countries, in view of a forthcoming entry in the European Union.

Thus, the Government operated in this direction, making laws on reduced fiscal proceeds (10% flat tax) and customs duties (tax exemption on 83% of industrial products imported into Albania from the EU countries), on streamlining bureaucratic procedures involving the issuing of licences to start up a company, on the protection of minority shareholders, as well as on improving information sharing about credit.

These results, that influenced positively the business climate in the country, so that to rank it 82nd out of the 183 economies examined (just following an industrialized country like Italy, ranking 78th), allowed better foreign direct investments (mainly Italian ones) in the country, than ever before.20

Nevertheless, the development of such sectors bearing high potential for growth as energy, the environment, telecommunications, due to the starting up

of particularly innovative companies, could incur various kinds of problems. These are mainly connected to the difficulty for SMEs, representing over 99% of the total in the country, of having easy access to the bank credit needed to make investments as well as to corporate management lacking in cautiousness and flexibility, thus turning to be unsuitable to boost business competitiveness in such complex and dynamic sectors.

Therefore, the introduction of the BA would be worth considering, first in the cultural fabric and after, in the organizational structure of Albanian companies, with special reference to “NTBF” companies (New Technology Based Firms), that are willing to act as a major player in the innovative process of the country. As shown above in the research, BAs play both the role of financial backers, mainly of a minority kind (with shares that hardly exceed 30% as well as an invested capital that, following the European average, approaches 80,000 Euros), and of active figures in the company’s management to which they contribute the intellectual capital represented by their experience, their know-how and by those international contracts, allowing the implementation of winning strategies for the business.

Thus, the research has shown a number of advantages ensuing from the introduction, in the companies, of these new key figures in the international financial survey.

Among the former, the most significant ones seem to be those related to the following: lower costs in raising capital, promoting the development of innovative SMEs, mainly start-up companies operating in sectors bearing high potential for growth, improving flexibility in the decision-making process, better distribution on the territory as compared to venture capitalists, the lever effect they produce over other forms of investment due to the personal prestige contributed by BAs, as well as the guarantees provided to be granted a loan, the former being sometimes difficult to be found.

All things considered, the time is ripe, nowadays, for the introduction of the BA in the Albanian SMEs and after, for the creation, in the next future, of a network, in Albania, that could take the name of ABAN (Albanian Association of Business Angels Network), in order to make the process of matching the demand for capital by entrepreneurs and its supply by BAs easier.

A useful instrument for the development of this initiative is, definitely, the one represented by the enforcement of the Law on collective investments that is going to allow, in the country, the development of investment funds and companies, subject to issuing a licence by the Albanian financial supervisory authority.

Furthermore, the development of such a figure would be useful to fill the
gap in the chain of the venture capital market in Albania, and to promote the
development of such sectors as either alternative energy sources (particularly
hydroelectric energy and wind power), or the environment (recyclable-waste
collection and environmental monitoring to prevent natural disaster), that
have been attracting, since recently, the attention of foreign investors.

As a matter of fact, this achievement will be dependent on the right
conditions to be created allowing the introduction of the BA in the business
organizational, economic and financial structure. This will be achieved
only through campaigns aiming at sensitizing the public authorities about
the economic role played by the BA, in the country, as well as through the
development of an appealing taxation system that, as shown above, should
take the Italian one as its model, the former providing for full tax remission
on capital gains for those profits which are reinvested within two years from
the date of their accrual in a start-up company, in order to limit financial
speculating and to make capital be profitable.

Looking to the future, the BA could become a key-player in the Albanian
financial survey, allowing, by contributing both financial and intellectual
capital, the development of highly technological SMEs, that are needed to
give a new economic and social impetus to the country, strengthening its role
as a leading force within the Albanian context.

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Development of Small and Medium Enterprises in Albania

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Abstract

The era we are living today is truly an era of small and medium enterprises (SME’s). Today, the entire world economy is focused on SME’s. In all European economies, SME’s represent in excess of 99 per cent of the total business stock. This paper focuses on the importance of SME’s in the Albanian economy. The SME’s sector in Albania plays a significant role in the national economy. SME’s are the main source of jobs, business dynamism and innovation. Their contribution to employment generation, output, exports, poverty alleviation, economic empowerment, entrepreneurialism and wider distribution of wealth and economic opportunities provide a number of potential benefits to developing countries. Based on INSTAT data, the number of active businesses in 2009 shows a growth of 20 per cent comparing to the previous year. The birth rate of the new enterprises is 18.7 per cent. SME’s in Albania make 99.9 per cent of the total number of active enterprises. As it concerns geographical spread of businesses in Albania, 50% of active enterprises in 2009 are focused in prefecture of Tirana and Durres.

As the interest in SME’s continues to grow, the government has joined the business community in recognizing the importance of SME’s to our country and its economy. The need to develop more adaptable and flexible economies, and business sectors, has resulted in an increased emphasis on the development of the SME sector.

The government of Albania has adopted the philosophy that emphasizes on the role of SME’s to propel the overall economy. Albania has managed, through planning and the implementation of SME-friendly policies, to upgrade this vital sector.

The aim of the paper is clarifying the importance of SME’s and encouraging greater efforts to create an environment conductive to SME growth. SME development is pivotal for pro-poor growth because it makes possible the transition from low to middle-income status. In short they function as catalysts of economic change and in many developed and developing economies have been pioneering new technologies and management methods. The significance of this paper is in the need of selection of decisions on: essential elements of entrepreneurial environment in Albania; identification of main obstacles for the development of SME’s; and analysis of institutional support to the development of SME’s and entrepreneurship in Albania.

Keywords: SME, development, business environment, innovation.
1. INTRODUCTION

Small and Medium Enterprises (SMEs) have had a privileged treatment in the development literature, particularly over the last two decades. There is general consensus upon its significant contributions to - the creation of employment\(^4\) - economic growth\(^5\) which is supplemented with exports derived from internationalization of local companies, even of SMEs, and -competitiveness, due to innovations that become part of the nation’s intellectual property\(^6\). Closely tied to SMEs, entrepreneurship is also receiving greater attention from experts, policy makers and practitioners, since new dynamic enterprises contribute significantly to economic development because they are capable of transform uncommon ideas into economic opportunities.

In all transition countries, among which we certainly include countries of Western Balkans, the process of political and economic transformation is based on the development of the private sector and entrepreneurship, as well as the creation of favourable business environment for the development of SMEs. Experiences of many countries that were very successful in transition process show that special attention has been given to the development of a powerful SMEs sector in order to change the economic structure and initiate economic development. Their contribution to employment generation, output, exports, poverty alleviation, economic empowerment, entrepreneurialism and wider distribution of wealth and economic opportunities provide a number of potential benefits to developing countries. Small and medium enterprises make 99 per cent of the total number of enterprises and they create 60 per cent of the GDP and 50 per cent of all investments in EU.

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4 OECD, SMEs: Employment, Innovation and Growth, OECD Publications, 1996
2. DEFINING SMEs IN EU AND COUNTRIES OF WESTERN BALKANS

In term of the economic definitions, the small firms are those which:

- Have a relatively small share of their marketplace
- Are managed by owners or part-owners in a personalised way, and not through the medium of formalised management structure
- Are independent, in the sense of not being part of the large enterprise.

As a result of problems in the practical application of the economic definitions, and despite the difficulties defining small firms the most commonly used measure of “smallness” relates to employment levels.

The European Commission has adopted a Recommendation (Commission Recommendation of 3 April 1996 concerning the definition of small and medium-sized enterprises, OJ L 107 of 30. 4. 1996, p. 4.) concerning the definition of SMEs which now provides a clear global framework for all the measures directed towards micro, small and medium-sized enterprises. It will be applied to all new community programmes, whereas existing programmes which use different criteria will continue to be implemented to the benefit of the enterprises which were considered SMEs when these programmes were adopted.

Table 1. EC definitions of SMEs

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Micro enterprises</th>
<th>Small-sized enterprises</th>
<th>Medium-sized enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Max. number of employees</td>
<td>1-9</td>
<td>10-50</td>
<td>51-250</td>
</tr>
<tr>
<td>Max. turnover in million ECUs</td>
<td>-</td>
<td>7</td>
<td>40</td>
</tr>
<tr>
<td>Max. balance sheet total in million Euro</td>
<td>-</td>
<td>5</td>
<td>27</td>
</tr>
</tbody>
</table>

To be classed as an SME or a micro-enterprise, an enterprise has to satisfy the criteria for the number of employees and one of the two financial criteria, i.e. either the turnover total or the balance sheet total. In addition, it must be independent, which means less than 25 per cent owned by one enterprise (or jointly by several enterprises) falling outside the definition of an SME or a micro-enterprise, whichever may apply. The thresholds for the turnover and the balance sheet total will be adjusted regularly, to take account of changing economic circumstances in Europe (normally every four years).


3. TERRITORIAL DISTRIBUTION AND CONTRIBUTION OF SMEs

The territorial distribution of SMEs generally reflects the discrepancies in term of region size and economic development level but reveals facts describing the specific conditions of SME sector development. Based on INSTAT data, the number of active businesses till the end 2008 reached 104,750 which show a growth of 20 per cent comparing to previous year. The birth rate of the new enterprises is 18.7 per cent. About 50 per cent of active enterprises are focused in prefecture of Tirana and Durres. The lowest percentages of businesses are in the prefectures of Kukes (0.5 per cent), Diber (1.4 per cent) and Lezhe (2.1 per cent). (Figure 1).

Figure 1. Territorial distribution of active enterprises and employment

Sources: METE

The sectors of trade and services, where 75 per cent of businesses operate, provide 42.5 per cent of the private sector employment. (Figure 2)

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SMEs make a vital contribution to the development process for the following reasons:

a) SMEs are more labour-intensive and tend to lead to a more equitable distribution of income than larger enterprises. They play an important role in generating employment and thus alleviating poverty, often providing employment opportunities at reasonable rates of remuneration to workers from poor households women who have few alternative sources of income.

b) SMEs contribute to a more efficient allocation of resources in developing countries. They tend to adopt labour-intensive production methods and thus more accurately reflect the resource endowments in developing countries where labour is plentiful and capital is scarce. To the extent that these enterprises operate in “informal” markets, the factor and product prices they face also provide a better reflection of social opportunity costs than the prices faced by large enterprises.

c) SMEs support the building of systemic productive capacities. They help to absorb productive resources at all levels of the economy and contribute to the establishment of dynamic and resilient economic systems in which small and large firms are interlinked. They also tend to be more widely dispersed geographically than larger enterprises, support the development and diffusion of entrepreneurial spirit and skills, and help to reduce economic disparities between urban and rural areas.

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*Source:* METE\(^{10}\)

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4. WHAT ARE THE MOST COMMON FACTORS AFFECTING SME FAILURE?

A number of studies have focused on firm success, but few recent studies have focused on firm failure\textsuperscript{11}. However, as we know, some firms succeed and others fail. It has been found that entrepreneurs’ chances of financial success are substantially greater than the chances of loss\textsuperscript{12}.

Information from failed SMEs (SMEs Survey-Region of Korca, 2007)\textsuperscript{13} have shown that factors related to lack of prior experience as an entrepreneur, lack of marketing skills, and lack of prior managerial experience are frequently causes of firm failure.

Typical of the failed SMEs were a firm managed by one individual, lack of planning, a firm founded by one individual, no use of business advisors, dependency on one or a few big customers, small amount of products/services, and unfavourable macro economic conditions. In addition, characteristic of many failed SMEs was inadequate financing. The most common factors associated with SME failure among the sample cases are presented in Figure 3. It seems that there are several factors that may contribute to firm failure and they occur in different combinations in different firms. However, the root causes of failure seem to be largely firm internal, and so under the management’s control\textsuperscript{14}.

Figure 3. The most common factors associated with SME failure (% of failed SMEs)

\textsuperscript{11} Thompson, J., Strategic management. 4th ed. London: Thomson Learning, 2001
\textsuperscript{12} Dennis, W. and Fernald L., “The chances of financial success (and loss) from small business ownership.”, Entrepreneurship Theory & Practice 26 (1), 75-83, 2001
1. The key obstacles of faster development of SMEs in Albania

**Financing schemes**

SMEs in Albania are facing many obstacles, on daily basis but the major one is lack of finances. While financing has increased, it is still considered as inadequate for ensuring rapid development of the sector. In order to improve conditions for SMEs financing, several measures have been implemented in the past few years, which are mainly related to SMEs credit guarantee schemes. Guarantee funds have been implemented in Albania under several separate projects in the area of the SMEs support. The guarantee funds, however, have been limited only to support with funding in certain areas and SMEs categories.

**Innovation**

The studies have shown that despite the fact that a very small fraction of total business R&D in the developed economies is accounted for by SMEs, they contribute greatly to the innovation system by introducing new products and adapting existing products to the needs of their customers\(^\text{15}\). Small firms account for a disproportionate share of new product innovation despite their low R&D expenditures\(^\text{16}\). In addition, they have also been innovative in terms of improved designs and product processes, and in the adoption of new technologies. Investment in innovative activities is on the rise in SMEs and is increasing at a faster rate that for large firms. Scherer\(^\text{17}\) has suggested that SMEs possess a number of advantages relative to large firms when it comes to innovative activity. First, they are less bureaucratic than highly structured organizations. Second, many advances in technology accumulate on a myriad of detailed inventions involving individual components, materials and fabrications techniques. The sales possibilities for making such narrow, detailed advances are often too small to interest large firms. Third, it is easier to sustain high interest in innovation in small organizations where the links between challenges, staff and potential rewards are tight. Firms in the developed high cost economies can no longer compete in labour intensive

\(^{15}\) OECD, Enhancing the Competitiveness of SMEs through Innovation, Workshop paper No. 1, Bologna Meeting, OECD, Paris, 2000a


areas of production where they have lost their comparative advantage, but rather must shift into knowledge based economic activities where comparative advantage is compatible with both high wages and high levels of employment. This emerging comparative advantage is based on innovative activity.

**Human resource development**

Human resource development for SMEs requires a comprehensive approach including: social structures and systems such as broad educational reforms; encouragement of entrepreneurship, business skills acquisition and innovation in society; mechanisms for self learning and ongoing training and enhancement of human resources; and appropriate governmental support programs.

Having in mind the importance of SMEs in the market structure of the developed countries and the advanced transition countries, Albania should secure support and help to the development of SMEs, by using the legal system and setting up the appropriate institutions to:

- Establish a stable policy of support to the development of SMEs on all levels of territorial organization in Albania, which would not oscillate depending on the changes in power on all levels;
- Making programs of support for SMEs;
- Supporting the creation of centres in non-governmental institutions that would give special and immediate support to SMEs in all stages of their development;
- The local authorities should support the development of technological parks, clusters, incubators etc.
- Extending funds for the development of SMEs, which would stimulate activities of companies on:
  - Improving current and creating new products and services,
  - Developing competitive advantages of SMEs in domestic and foreign markets,
  - Securing the level of quality in accordance with the requirements of ISO standard,
  - Faster implementation of modern technologies,
  - Introducing information systems and e-commerce,
  - Preparation and execution of ecological projects, etc.
- Establishing euro-info centre state-wide and including it in the European network of euro-info centres. These centres today have the status of official IT network of the EU and besides the member countries they also include over 20 countries of Central and Eastern Europe, as well as the Mediterranean. These
centres give answers to all the questions regarding the operations of SMEs in the European Union. This computer network would provide employment for a large number of young experts of various profiles;

- Leasing has been proven as an effective tool of supporting SMEs in many countries. The Albanian government can influence the leasing market as it is very sensitive to tax treatment and the protection of rights of retailers in order to be able to extract money in case that the customer does not pay.

One of the basic results of the analysis conducted in this paper is that the creation of a specific model of a successful transition in Albania is a task with no alternative. This is not surprising, because under the influence of events that are gaining speed ever so quickly (and these event are mostly external – globalization) there is no possibility of a stationary condition; either there is economic growth, or there is recession, with all the consequences of such a process. This is especially true for Albania, which, as a late participant in the process of globalization, must put in additional effort. The economy of Albania must get institutional support on national (and more and more even on the international) level, in order not to lose its chance in regards to those countries that have gone quite far down that road. Besides this, the program of restructuring of the economy and the development of the SME sector is unimaginable without the necessary infrastructure. First of all this relates to: highways, railroads, telecommunication systems, securing cheap and safe sources of electric power, creation of industrial zones, etc. Only such a modern infrastructure, ready for investments of commercial investment capital can be the answer (the countermeasure) for opportunity attractiveness of investing in other, mainly transition countries in which there is a low price of workforce.

Although the SME sector was expected to expand and grow so that it creates enough jobs, to absorb the fired workers in the process of restructuring and privatization of large companies, and to create jobs for those that are new in the labour market, this has not happened in many transition economies, especially in South-East Europe. In our country too, the SME sector neither grew fast enough to prevent the growth of unemployment, nor it realized its potential as the initiator force. Even though a large number of new SMEs entered the market, because of market liberalization those SMEs did not grow as fast as it was expected based on the experiences of the developed market economies. A possible reason might be in the obstacles to development that we listed earlier on. We can conclude that the most evident obstacles to the development of SMEs in Albania are the following:
The divided economic space,
Insufficient legislation yet,
Lack of financial support,
Insufficient of advisory and financial support for start-ups,
No possibility for securing the requested collaterals,
Big technological backwardness,
Non-sufficient present on foreign markets,
Non-sufficient education of the management,
Lack of managerial skills,
Big share of informal economy
No networks between the existent SMEs, etc.

6. GOVERNMENT’S ROLE AND SUPPORT FOR SMES

The role of government is crucial in supporting the further development of the private SME sector in a developing and transitional economy. Its primary objective should be to provide an enabling environment for this sector that will facilitate its capacity building. Such a role will need to be focused upon establishing a favourable macroeconomic environment, and enhance the micro-environment within which the private sector, and specifically SMEs, will operate within.

At the macroeconomic level, establishing and maintaining economic stability is an essential foundation for sustainable growth and development. Low budget deficits and inflation are key prerequisites for the development of a sound private sector, and the creation of new businesses. A pro business environment, with clear recognition of the rights of private enterprise including intellectual property rights, is essential for the development of domestic private enterprises and for the attraction of FDI. A stable, transparent and competitive exchange rate is also seen by many private enterprises as essential. Government can create business opportunities for its domestic private enterprises by participating in regional trading arrangements and the WTO. Establishing a broad national development and poverty strategy that embeds strategies for the private sector and SMEs is also important. Finally, through the educational and training system provide and encourage the acquisition of business skills in such areas as finance, marketing, management and accounting. Ensure the health and productivity of its workers by means of access to good health facilities in both the cities and countryside.
At the microeconomic level a number of tasks will be required of the government. These include: simplifying, and making more transparent, the legal and regulatory systems; reducing the compliance and transaction costs for private sector businesses; reducing the costs of firms moving from the informal to formal sectors; continue and speed up ongoing market reforms; tackle corruption; enhance access to finance; provide suitable infrastructure; ensure sufficient skilled workers enter the labour market; ensure a level playing field treatment for all enterprises; encourage the appreciation of enterprise in society; commit and maintain multi sector ownership of enterprises; develop an institutional environment where contracts are enforced and property rights are established and clear; ensure that legislation and regulation are gender insensitive; introduce land/bankruptcy legislation that ensures access to land for SMEs and clear land use rights, and eliminates unduly high penalties on entrepreneurs and lenders arising from SME failure; and encourage the establishment of industry organizations that will represent the interests of members and provide market information.

Government assistance can also play an important role in the business and exporting success of SMEs through access to finance, infrastructure provision, the provision of training programs, reducing bureaucracy and establishing a pro-business environment, staging of seminars and trade fairs, addressing non tariff barriers, increasing internet access, facilitate trade and investment, and remove trade barriers that particularly adversely affect SMEs.

Support at the local level through investment in infrastructure that assists directly the business efficiency of small business is important. Examples include transport and information technology infrastructure, both of which are important for export success. Policy makers also need to focus on removing barriers affecting trade. Barriers to trade for small businesses are not just tariff related, however, but also involve issues of product presentation standards, warehousing and financial transactions. Because small businesses lack the economies of scale and the internal expertise of larger businesses they need more practical external support.

CONCLUSIONS

Today, the entire world economy is focused on small and medium enterprises. SMEs are important to economic growth, and are especially important for jobs and job creation. In developing economies the jobs tend to be created more by
start-ups, but in the developed economies jobs seem to be created more by high growth SMEs. It is important for policy makers to understand and to foster the way this entrepreneurial engine works and evolves.

For those who are responsible for public SME policy, the results provide some guidelines for decision making and the allocation of public actions, as well as an opportunity to evaluate the present SME policy and its developmental needs.

One of the basic results of the analysis conducted in this paper is that the creation of a specific model of a successful transition in Albania is a task with no alternative. This is not surprising, because under the influence of events that are gaining speed ever so quickly (and these event are mostly external – globalization) there is no possibility of a stationary condition; either there is economic growth, or there is recession, with all the consequences of such a process. This is especially true for Albania, which, as a late participant in the process of globalization, must put in additional effort. The economy of Albania must get institutional support on national (and more and more even on the international) level, in order not to lose its chance in regards to those countries that have gone quite far down that road.

**BIBLIOGRAPHY**

Abstract

Small and medium enterprises (SMEs) are undoubtedly very important actors in the Albanian trade and economy. SMEs represent 97.8% of all enterprises located in the Albania and they employ more than two thirds of the overall workforce.
SMEs are evaluated as the engine of economic growth and in most economies they employ more than 80 per cent of the working population. This imposes the need to brand these businesses to be capable to compete with other businesses in national and international context.

SMEs have to meet the challenges of an ever-changing business environment as well as are increasingly being challenged by competitive pressures. SMEs have their own niche markets and the threat or challenge to the business comes to them in several forms. They need to get a competitive advantage but it may get duplicated by competitors tomorrow. So, the SME has to be constantly alert to make the advantage sustainable. It means to get a prolonged benefit of implementing some unique value-creating strategy not simultaneously being implemented by any current or potential competitors, along with the inability to duplicate the benefits of this strategy. The strategy of marketing communication and branding is one that can be used successfully by them.

The first part of the paper presents the definitions of SMEs according EU as well according Albanian legislation and an overview about SMEs development in Albania and their role in economy. The second is focused on research that we have done with Albanian SMEs and some comments about findings. Then the literature review on marketing and branding for SMEs, and finally some conclusion and recommendations for using communication marketing and branding strategy by SMEs in domestic market.

Keywords: strategy, branding, marketing communication, SMEs

1 INTRODUCTION

Increasing competition and globalization along with the need to produce quality products at best prices, have stimulate the businesses to introduce new product development methods as well as to apply effective promotional activities, particularly for the business that operate in SME segment.

The small and medium enterprise sector is very important for Albania so it is considered as the engine of our economy. SMEs contribute significantly to economic and regional development. SMEs are evaluated as the engine of economic growth and in most economies they employ more than 80 per cent of the working population. SME sector contribution to the Albanian economic growth is so much important, because it assures 64% of the GDP and employs 66% of employees in the private sector.

3 Source: Ministry of Economy and Trade and Energy
Those facts impose the need to brand these businesses to be capable to compete with other businesses in national and international context.

The promoting small and medium-sized enterprise is one of the most viable strategies for achieving national development goals such as economic development, strengthening the industrial base, and local production structure. SMEs as a sector of growing importance should play an important role in the growth of emerging nations especially for providing employment and driving economic development. SMEs sector has become more important as they play as a dominant force impacting the growth of national economies.

This sector contributes to economic development in different ways: by creating jobs, economic stability and a large number of people in one way or another are related to SMEs. Most large enterprises have started their activity as small and medium enterprises.

2. DEFINITION OF SMALL AND MEDIUM SIZED ENTERPRISES (SMEs)

There is no single universally accepted definition of SMEs but many vary according to regional differences. The most widely accepted definition is given by the Bolton Committee from an economic perspective which suggested a small business is one that has a relatively small share of the market place; managed by owners or part-owners in a personalized way, and non-formalized management structure; and independent, that is not forming part of a larger enterprise (Hill, 2001).

The most recent and applied definition is by the European Union which categories SMEs using the number of employees and turnover into mid-sized (less than 250 employees and turnover of between 43 to 50 million pounds), small (less than 50 employees and turnover of 10 million pounds) and micro company (less than 10 employees and turnover of 2 million pounds).

Albania also defines and classifies SMEs into micro, small and medium business. The micro businesses are considered all those businesses that employ up to nine employees and have a turnover less than 10 million ALL. Small enterprises are those, which have 10 to 49 employees and a turn over less than 50 million ALL. The medium ones are those which have from 50 to 249 employees and a turnover less than 250 million ALL.

The contribution of the SME sector to the Albanian economic growth is very important, because it assures 64% of the GDP and employs 66% of
employees in the private sector. (METE, 2008) and according INSTAT\textsuperscript{4}, 91.6\% of enterprises employ 1-4 employees.

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3. LITERATURE REVIEW ON MARKETING COMMUNICATION AND BRANDING FOR SMEs

No definition of marketing for small and medium sized enterprises can be readily found in the literature and those attempts at definition or discussion often link marketing with entrepreneurial behavior (Carson et al., 1995; Reynolds, 2002). According to Carson (1995), the discipline of SMEs is broadly based in management, marketing and enterprises and these are unique and different to traditional marketing in large firms. It was viewed that an SME-specific version of marketing mix borrowed from traditional marketing 4Ps can guide the SME thinking and doing business (Carson and Gilmore, 2000). SME marketing in practice is thought to be largely done though networking (Gilmore et al., 2001);

\textsuperscript{4} INSTAT- Institute of statistics, www.instat.gov.al
\textsuperscript{5} Source: INSTAT
a combination of transaction, relationship, interaction and network marketing (Brodie et al., 1997); through the use of Internet marketing (Chaffey et al., 2000) or e-commerce (Rayport and Jaworski, 2001).

The marketing communication is the process until the goods and services are recognized and purchased by the consumers. Marketing communication covers the relation of marketing mix elements with each other and with all managerial decisions of the organization, as well as the process of this relation with the consumer and potential consumers. (Bozkurt 2004:16).

Several authors suggest integration of strategic management and marketing in the SMEs as is argued that SMEs pose unique features which are different from traditional marketing in large firms. SMEs can view the marketing as an integral part of SME activities. SME business nature is fundamentally internal to and compatible with marketing philosophies. Consequently, it is possible to join marketing and SME activities. For evaluating the performance of the small firms Carson (1990) uses different marketing models. SMEs can benefit by some adaptation of marketing planning. Even the traditional marketing 4P is more adequate for big companies SMEs can adapt a specific version which can serve as guide for doing business.

Several papers on SMEs suggest that marketing concepts, ideas, techniques are useful if used properly. Nevertheless, the branding issue has taken no much attention in the SME context.

Branding theory has its origins in the consumer product markets. The brand is presented as a market signal targeted mostly to the end consumers and enabling them to save time by guaranteeing a certain level of quality, simplifying their choices, and answering to specific needs. Little research has been done to investigate the relevance and the role of brands in SMEs markets.

According Muyimba (2009) branding is a relatively new field among SMEs. The previous studies reveal that the most commonly mentioned problems by operators of small businesses are marketing problems mostly relating to insufficient budgets, capacity, skills and expertise (Krake, 2005; Simpson et al., 2006; Muyimba, 2009) and recently triangle of debts (Tang et al., 2007). In marketing SMEs strongly focus on product and price, use of brochures and are largely sales oriented, implying that building strong brands is not a high priority issue (Krake, 2005; Bunnett and Smith, 2002; Hill and Wright, 2001). According to Boyle, (2003), the owner of the small company plays an important role in building and managing a brand, specifically the character of the entrepreneur (Krake, 2005; Hill and Wright, 2001). According to literature, competitive advantages of SME include high speed of decision
making, short lines, and flexibility, cost, price, specialized products, designs and service, and personal attention to client needs (Bunnett and Smith, 2002) and small size as an advantage in awarding contracts (Krake, 2005).

Branding can be defined as differentiation over intangible values when the companies cannot be differentiated in terms of products/services from the consumers’ perspective, and to provide an identity to the product or service. The companies are obliged to carry out marketing communication works in order to success in branding. In other words, the goal should be branding, and the tool used for the purpose should be the marketing communications. The planned and strategic messages to be delivered to the consumers through the marketing communication efforts will ensure branding.

4. RESEARCH METHODOLOGY

Survey: the brand and branding communication

The aim of the research was to explore how Albanian SMEs consider a brand and what are going to do about branding strategies. We selected the questionnaire survey approach. It allowed us to explore and gain insight into branding issues of Albanian SMEs. The survey took in consideration 250 businesses classified as SMEs according to Albanian law (not classified according to Tax Directorate) by using questionnaire. We addressed the questionnaires to 250 businesses but 193 were replies from (77%). The questionnaire was structured by three sections: the first about the company’s profile, the second was focused on interpretation of the brand and third section about branding and communication. We used closed and open-ended questions as well likert scale. The survey has a limitation it was focused only in Tirana Prefecture. But 38.73% of businesses were located in Tirana6 in the end of 2008 and it was consider as a good data by us.

Fortunately the survey shows that SMEs believe in branding strategy and demonstrate their interest in branding communication activities. Most of the businesses show that have a unique name, a logo that are shown in their products. A few of them use a slogan or a message. The survey also shows that SMEs have a narrow interpretation of what branding is. Their views on brand are limited to logo, name of product/company. The product/company names were not chosen by professional criteria. It means that were not related

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6 Source: INSTAT
to attributes of products/company. They don’t understand that brands name convey a bundle of attributes of products/services to customers; the brands name say a lot about buyers’ values; the brands name convey personality. But even though the data show limitations in the understanding of branding there is a positive fact that most perceived it equal to quality.

Because the TV ad is very expensive for their lack of budget they were seen ad as “extra” cost. They consider the MOM and face-to-face communication as the key tools for their marketing communication. An interesting finding is that the businesses that have been successful to expand the market demonstrate more interest in branding activities than the new business.

The lack of the qualified people especially with marketing skills have influenced in the success of the marketing activities. The workforce prefers employment with big companies, and it is difficult to attract proper staff.

Although a lower percentage (3%) data show that social media as a face book is considered as a marketing tool to make business known especially for companies operating in the service industry.

5. WHY SUGGEST MARKETING COMMUNICATION AND BRANDING FOR ALBANIAN SMES?

There is no a theory which can be used to explain small and medium business growth. The reason is the heterogeneity of those businesses as well the range of factors that can affect their growth. But even a single theory is not possible to be formulated the experience and some evidences are used to help and to contribute for SMEs development. Marketers offer their knowledge and their experience. The application of marketing study to big companies sure has shown to be successful but its application to SMEs has faced some difficulties. But, branding strategy can be suggested and reasons why we are saying that are listed below.

SMEs are customer oriented organizations. They maybe possess strong resources and technical skills but often do not have high degrees of financial resources and marketing abilities necessary to transmit value to customers. The communication plays a strategically important role in SMEs. The sales personnel and the communication staff favors relational marketing through customized actions of communication that are interactive and based on reciprocal and continuous learning. But, the lack of marketing skills leads the company to ineffective actions of communication and to a certain difficulty in reaching and controlling the market segment. The professional
communications activity not only requires planning the targets with respect to strategic flexibility, but it is necessary those actions of control that can create feed-back useful in improving the actions of the company.

The concept of brand and branding becomes more significant for Albanian SMEs since it helps them increase its market share and compete their competitors. Building and managing a brand helps a company enhance its market visibility at a time when their competitors or big companies are focused on advertising. SMEs need to build a credible brand and promoting it is a crucial steps. So, living up to the image of the brand and delivering to the set standards is imperative to strengthen one’s market position and brand equity. A company needs to get an identity of its own and branding facilitates it. Further allows a company to compete in tough marketing conditions and to create a strong relationship with their customers to turn into customer loyalty.

SMEs generally feel that branding is for the big companies and often do a mistake by putting affords only on product and price. However, branding is not about how much a company spend on advertising and media. It’s about what company does differently to reach out to its target audience.

SMEs can build good brands by developing a well-planned brand strategy to successfully differentiate their products and services from their competitors. The well-planned strategy helps them to increase the market size, sustain the market share, competing based not only on the price but on several. The fact is that SMEs do not think in terms of differentiation and hardly pay attention to marketing and branding. The evidence in developed countries offer us that SMEs who more often aspire to be regional players do not even need a lot of money to brand their products and services. It is very important for SMEs to put the difference into everything they do. SMEs can see branding as a challenge to start venturing into new markets.

There are many SMEs whose names are unfamiliar to us. In many cases we are unaware of the services and quality of their products/services. Branding will help in identifying those companies and to boost their image in the potential market. Once the branding is established then the goodwill would be achieved simultaneously. When the company achieves the goodwill it will help a company to come in the top position.

The branding is often associated with advertisement. SMEs have limited resources for advertising and promotional activities, and it is a reason to avoid indulging in brand promotion activities. SMEs need to increase their awareness about effective branding via organizing workshops, better MOM management or face-to-face communication.
SME never gave importance to something intangible. The marketing also is intangible and often marketing was understood by business as advertising and sales only.

SMEs can select different attributes for branding depending on in which industry operates. An SME that operates in manufacturing can select such attributes as quality, material used, price, payment terms or warranty. If SME is operating in the service industry can benefit from the experience in years, management expertise, customers, personalized services, niche area specialization, customer relationship management.

There is the fact that the international and global companies have started as SMEs and marketing communication strategies have supported their success. Customers choose the product of a company based on the information how they operate in their business. The customers go through this process: recognition – consideration – preferences – loyalty. SMEs compare to big companies are more likely to establish close relationships with clients and meet their needs and changing preferences. They also are more likely to be more flexible and to respond quickly to changing market requirements.

6. RECOMMENDATIONS AND CONCLUSIONS:

The findings from the survey as well the review on SME marketing literature impose the need for brand and SMEs branding strategy. To shape the brand is not a simple process it is a long-term, comprehensive process. For the implementation of SMEs branding strategy exist many problems that be improved. The managers need to establish a correct concept of brands. As consumer preferences become more and more personalized, the brand must have a distinct personality, must have a unique advantage of differences. They also need to emphasis on brand promotion in the Integrated Communication. It means a marketing communications program which should bring added value by using the various means of communication like any advertising, direct marketing advertising, promotion and public relations and their combination. The clever managers integrate various forms of communication to spread the influence of maximum.

Brands are strategic assets that require investment, and there has to be a better balance here. Some consider a brand just a logo, slogan, or advertising. It is a narrowed interpretation. The brands are relationships that only exist in people’s minds. Those relationships have to be built and further should be nurtured with care. Brand successes and failures are linked directly to levels
of consumer satisfaction and delight. Many companies make promises to consumers via market communications that they cannot deliver on, with the result that a great deal of money is wasted and consumers disappointed. In that way the companies have destroyed the customer relationship.

The branding is an on-going process; it never stops. SME’s must create and manage their brands as soon as they can. If the SMEs fail to control their brand image in the marketplace will mean that it will be determined by others, whether customers or competitors.

For SME’s that wish to create sustainable, profitable market positions the branding strategy is a good way. Indeed without a strong brand, without a branding strategy business survival and growth will be very difficult.

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   www.mete.gov.al
   www.albinvest.gov.al
The prospect of future accession of most of the Balkan states to the European Union is more open 1999th the concept of establishing a Stabilization and Association Process (SAP). Prevailing the opinion that this is the most appropriate way to initiate coverage and reform processes, including of course the implementation of a democratic society.

Without any doubt, Balkan countries may be considered as significant but also most fragile European development periphery. Intricate historic turns and capricious destinies are inherent for the peoples of the Balkans. Throughout the history, discords rather than unity marked this area. Subjects of internal wars and objects of external interests, the Balkan countries have not managed to establish a stable, advantageous and thriving atmosphere for an integrative and competitive development. The integration into the European politics and mainstreams are the first objective of the political agenda, while knowledge about the intense, diverse and dynamic relations with countries in

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1 Dr. Aleksandar Lugonja was graduated at the Faculty of Mathematical and Natural Sciences at the University of Banja Luka. Afterwards he attained the Master degree in the field of territory planning at the Faculty of Geography, University of Belgrade. What is more, he finished his doctoral studies in Economical Geography, at the Faculty of Economics, University of Bari. Mr. Lugonja is the author and co-author of different academic papers presented in International Scientific Conferences, in Serbia, Albania etc, which include topics such as: urban and regional planning, the transition and the integration of Western Balkan countries in European Union, demography, etc.
the region has not yet been unconditionally accepted as a basic prerequisite for spatial integration.

The work is an attempt to not going for political reasons and uneconomical, considering the economic transition flows, performance and status of major economic indicators of development in the way of Serbia and the remaining “Western Balkan” countries to the EU. The latest economic indicators and the position of the macroregion within the comparative international framework are an illustrative reflection of the previous, but also present and anticipated difficulties in catching the pace with the global and especially European societal and economic development.

Keywords: transition, Balkan’s integration, Balkan countries

1. INTRODUCTION

In the last decade of the twentieth century, the synonyms for the Western Balkan countries were: ethnic conflicts, problems of minorities and dislodged persons, secessionist aspirations and violation of territorial integrity. Besides, political instability, underdeveloped civil societies, lack of the rule of law and destroyed economic systems represented a poor basis for economic development; hence, they hindered the progress in the region. In other words, how institutional and policy integration influence post-socialist transition in a developing region, that is a region with weak political structures and low income2

The developments that marked the nineties of the twentieth century in this region have left a profound trace and nowadays they represent an obstacle to potential enhancement of the political consciousness as well as to the opportunities offered in the domain of recovery of their ruined economies. A long and uncertain pathway of the Western Balkan countries toward Euro integrations (in addition to unfavorable macroeconomic performances, compared to their neighbors) has imposed the need to create a new regional policy.

The liberalization of trade of the Western Balkan countries, whose guidelines are defined by the CEFTA agreement, primarily aims at defining the regime under which interregional trade is going to take place and then to open up a way to a more intensive interregional trade. The closest neighbors

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to the Western Balkans (Austria, Italy, Greece, Slovenia, Hungary, Bulgaria and Romania) exhibit a greater interest in business investments in the region than other members of the European Union. However, a negative trend of the political and economic developments on the Western Balkans territory can qualitatively reduce the achieved positions of the European Union in the international economic relations.

In the group of economic problems group, starting from the fact that the West South European countries were small and relatively underdeveloped economies, the main development possibilities were specified those of the trade, transport and energy. In fact, in these fields these economies cannot have other development alternatives, except their regional collaboration and cooperation. The economic agreements in the free trade area signed among West Balkan member countries, theoretically in the literature are based in the idea of the advantages represented by the establishment of the economic blocs or the monetary unions. Especially in the condition of West Balkan countries, with small economies where the establishment of free trade zones will create opportunities and bring benefits from economies of scale.

2. MACROECONOMIC DEVELOPMENT OF THE WEST BALKAN COUNTRY

During the work, it will show some results of transition in the Western Balkans. The first serious dilemma at the beginning of the transition process, early nineties, was a selection of views and models of privatization. Instead of a comprehensive privatization the nationalization of the social domain. Something, which was later given a negative feature of transition and it was a perfect base for tycoon privatization. Sales of the national wealth, has created the conditions for rule by a variety of monopolies or oligopolies. Legally speaking, the nationalization of the social ownership was the seizure of the employees of the social control (their) resources. From the above we can conclude that the process of uncontrolled privatization implemented on a case by case basis, without seriously conceived the concept and future development strategies.

The severity of the economic collapse in the first phase of transition was reflected in a steep collapse of industrial output. The decline was initiated by the stabilization programme in former Yugoslavia, and the collapse of the central planning system in Albania, even prior to the break-up of Yugoslavia and the
armed conflicts of the early 1990s (Bartlett 2008). Although the political and economic process of transition always comprised a bundle of different and sometimes conflicting policies varying from country to country the problems to be coped with were quite similar. The way in which politicians, advisers and analysts thought about the modes of transition policy to be optimally chosen diverged in particularly with respect to the speed and depth of reforms to be taken at least in the period of early transition.

The most important peculiarity of economic developments nineties was a general de-industrialization, growth of unemployment and the decline in exports. As a result there is a growing disproportion in the development area. According to World Bank studies of social differences are becoming even more, and the rate of growth of production and GDP have been low or negative trend.

Table 1  Growth in real GDP in South-eastern Europe (in per cent)

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<td>5.8</td>
<td>5.7</td>
<td>5.7</td>
<td>5.4</td>
<td>6.0</td>
<td>6.8</td>
<td>3.0</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>37.0</td>
<td>15.6</td>
<td>9.6</td>
<td>5.5</td>
<td>4.3</td>
<td>5.5</td>
<td>3.0</td>
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<td>6.7</td>
<td>6.8</td>
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</tr>
<tr>
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<td>2.3</td>
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<td>4.1</td>
<td>4.5</td>
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<td>6.3</td>
<td>6.2</td>
<td>6.0</td>
<td>-6.0</td>
</tr>
<tr>
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<td>-1.5</td>
<td>3.0</td>
<td>3.8</td>
<td>5.4</td>
<td>5.0</td>
<td>4.2</td>
<td>4.2</td>
<td>4.7</td>
<td>5.5</td>
<td>2.4</td>
<td>-5.4</td>
</tr>
<tr>
<td>FYR Macedonia</td>
<td>1.4</td>
<td>3.4</td>
<td>4.3</td>
<td>4.5</td>
<td>-4.5</td>
<td>0.9</td>
<td>2.8</td>
<td>4.1</td>
<td>4.1</td>
<td>4.0</td>
<td>5.9</td>
<td>4.9</td>
<td>-1.6</td>
</tr>
<tr>
<td>Montenegro</td>
<td>4.2</td>
<td>4.0</td>
<td>-6.7</td>
<td>3.1</td>
<td>1.1</td>
<td>1.9</td>
<td>2.5</td>
<td>4.4</td>
<td>4.2</td>
<td>8.6</td>
<td>10.7</td>
<td>7.5</td>
<td>-4.1</td>
</tr>
<tr>
<td>Romania</td>
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<td>-4.8</td>
<td>-1.1</td>
<td>2.1</td>
<td>5.7</td>
<td>5.1</td>
<td>5.2</td>
<td>8.5</td>
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<td>7.9</td>
<td>6.0</td>
<td>7.1</td>
<td>-8.0</td>
</tr>
<tr>
<td>Serbia</td>
<td>10.1</td>
<td>1.9</td>
<td>-18</td>
<td>5.2</td>
<td>5.1</td>
<td>4.5</td>
<td>2.4</td>
<td>9.3</td>
<td>6.3</td>
<td>5.5</td>
<td>6.9</td>
<td>5.4</td>
<td>-4.0</td>
</tr>
<tr>
<td>Average1</td>
<td>-0.2</td>
<td>0.1</td>
<td>-2.5</td>
<td>3.9</td>
<td>4.8</td>
<td>4.7</td>
<td>4.5</td>
<td>7.8</td>
<td>4.9</td>
<td>7.0</td>
<td>6.3</td>
<td>6.5</td>
<td>-6.2</td>
</tr>
<tr>
<td>Average2</td>
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<td>-0.1</td>
<td>1.8</td>
<td>6.3</td>
<td>1.8</td>
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<td>5.8</td>
<td>7.2</td>
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<td>7.2</td>
<td>7.0</td>
<td>4.2</td>
<td>-6.2</td>
</tr>
</tbody>
</table>

Note: Data for 1997-2007 represent the most recent official estimates of outturns as reflected in publications from the national authorities, the IMF, the World Bank and Eurostat. Data for 2008 are preliminary actuals, mostly official government estimates. Data for 2009 represent EBRD projections, except for the Czech Republic (IMF, World Economic Outlook, October 2009).

1 Weighted averages. The weights used for the growth rates are EBRD estimates of nominal dollar-GDP lagged by one year; those used for the index in the last column are EBRD estimates of GDP converted at PPP US$ exchange rates in 2005.


At first glance, in Table 1, one can notice a group of transition countries that became full members of the EU, and those that have not yet. Despite the different degrees of privatization of the state property, the achieved growth rates, capital account liberalization and exchange rate regimes, there are similarities between the countries in the region. All of the countries in the region have experienced sluggish growth rates in the first years of transition and high unemployment rates. The data about the achieved level of GDP per capita of the Western Balkan countries confirms the fact that the economy of the whole region is still in the process of belated transition; yet, it also points to the fact that, if certain guidelines are respected, each of these countries has a chance for a more intensive economic development in the future. Regarding the achieved GDP per capita, Croatia is far above its neighbors in the region. Regarding the achieved rate of GDP growth, the leading positions are taken by Bosnia and Herzegovina and Serbia.

The relatively low levels of income per capita and GDP per capita in the Western Balkans countries show that, with the partial exception of Croatia, these countries belong to what Martin Sokol has called the European ‘super-periphery’ (Sokol 2001). While the new EU member states from East Europe, along with other outlying countries such as Greece and Portugal, may be considered the periphery of Europe in relation to the core states, the gap between these and the poor countries of the Balkan region and other countries further east is so great that they form a super-periphery characterised by “political turmoil and instability…[a] catastrophic economic situation, social polarization, ethnic and regional fragmentation.” (Sokol, 2001, p. 651). These countries furthermore have great difficulty in connecting to the global economy. At the same time must not be forgotten that these countries had low or negative GDP growth rate during the eighties of the last century. Therefore, this group of countries has a stagnation of the economy more than a quarter century. In the coming period, these countries need is more than a high rate of growth of GDP. In order to achieve this, it is necessary to divert investment in infrastructure, new technology and equipment, and on that basis and to increase competitiveness and export growth.

In recent years, the EU focuses her attention on scientific research, and

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we can expect significant technological advance, which is a fundamental prerequisite for overcoming the current low rates of economic growth and achieving full employment. Higher GDP growth rate in the EU is required due to competition from countries populated Asia (China, India and Korea) and the U.S. That the EU has become the most powerful economy by 2010, the required growth rate of approximately 3.5% per year.

Comparative review of selected economic indicators of the former Yugoslavia (except Slovenia) that have not yet joined the EU and Albania, is given in Table 2.

Table 2  Western Balkan: an overview of economic fundamentals, 2007

<table>
<thead>
<tr>
<th></th>
<th>Albania</th>
<th>Bosnia and Herzegovina</th>
<th>Croatia</th>
<th>FYR Macedonia</th>
<th>Montenegro</th>
<th>Serbia</th>
<th>EU-27</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP at constant prices, 2000=100</td>
<td>148.9</td>
<td>141.9</td>
<td>139.8</td>
<td>117.3</td>
<td>119.9*</td>
<td>146.6</td>
<td>116.8</td>
</tr>
<tr>
<td>Industrial production real, 2000=100</td>
<td>176.1</td>
<td>172.0</td>
<td>140.0</td>
<td>107.2</td>
<td>115.5</td>
<td>115.9</td>
<td>117.5</td>
</tr>
<tr>
<td>Unemployment rate – LFS, in %</td>
<td>14.0</td>
<td>29.0</td>
<td>10.0</td>
<td>34.9</td>
<td>19.0</td>
<td>18.8</td>
<td>7.1</td>
</tr>
<tr>
<td>Average gross monthly wages, EUR at exchange rate</td>
<td>277</td>
<td>480</td>
<td>961</td>
<td>395</td>
<td>497</td>
<td>484</td>
<td>2821</td>
</tr>
<tr>
<td>Exports of goods in % of GDP</td>
<td>9.9</td>
<td>28.9</td>
<td>24.5</td>
<td>44.0</td>
<td>25.9</td>
<td>21.7</td>
<td>30.7</td>
</tr>
<tr>
<td>Imports of goods in % of GDP</td>
<td>36.4</td>
<td>67.5</td>
<td>49.7</td>
<td>65.2</td>
<td>88.8</td>
<td>43.3</td>
<td>31.3</td>
</tr>
<tr>
<td>Inflation (change in annual average retail) in %</td>
<td>2.9</td>
<td>4.9</td>
<td>2.9</td>
<td>2.9</td>
<td>4.2</td>
<td>6.7</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Source: www.wiiw; www.Eurostat

If we observe the rate of unemployment, the differences are greater in countries, and observed for years. Serbia is bad positioned at the level the rate of unemployment. Height of the unemployment rate, worse than Serbia has Macedonia, B&H and Montenegro. The highest rate of inflation in 2007 was recorded in Serbia (6.2%). Macedonia and Bosnia and Herzegovina are the states which face a serious problem of unemployment regarding enormously high annual rates of growth (34.9% and 29%, respectively). On the other hand, Croatia and Albania have the lowest rates of unemployment in the region; yet, comparing to some more recent members of the European Union, the situation regarding the creation of the possibilities for employment could be better. Key issues that Serbia in the future has to solve the retention and stabilization of inflation at around 5% and the unemployment rate below 10%.
Table 3  Gross industrial production annual change in % (real)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania***</td>
<td>-5.1</td>
<td>29</td>
<td>14.1</td>
<td>11.7</td>
<td>12.1</td>
<td>-11.4</td>
<td>2</td>
<td>-</td>
<td>164.7</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>5.7</td>
<td>5.1</td>
<td>12.1</td>
<td>10.8</td>
<td>11.5</td>
<td>6.4</td>
<td>11.0</td>
<td>-</td>
<td>190.6</td>
</tr>
<tr>
<td>Croatia*</td>
<td>5.4</td>
<td>4.1</td>
<td>3.7</td>
<td>5.1</td>
<td>4.5</td>
<td>5.6</td>
<td>1.6</td>
<td>91.2</td>
<td>142.0</td>
</tr>
<tr>
<td>FYR Macedonia**</td>
<td>-4.8</td>
<td>4.1</td>
<td>-2.2</td>
<td>7.1</td>
<td>3.6</td>
<td>3.7</td>
<td>5.5</td>
<td>60.4</td>
<td>114.3</td>
</tr>
<tr>
<td>Montenegro</td>
<td>0.6</td>
<td>2.4</td>
<td>13.8</td>
<td>-1.9</td>
<td>1.0</td>
<td>0.1</td>
<td>-2.0</td>
<td>-</td>
<td>113.2</td>
</tr>
<tr>
<td>Serbia</td>
<td>1.8</td>
<td>-3</td>
<td>7.1</td>
<td>0.8</td>
<td>4.7</td>
<td>3.7</td>
<td>1.1</td>
<td>-</td>
<td>117.1</td>
</tr>
</tbody>
</table>

* enterprises with more than 20 employes
**enterprises with more than 10 employes
***WIIW – gross value added
Source: www.wiiw database

Especially interesting are the comparative indicators of the dynamics of growth (base index) of production in industry, which are given in Table 3. Due to lack of data, it was not possible to calculate these indicators in some countries. After 2000th the Serbian captures large scale fluctuations in industrial production. Therefore, the data indicate a positive global trends in the area of the total industrial production, but such assessment substantially reduce the basic origins of which lie above the growth rate of GDP and industrial production.

Table 4  The deficit of trade balance of the Balkan Countries (millions)

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>22.6</td>
<td>24.1</td>
<td>26.3</td>
<td>25.1</td>
<td>26.0</td>
<td>27.6</td>
</tr>
<tr>
<td>balance</td>
<td>-1231</td>
<td>-1247</td>
<td>-1363</td>
<td>-1581</td>
<td>-1800</td>
<td>-478</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>26.0</td>
<td>27.9</td>
<td>30.3</td>
<td>33.8</td>
<td>45.4</td>
<td>47.3</td>
</tr>
<tr>
<td>balance</td>
<td>-3046</td>
<td>-3066</td>
<td>-3317</td>
<td>-3781</td>
<td>-3178</td>
<td>-776</td>
</tr>
<tr>
<td>Croatia</td>
<td>45.8</td>
<td>43.6</td>
<td>48.4</td>
<td>47.3</td>
<td>48.3</td>
<td>47.1</td>
</tr>
<tr>
<td>balance</td>
<td>-6137</td>
<td>-7079</td>
<td>-6890</td>
<td>-7870</td>
<td>-8841</td>
<td>-2254</td>
</tr>
<tr>
<td>FYR Macedonia</td>
<td>55.9</td>
<td>59.3</td>
<td>57.2</td>
<td>63.2</td>
<td>63.8</td>
<td>67.6</td>
</tr>
<tr>
<td>balance</td>
<td>-931</td>
<td>-831</td>
<td>-1010</td>
<td>-954</td>
<td>-1085</td>
<td>-256</td>
</tr>
<tr>
<td>Montenegro</td>
<td>35.4</td>
<td>43.0</td>
<td>52.0</td>
<td>46.2</td>
<td>42.4</td>
<td>-</td>
</tr>
<tr>
<td>balance</td>
<td>-383</td>
<td>-359</td>
<td>-416</td>
<td>-506</td>
<td>-680</td>
<td>-</td>
</tr>
<tr>
<td>Serbia</td>
<td>37.1</td>
<td>37.0</td>
<td>32.9</td>
<td>42.7</td>
<td>48.6</td>
<td>47.9</td>
</tr>
<tr>
<td>balance</td>
<td>-3726</td>
<td>-4162</td>
<td>-5826</td>
<td>-4853</td>
<td>-5356</td>
<td>-1509</td>
</tr>
</tbody>
</table>

*First quarte
Source: www.wiiw database, including national statistics

Comparative analysis of major economic indicators, observed that Croatia is front Western Balkan countries, as well as some countries are full members of the EU. Previous experience has shown that the transition is only
in combination a number of economic policy measures, possible a stable and dynamic economic development. Given the already relatively very long period (twenty years) of stagnation of socio-economic development of Serbia, with the adjustment and finding more efficient models of the completion of the transition process, a much-needed changes to the model of economic and social development and economic and development policy. The conversion of institutional capacities from a communist to a market economy, being necessary to guarantee sustainable growth, would take time. The ex-post analysis of more than a decade of transition shows that apart from the speed chosen concerning the liberalisation of prices, markets and property rights the building up of proper institutions establishing a market economy was of crucial importance especially for the achieved outcomes in income inequality.

3. WESTERN BALKANS IN THE PROCESS OF EUROTENTEGRATION

The process of integration of the Southeastern European countries into the European Union as well as the concrete actions made in this sense from 2000 till the present day have brought about the retailoring of the political and economic map of the Balkans. The West Balkans Countries have make clear their politic orientation, that of integration to the European Union. A characteristic aspect of this integration is the cooperation and regional integration of these countries, as a first step in their European integration. In the political-economic literature it has been noticed even the idea of the integration of these West Balkans Countries in block, of course considering the specific countries reforms development. Integration into the European mainstream and close ties with the European Union are primarily political agenda, while the detection of intense, diverse and dynamic relations with the countries in the region has not been unconditionally accepted as a basic prerequisite for spatial integration.

After the '90 all West Balkan countries passed in a relatively long transition period, not only of their socio-economic systems, passing from a centralized economy to a free trade one, but many of them faced dramatic conflicts, as the wars in ex Yugoslavia (Pere 2009). From many years West Balkan was identified with the notions of the ethnic conflicts, negation of minority rights,

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6 Pere E. (2009), The Significance of Economic Trade Relation for Regional Integration in the West Balkans GEOGRAPHICA PANNONICA, Volume 13, Issue 4, 159-165, Novi Sad.
massive and uncontrolled emigration, civil wars among different nationalities etc. Such situation, of course, has influenced in their overall economic development, and especially relations between them. Today’s peripheralism of some Balkan countries, especially Bosnia and Herzegovina, Serbia and Montenegro, Albania and Macedonia, has its own historical, political and economic reasons7 (VISION PLANET, 2000, p.18). Over several decades, the iron curtain isolated the part of the area and had resulted in disintegration of the economy and lagging in development, particularly in terms of technological advancement, quality and sophistication of production, operation and control institutions, and finally, perhaps most importantly, prevent the development of a truly civil society, making the general development gap between east and west of the continent becomes almost insurmountable. The peripheralism, however, may be internal, so more than 50% of the CADSES countries among the border regions8 (VISION PLANET, 2000, p.118) which are particularly marginalized in the Balkans for decades and left themselves.

The prospect for future accession of most of the Balkan states to the European Union is more open 1999th establishing the concepts of the Stabilisation and Association Process (SAP). The Stabilisation and Association assumes gradually approaching the European Union structures. In fact, some criteria, which in the last round of enlargement have not been of greater importance, in the case of the Balkan countries are at the forefront. This is primarily related to problems of governance, which includes various aspects of survival and functioning of institutions and skills, control issues the company as a serious problem with corruption and the underground economy. The Governance has taken on criteria vital importance because it has a direct impact on the implementation of detention structures of the European Union and the achievement of necessary standards it prescribes. Another important criterion is particularly thematise, when the Balkan states in question refers to the parameters that indicate the degree of poverty and social cohesion of society. Because of the extent and nature of this phenomenon circulates between all revised view is that this requirement does not affect crucial to the functioning of state institutions and evaluation of competitive ability, especially because it strongly affects the ability of the functioning market economy.

The Thessaloniki Summit of June 2003 reconfirmed the European perspective for the Western Balkan countries (Albania, Bosnia and Herzegovina, Croatia, Serbia and Montenegro, and the Former Yugoslav Republic of Macedonia) as potential EU candidates⁹ (Knogler, Vincentz 2004). The European Union in assessing the readiness for access to use a so called “the Copenhagen criteria”. They are defined 1993 of the summit in Copenhagen. They include primarily economic criteria related to the ability of the state-of candidates to realize a functional market economy and withstand competitive pressure and market the Union.

These are:
- Macroeconomic stability;
- Liberalization of prices and trade;
- Restrictions on access to markets and the withdrawal of it;
- Regulations in terms of privatization and business;
- Financial sector;
- Consensus in economic policy;
- Human capital, investment and infrastructure;
- The integration of trade with the European Union;
- Competitive policies;
- Small and medium enterprises,
- Governance;
- Corruption and legal security;
- Poverty and social cohesion.

Of all these criteria, countries of Southeast Europe meet only two and it usually only formally. These are the two related to the liberalization of prices and trade and small and medium enterprises. However, there are significant differences, because Croatia is on the verge of completion, and other criteria, while Albania, Bosnia, Serbia, Montenegro and Macedonia are still very far from it, especially in terms of progress in privatization, lack of progress on infrastructure reform, weak competitiveness, extremely widespread corruption and a high unemployment rate, which directly impact on poverty and social stratification.

Corruption is generally connected with the activities of the state and especially with the monopoly and discretionary power of the state. Two other factors may have had an impact on corruption in recent years: the growth of international trade and business and the economic changes that have taken place in many countries and especially in the economies in transition. A table

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5, CPI score relates to perceptions of the degree of corruption as seen by business people and country analysts and ranges between 10 (highly clean) and 0 (highly corrupt).

**Table 5  Corruption Perceptions Index  2009**

<table>
<thead>
<tr>
<th>Country</th>
<th>CPI score</th>
<th>Country rank in international comparison 133 countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>3,2</td>
<td>95</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>3</td>
<td>99</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>3,8</td>
<td>71</td>
</tr>
<tr>
<td>Croatia</td>
<td>4,1</td>
<td>66</td>
</tr>
<tr>
<td>FYR Macedonia</td>
<td>3,8</td>
<td>71</td>
</tr>
<tr>
<td>Montenegro</td>
<td>3,9</td>
<td>69</td>
</tr>
<tr>
<td>Romania</td>
<td>3,8</td>
<td>71</td>
</tr>
<tr>
<td>Serbia</td>
<td>3,5</td>
<td>83</td>
</tr>
</tbody>
</table>

↑ The bigger the value, even less corruption.

*Source: Transparency International Corruption Perceptions Index 2009*

On the basis of it is obvious that none of the Western Balkans does not meet the requirements for EU accession, but the differences between them more obvious and make sense of which direction will change the geographical outline of a united Europe and unconsolidated. General predictions are very pessimistic. In fact, the general assumption is known for establishing the minimum required quality of institutions and corresponding rules in the functioning of the market economy can be brought down to the fact that per capita income must be at least $10000. Current estimates of the World Bank are very indicative in this respect (Table 6).

**Table 6  Gross domestic product in $  2008**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>4074</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>4625</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>6857</td>
</tr>
<tr>
<td>Croatia</td>
<td>15628</td>
</tr>
<tr>
<td>FYR Macedonia</td>
<td>4657</td>
</tr>
<tr>
<td>Montenegro</td>
<td>5214</td>
</tr>
<tr>
<td>Romania</td>
<td>9292</td>
</tr>
<tr>
<td>Serbia</td>
<td>6782</td>
</tr>
<tr>
<td>Romania</td>
<td>9292</td>
</tr>
</tbody>
</table>

*Source: World Bank*

It is obvious that macroeconomic indicators point to an extremely difficult and complex situation of each country separately, which, however, even more concentrated in the area of so-called 4 Balkan states, and has direct implications for other parts of the development and establishment of
cooperation between the countries in the region. The fact is that this part of Europe is treated as a missing link in the geographic and geopolitical contours of the EU, as well as most tenuous subject of the integration process of the European continent. According to the strategy of integrated spatial development CADSES-a, spatial integration of these states implies a convergence of different geographical habitats, cities, regions, economies and mental maps, which would enable fast, smooth and frequent flow of people, goods and information. This is possible only if the boundaries that divide the country so as permeable10 (VISION PLANET, 2000, p.57). Therefore, the key priority of this region should be intensified cross-border cooperation and establishment of the Euroregion.

4. CONCLUSION

The regional integration of the West Balkan countries represents an important aspect of European integration for countries in this region, it can be considered as a preparatory phase for their integration into EU. A very important aspect for the integration is economic collaboration with the region countries. West Balkan countries have had a relatively fast progress toward their regional integration politics in the economic field. The process started in 1999 with the Stability Pact that was concretized lately with the CEFTA -2006 agreement.

The new balance of power on the world economic and political stage, defined in the late eighties of the twentieth century found the region of the Western Balkans quite unready to face the challenges of the transition process. Ethnic conflicts and mutual violations of the territorial integrity of the countries in the region gave rise to an increasing political instability and additional destruction of the already-weakened economic systems. Such a state had a negative effect on the development potentials of the whole region in addition to creating obstacles to the political and economic cooperation. The positive attitude of the European Union to the Western Balkan integration in its structure is reflected in its continual participation in the process of stabilization and integration. The future of the Western Balkan countries is, undoubtedly, within the European Union. When they will become a part of it, depends on the way and quality of their commitment to political and economic reforms as well as on properly-

used chances for mutual political dialogue and cooperation.

Without any doubt, Balkan countries may be considered as significant but also most fragile European development periphery. Intricate historic turns and capricious destinies are inherent for the peoples of the Balkans. Throughout the history, discords rather than unity marked this area. Subjects of internal wars and objects of external interests, Balkan countries have not managed to establish a stable, advantageous and thriving atmosphere for an integrative and competitive development. The latest economic indicators and the position of the macroregion within the comparative international framework are an illustrative reflection of the previous, but also present and anticipated difficulties in catching the pace with the global and especially European societal and economic development.

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Challenges that Albania Faces in Meeting EU Conditionality: The Political, Economic and Legal criteria

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Abstract

Albania path toward full integration in European Community is simultaneously a déjà vu of former Visegrad countries or other Central and Eastern former communist countries previous integration, as well as a sui generis phenomenon of its own because of intrinsic characteristics that

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are embedded in the regional shell, or that are characterized because of the historical or institutional reasons. It is an opportunity for the Albanians to finally come back to where they belong, geographical, cultural and political Europe, but it is also a challenge for European institutions, because the whole Western Balkans suffers from endemic corruption, threat of organized crime, poor institutional building and lack of strong democratic credentials. Being one of these countries, Albania is not an exception in this regard.

This research paper seeks to come out with an endogenous explanation of what kind of challenges Albania faces in meeting EU conditionality. To do so, the paper tries to evaluate the path toward full integration capability of the country, based on the fulfillment of the famous Copenhagen criteria, which is still maintained as a benchmark by European Union for aspirant candidate countries.

The main driving question that this research paper answers is: **“How much has Albania met so far the political, economic and legal criteria?”** Our initial hypotheses suggest that Albania, as well as the whole of Western Balkans, is perceived mostly as a challenge to EU absorbing capabilities for the moment due to financial crises and other problems that EU itself is facing trying to construct a new institutional architecture. It seems that EU is more concerned with ‘deepening’ than ‘widening’ process for the present. Nevertheless, as it will be argued from an analytical angle (not normative angle), Albania has so far fulfilled important criteria for full membership in EU in the due time, having made progress not only in the legal aspect (incorporation of acqui, strengthening of rule of law etc), but also politically, socially and culturally), adding to EU architecture a real value. Without Western Balkans in general and Albania as part of its own community of values, EU cannot be fully completed and it sets a setback on the rhetorical commitment and ‘entrapment’ (Schimmelfennig 2003) that promises a post-national belonging to these countries. Albania thus represents a real value for EU, yet to be understood and duly integrated. Anyway, important challenges still remain and will be analyzed in this paper.

**Keywords:** Albania, integration, Copenhagen criteria, acquis

### 1. ESTABLISHING THE BENCHMARK AT COPENHAGEN

The end of Communism and the transition toward democracy and state-building in Central and Eastern Europe, led also to a renewable relationship with European Community and to seriously take into consideration the future perspectives of these countries. This took a definite answer with the Copenhagen
European Council meeting of 1993 when it became possible the envisioning of a ‘road map’ for future candidates. Thus, enlargement was no longer a question of ‘if’, but ‘when’. The only pre-conditions to be met where the following: stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities; the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union; the ability to take on the obligations of membership including adherence to the aims of political, economic & monetary union.

Thus the way was paved and the ball passed on the aspirant countries to meet the reform benchmarks and to properly make the homework before thinking of joining the European club. Further guarantees were given with the Thessaloniki summit of 2003 when a blueprint for the whole Western Balkan’s integration perspective was agreed upon.

2. THE CURRENT POLICIES OF THE EU TOWARD WESTERN BALKANS

The enlargement of the EU in 2004 to twenty-five members, with several more countries to join in the course of the next decade, it radically changed the nature of the EU. This is reflected in the everyday business in Brussels, where an enlarged bureaucracy is keener to be criticized for a slowdown of daily operations and where agreements are harder to negotiate and agreed upon. If so, the question then remains why the EU has expanded and has even recognized the possibility of further accession if conditions are met by prospective countries? Moravcsik provides an answer when he writes that: “Just as occurred in the past, leaders of the current EU members are promoting accession because they consider enlargement to be in their long-term economic and geopolitical interest”. He and Vachudova also stress that EU is gaining from enlargement in both “geopolitical stabilization” and “economic revitalization” of the European borderlands which in turn, is likely “to diminish nationalist conflict and make illegal immigration more manageable and reduce the costs

4 Ibid
of managing a border with potentially disorderly neighbors”. In this regard, his liberal inter-governmentalist lenses offer a rationale of the EU is actually acting on pursue of their interests when they make the decision to further enlarge or not. And if the governments of the member states think that it is worthy to further enlarge at a given time and period, they go ahead with it after deliberating the issue in the Council.

On the other hand, it is true that not all members show similar stances and attitudes toward enlargement; the ones that are to gain more are the border states, because of the vicinity with the prospective countries. This is why, as Schimmelfennig emphasizes: “EU border states have a strong interest in enlargement.” And this in turn, explains why most of the Southern states, led by France, gave their support to Bulgaria, Romania and the Southeastern candidates, while the Northern countries were more supportive of Visegrad and Baltic states. Equally we can draw similar inferences for Western Balkan countries, particularly Albania, which we emphasize in this paper. Italy and Greece, the two bordering EU member countries, seem to push more for the integration of the whole region en block. It was after all, the Thessaloniki Summit of 2003, which confirmed the EU policy for the Western Balkans. Recently, Greek primer George Papandreu has urged the EU countries to follow up with a road map that would see the Southeastern Europe fully integrated and member countries by 2014, a symbolic date for Europe.

In addition, if we look only from a rationalist LI perspective the previous 2004 accession of the ten new EU members, we fail to grasp the whole picture. Economically speaking, the accession of these ten new countries was not a very successful story for the older member states. Breuss has analyzed, - even before the accession took place, - that “[o]n average, the EU will become even poorer: measured in PPP, GDP per capita will be lower by 9 per cent”. But he continues by also stressing that the EU Enlargement was a sound political project rather than an economic project. He mentions that “enlargement will end the political separation in Europe”.

To shortly turn now at the applicant countries and the way they look at the dual partnership with member states, they often have found themselves in “weak

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7 Ibid
8 Breuss, 2004, p.296
9 Ibid
negotiation position and accordingly have conceded much in exchange for membership.”10 Although both parties will both benefit from the enlargement, the applicants are going to benefit even more and for this reason they are willing to concede a lot in the pre-accession negotiation period. According to this rationale, the applicant countries are having short term costs, but will have long term benefits, whereas the contrary can be said for the member countries. In this light, we may summarize that it is in the EU interest to prolong the pre-accession period of the ‘aspirant’ countries and in a way, force them to adhere to the strict conditionalities, before any further step is to be taken. Considering also the fact that candidate members, -not to mention those that have acceded already-, have much more comparative advantage in terms of financial aid, compared to the associated countries, it becomes clear that the gap is deepening along the way and that the Western Balkan countries cannot be expected to perform miracles in order to catch up with the rest.

Nevertheless, realistic or not, the EU has already well understood that “the membership carrot has become one of the main instruments of the EU to support its normative power”.11 Considering the past failures of the EU in the area, notably the failure to take the lead in the Yugoslavian wars, or to intervene in providing stability in Macedonia, not to mention Kosovo and the ‘inferiority’ in which has found itself as compared to the strong interventionist policy of the U.S., the EU has to (re)establish itself as a major player in its borders. As Juncos reminds us: “one of the lessons of the Bosnian conflict was that “real wars” had not disappeared from the continent and that they could erupt only a two-hour flight away from Brussels”.12 In order to maintain the momentum and not to let these countries fall in ‘despair’ and become flourishing areas of organized crime and trafficking, the EU is playing a difficult role and handing out promises as the only efficient mean at hands.

Nevertheless, without institutional and financial back-up, the rhetoric of the EU, starting with the Thessaloniki summit and onward, can turn into a kind of “double-bluff, in which the EU pretends to offer membership, while the countries of the region pretend to implement reforms”.13 This ‘empty’ rhetoric

10 Moravscik and Vachudova, 2003, p.44
11 Juncos, 2005, p.93
12 Ibid, p.95
will serve for nothing, since at its best can only preserve the ‘hopeless’ status quo, whereas at its worst, it can provoke despair and unrest. On the other hand, in the case of the EU’s policy of “stick and carrots,” the EU certainly uses more than soft means of persuasion and temptation; it aims to alter the political behavior of other countries also through the use of coercion and/or seduction. But, nevertheless the disputable policies of European Union, they remain the best hope to see things moving ahead and maintain the pace of reforms and democratization of the region. The European Commissioner for Enlargement, Olli Rehn, insisted that notwithstanding the failure of the draft constitution and the present political crisis, “the momentum for enlargement should continue based on the principles of consolidation, conditionality and communication”. Enlargement, according to Rehn is a great success story and one of the most important EU instrument for stabilizing the region and showing itself as a “civilian power”. The policies of the Union toward the Western Balkans can thus be seen as a way to maintain the momentum, preserve the stability and increase the pace of reforms on one hand and (re)establish the EU as a strong, powerful player in the region. These features are in line with the moral values embedded on the institutional framework of the EU and a way of promotion as an influential world player.

3. EU (LACK OF) STRATEGY TOWARDS THE REGION

Consensus has been established among European leaders over how the EU should proceed with enlargement. Speaking at the European Council on 14-15 December, Commission President Barroso, repeating what Rehn had pointed out before, explained that the pace of enlargement depends on the EU’s capacity to integrate new members. “Consensus is clearly emerging around what I call the three Cs, consolidation, conditionality and communication,” he said. While the door to enlargement remains open, candidate countries

15 European Policy Center Briefing, S34/05, 2005
16 European Policy Center Briefing, 2005
17 Enlargement yes, but not without conditions [Electronic version]. (27 December 2006). Downloaded from: http://ec.europa.eu/commission_barroso/president/focus/council_122006_en.htm, p.1
18 Here we may discern some kind of coherence in the public declarations of the EU officials that may qualify as a build-up strategy toward the Western Balkans.
must respect all the criteria. In reality, it is hard for these countries to adapt the
criteria on their own, without a ‘push’ from the EU. And if they ever succeed in
this impossible task, they might grow in Eurosceptics, like in the case of Croatia
or Turkey. The reasons might be different, but the economic revival,- reached
after adhering to the rigid criteria set by the EU,- in association with political
costs that accompanies the process, might transform themselves in powerful
anti-European levers that may set the integration process back in years.

Now, this is just a speculation, but even if it is a least likely outcome,
it should be considered in the EU’s strategy toward the Balkans before the
matters could precipitate. Also, considering the little economic cost that EU
faces in the case of incorporation of the whole region (roughly the size of
Romania) and the incentives that it can get, especially in terms of increasing
its level of influence, should be enough for the EU to re-consider its current
strategy (if any) toward the Western Balkans. Of course, it cannot be in the
interest of the EU to let these countries shift their interests and its strategy has
already taken some precautionary measures on preventing this. To be more
explicit, the case of Kosovo, which is currently under the process of ‘changing
hands’ from the U.S. backed up UNMIK to an entirely European made up
force (EULEX) is a significant policy change in that regard that is part of
coordinated moves from the EU to become more visible and engaged in the
Western Balkans. Moreover, the EU has been leading the multinational efforts
in BiH, through the incentive of prospective integration. More concretely, the
Commission has submitted a Feasibility Study which has linked “the beginning
of negotiations on an SAA with progress on 16 reform priorities”. Also, the
EU has helped build multiethnic peace and stability in Macedonia, granting this
country the candidate status, notwithstanding some failures to comply with all
the imposed criteria. This is in line with what Pippan has argued while talking
about the possible course of action toward the region and has emphasized that

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19 In the case of Croatia, Croats began to pay more attention to the high unemployment rates
in some EU member states, the inflationary problems that followed the introduction of the
euro currency and the heated debate over the proposed EU constitution. They also grew
bitter because of the Gotovina affair. Whereas in Turkey’s case I can quote its ex-foreign
minister, Mr. Yasir Yasin when mentioning that “if the EU will not integrate us now, in
the future we might not be interested.” (Present author’s notes in a conference about the
future of Europe, organized in October 2006 in Budapest).

20 Lehne, Stefan. (2004). Has the ‘Hour of Europe’ come at last? The EU’s strategy for the
Balkans. In the Franz Lothar Altmann et al. The Western Balkans: moving on. Judy Batt
“the accession of Albania, BiH, Croatia, FYROM and Serbia and Montenegro to the EU is a matter of when and how, rather than whether”.

If all these policy approaches of the EU toward the region rise up to a clear cut strategy for the Western Balkans, or qualify only as snapshots that do not essentially try to change the status quo, this is a matter for debate and cannot be answered by taking an inductive analysis in such a short paper.

4. ALBANIA AND THE MAJOR CHALLENGES THE COUNTRY FACES TO SUCCESSFULLY MEET EU CRITERIA

In order to rapidly push ahead its integration process, Albania has to meet several conditions, such as fighting corruption and organized crime, making part of its domestic legislation the body of European laws (acquis communautaire) as well as following up with due implementation, reform the civil sector, attract foreign capital, while securing parity of initial conditions in the market and so on, and so forth. As it seems, it has to fully comply with Copenhagen criteria which are simultaneously political, economic and legal.

The Albanian people in general are enthusiastic about the EU perspective. Different surveys have shown a very high support of EU membership above the levels of support of other West Balkans countries. This enthusiasm has been implanted over the years in the political life of the country; in fact, virtually all political parties support the integration process. The political rhetoric makes a lot of references to the EU integration process, though it often remains only at this level. Some important steps have already been overcome and during last year some important achievements were scored in the long and tumultuous way to full EU integration. First in 1 April 2009 we witnessed the entry into force of the Stabilization and Association Agreement (SAA) and then, in 28 April 2009, Albania submits its application for EU membership.


22 See the annual surveys of Albanian Institute for International Studies (AIIS) http://www.aiis-albania.org/areas.html#part1, which continuously show a high percentage of over 90 percentage in favor of EU integration, the highest in former Eastern bloc.

speed that can gain a momentum once Albania officially gets the candidate`s status, though the country still has to face major challenges.

The political turmoil and instability has been a major preventive cause of slow integration processes, as well as has inflicted parallel processes, such as visa liberalization, which the neighboring countries of Macedonia, Serbia and Montenegro already achieved in December of 2009. Albania lagging behind, in par only with Bosnia-Herzegovina seen in a regional context, is something that definitely has to worry the political elite in general. The instable political climate of the country is a major obstacle which inhibits a more vigorous path towards EU integration. The political spin of the process is more important at the initial stages than in the latter ones when achieved standards and legislative compliance with the acquis are decisive for the velocity of the process. This could be seen very clearly in the case of Macedonia. The EU signed officially the Stabilization and Association Agreement with Macedonia in the middle of the latest war turmoil that the West Balkans has experienced after the nineties. Unfortunately, it seems that Albania has been largely unable to take advantages from the political spin. The country officially signed the SAA only in June 2006; three and a half years after the Commission President Romano Prodi officially launched the negotiations for a SAA between the EU and Albania in January 2003. Though not stated publicly by the high EU officials or the European political heavyweights, it has been widely speculated and alleged that the major cause for such delay was the inability of Albania to carry free and fair elections, widely recognized by the political parties and positively assessed by the international missions in Albania such as the OSCE representative office and the ODIHR. More or less the same situation was repeated after Albania officially applied for EU membership in April 2009. The official reply from the EU bodies was delayed several months, allegedly because of the general elections that were held in Albania in June 2009. It has been speculated that important achievements with regard to the integration process in electoral times might affect the political climate. If completely true, this would unfortunately be a strong indicator of a lack of maturity of the political class in Albania and the country as a whole, thus constituting a major obstacle towards the integration path.

Albania has not been yet able to solidify its institutions that regulate

the political life of the country. One of the notorious examples of this is the Central Elections Commission and the electoral legislative framework. Albania has not been able to hold two consecutive elections with the same legislative framework. The continuous changes, although amended under the international OSCE assistance, tend to accommodate the interests of the powerhouse political parties, rather than create the basis for a free and fair process. The elections are administered in a partisan way (bi or multi-partisan). Although the 28 June 2009 parliamentary elections marked tangible progress with regard to the voter registration and identification process, the legal framework, adopted in a consensual manner by the two main parties, the voting, counting and the adjudication of election disputes, these substantial improvements were overshadowed by the politicization of technical aspects of the process, which temporarily blocked the counting process in some areas, as well as by violations observed during the election campaign. These actions of political parties undermined public confidence in the election process. The political climate ever since the 2009 elections remains very tense and paralyzed by the boycott of the main opposition parties. The last example was the series of protests organized by the opposition and related to the election problems. The hunger strike organized in the middle of the capital city, in front of the Office of Prime Minister, has no precedents at all in the modern political climate of EU countries, though it was still within the limits of democratic means. It further showed the lack of maturity of the Albanian political class. Albania cannot fulfill the political criteria with the actual level of maturity and political climate. If the crisis persists, then it might seriously affect the opinion of the European Commission regarding the application of Albania and the questionnaire, and subsequently the achievement of a candidate country status.

Another major challenge that Albania faces in the frame of fulfilling the first Copenhagen criteria is the rule of law. In this frame, while the country has done some progress in fighting the organized crime and the trafficking, fight against corruption remains the main issue to be addressed. The Corruption

Perception Index of 2009 for the country was 3.2, well under the average of the other Western Balkan countries measured (3.6), and above only the index of Bosnia and Herzegovina (3.0). The EU bodies have stressed the importance of fight against corruption several times and in all the key documents regarding the integration process of Albania. In the last European Partnership Document of 2008 adopted by the Council of the European Union, it is specifically underlined as key priorities for the country, that Albania should investigate and prosecute cases of corruption in the police and the judiciary with due vigor, and should achieve significant results in the fight against corruption, at all levels and in all fields, by enforcing adequate legislation. The Corruption Perception Index has remained in poor levels over the years, thus Albania should necessarily strengthen the fight against corruption in order to fulfill the criteria regarding the rule of law and give speed to the integration process. Improvements have to be visible and Albania should make progress and close over the years the actual gap with the EU countries regarding corruption and the Corruption Perception Index.

Another major challenge that Albania is facing and will continue to face at least in the mid-term future is the economic and financial situation. The international economic and financial crisis that first hit the financial markets in fall 2008 did not immediately affect Albania because the country has no financial markets and was not much exposed to the international developments. Anyhow, the country could not remain unaffected by the crisis. Although not integrated financially, the country is integrated economically to the region, Europe, and the rest of the world mainly through trade and remittances. The last quarter of 2009 brought the most significant economic problems when the economic growth was negative for the first time after 1997. The economy in the last quarter of 2009 had a negative growth of -2.4% compared to the previous quarter and a negative growth of -0.8% compared to the same quarter of 2008. The second Copenhagen criteria states that: a candidate

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country must have a functioning market economy, as well as the ability to cope with the pressure of competition and the market forces at work inside the Union. Given that an overall consensus on the fundamentals of a market-oriented economy has been maintained in Albania, the country has yet to demonstrate the ability to cope with the competitive pressures and market forces of the EU. The gap between the economic conditions in Albania and the EU remains very large. If the economic growth was to remain at an average of 6% per year, then the country would double the GDP and the per capita income in about ten years. The economic growth in 2009 was 3.3% with a negative figure for the last quarter. If such figures do not return to the levels of 2004-2008, then Albania will not be able to close the gap in the near or mid-term future, thus severely reducing the ability to cope with the competitive pressures, once the country enters in a full customs free trade area with the EU over the years. Besides the general growth figures, the country has an economic structure that does not favor the ability to cope with the competition. In 2009, more than 46% of the country exports were products of the textile industry. Such an industry is labor-intensive and gets the main competitive advantage from the low wages of the un-qualified labor force in the country. The economic structure should necessarily change if the country is to cope with the competitive pressures of EU. The economy has to “modernize” and become more technology and know-how oriented.

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Future perspective of European Union enlargement

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Abstract

Latest enlargement of the EU increased the number of member states to 27. Enlargement has long featured prominently and consistently on the European Community/European Union agenda (Nugent, 2004, p.17). Thus, the aim of this article is to make an analysis of the present situation of the Union in the aspect of institutions, decision-making and policies, as well as its future perspective of enlargement. There exist considerable differences between early EU accession policies and those after 2000 regarding: the higher level of conditionality set forth by the European Union, institutional changes within the Union, changes in the allocation of funds etc.

Through literature review, I tend to portray recent stances of the Union towards enlargement, which is possible for as long as it does not threaten the EU itself.

Keywords: enlargement, membership, institutions, decision-making

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1. INTRODUCTION

Enlargement, this communitarian phenomenon, applied since the creation of the community, has led to important changes in institutions and policies within the European Union.

The aim of this paper is to present the recent dynamics on institutions and policies that the latest eastern enlargement has influenced, and to introduce the present attitude towards other possible memberships in the EU. Analysis of academic literature on the important issue of enlargement and the consideration of EU fundamental documents such as treaties and enlargement strategies constitute the research approach of this paper.

After the latest enlargement wave of 2004 and 2007, the total number of member countries in the EU reached twenty seven. This was also the biggest wave of enlargement in the history of the European Community known as the eastern enlargement. Therefore, the considerable size of this latest enlargement led to essential institutional and policy changes on the one side, but it was accompanied by a phase of preparation from the new member states on the other side. The increase in the number of Community members and the changes it brought about within institutions and policies envisaged the conditions for a new enlargement perspective which is primarily focused on the conditionally principle for the candidate members and it differs from earlier enlargements of the EU.

The institutional axis underwent changes form an EU of 15 member states to an EU of 27 states. As a result the European Commission, the European Council and Parliament were subject to changes and modifications mostly in structure and procedures of performing their functions. Communitarian policies represent a very important aspect of the EU. They reflect the positive will of each member state to share with other states the costs and benefits resulting form their application. However, the latest enlargement led to a “confrontation” of interests among member states because of the contribution each member makes to the EU budget and its profits in terms of policies. Therefore, the membership of 12 new European countries created the need to redesign some of the EU policies, without leavin aside the old members.
2. INSTITUTIONAL DYNAMICS

Institutions represent one of the main axis within the European Union, where the member states are not only represented, but also they can pursue their influence towards the communitarian policies. Every institution has specific functions and decision-making procedures, after having gone through a series of changes influenced by the latest enlargement. These changes were achieved, through common agreements. At the same time, they represented the transition from an EU of 15 member states to an EU with 27 member states.

Table 12

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<tr>
<th>Member states after enlargement in the Council</th>
<th>Votes distribution per state</th>
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<td>Germany, France, Great Britain, Italy</td>
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<td>Spain, Poland</td>
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<td>Rumania</td>
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<td>Netherlands</td>
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<td>Belgium, Check Republic, Greece, Hungary, Portugal</td>
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<tr>
<td>Austria, Bulgaria, Sweden</td>
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<tr>
<td>Denmark, Ireland, Lithuania, Slovakia, Finland</td>
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<tr>
<td>Cyprus, Estonia, Letonia, Luxemburg, Slovenia</td>
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<td>Malta</td>
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The latest enlargement indicated the biggest challenge of the European Union. As such, this enlargement wave led to some necessary changes in the institutional structure and procedures within the Community. Taking into consideration the fact that the EU is part of policies and processes of its member states, the most important institutions are the national ones and the institutions established by agreements. That is why changes have been made in the composition and competences of each institution. Institutional changes led to a repositioning of the interests of member states and to a need to reflect these changes in the legislation.

Before the eastern enlargement took place, EU member states tried to create grounds for this latest enlargement through treaties such as the Treaty of Amsterdam, Treaty of Nice and the Constitutional Treaty. There was a necessity to establish a clear vision of the enlargement and where it would lead the union.


Table 24

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<th>Member states before enlargement in the Council</th>
<th>Votes distribution per state</th>
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<tr>
<td>Germany, France, Great Britain, Italy</td>
<td>10</td>
</tr>
<tr>
<td>Spain</td>
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<td>Netherlands, Belgium, Greece, Portugal</td>
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<td>Sweden, Austria</td>
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<td>Denmark, Finland, Ireland</td>
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<td>Luxemburg</td>
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The Treaty of Amsterdam is considered to be important in some improvements it made to institutional practices. It diminished the cooperation decision-making procedure, and increased the application of co-decision procedure, thus putting the Council and the Parliament in equal positions. Afterwards, in December 2000 the European Summit of Nice led to important reforms in the configuration of institutions and in their importance after the eastern enlargement. Talking about the Treaty following the summit, Romano Prodi declared that in Nice the 15 member states, each focused on their national interests, were able to reach only a non perfect agreement which did not give the expected results.

The Draft Constitution foresees changes in decision-making. Changes are reflected through the establishment of co-decision procedure between the Parliament and the Council as well as through the application of Qualified Majority Voting in the Council.

The European Council has historically been the main legislator within EU policy and the institutional heart of decision-making in the EU. After the latest enlargement it shares legislative functions with the Parliament. Nevertheless, taking in consideration the fact that the Parliament has gained considerable powers over the legislation, the legislative system has been transformed into a bicameral system. The executive role of the Council has to do with policies of the second and third pillar of the European Community where the role of the president is very important. He/she sets the objectives and coordinates the work of the institution for 6 months. It is the Council that

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decides the turn of presidency among member states, and in cases of changes in turn-taking, unanimity of votes is needed.9

The other EU institution, the Commission, went through changes in three main dimensions after the latest enlargement: the procedure of appointing the members, the President’s powers and the number of college members. The Treaty of Nice put the President of the Commission in a superior position within the college, thus transforming this position from primus inter pares, into a real post.10

Along with the wave of enlargement, the European Parliament has been subject to other structural and functional changes. Today, it is composed of 785 members elected in 27 member states according to a proportional representation of the population. The election of the representatives is held directly by each member states’ citizens and they are gathered at European level according to the ideological lines and not on state bases. In the dimension of the functions carried out by the Parliament, a fundamental change has been the increase of its legislative competences through co-decision procedure with the Council.

Adaptability of institutions towards changes within the EU derives from the fact that these institutions result from common treaties among the member states. The need and the will to expand the Union are confronted with two different dynamics: on one side it is the deepening process and on the other the widening process. In order to achieve a common constituent for both dynamics, the first attempt is to change the organization and functioning of institutions. However, changes are difficult to be achieved. They need the consensus of all the member states. These changes might lead to a repositioning of national interests of member states and to a need for adapting the legislation and the new acts.

3. POLICY DYNAMICS

Changes within the community institutions are reflected in policies as well. The latter include the implementation and action span of the EU. The membership of 12 new countries was accompanied with different attitudes from the member states regarding the profitability from the policies. This led

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9 Steinmeier, F. W. 2007, Council Decision- determining the order in which the office of the President of the Council shall be held, Official journal of the European Union, Brussels
to a consolidation of the adaptability of communitarian policy dynamics due to the increase in the numbers of beneficiaries as well as application of the conditionality principle.

The source of financing for the communitarian policies is the budget of the EU. The main policies are Common Agricultural Policy (CAP), and Cohesion Policy. Each policy gets a certain fund from the EU budget which is distributed through specific packages for a given period of time.

The latest enlargement led to disagreements in the budgetary politics and more specifically in the way the funds would be distributed. That is to say, which would be the importance of each policy within the budget. At first, the EU applied the pre-accession aid to eastern countries and after their membership their profits from each policy have been designed respectively in the financial perspective of 2006-2013. The most significant economic change that the new members brought to the European Union was extending its range of poverty and wealth. Not all the countries benefit equally in the EU budget. Benefiting form each policy might be represented in the form of a zero sum game, or a positive sum game. Historically Spain, Greece and Portugal benefitted from the budget more than they contributed. On the other hand, member states such as: Germany, Great Britain, etc, have a disproportional ratio regarding profits and contributions in specific policies.

EU enlargement with 27 member states led to two possible perspectives. Form one side there was a possibility of increasing budgetary funds, or on the other side leaving the budget at the same levels. The poorer countries of the EU such as Spain, Greece and Portugal were in favor of the first alternative. Their attitude was sustained by the Commission. It advocated the increase of the budget with the need to achieve the unity principles of social and economical cohesion. Other richer countries asked to leave the budget at the pre-enlargement levels.

Old beneficiaries of the budget such as: Spain, Portugal etc, aimed at keeping the level of benefiting as it was before the enlargement. On the other hand, the enlargement brought other 12 countries most of which were poorer than the first group.

The dynamics created led to the signing of the financial perspective of 2007-2012 from the member states. The proposals of the Commission for the budget of the EU in the years to come, foresee a considerable increase in all policies’ sectors.

13 Commission, 2004k, Press release, 10 February 2004
The EU Commission responded to the possibility of enlargement with this financial long-term agreement which preceded the eastern enlargement of 12 new members. The approval of the agreement met with difficulties such as the main contributor’s insisting to decrease the structural funds and applying a policy where everyone could benefit. The tension derived from the financial impact that the EU, with its 27 members would have in the budget. Member countries of the eastern enlargement led to a growth in the EU population of approximately 35%, but this increases the EU GDP only by 5%. The growth of population in these estimated figures decreases the per capita income by 10%. This means that almost 1/3 of the population of the EU will benefit 90% of the EU average per capita income. For this part of the population the EU decided to assign the allocation of funds in the frame work of the cohesion funds.

4. PERSPECTIVE FOR FUTURE ENLARGEMENTS

Future enlargement persists in the European agenda. After the recent accession of 12 new countries in 2004 and 2007, the EU is focused in the process of integration of the Western Balkans and Turkey. The enlargement agenda of 2008-2009 considers enlargement as the EU’s most powerful policy tool through which the EU can achieve its strategic interests in stability, security, conflict prevention and growth opportunities. Western Balkans and Turkey are considered to be important strategic areas and the EU has established the dynamics of supporting these countries in the integration process. Nevertheless, the future enlargements as well as the latest enlargement, pose a challenge for the EU. The main concern is if widening (accepting new member states) might threaten deepening (furthering institutional and policy integrations).

The approach of the EU has been setting specific criteria and conditions to be fulfilled by the aspiring members. On the other hand, institutions and policies have been changed in decision-making through treaty reforms. Reforms made possible the well functioning of the institutions and policies after 2007, when the latest two Balkan countries entered the European Union.

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15 Enlargement strategy and the main challenges 2008-2009, Commission of the European Communities.
averting possible “deadlocks”. They were the necessary tools to keep moving both the widening and the deepening process.

The perspective of enlargements as it is established in the present enlargement strategy of the European Union follows the same logic of that of the latest enlargement. The support of the EU towards aspiring members is dimensioned at first through pre-accession instruments and by strategic documents which lead the countries towards the fulfillment of criteria in economical, social and political dimensions.

5. CONCLUSION

During its whole period of development, EU has faced various challenges and problems stimulated by internal and external factors. Among the internal factors it is included the enlargement phenomenon, as the main phenomenon which has created the conditions for further reforms within the community territory.

The span of enlargement, as well as the socioeconomic and political position of the member states determines the span of possible changes. Changes can be carried out in two dimensions, both within the EU and within the individual member countries. Thus, the initial idea that enlargement influences institutional and political changes is proved.

The latest enlargement brought about changes at European level but the dominating condition was the improvement of the countries that became members.

At European level, the institutions were the actors which went through significant changes. Within the Council the co-decision procedure has been set as the main procedure for drafting the legislation and the qualified majority voting has been set for decision-taking within the institution itself. The Council also re dimensioned the vote system regarding the number of votes that each country has.

The Parliament went through a growth in the total number of representatives and to some changes in procedures and structure. The other institution, the Commission, includes for the moment a large number of commissioners and the Commission’s President has achieved a real function within the institution.

Along with the changes at European level, policies are re dimensioned as well. In order to be capable of facing the growth in policy expenditures by the eastern wave of enlargement a progressive budgetary allocation has been applied until 2013. The Common Agricultural Policy wasn’t reformed because of
enlargement. The new member states within the EU are considered as “outsiders” for this policy and they have benefited specific direct payments until 2013. The new member states benefit form structural and cohesive policy since they have development problems with certain areas within their territories. The policy is designed in a way that it permits other old countries to benefit form it as well.

The Union’s capacity to absorb new members, while maintaining the momentum of European integration, is also an important consideration in the general interest of both the Union and the candidate countries\(^\text{17}\). The latest enlargement did not weaken the position of old countries nor in their position within the institutions, neither in benefiting from the policies. This was because of the conditions that the EU established for the candidate countries to fulfill before entering the EU. Besides this, the new member states have also agreed to specific arrangements for their role within the EU. An example of this is the financial perspective 2006-2013.

As a result the EU continues to be dominated by national interests, mostly those of old member states which are the biggest contributors within the Community. The future perspective of enlargement will mostly be dominated by the dimension of conditionality that new states have to fulfill rather than the reforming of the EU itself.

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Albania’s European Integration impact on its regional problems’ solution (The Albanians citizens’ possession in Greece),

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Abstract

After the membership in NATO, the major objective for Albania is its integration in the EU. The accomplishment of this objective goes through a long, difficult and multidimensional process. As a consequence of the EU integration, Albania must complete all obligations; also it will have all possibilities and chances for some problems’ solutions. One of the problems that we believe will find its solution through the Albania’s integration in the EU is the property

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possession from Albanians to neighbour countries, more precisely Greece.

This issue arose after the II World War, in 1945, when it was impossible for Albanian citizens to possess their properties in Greece. On one hand the unilateral declaration of Law of war with Albania from the Greek state and its holding into force till nowadays, on the other hand Albania’s isolation by positioning itself in the Eastern Bloc, made the resolution of this issue to be postponed for decades.

In the early 90s, with the fall of the totalitarian regime in Albania, was newly admitted the need to resolve this issue. During this period, Albanian – Greek relations have passed through different oscillations. However, in 1996 between these two countries, was signed the Treaty of Friendship, Cooperation and Good Neighboring, in which one of the sections (Art.15) obligates the two states to enable citizens’ possession of property of their respective states. The legal validity deadline of this treaty is 20 years. Now 14 years have passed and it has not been offered a concrete solution for the problem in question. Not only this, but we have a regression. The Greek state makes a direct connection between the Cham issue and the issue of property to Albanian citizens in Greece. By denying the existence of the Cham issue, it denies the existence of the other problem.

Since the two respective countries have static stands, we believe that the integration of Albania into the EU would enable the resolution of this problem. After the integration of Albania with full rights, Albanian citizens will benefit the same status of European citizens as Greek citizens do. This implies that Albanian citizens will be full right subjects under the European jurisdiction. Referring to the analogous cases solved under the European right (aqui communitaire) we believe in a solution of the issue in question. European citizenship status for the Albanians will enable submission of their claims near the judicial organs of the Greek state. If one or some of the claims presented before the court of the Greek state find their solution, then other analogous claims will be resolved based on the validity of the judgment of legal precedent. In the right of the Greek state, the legal precedent serves as a legal basis to judge similar issues with the same decisions. Unable to find solutions from the Greek state courts, these issues may go to the Strasbourg Court.

**Keywords:** *Aqui Communitaire, possession right, European Union membership, property acknowledgment–return–compensation, property titles.*
1. A BRIEF DESCRIPTION ON THE CREATION OF THE PROPERTY ISSUE OF ALBANIAN CITIZENS IN GREECE

Our study will focus on the right of ownership of the entire Albanian population of the areas that today are part of the Greek state.

Territorial division that was done for the Balkan region after breakdown of the Ottoman Empire, according to the London Conference in 1913, followed by invasion of Ioannina by the Greek military troops. This territorial division brought about not only leaving out the boundaries of the Albanian state many territories inhabited mainly by the Albanian population, but also removing a large number of Albanians from their properties in the direction of Albania. Population left outside the territory and those that left as a result of the invasion, were inhabitants mainly in: the area of the Çameria, some villages near the Leskovik, Follorina and Kostur, Kosovo and part of territories that today are part of Montenegro and Macedonia. However, the problem for the property issue of the Albanian population can not be restricted only to Albanians of these regions, as there are cases where some Albanians had properties in remote areas of Greece (eg, Thessaloniki, Peloponnesus, Athens, Ekaterina, Elsson, etc.).

The real dimensions of the problem in question come with the signing of the Convention concerning the exchange of Greek and Turkish population, signed at Lausanne on 30 January 1923 between Greek and Turkish state. The core issue of this agreement was the exchange of the Greek population that lived in Turkey with Turkish-Muslim population living in Greece. Based on the religious element, intentionally and unjustly, the Albanian Muslim population became the subject of this exchange. There are statistics that show a pronounced reduction of the Albanian population in some areas populated by them. Despite constant statements by representatives of the Greek state (former Prime Minister Kaklamanos) for not including the Albanian Muslim population in the exchange provided by this Convention, the facts speak otherwise. The properties from where the Albanian Muslims left under this Convention were given to the Greeks that came from Turkey.

A good part of the Albanian Muslim population that left their properties in Greece, as a result of serious conditions that found in Turkey, returned to Albania. Although the provisions of the Convention for the liquidation of the properties left behind (from both sides), by determining the methods, manner

3 States Archive, Documents on Chameria 1912 – 1939, Tirana 1989, pg. 89.
5 States Archive, Documents on Chameria 1912 – 1939, Tirana 1989, pg. 104,
and currency, the Albanian Muslim origins population did non benefit from these provisions (Article 9 and following of the Lausanne Convention).

The followed procedures in reliance to the interpretation of this convention brought the consequences that in many areas populated by Muslim Albanians, the separation of their connections and links, except for the area Chameria. Developments of the Second World War would bring the above mentioned results even for this area.

In 1940 Greece adopts the binding law No. 2636 “On the legal acts of enemies and seizure of their property.”

In addition to this law, with a Royal Decree, Albania and Italy were declared enemy countries. Albanian Muslim population of Chamria was considered collaborators of the Italian and German occupiers. According to this definition, and the law implementation, this population was seized and forced to leave their properties in the Greek state.

Since 1913, which can be considered the genesis of this problem, the Albanian side is constantly trying to find solutions through bilateral relations or internationalization of the issue.

Nowadays we have new developments, because a considerable part of citizens who can be called as the subjects of this study, have begun to require individual solutions or have started to organize in groups of interest to win their ownership rights, and not only that. Still, even after these efforts, we can say that there is not a solution to this problem.

2. THE CURRENT CONDITIONS OF THIS ISSUE

Despite the new political situation in Albania after the ‘90s and the creation of associations and political parties, representatives of this group of interest, having normalized relations between two countries; still there is not reached a final and acceptable solution by the parties on this issue.

Over the years, the Muslim Albanian population which came in Albania as a result of these policies, is integrated in the life of the country and got the Albanian citizenship. After the ‘90s, a certain number of citizens who belong to this interest group began their individual efforts, claiming to know the ownership rights to their properties in Greece.

Also, different Albanian political and apolitical personalities have brought in the center of public attention the need for resolving the issue of Albanians properties in Greece. As Mr. Teloglu, a board member of the International

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6 Greek Kingdom Government Journal, Nr. 379, Date 10.11.1940, Law 2636.1940.
Studies Institute ELIAMEP says, these properties were evaluated by the British side in the amount of 200,000 Dollars of that period\(^7\).

The Treaty of Understanding, good Neighborliness, Security and Cooperation signed in March 1996, between Albania and Greece, with acting power for 20 years, would be considered as an opportunity for the possession of property by nationals of either Party in the territory of the other party, removing existing barriers.

In 1998, Greece issued a law on re-registration of immovable property. Under the provisions of this law within five years all those assets that do not re-register by the owner, shall be considered as state property.

By denying the existence of the cham issue, the Greek state denies the right of ownership of every member of this interest group (the Albanians who have property in Greece before the year ‘45).

Regarding the existence of the “law of war”, despite the claim to its legal invalidity, the law in question is not only effective but also it creates a problem for the properties issue. A legal act of parliament can be repealed through a parliamentary law.

Despite the current developments of the possession of ownership issue of Albanians in Greece it is still unresolved.

Before we present the proposals for the possible solutions to this issue, we must emphasize the need for a property inventory for all properties of the Albanians in Greece. While the issue is defined as of national interest, then, it will be needed to create a state structure to achieve this task. This structure may refer to the available documents by interest groups, Turkish state archives, Greek archives or other countries. Upon completion of this inventory we can say that the object of the issue is clearly defined as of the quantitative and qualitative terms. Only on a clear and well-defined target of the issue the options of resolving the matter may be presented. These options include:

3. APPLICATION OF THE PROVISIONS OF THE TREATY OF FRIENDSHIP, COOPERATION, GOOD NEIGHBORLINESS AND SECURITY

The first option for resolving this issue, given that has legal effect and binding for the parties, is the Treaty of friendship, cooperation, good neighborliness and security, signed by Greek and Albanian state in 1996.

\(^7\) Nazarko, M, Last War, Properties of Albanians in Greece, Tirane 2007, pg. 196.
In its provisions, Article 15, it is clearly defined that the parties will handle the possibility of removal, within the legal framework, of the constraints that obstacles the property possession that nationals of either party have in the territory of the other party.

The abovementioned article can be considered as a good and complete alternative for the resolution of the issue in question, given the good will of the parties, defined by the signing of the treaty. Article 15 shall be considered a possible solution of this issue because it separates the issue from negative political-historical connotations. By avoiding the causes of the issue creation for both sides, this treaty can ensure a positive final result. To solve this problem, in the treaty is forecasted the creation of a structure with representatives from both countries.

During these years, despite the amplification of this issue by different factors and actors, this structure is not established, by freezing the executive power of Article 15.

After 14 years, it is clear that this treaty has not provided the solution to the issue foreseen in the Article 15. The fact that this treaty is the deadline ends makes us pessimistic about resolving the issue according to its provisions. In this way, the first option with legal force and binding for both parties has no premises to provide resolution of the property issue.

4. SOLUTION PASSING THROUGH THE ISSUE IN AN ARBITRATION COMMISSION

In the absence of possible solutions for this issue, based on the treaty as above, states can address to any arbitration commission (UNCITRAL, etc.). The issue in question can be handled by one of these commissions as a ratio of the rights and obligations of the parties. Greek state, since the Lausanne Convention, has specified that “the Albanian properties, dispossessed will be paid in gold value, including interest, until full payment of amounts that correspond to real income effectively treated”9. Besides the Albanian assets expropriated following the Lausanne Treaty, there are also the Albanian properties expropriated by the end of 1945. Referring to an accurate inventory of properties, their real value nowadays and the absent profit from their use in these years, can be calculated a precise figure for compensation. However, to

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9 Convention Concerning The Exchange Of Greek And Turkish Populations, date 30.01.1923, Article 9-11, http://www.hri.org/docs/straits/exchange.html
achieve this alternative solution is required the willingness of both parties.

The parties may appear before this authority and mediation process may lead to an acceptable solution. States must be under the supervision of the arbitrator to present their claims regarding this issue to reach a solution. Arbitration would serve as an incentive in the acceleration of the procedures and their clear definition in this issue resolution.

The proposed solution can be defined also as a liquidation based on installments that the Greek state may do from the fund collected for the use of these assets during the period they were given in use, according to the assessment of properties that must be done.

This will, as was found above is missing, even after a determined legal obligation in an international agreement. In today’s terms, it can hard to claim for the Greek government to accept an arbitration commission to handle this delicate issue. In addition, current economic conditions in the Greek state must be taken into account. This alternative with a relatively high financial cost increases the level of difficulty in resolving the issue of Albanians properties in Greece.

5. FREE MOVEMENT OF ALBANIAN CITIZENS, REMOVAL OF THE VISA REGIME

The Albanian Government is expected to benefit from the removal of the visa regime for the Schengen area, where Greece is part too. By removing the visa regime it will be created the possibility that members of this group of interest will address individually to the Greek state courts for their claims. In those few cases where individuals of this group have managed to present their claims to the Greek state tribunals, the courts have decided their drawback. One such case is the decision of the Supreme Court of the Greek State, Aeropagos, Nr. 5 / 2006. After the trial from the Court of First Instance in Thessaloniki and the Court of Appeal, the issue went to trial Aeropagos. Aeropagos gave the sentence for the breakdown of Albanian citizens’ claims. Subsequently, to these citizens was opened the way to lead their claims to the Court of Strasbourg, expecting an impartial decision and in their favor.

If we had a Greek court decision in favor of the contenders (party of Albanian owners), referring to the legal power of precedent as an opportunity to obtain judicial decisions for analogous cases, then it will open the way for all the rest of interested people.

10 Nazarko, M, Last War, Properties of Albanians in Greece, Tirane 2007, pg. 159.
After the case passes all levels of the Greek state judiciary, Albanian citizens can turn to the Strasbourg Court for the claims that they have. Considering that till now the Greek state is pursuing a policy of not granting visas to individuals identified as part of this group claimants that have ownership in Greece, this alternative may lead us in the way of solving the problem.

The presented alternative can be seen as the way that leads towards resolving the issue, but not as its solution. It cannot be pretended for the Greek courts to give state court decisions in favor of Albanian citizens related to their claims regarding property in Greece (also referred to the above mentioned case). Up to now we have no decision by a Greek court that goes in favor of the claimant (Albanian citizen).

6. TAKING THE GREEK CITIZENSHIP

One of the alternatives of resolving the matter in question is the possession of all the rights and legal obligations that arise with the Greek nationality existence. A significant number of Muslim Albanian population in Greece, in 1913, according to the Athens Convention between Greece and the Ottoman Empire were declared as Greek nationals\(^{11}\). This population had the Greek citizenship until 1953, when by the Albanian state was granted the Albanian citizenship, without an individual request, being forced to renounce Greek citizenship\(^{12}\). This legal act was done in violation of the procedure of giving and/or receiving citizenship defined in public international law and the Convention on the Reduction of non-citizenship in New York signed on 30 August 1961, in accordance with the resolution 896 (IX), adopted by the General Assembly of the United Nations on 04 December 1954\(^{13}\).

Despite this, referring to the Code of Greek Citizenship Section 1, *every citizen born in Greek territory, provided that by the birth does not get a foreign citizenship, can claim the Greek citizenship*\(^{14}\). A considerable part of the Albanian citizens who claim the recognition of property rights in Greece, are born in Greece and at the moment of birth had the Greek citizenship and not any foreign citizenship.

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12 Presidiums Decree of the Albanian People’s Assembly No. 1654, dated 19.04.1953
13 Legal Office of UNHCR in Tirana, year 2006.
14 Greek Citizenship Code, Article 1, www.helleniccomserve.com/greek_citizenship1.html
Referring to this code, all these citizens, can utilize this legal space by taking Greek citizenship and exercise all the rights that arise from it, including the right of ownership.

The alternative of taking citizenship and enjoyment of citizenship rights that derive from it by a part of this interest group has a high level of difficulty to be realized, because of the fact that the citizenship provision remains exclusively Greek state authorities.

Referring to the previous alternatives for resolving of the issue of Albanian properties in Greece it is observed that those are faded by the lack of will by the Greek state to compromise. Thus, we propose an alternative solution that avoids or doesn’t depend directly on the willingness of the Greek state.

7. ALBANIA’S MEMBERSHIP IN THE EU

After Albania’s membership in the European Union, all Albanian citizens will exercise the status of European citizens. As all citizens of EU member countries, the Albanians would possess the same rights and obligations.

All EU member states have adopted their domestic legislation with the European right (acquis communautarie), considering the legal norms of this last one as the highest from hierarchical order. Like any other international law, the EU legal acts ratified by the Greek government abrogate any other domestic law that interferes with them\(^{15}\). One of the main principles of European law is the law on property (Protocol 1). This means treating each subject to European and domestic law as European citizen. Each EU member country must treat each citizen of the EU as equal to its citizens, including the most important institutions, such as courts.

Albanian citizens, as European citizens would possess equal rights with Greek nationals, even as party claimant in a trial\(^{16}\). On the other hand, in the Greek courts normative acts will prevail against the acquis communautarie domestic legislation.

Based on these premises, we can say that Albanian citizens, European citizens will be able to turn to the Greek state courts, which will have to judge issues based on the acquis communautarie normative acts. This way, you can have an objective final settlement of the Albanians properties issues in Greece, despite the will of the parties.

\(^{15}\) Greek Constitution, Article 28/1, www.helleniccomserve.com

\(^{16}\) Zajmi, I. European right, Tirana 2006, pg. 161.
8. CONCLUSIONS

The property issue of Albanians in Greece will continue to exist as long as it will not find an acceptable solution from all parties. The Albanian state is powerless to put the solution of this issue in the bilateral agenda with the state of Greece. On the other hand, the will for a compromise with the Albanian state and/or the groups of interests of the Albanians owners is absent by the Greek party. In the future, this issue will be treated through the rights and obligations of the Albanian citizens, obtained from the membership of Albania into the EU. The European Citizenship status will make possible for the Albanian citizens to request the deliberation of their right of ownership through the mechanisms of the European right.

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A COMPARISON OF E-GOVERNMENT PROGRESS IN TURKEY AND ALBANIA

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Abstract

The end of 20th century and the beginning of 21st century have been the most exciting times. The rise of network technologies all over the world has affected the way how the people communicate and also the way how the companies and organizations do business. It is logical to think that also the governments should create possibilities for businesses and their citizens to use these new emerging technologies. The implementation of these technologies in the public sector is now a need for each government in the world. All the activities of public sector related to the usage of technology can be defined as e-government. In this paper, we assess e-government implementation progress by comparing online public service delivery in Turkey and Albania. The comparison is based on the information available in different resources published until the end of 2009.

Keywords: E-government, public sector, progress, Albania, Turkey

1. A COMPARISON OF E-GOVERNMENT PROGRESS IN TURKEY AND ALBANIA

Nowadays, e-government is discussed in most of the developing countries and there are many different definitions and understandings of e-government. (Song, 2004)

“Electronic government comprises the use of introducing Information and Communication Technology (ICTs) to deliver public services to citizens and business. It entails the transformation of public services to citizens using new organizational processes and new technologies. The aim of E-Government is to make government services more accessible, more “customer – focused”, more relevant to citizens and more responsive to their needs (Gunter, 2006).

Shortly we can say that e-government is like a virtual government or imitation of traditional government that makes citizens comfortable and satisfied with easy accessing to all documentations and processes of state from anywhere that they can use ICT services.

The Government of Albania is in the midst of a transformation on a scale never seen before. Albania is committed to joining European Union (EU) and therefore has undertaken all the necessary reforms required to be in compliance with the European standards. The EU signed
Association Agreement (SAA) with Albania in June 2006, and its trade-related provisions took effect at the end of that year under an interim agreement which is ratified by all the 27 countries today. Albania sent out the official request to be member of EU in May 2009. NATO Allies signed accession protocols with Albania on 9 July 2008, and in April 2009, Albania became a full member of the Alliance.

The European development model is closely interrelated with the economic development of an information society. This transformation involves engaging the citizenry more fully while at the same time becoming more cost effective and efficient with the resources it currently has and consumes. The Government of Albania has identified ICT as an enabler for the social and economic development of the country. For over a decade, the Government of Albania has gradually been introducing ICTs and new technologies tools in the day-to-day work of Central Ministries and Government agencies. Such activities involved the active support of the donor community in the country.

The European Union for which Turkey is a candidate country expecting to become a full member put forward in its “Lisbon Strategy” in March 2000 the task to become the most competitive and dynamic information-based economy by 2010. Turkey became a party to the eEurope initiation when it was extended to eEurope+. Turkey thus started E-Turkey Enterprise project between 2001-2002, and the project was renamed as E-Transformation Turkey Project in 2003. The State Planning Organization of Turkey is directing the implementation of the project.

E-Transformation Turkey Project aims for the alignment ICT policies, adaptation of the EU acquis and the eEurope+, and developing information technology mechanisms through which citizens can participate in the decision making processes. To this end, it was decided to increase the use of ICTs, to effect coordination between government organisations and to prepare the grounds for private sector.

As a result of the work done in the context of E-Transformation Turkey plan, the number of web sites with gov.tr domain rose from 1647 in 2003 to 6775 in 2007. Similarly, the number of other public web sites rose to 1138 in 2003 to 11.725 in 2007. The objective of the e-government strategy of Turkey is to finalize the infrastructure and operationalize the main E-government portal through which all public services could be accessed by 2010. (Tosun, 2009)
2. IMPLEMENTATION OF E-GOVERNMENT

Implementation of e-government services is one of the most important targets of many countries for the period of last 25 years which has parallelism with very fast developing in ICT and internet technologies. Although there are a lot of countries trying to establish all of the services of e-government, not all of them can be evaluated as successful, and high percentage of citizens in these countries doesn’t have enough information about e-government and the benefits of e-government services.

“Since the advent of a word wide revolution in information and communication technologies many governments in the world have become aware of the potential of using the information and communication technologies particularly internet as a tool in enhancing their services and increasing their efficiency in terms of accessing information and transaction services. These electronic services often referred to as e-Government. However, not all e-Government initiative is success. More than 60 percent of all e-Government initiatives either fail or fall short of expected outcomes” (Gartner, 2007).

In his paper (Heeks, 2008) has analyzed more than 40 e-Government-for-development projects in developing transitional countries and estimates that 35 percent of these were total failures, while 50 percent partially failed, and only 15 percent were successes. These figures indicate that the failure rate is even higher in developing countries.”

Before discussing about establishing e-government services and their implementation effectively, there are some important elements that should be enough and suitable in every country that is planning to have e-government facilities. Some of them are the usage of Information and communication technologies such as;

- main telephone lines
- mobile subscribers
- computer
- internet
- government websites
- network digitalization
- wireless

The population of the countries, the citizen’s knowledge in ICT area, laws about ICT and government investments for information and communication technology are also very important to be successful in e-government progress.

In the next parts of this article we will see some statistical data of Albania...
and Turkey about the important elements that are mentioned above and a short comparison of establishing and implementing progress of e-government in these countries.

3. SOME STATISTICAL DATA OF ALBANIA AND TURKEY

In this part we present some statistical data about the development of ICT in Albania and Turkey, and the Legal Framework Progress in both countries.

Table 1: ICT Statistics

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>ALBANIA</th>
<th>TURKEY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>3.6 million&lt;sup&gt;4&lt;/sup&gt;</td>
<td>72 million&lt;sup&gt;5&lt;/sup&gt;</td>
</tr>
<tr>
<td>Mobile Subscribers</td>
<td>94 %</td>
<td>89%</td>
</tr>
<tr>
<td>Broadband Subscribers</td>
<td>2.6 %&lt;sup&gt;6&lt;/sup&gt;</td>
<td>7.8%</td>
</tr>
<tr>
<td>Computer Usage</td>
<td>37%</td>
<td>40.1%</td>
</tr>
<tr>
<td>Internet Usage</td>
<td>750,000 users, 20.6%&lt;sup&gt;7&lt;/sup&gt;</td>
<td>38.1%</td>
</tr>
<tr>
<td>Number of Government Websites</td>
<td>178&lt;sup&gt;8&lt;/sup&gt;</td>
<td>8500</td>
</tr>
<tr>
<td>Government ICT Investments per year</td>
<td>1.8 million $&lt;sup&gt;9&lt;/sup&gt;</td>
<td>590 million $&lt;sup&gt;10&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

From this table we may say that Turkey is much more developed in the ICT area, as it has more investments from government in ICT. But from the other perspective, it is normal that Turkey has more investments as it is much more bigger than Albania. Also from the data we see that total number of Governmental websites in Turkey is very big comparing to Albania. Even from the internet users, Albania is very low comparing to Turkey, even though the difference in percentage of computer usage is quite small.

But from the other part we may say that over the past decade, Albania’s economy has enjoyed real GDP growth, counting the EU as its main trading partner. Despite the global economic turmoil of 2008 Albania’s economic growth was in line with initial forecasts of 6% while inflation remained

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<sup>4</sup> http://www.internetworldstats.com/europa2.htm,
<sup>5</sup> http://www.internetworldstats.com/europa2.htm,
<sup>7</sup> http://www.internetworldstats.com/europa2.htm
<sup>8</sup> http://www.domainworldwide.com
<sup>9</sup> National Agency of Information Society (NAIS)
<sup>10</sup> TurkStat, SPO, BTK, Turksat
within the 2-4% target band of the Bank of Albania. Albania was one of only two countries in Europe that recorded economic growth in the first quarter of 2009, growing by 0.4%.

Albania’s Internet market offers much growth potential due to current low penetration levels. Internet access is available through a variety of means including dial-up, leased line, microwave radio, ADSL, Wi-Fi and fiber. Broadband take up is rising in response to increased availability and drastic tariff reductions implemented during late 2008 and early 2009. Public Internet access is also accessible through Internet cafes. Recognizing the potential of applying ICT to improve both social and economic development, Albania has taken steps to develop a knowledge-based society, principally by improving IT literacy.

Albania’s mobile market has undergone rapid growth due to competition, initially with the entrance of Vodafone and later through the entrance of Eagle Mobile. The majority of mobile users utilize prepaid services, with its inherent affordability and flexibility popularizing mobile ownership. With the mobile voice market maturing, new subscriber additions will become increasingly harder to attain hence mobile network operators are slowly turning their attention to increasing average revenue per user levels. Initiatives include encouraging prepaid users to take up postpaid offers and encouraging take up of mobile data services, with GPRS, EDGE-based mobile data services available.11

Table 2: Internet Usage and Population Statistics through years in Albania12

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Users</th>
<th>Population</th>
<th>% Pop.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>2,500</td>
<td>3,083,300</td>
<td>0.1 %</td>
</tr>
<tr>
<td>2002</td>
<td>30,000</td>
<td>3,084,586</td>
<td>1.0 %</td>
</tr>
<tr>
<td>2006</td>
<td>75,000</td>
<td>3,087,159</td>
<td>2.4 %</td>
</tr>
<tr>
<td>2007</td>
<td>471,200</td>
<td>3,087,159</td>
<td>15.3 %</td>
</tr>
<tr>
<td>2008</td>
<td>580,000</td>
<td>3,619,778</td>
<td>16.0 %</td>
</tr>
<tr>
<td>2009</td>
<td>750,000</td>
<td>3,639,453</td>
<td>20.6 %</td>
</tr>
</tbody>
</table>

12 http://www.internetworldstats.com/euro/al.htm
13 International Telecommunication Union Statistics
14 Statistics from the Association for Consumer, Market and Sales Research (Gesellschaft für Konsum-, Markt- und Absatzforschung, or GfK)
Table 3: Internet Usage and Population Statistics through years in Turkey\textsuperscript{15}:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Population</th>
<th>Int users</th>
<th>% Pop.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>67.803.927</td>
<td>1.785.000</td>
<td>3%</td>
</tr>
<tr>
<td>2002</td>
<td>69.875.000</td>
<td>6.050.000</td>
<td>9%</td>
</tr>
<tr>
<td>2007</td>
<td>70.586.256</td>
<td>16.007.000</td>
<td>22%</td>
</tr>
<tr>
<td>2008</td>
<td>71.517.100</td>
<td>17.916.000</td>
<td>25%</td>
</tr>
<tr>
<td>2009</td>
<td>72.561.312</td>
<td>27.575.000</td>
<td>38%</td>
</tr>
</tbody>
</table>

Table 4 shows the progress that both countries have in the Legal framework for E-Government. Turkey seems that has completed the Legal Framework, but Albania hasn’t done so much in the legal framework on e-commerce and electronic documents, which are actually in process.

Table 4: Legal Framework Progress For E-Government (eSEE, 2009)

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>ALBANIA</th>
<th>TURKEY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal Framework on e-signature</td>
<td>DONE</td>
<td>DONE</td>
</tr>
<tr>
<td>Legal framework on e-commerce</td>
<td>IN PROCESS</td>
<td>DONE</td>
</tr>
<tr>
<td>Law on electronic documents</td>
<td>IN PROCESS</td>
<td>DONE</td>
</tr>
<tr>
<td>Law on cybercrime</td>
<td>DONE</td>
<td>DONE</td>
</tr>
<tr>
<td>Law on telecoms</td>
<td>DONE</td>
<td>DONE</td>
</tr>
<tr>
<td>Law on personal data protection</td>
<td>DONE</td>
<td>DONE</td>
</tr>
</tbody>
</table>

4. COMPARISON OF E-GOVERNMENT PROGRESS IN ALBANIA AND TURKEY

After giving some statistical data on ICT and Legal framework on both countries, now we may show the progress in specific areas of e-government (Public Services).

\textsuperscript{15} http://www.tuik.gov.tr
Table 5: Development of Areas of e-Government in Albania and Turkey\textsuperscript{16}

<table>
<thead>
<tr>
<th>Areas of E-Government</th>
<th>Albania</th>
<th>Turkey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Payment System</td>
<td>In implementation Process</td>
<td>Completed</td>
</tr>
<tr>
<td>Environment and construction permits</td>
<td>In Planning</td>
<td>In Planning</td>
</tr>
<tr>
<td>Healthcare and pension</td>
<td>In Planning</td>
<td>In Planning</td>
</tr>
<tr>
<td>Business Registration</td>
<td>Completed</td>
<td>In Implementation Process</td>
</tr>
<tr>
<td>Company Income Registration</td>
<td>In Implementation Process</td>
<td>Completed</td>
</tr>
<tr>
<td>VAT</td>
<td>In Implementation Process</td>
<td>Completed</td>
</tr>
<tr>
<td>Customs declaration</td>
<td>Completed</td>
<td>Completed</td>
</tr>
<tr>
<td>Public Procurement</td>
<td>Completed</td>
<td>Completed</td>
</tr>
<tr>
<td>State Statistical System</td>
<td>No activity taken</td>
<td>In Implementation Process</td>
</tr>
<tr>
<td>Job Search</td>
<td>In Implementation Process</td>
<td>Completed</td>
</tr>
<tr>
<td>Social Benefits</td>
<td>No activity taken</td>
<td>In Implementation Process</td>
</tr>
<tr>
<td>Personal Documents (IDs)</td>
<td>In Implementation Process</td>
<td>In Implementation Process</td>
</tr>
<tr>
<td>Car Registration</td>
<td>Completed</td>
<td>In Implementation Process</td>
</tr>
<tr>
<td>Public Libraries</td>
<td>In Planning</td>
<td>In Implementation Process</td>
</tr>
<tr>
<td>Certificates</td>
<td>In Planning</td>
<td>In Planning</td>
</tr>
<tr>
<td>Admission to higher Education</td>
<td>No activity taken</td>
<td>In Implementation Process</td>
</tr>
<tr>
<td>Residence Registration</td>
<td>In Planning</td>
<td>Completed</td>
</tr>
<tr>
<td>Treasury and Programmatic budgeting</td>
<td>Completed</td>
<td>Completed</td>
</tr>
<tr>
<td>Support Systems for implementation of EU funds</td>
<td>In Planning</td>
<td>In Implementation Process</td>
</tr>
<tr>
<td>Integrated control of borders</td>
<td>Completed</td>
<td>Completed</td>
</tr>
</tbody>
</table>

In addition to the details in the table above, let’s see some other area of e-government implementation in Albania and Turkey:

*In Albania:*

Public services and efficiency of their distribution have a major effect on economic and social development of a country. Unlike the situation presented in the strategy for Information Technology 2003, today all ministries have their web

\textsuperscript{16} (eSEE, 2009) for Albania and (Cayhan, 2008) for Turkey
sites and databases where electronic presented legal acts and regulations, updates on ministry activities, strategic documents, reports different, etc. are published electronically. Work has been conducted GOVNET government network with the support of UNDP and European Commission. Thanks to this project, ministries and departments of the Government of Albania and two public service organizations (in total 18 institutions) are connected through a fiber optic network with high speed. Coming soon is expected to start proceedings for the second phase of this project aimed at reducing costs and improving the network. In this way will be made possible functioning of many government applications.

One of the most important initiatives undertaken by the Ministry of Economy, Trade and Energy is the reform of business registration procedures. This reform, is a significant step in the general government program to improve the business climate in Albania. This is a simple process, the faster and less cost for registering new businesses and registration which is tax administration, social insurance, health insurance and the Labor Inspectorate.

The new law on public procurement provides electronic procurement. E-Procurement supports the automation of tendering activities of different Ministries of the Government and Contractor authorities. This system enables transactions between public institutions and the Albanian national community and international business. Preparation and administration system provides safe, effective and transparent all tender documents and so avoid the delivery of paper documents by providing security throughout the process and avoid corruption and elements. Economic operators may use the services offered by this page to locate procurement competitions and to participate fully in electronic form.

Directorate General of Taxation has begun offering for business declaration and payment on-line and also for larger taxpayers. The goal of tax administration is that all payments be made with the statement on-line administrative avoiding bureaucracy and reducing time.

E-Customs - AYCUDA is a modern system of data processing system during clearance. This process has led to rapid clearance of cargo, has improved control over income and provides accurate and updated information for the trade of goods

Project implementation started in August 2002 with two main objectives: the establishment of the Albanian version of the program and putting into operation of the program in Tirana and Durres customs. Advantages of the system remain in the automatic processing customs declarations from the moment of registration to the moment of payment, performance unique customs procedures in all branches, the branches connecting customs center,
electronic close of transit, processing a large number of data and producing extensive statistical reports. Until today the system has been extended at the Directorate General of Customs and customs of the country focal points enabling that 92% of transactions be processed through the system.

**E-Education** - In Albania there are 465,000 primary school students and 65,000 students of secondary education. There are about 2,900 primary schools and about 522 secondary schools. The implementation plan for the development of information technology in schools, include currently 379 operational computer cabinets. The situation as 1 computer for 45 student, in 2010 aims to be achieved in 1 computer per 25 students.

**E-Justice** - In this respect are taken some measures for installation of a software structure in intranet and internet for the Ministry of Justice as Bailiff computerization of judicial service, creating a digitized network internal Intranet for all executive system, installing a computer network for the operation of the prison administration

**E-Health** - In this sector has begun work to establish a management information system for health statistical package from the Ministry of Health in collaboration with the Institute of Insurance. Also with the support of the World Bank have been provided some projects as the creation of an integrated system of national health information

**E-Culture** - In this field it is aimed to become fund registration and establishment of national museums, cultural assets vice Academy of Sciences, the network connecting branches with a central database of cultural heritage in the National Center of inventory of cultural assets, the creation of a integrated network of cultural tourism guide.

**E-Cabinet** - It is a new form of electronic communication that allows government-government to draft laws and decisions issued and to be sent later to council of ministers. In this form is made possible online electronic signing after approval of the Draft by the Secretary General and Minister.

**E-Questionary** - As a result of the adoption requirements in EU, each ministry should meet the required questions. For this, is built an electronic portal that allows throwing the answers from each ministry, communicating with each other and then sending for approval in the council of ministers (AISEG, 2009)

**In Turkey:**

Turkey has achieved quick wins in the e-government arena by prioritizing projects that make government more efficient, effective, transparent and accountable. Turkey has focused on:
✓ Bringing online high-volume/high-value transactions – such as e-procurement, making social security and health payments, and collecting customs, tax and social security payments - instead of trying to create as many e-services as possible.

✓ Establishing e-government infrastructure, such as building ICT networks for tax offices, Ministry of Finance accounting offices, the national judiciary system, and the national police system (Cayhan, 2008)

**E-Education**: The government established a web based database system to control and manage all public schools that gives very easy and effective communication opportunity between school administrators, students and parents directly using private student ID numbers through internet.

**E-Health**: For the implementation process in e-health Turkey made great reforms and people may solve their health problems in all public or private hospitals and pharmacies using only their social security or personal ID number through online database system of government.

**E-Banking**: Almost all transactions are available using internet banking and government also can control these transactions from National Central Bank.

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5. CONCLUSION

As we mentioned, it is not difficult to see that Turkey has made more progress in E-Government than Albania did.

Turkey is described as one of the fastest developing countries in terms of its e-government performances according to a recent report published in 2007 analysing 1687 e-government web sites in 198 countries. The report placed Turkey in the same league as South Korea, Singapore, Taiwan, the United States, Great Britain, Canada, Portugal, Australia and Germany (Darrel, 2007).

On the other hand, according to a E-State Progress Report published by the European Union Commission, Turkey is at the initial stages of public service provision over the internet according to a criteria measuring the process from the supply of e-government services to their final procurement (Tosun, 2009).

Why is Albania some few steps behind Turkey in processing E-Government?

a. For the first time, Albania signed the National Strategy Information Technology approved in April 2003 later than Turkey’s first step (First initiatives of e-government, such as the Internet tax project of the Ministry of Finance and the central population management system date back to 1998) (Cayhan, 2008).
This strategy had 14 goals and had defined some priority measures to make possible the development of ICT in Albania. These goals included objectives as follows:

- Electronic Governance
- Electronic Business
- Electronic Health
- Electronic education

b. Then, Albania has confirmed its commitment towards creating an information society through the signing in 2007 together with other countries of Eastern Europe. This constituted a challenge for Albania, considering the state of information technology sector at that time (the second step of Turkey wasn’t so much different from the first step and was in more advanced topics of implementing e-government - Between 1997-2002, there were three governments in the country).

Some of the tasks to be carried out as a result of this signing were:

- Development of an internal network for public administration including a governance network GOVNET
- Support and coordination of the project for the digitalization of legal acts, archives, libraries.
- Promotion and support of information technology for public schools including computerization and Internet access.
- Encouraging and supporting the development of electronic business.
- Encouraging and supporting the use of online services, Internet and computer by citizens.
- Cooperation of other national institutions and international, civil society and private sector through Electronics

c. From the first step until now implementation of e-government has not moved with huge steps because of:

- Low number of Internet users
- Low number PCs at home
- High prices for mobile phone
- High price for access to Internet
- Low level of awareness for the use and benefits of information technology at home

d. Even if we can think that it is a considerable increase in use of electronics, in fact there is a growing interest in developed cities of Albania and the development of technology is limited by geographical location and economic situation. Cities that are geographically located away from the
developed cities, have small development of information technology.
e. Situation in 2010 is as below:
✓ Service Internet is offered on mobile phone.
✓ The price of Internet service has declined considerably due to the increase of ISP and as a result of increased competition.
✓ Service Internet is qualitative because ISP has significantly improved technology.
✓ E-governance, E-business, E-health and E-education have been developed.

Finally, we can say that even in slow steps, Albania is progressing and in the future will make faster and qualitative improvements, while Turkey will progress as faster as did until now. Those as result of technology improvements and higher investment in Information Technology field.

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European Integration: New Methods of Information, Communication and Technology. Challenges into Opportunities

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Abstract

The process of European Integration has faced and continues to face many challenges. This is because the European Union is a kind of experiment per sé and has developed on an evolving context. Over the years, Internet has become a driving force which is changing the world. In this respect, the development of information, communication and technology or ICT, has become a priority for the EU and its processes. It is very important to adapt new methods of the “digital age”, to implement them into EU system and policies and promote them. The challenge for the EU is to make the best use of ICT as an opportunity for development and growth.

Keywords: European Integration, ICT, development.

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1. WHAT DOES EUROPEAN INFORMATION SOCIETY 2010 MEAN?

It is precisely the modality used by EU to manage this transition that will determine the quality of our life, our working conditions, competition of industries and services, the way business firms make progress, the students learning techniques, the researchers, or even the way governments offer services to their citizens. Hugo Lunardelly, a marketing manager of European Microsoft states: “Without internet even the Euro would not have such a great impact.”

On the other hand, considering the winds of change, many specialists claim internet to be as significant as the industrial revolutions of the 18th and 19th century! The digital technologies represent a powerful driving force that brings economic growth paired with employment possibilities, improving industrial competition and addresses key social challenges.

Considering the “boom”, which sparked the American economy’s digital revolution, the government leaders admitted in the Lisbon Summit held in March 2000, that even Europe should apply a more digital economy. Indeed, they introduced a new goal for the European Union: in 2010, EU should be the most competitive society from the digital point of view. This became a “European” initiative undertaken by the European Commission in order to manage the transition period within the Union as well as in the candidate countries of Central and Southern Europe. The goal of this initiative is to provide access for new ICT and make best use of them for the benefit of the citizens, companies or administration. The idea is that they should have online access directly or in an interactive way to gain knowledge, education, training, governance, health services, culture, financial services and so on. Hence, internet access has become first of all a fundamental right for all the citizens and all the governments that have the responsibility to provide it.

ICT was also in the center of the revised treaty of Lisbon which came into power on December 1st 2009. ICT proved to be at the core of the discussion in June when the European Commission adopted the initiative of “e-2010: European Information Society 2010” to foster promotion and employment in the information society and the media industry. The commissioner Neelie Kroes,

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2 Rourke, John, World Politics, International Politics on the world stage, Brief, third edition, CONNECTEXT, Dushkin/McGrae-Hill, fq. 177

3 ec.europa.eu/enterprise/sectors/ict/index_en.htm
who is responsible for the digital agenda of the EU, says: “during these economic
dull days, Europe should have the courage to invest for its future. The European
Commission is seeking to double the budget on technology in the future and I am
encouraging the member countries to join their efforts in this investment area”.

There have been many discussions among the Commission and the
member countries regarding the needed strategy for the implementation of
the abovementioned initiative. The governments should assure that all the
benefits from the internet should be available for a wide community not just for a
minority. So, the internet based society should be inclusive and comprehensive in
respects that everyone who can use a computer can be able to actively participate
only by clicking the mouse. This is possibly based on a developed, united Europe
in which internet is very important in terms of its intensification and enlargement.
The new international political opportunities are based on the technological
developments. The media, which is always a bearer of information, telephone,
television, internet, etc., influence the formation and formulation of the ideas as a
leading force for the politicians as well as the citizens. At this point, there could be
room for another theme or issue that has to deal with the quality or professionalism
of the media which does not always act professional or accurately inform (without
meaning to imply that many of the times it is disinforming or misinforming).
However this lies outside of the topic at hand.

There are various ways of communication, which is not even slowed
down to one thousandth of the second when crossing international borders.
Rising currents of information that goes from one state to another reflects the
growing interdependence of countries active in the world today. Information
technologies have security consequences, e.g. fiber optic cables to facilitate
military command and control. Take for instance the United States and how
they have tried to prevent the sale of such cables to Russia after the end of
the Cold War. In a subtle but pervasive way, communication technologies can
distribute power beyond governmental reach to common citizens and other
nongovernmental stakeholders. We think the technologies of “new intelligent
weapons” have contributed in empowering the soldiers compared to the
system of big weapons. New communication technologies can do the same
for ordinary citizens, compared with their political governments.4

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4 See for more: Goldshtein, Joshua, INTERNATIONAL RELATIONS, American
London, Toronto, Sydney, Tokyo, Singapore, Madrid, Mexico City, Munich, Paris, Cape
Town, Hong Kong, Montreal, p 379
With so much information that circulates around the world compared to before, information has become a powerful tool in the work of governments; be domestic issues or interstate. Above all, the governments want more possibilities for information as this enables connection with the world around. They, (governments) also spend large sums of money trying to find information regarding what is transpiring inside, as well as outside of their territories. Most of them even create agencies for collecting information from intelligent services. With today’s information technologies, it is easier for governments to collect, preserve and organize the large amounts of information. In this context, the information revolution empowers governments more than ever. Especially when it comes to repressive governments, the power of information gives them more opportunity to observe people, spies or to manipulate public opinion.5

In fact, the governments of the small and less powerful countries seem to gain more power from the information technology. Given that the cost of information tends to decrease, this information can be obtained from many countries. Now the small countries can obtain some of the same skills electronically even by following the news from CNN. The very nature of state interaction is influenced a lot by information technology.

Besides the opportunity to have information, the governments use it as a power skill to distribute it at international level at home and abroad. Most governments provide channels for dissemination of information in order to influence the viewers at home and abroad. Here we can mention the case of VOA or Moscow TV, which broadcasts programs in dozens of foreign languages designed to reach all regions of the world.6

There are also cases when some governments disseminate false information in order to influence at an international level. This act is called disinformation. Anyone that follows international events must remember that news should be considered with some reservations because of the potential for disinformation as mentioned above.

It is very important to emphasize that all politicians and parliamentary members are aware of the fact that ICT has contributed directly in strengthening the economies of countries. Thus in the Summit of Lisbon they stressed that:

✔ Business and the citizens should have access to an overall communication

5 Although this is not the aim of my topic, which has to do with the impact of ICT to European Integration
infrastructure that is less costly and offers a wide range of services.

- Every citizen should be equipped with the necessary skills for living and working in a new information society.
- High priority should be given to life long learning as a basic component of the European social model.
- Actually, this is not the whole story; there is a wide range of challenges since the realization of this information society, in which everyone should be able to benefit from the electronic goods by through a computer, TV, or mobile phone. Thus, in addition to the term “e-Europe” there is also the term “e-Inclusion”. Electronic inclusion, which is a priority in the agenda of European politics means that people with special needs should be given the opportunity to use the internet.

I would like to mention the challenges which the European program “e-Europe” is facing: - Carrying cost using the Internet - Uncertainty - slow - An insufficient number of people with digital knowledge - Lack of a cultural dynamic, entrepreneurial and service-oriented - The public sector does not sufficiently help the development of new services and applications. In order to overcome these difficulties, three objectives are defined:

1. To develop an Internet faster, cheaper, and safer.
2. To invest in people and skills.
3. To promote internet use.

If there is a large portion of internet users who can make use of the old structures or utilize a relevant telephone landline, I think it is important to concentrate on the organization of a new educational system program known as “e-Learning” to determine where opportunities for learning programming languages, vocational training, technological culture, entrepreneurship, e.g. the possibility of spreading various cultures of ICTs to the people.

2. INTERNET AND THE LOCAL GOVERNMENT FOR THE CITIZENS

What are some of the services provided to the government in relation to these internet possibilities? Primarily, public services for the citizens, including:

- tax revenues
- job seeking services
- social services
- personal documents
This involves two levels of government, but without forgetting that a large component of services to citizens comes mainly from local government, which is receiving more and more power, in the process of decentralization, without forgetting that this theoretical power should be accompanied by the proper budget to allow this important process work or function properly. Only then, there will be the possibility to learn and to provide these services to the population. Access to public services is very important especially for local government. In connection with Business:

- social contribution for the employees
- taxes of the corporations
- registration of the new enterprises
- database setup
- customs declaration
- environment permissions
- public procurements.

The motto of “e-Government”, is “better online than in-line”, which implies the advantage of being always on-line and updated than queuing and waiting to get updated. It aims to provide easy electronic access in public services, without having to wait in long queues. It is of great importance that such services be offered on-line for the common citizens. E-Government comprised a key element for the action plan in 2005 because it represented an opportunity to implement online governance, thus developing the economy through it. On the other hand, the initiative of the European Commission of 2010, which I mentioned above was for the emergence of new technologies and improving the lives of the people, is another advanced possibility accompanied with action plans and respective financing.

The public sector can act as a catalyst since it is a supplier and consumer of information at the same time. Today, the public sector is the only holder and producer of content in Europe, so it has a tremendous potential for reuse of
public sector information for value-added services. Also, the public sector is seen increasingly as the main engine to bridge the digital division at the country level. Public agencies can begin to act as models of ICT use and a catalyst for others to follow. The public sector tends to be the largest provider of local content and can encourage and foster use of ICT in favor of local development.

3. CONCLUDING REMARKS

Finally, we can say that the Internet and the www (World Wide Web) are giving us a necessary information and communication infrastructure for our work.

Creating an information society is an end in motion. The process needs to change constantly, as new challenges emerge and there are plenty of obstacles. Higher standards of teaching and learning throughout life is an ongoing process, as is learning to use Internet in more ways, more advanced. Although electronic Europa 2002 can be called Europe’s information and the program reaches its objectives, there is still plenty to do. Costs of using the Internet in Europe is decreasing, but prices still remain higher than those of the USA’s. Even using the Internet for commerce and business is a challenge to be overcome.

E-Government represents a very big role and responsibility which should create opportunity, a suitable environment and appropriate infrastructure for implementation of all the States, e.g.: e-learning, e-health, e-services, e-commerce, etc. Of course, this is one of challenges, followed by many others, such as: Lack of electricity or unstable irregular power supply, the cost of electricity, high costs of computers, insufficient or inadequate staff training, high cost of access, etc. But, taking into account the benefits that it will bring in the long-term, I think it is in the interest of any government to consider the benefits and to invest in this ideal.

Except for the “e”-s I have mentioned so far, in the actual European context, new e-s are born every day, like the e-learning, that is life-long learning through e devices, e-health, meaning taking care of one’s health by using the internet benefits offered, e-communication, e-technology, e-culture, and last but not least, e-Activities. The latter brings to our minds international activities which are very costly for the organizers, thus by replacing these costly activities with the virtual opportunities, one could decrease the organizing costs, still achieve optimal results, negotiations and make important decisions on-line when the decision makers are in their respective countries and political meetings or virtual conferences of high levels can be completed with ease. This online innovation could be a good instrument for
education, information and capacity building of all persons who deal with European Integration and can bring good results on the ground. I believe this instrument, used in most efficient way, can help even our individuals take a more active role in issues of direct relevance for themselves, in processes of European Integration with final aim for us, Albanians, to become member of this EU family. To this point, I would like to adopt into Europeanization all what Bayliss and Smith (1992: 7) say about “Globalization is the process of increasing interconnectedness between societies such that events in one part of the world more and more have effects on people and societies far away”.8

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7 Diplo Foundation based in Malta, for example, is really professional and offers online courses and online learning in the field of international relations for diplomats from over the world. It works with courses, capacity building, research, publications and software development. It organizes online activities, which are useful and efficient.
8 Henry Changwony, Internet Connectivity, (2006), Dynamics of Communication, New Ways and New Actors, Institute for International Relations, Zagreb
The role of the Government policies, on attracting foreign investors in Albania

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Abstract

Although FDI in Albania has increased over the last few years, it still remains among the lowest in the region of Western Balkans with a large part of FDI inflows coming from large state enterprises privatizations.

In order to increase FDI inflows, the Government of Albania has intensified its efforts to implement a number of fiscal and legislative reforms to improve the business climate in Albania. In order to attract FDI, the Albanian Government has developed a range of incentives for foreign investors in Albania, such as the “One stop shop for granting licenses”, tourism and energy sector incentives as the most interesting sectors for investment actually in Albania. GOA has also applied a set of liberal fiscal policies such as the law of concessions, VAT credit on machinery imports, etc. The signing of the Stabilization and Association Agreement with the EU in June 2006, Albania’s transition into a NATO country and the prospective European Union (EU) membership are considered as important factors contributing to the increased FDI inflows even during the financial crisis period.

During the last two years, Albania experienced an increase in foreign investors’ interest in a wide range of sectors, with energy generation, telecommunication, cement production, mining, oil and industrial parks heading the list. However, the major obstacle factors for FDI inflows seem to remain the same: pervasive corruption, weak law enforcement, poor rule of law, lack of developed infrastructure, lack of a reliable energy supply and insufficiently defined property rights.

This paper is going to analyze the role of the Albania Government incentives in attracting FDI in Albania.

Keywords: FDI, Government of Albania, Incentives, EU integration, fiscal legislation, promotion.

INTRODUCTION

Foreign direct investments (FDI) play an important role in the economic development of a country. Evaluating the development of specific sectors in transitional countries is important in understanding the effects of FDI.

FDI can complement local development efforts by: increasing financial resources for development, boosting export competitiveness, generating employment and strengthening the skills base, protecting the environment
and social responsibility, and enhancing technological capabilities (transfer, diffusion and generation of technology)\textsuperscript{4}.

The relation between FDI and the level of economic development is not just one direction. FDI inflows affect economic development, but at the same time, levels of economic development have a positive influence on attracting FDI. Thus, the attraction of foreign investments has a great importance for the economic growth and the future integration of the country. For these reasons, it is very important to create the most favorable environment to draw foreign investments in the country.

This paper is going to analyze the role of Albanian government’s policies on attracting foreign investors.

1. FDI IN ALBANIA

1.1 Investment climate in Albania

To encourage investment, a legal framework exists. Law 7764 “On Foreign Investment” (dated November 2, 1994), was intended to create a favorable investment climate for foreign investors in the country. The approval of this Law is a positive step forward, based on the principle of national treatment; thus, foreign enterprises have the same procedures as Albanian ones. This law offers significant guarantee to all foreign investors who want to invest in Albania.\textsuperscript{5} Foreigners can invest in all sectors of the economy with the exception of broadcasting, health services and legal services. There are no legal distinctions made between domestic and foreign companies - equal treatment of foreign and domestic exists. Foreign investors can participate in the privatization process. No prior government authorization is needed for foreigners to invest in the country - foreigners can own 100 percent of a domestic company. Also foreign investors can expatriate all funds and contributions in kind of their investments. These are some provisions included in the law “On Foreign Investment”.

FDI inflows have grown during the recent years in Albania. FDI increased significantly in the first half of 2009 reaching 10% of GDP compared to 7% of

\textsuperscript{4} UNCTAD, 1999.

\textsuperscript{5} Law 7764 “On Foreign Investment”, 1994
2008. The Albanian Government has implemented many reforms, improving in this way the business environment in Albania. According to World Bank “Doing Business 2010” report, Albania ranks 82-nd out of 183 economies for investment climate, compared to 89-th in year 2009. Important steps have been taken toward a more liberal fiscal environment; also the profit taxation has reached OECD average levels. Even though significant efforts are still required especially in these aspects:

- Reducing constructions permits procedures. Actually 24 procedures are required to obtain a construction permit, compared to 15 in the OECD area.
- Little progress has been evidenced by the last World Bank report on the registration property issue. According to this report Albania has moved from the 62-nd to the 70-th place.
- There are a lot of obstacle factors for FDI inflows in Albania. According to The US State Department’s 2009 “Investment Climate Statement”, pervasive corruption, weak law enforcement, poor rule of law, property problem, lack of developed infrastructure, lack of a reliable energy supply and insufficiently defined property rights, seem to remain the main obstacle of FDI in Albania. So they restrain foreign direct investment and as a result FDI in Albania remain among the lowest in the region.

1.2 The characteristics of foreign investors in Albania

Based on INSTAT data, it appears that in Albania 2.4% of the total number of enterprises registered with legal identity operate with entirely foreign capital while 3.4% operate with joint capital (most of them are small enterprises with one to five employees and only 8% have ten employees).

Foreign investments in Albania have the following characteristics:

- Foreign investments are generally made in the commerce sector (60%) and less in the most crucial sectors, i.e. industry (17.6%) and in agriculture (0.9%), because the amount of investment required is lower compared to industry and agriculture, and because the returns are rapid and the investment risk low. Foreign investors do not prefer to invest in industry and agriculture in order to minimise the risk related to the unconsolidated

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6 UNCTAD, 2009.
7 World Bank “Doing Business 2010” report
8 INSTAT, 2009
business environment. Backwardness in attracting foreign investment in agriculture is also related to the absence of a law on agricultural land and the many problems of management in this sector.

✓ The majority of foreign investments in Albania are in the form of joint ventures, constituting 20% of total enterprises. The reason is that foreign investors are not confident enough to invest their capital in 100% ventures of their own. So, to decrease investment risk, they invest in joint ventures.

✓ 67% of total enterprises with foreign and joint capital are focused on the areas of Tirana and Durrës. This is because these are the largest cities of the country, while Durrës has the largest port where the majority of exports and imports are carried out.

✓ Compared to other countries of Central and Eastern Europe, according to INSTAT data, it can be seen that the source of FDI is generally neighbouring countries, such as Italy and Greece. 48% comes from Italy, 43% from Greece, 2.2% from Macedonia and Turkey, and less than 7% from other countries of Europe and the United States.

✓ Foreign enterprises in the production sector are engaged in re-exporting finished or part-finished products: generally they produce clothes, shoes and leather items. The volume of their exports is about 87%, and that of imports about 48%, of the total volumes of exports and imports in the country.

1.3 Benefits of Albania from FDI

FDI inflows stimulate economic development and have helped developing countries such as Albania when faced with economic hardship previously9. FDI in the tourism industry, energy sector, road construction and the service sector are going to generate increased employment.

FDI into Albania permits the transfer of technologies and assists in competition between producers within the local market.

Gains in the economy include the development of skills, and human capital resources by Albanian employees of Energy, Construction and Engineering firms receiving training on the operations of a business. The creation of new jobs, and increases the salaries of workers leads to lifestyle enhancement. Previously, Albanian professionals would immigrate to other nations. “Brain drain” is used to describe the phenomenon of emigration of highly qualified

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9 Economy Watch, 2009
professionals from Albania to other EU nations. FDI in Albania contributes to positive economic growth, and professionals are a source of capital for developing countries such as Albania. Reversing the brain drain has had positive effects on education, income distribution and economic welfare\textsuperscript{10}.

2. THE ROLE OF ALBANIA GOVERNMENT INCENTIVES ON ATTRACTING FDI

FDI incentives have been defined as “any measurable advantages accorded to specific enterprises or categories of enterprises by (or at the direction of) a Government, in order to encourage them to behave in a certain manner” and include “measures…designed either to increase the rate of return of a particular FDI undertaking, or to reduce (or redistribute) its costs or risks”. They are seen as distinct from “broader nondiscriminatory policies” such as “the general…fiscal regime for business operations”\textsuperscript{11}.

The term “FDI incentives” covers fiscal and financial benefits. Fiscal incentives include full or partial holidays from tax; reductions in the standard rate of tax; tax reductions conditional on reinvestment of profits; investment allowances and investment tax credits; accelerated depreciation of assets; preferential treatment of profit on exports; tax deductions based on specific types of expenditure (e.g. R&D); and exemptions from import duties on capital goods or other inputs (list adapted Financial incentives include: cash grants related to the value of assets invested or numbers employed or training costs; provision of subsidized facilities such as factories or sites; provision of infrastructure related to new facilities, such as roads and links to utilities; and direct subsidies\textsuperscript{12}.

2.1 Fiscal and financial policy incentives

There is a growing body of work that examines the effectiveness of tax and incentive policies in attracting FDI\textsuperscript{13}.

The development of the tax system is very important for attracting FDI inflows in transition economies. When transition began, taxes on companies

\textsuperscript{10} Centre for Social and Economic Studies, 2006
\textsuperscript{11} UNCTAD, 2000
\textsuperscript{12} UNCTAD, 2000
\textsuperscript{13} Cass, 2007
represented a higher share of government revenue and of GDP than in the high income OECD countries (Mitra and Stern, 2002), linked to a tradition of heavy taxation of enterprises. In the early years of transition, countries faced erosion of tax revenues and needed to create institutions for raising revenue in a market economy. Incentives could arguably insulate potential investors both from the initial high tax rates and from the uncertainties associated with tax reform.

The Government of Albania has played an important role on improving the business climate in Albania. In order to increase FDI, the GOA has developed a set of fiscal and legislative policies:

- Reduction of the fiscal burden of social security contributions payable by employers from 20 percent to 15 percent (on May 2009).
- Introduction of a flat tax of 10% on personal income tax.
- Tax exemption of dividends designated for investments.
- Reduction of corporate tax from 20 to 10 percent (on January 2008).
- Importers of machinery and equipment are exempt from VAT if the machinery and equipment are used solely as part of their taxable economic activity.

Another fiscal policy incentive includes subsidized leases of state-owned premises. So, investors are eligible to lease state-owned property such as land or buildings at rents below market rates. In the case of production activities, the level of rent reduction will be made accordingly to the level of investment made and of new jobs created. This is based on DCM no.315, dated 24.04.2006 “On the leasing of state enterprises and institution’s property”.

Also on December 18, 2006 was dated the law “On Concessions,” No. 9663. The purpose of this law is to establish the necessary framework for promoting and facilitating the implementation of privately financed concessionary projects enhancing transparency, fairness, efficiency and long-term sustainability in the development of infrastructure and public service projects. One of its major amendments includes a better regulation for unsolicited proposals and of public-private partnerships in general. This law applies to a wide range of sectors, including:

- transport (railway system, rail transport, ports, airports, roads, tunnels, bridges, parking facilities, public transport);
- generation and distribution of electricity and heating;
- production and distribution of water, treatment, collection distribution and administration of waste water, irrigation, drainage, cleaning of canals, dams;

14  http://www.albinvest.gov.al
15  http://www.albinvest.gov.al
✓ collection, transfer, processing and administration of solid waste;
✓ telecommunication;
✓ education and sport;
✓ health;
✓ tourism and culture;
✓ prison infrastructure;
✓ recycling projects, rehabilitation of land and forests, in industrial parks, housing, governmental buildings, service of maintenance of IT and database infrastructure;
✓ natural gas distribution;
✓ management contract or provision of public services including those related to sectors specified above.

2.2 Investment Promotion Agencies

In their pioneering work, first published in 1990, Wells and Wint defined investment promotion in terms of “promotional techniques”, which comprise “providing information to potential investors, creating an attractive image of the country as place to invest, and providing services to prospective investors”\(^{16}\). Typically, these are implemented by a single agency – an IPA – but some promotional techniques may be carried on in other ways (e.g. by economics ministries or by embassies) and some IPAs may have other functions (e.g. export promotion). The economic rationale for promotional activities has much in common with that for incentives.

Albinvest is the Albanian Promotion Agency for foreign investors. The Albanian Government has assigned Albinvest three strategic goals:
✓ Assisting and accelerating the inflow of foreign investment into the Albanian economy
✓ Improving the competitiveness of Albanian exporters
✓ Providing professional services to assist the growth of Albanian SMEs.

Albania needs to focus on improving services to investors in both pre and post establishment phase\(^{17}\). Albania should explore the possibility of Albinvest having authority to approve some permits and licenses. Also a more sophisticated approach to client relationship management (CRM) is needed.

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16 Cass, 2007
17 Investment Reform Index, 2010
Many activities in Albania required cumbersome licensing procedures and permits.

The GOA approved the Action Plan for Regulatory Reform, in 2007, which provided for a full review of Albania’s entire legal licensing system to harmonize the licensing legislation to EU standards and reduce administrative barriers for businesses operating in Albania. As a result, many licenses were removed while a broad simplification of licensing procedures has been completed in many sectors including, mining, hydrocarbons, public works, health, agriculture and the environment. Part of GOA’s incentive for foreign investors is “One stop shop for granting licenses”. The Albanian Government’s has established on May 2009 the “One Stop Shop” for issuing licenses and permits, National Licensing Center (NLC). This will lead to the simplification of licensing procedures. From now on the time and effort required to obtain a license is significantly lower. The procedures for getting a license are the same for national and foreign companies.

2.3 GOA efforts for the Albanian Integration processes

Foreign direct investments (FDI) interest in Albania is increased during the last years. Albania’s transition into a NATO country and the prospective European Union (EU) membership are considered as two important factors contributing to the increased FDI inflows even during the financial crisis period.

Albania joined NATO (North Atlantic Treaty Organization) on April 1, 2009. This important membership of Albania has improved its image to foreign investors, considering the fact that Albania is still seen as a high political risky country as a result of the ethnic conflicts and wars that involved the region of Balkan after the nineties.

The Western Balkans process of integration has two important aspects: on one side the intra-regional economic cooperation within this region after the long period of disintegration before the nineties and a lot of ethnic conflicts after the nineties will improve the economic relations and create a common market in this region, on the other side all the countries of this region aspire to access to the EU. The region does not present itself homogeneously regarding European integration.

The process of accession of Albania to the EU started in January 2003.

18 The US State Department’s, “Investment Climate Statement, 2009”
The Stabilization and Association Agreements (SAAs) are the main form of contractual relationship between the EU and each Western Balkan country. Albania has signed the SAA with EU on 12.6.2006. Albania formally applied for EU membership 28 April 2009. On November 16, 2009, the foreign ministers of the EU approved the starting process of Albania to get the candidate status for EU. Albania’s admission to the EU depends on the country’s future economic and political stability.

Albania’s integration in the multilateral trading system has been steadily increasing. The entry into force of a free trade agreement with Turkey in 2008 and with the Stabilization and Association Agreement with EU in 2009, are very important steps in this aspect.

2.4 Government incentives in specific sectors

Two sectors that are seen more attractive by foreign direct investors in Albania are tourism and energy. The GOA has intensified its effort to attract FDI inflows in these two sectors by improving the legislation framework:

- **Incentives in the tourism sector**
  
  As part of the law “For Development of Tourism Zones”, incentives in the tourism sector were introduced in 1993. It is created a special status for tourism sector investors. This status is “promoted persons” – which are award by the Ministry of Tourism, Culture, Youth & Sports. Investors holding this status can:\n\n\n- Be exempted from the custom duties and excise taxes on imported goods for the sole purpose of investment and functioning of the “promoted activity”.
- Be exempted from profit tax for 5 years from the time of the completion of the development phase of the investment. This is a 10-year tax incentive as the final five-year period profit tax is levied at only half of the normal rate.
- Benefit from a reduction of profit tax up to 40%, if profits are reinvested in Albania.

  The main activities that are covered are construction, reconstruction, improvements, and the extension of existing facilities as well as the operation of hotels, motels and tourist villages. Structures that complement tourist complexes such as restaurants, shops, thermal baths, and sport equipment are also covered.

- **Incentives in the energy sector**

  There are some fiscal incentives designed to encourage new means of

generating electricity. Investors establishing new, or rehabilitating existing power generation plants with an installed power capacity of more than 5 MW using liquid or solid combustibles, are entitled to an exemption of custom duties on imported machinery and equipment used in the capital investment. They can be reimbursed for the customs and excise duties paid on the import of liquid or solid combustibles used in the production of electric energy. This is based on Law 8987, dated December 24, 2002, “For the creation of facilitated conditions, concerning the establishment of new plants for the production of electric energy.” From all the facts mentioned above it is evident that since 1991, the Albanian Government has focused on preparing a stimulating business climate for foreign investors in Albania as a possibility for increasing the economic growth and accelerating the economic transition period. Even though the level of FDI inflows in Albania has increased considerably after year 2000 till now, it is very evident that this level remains still low compared to the other countries of the region. The Albanian Government efforts toward the foreign investors attraction should focus on:

- **Human capital development**
  Albania presents deficiencies in strategy formulation on workforce skills and the system of work-related training. Actually the Albanian Ministry of Labor doesn’t have the capacity to conduct medium and long-term analyses of work force skills.

- **Facilitating access to finance**
  Despite efforts to improve the financing environment, Albania among the SEE countries where firm’s access to finance is most difficult. A BEEP survey shows that 75% of companies use their internal funds to finance new investments compared to an average of 56% for SEE Countries.

- **Regulatory reform and parliamentary processes**
  Albania has made little progress in implementing regulatory impact assessment (RIA). The application of RIA has not been formalized by law yet. The Albanian Government and Parliament’s dialogue with stakeholders remains unstructured. A- well developed parliamentary website can be an effective tool to provide information to the interested investors on legislative procedures related to specific normative acts.

- **Improvements in the infrastructure**
  Albania has the lowest Internet penetration rate of the SEE region. Also

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20 The US State Department’s, “Investment Climate Statement, 2009”
21 Investment Reform Index, 2010
the fixed line penetration is the second lowest in the region. Albania records one of the lowest level of annual investments on the rail maintenance in SEE. The time needed to get an electricity connection is 162 days, the second longest wait in the region.

4. CONCLUSIONS

FDI inflows have grown during the recent years in Albania. FDI increased significantly in the first half of 2009 reaching 10% of GDP compared to 7% of 2008. The Albanian Government has implemented many reforms, improving in this way the business environment in Albania.

According to World Bank “Doing Business 2010” report, Albania ranks 82-nd out of 183 economies for investment climate, compared to 89-th in year 2009. Important steps have been taken toward a more liberal fiscal environment.

Pervasive corruption, weak law enforcement, poor rule of law, property problem, lack of developed infrastructure, lack of a reliable energy supply and insufficiently defined property rights, seem to remain the main obstacle of FDI in Albania. So they restrain foreign direct investment and as a result FDI in Albania remain among the lowest in the region.

FDI inflows stimulate economic development and have helped developing countries such as Albania when faced with economic hardship previously. FDI in Albania are considered as one of the main contributors on the economic growth of the country. Our GDP and export growth rates were the fastest growing in South East Europe from 1997 to 2008.

The Government of Albania has played an important role on improving the business climate in Albania. In order to increase FDI, the GOA has developed a set of fiscal and legislative policies.

Albinvest is the Albanian Promotion Agency for foreign investors. The Albanian Government has assigned Albinvest some strategic goals in increasing the level of FDI inflows in Albania but the Albanian Government should explore the possibility of Albinvest having authority to approve some permits and licenses.

Actually the sectors of tourism and energy are seen as very attractive by foreign investors in Albania and the Albanian Government has made some specific legislation incentives in these specific sectors of the economy.

The process of EU integration and the membership to NATO are also considered as very favorable factors in the increased level of FDI in Albania.
According to “Investment Reform Index” 2010, the Albanian Government efforts toward the foreign investors attraction should focus on human resource management, facilitation of finance access, infrastructure improvements and regulatory reform and parliamentary processes.

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BASEL II, IFRS, STRESS TESTING AND RISK EXPOSURE IMPACT ON BANKING SYSTEM IN ALBANIA

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Abstract

Basel II framework requires banks to conduct stress tests on their potential future minimum capital requirements. The implementation of International Financial Reporting Standards from all commercial banks residents in Albania has become a mandatory concern since January 1st 2009.

This paper focuses in discrepancies between Basel II, IFRS and the Regulations of Bank of Albania on loans portfolio’s risk identification, measurement and management. In addition we have developed a model on stress testing measurement and impact of IFRS 39 implementation on loans portfolio quality at least on monthly basis. The stress testing framework for minimum capital requirements is based on mild recession scenarios and considers all the interrelated components of risk exposure according Basel II and IFRS approaches, by resulting credit risk developments and the consequent effects in minimum capital requirements.

The paper’s illustrative results based on Albanian Banking System data underline the importance of such joint modeling.

Keywords: Basel II, IFRS, capital requirements, impairment test, loan losses, stress testing, risk management.

1. INTRODUCTION

Effective risk management strategies recently are implemented by integrating effective bank-level management, operational supervision and market discipline. So far it becomes very imperative for our banking system to update the risk exposure identification, assessment and control policies and translate them well in proficient practices.

Within this concerns, Basel II was devised and is under review as an imperative framework to improve and sustain the soundness of the banking system by aligning regulatory capital requirement within risk control edges of the banking industry. Core Principles for Effective Banking Supervision, are still de facto the standard for sound prudential regulation and supervision of banks. The vast majority of countries have endorsed the Core Principles and effort to implement them. This process emerges a clear segregation amongst the lines of responsibility and accountability and urges to jeopardize the information asymmetries.

The asymmetric information risks creative accounting techniques, which hazards
the fairness, masks the fraudulent operations and undermines the stakeholders confidence within the banks. It downgrades the bank’s value as a whole. Besides Basel II, a sound accounting process remains a hallmark of good governance in protecting the integrity of a bank. Beyond public disclosure, a rigorous and reliable accounting system provides critical information that affects the bank’s future.

Due to frequent bank acquisitions happened within Albanian banking system, the implementation of IFRS becomes imperative despite the fact that all banking shareholders are mostly from EU countries.

2. THE PROSPECT OF IFRS AND BASEL II WITHIN ALBANIAN BANKING SYSTEM

More than ever, global/regional market participants are improving their corporate codes by strongly advocating that financial statements to be accurate and fair. A complementary rationale why the International Accounting Standards become a mandatory issue relates also to the convergence and compliance terms Albania works to follow EU regulation for Accounting Standards4. The core issue we lay out in this paper is the quantification of loans quality of our banking system’s portfolio, the reconfiguration of loan loss reserves and the enhanced interrelation between risk management and value creation. It is worth noting that since 1 January 2009 the IFRS reporting has become an mandatory issue for all resident banks within Albania. The banks are still measuring risk exposure and capital adequacy according to the Regulation No 52 of Bank of Albania on “Credit Risk Management”, which is more compliant with Basel I, and less responsive to Basel II framework. To this point, the Regulation No 52 of Bank of Albania is becoming obsolete and non approachable to new coming concerns from our banking system.

2/1 Risk Exposure, Impairment Assessment according IFRS
[Albanian Context]

The obligatory requirement by MoF to translate existing accounting framework into International Financial Reporting Standards [IFRS] implies a profound examination of loans portfolio quality regarding the presence of loan impairments, which underlines an algorithmic process as described in following schemes.

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We refer to the ultimate content of IAS 39, which is relevant for the diagnosis of *impairment of the loans portfolio* by challenging the risk *Incurred But Not Reported* [IBNR].

**The IFRS Algorithm**

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Consequently we focus also on most critical concerns with high severity risk rate to ensure soundness of the translation from existing bank accounting into IFRS. Here below we have ranked the 9 foremost matters:

### 2/1.1. The Significant and Non Significant concerns

“An entity *first* assesses whether *objective evidence of impairment* exists individually for financial assets that are individually *significant*, and individually or collectively for financial assets that are not individually significant. If an entity determines that no *objective evidence of impairment* exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. *Assets that are individually assessed for impairment* and for which an impairment loss is or continues to be recognized are not included in a *collective assessment of impairment*.” It is very important to stress out that the key norms confirm that:

- ✓ “No objective evidence of impairment” shifts to “Not individually impaired”.
- ✓ The objective evidence may exist but there is no impairment to be significant if, recoverable amount is greater that the carrying amount.

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6 IAS 39.64
2/1.2. Portfolio Segmentation as per ‘Similar Risk Characteristics’

“For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors’ ability to pay all amounts due according to the contractual terms [...] The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.” It is very important here to determine a criterion and select a sound basis of segmentation, a degree of segregation and examine the linkage to Basel II.

2/1.3. The Concerns on Interest Recognition and Unwinding

“Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.” That is, the bank recognizes the interest income which results from changes in the present value due to the steadily decreasing loan period (unwinding) using the effective interest rate used to calculate the impairment. The problem remains that what will happen if actual cash flows differ from expected cash flows? The IFRS approach is based on impairment incurred for actual cash flows.

The problem a bank will face involves a disclosure on “How do clients track actual versus effective interest?”

2/1.4. Restructuring vs. Renegotiation

“If the terms of a loan, receivable or held-to-maturity investment are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.” According this statement, the IFRS relocate the attention and the respective approach from restructuring to renegotiation. The topics here challenge the exact definition of the trigger event and the difference between individually significant and non-individually significant loans. To avoid the intrinsic risk of the gap in trigger event consideration and significance, there is a disclosure requirement in IFRS 7.36(d).

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7 IAS 39.AG87
8 IAS 39.AG93
9 IAS 39.AG84
2/1.5. Calculation of Portfolio Based Allowances\textsuperscript{10}

“Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of \textit{historical loss experience for assets with credit risk characteristics similar to those in the group}. Entities that have no entity-specific loss experience or insufficient experience, use \textit{peer group experience for comparable groups of financial assets}. \textit{Historical loss experience} is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the \textit{historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.}”

The most emerging impediments the resident banks in Albania face is the low availability of historical data on loss experience. The peer group experience is also very atypical for our banking industry.

2/1.6. Calculation of Loss Identification Period\textsuperscript{11}

“[...] It would be appropriate for an impairment loss to be recognized for these ‘incurred but not reported’ losses. However, it would not be appropriate to recognize an impairment loss for deaths that are expected to occur in a future period, because the necessary loss event (the death of the borrower) has not yet occurred.” The Bank of Albania has to provide a database and a dedicated study for the definition and calculation methodology regarding \textit{Loss Identification Period} [LIP]. It needs a justification and implementation program into practice, because we there is \textit{a persistent lag between the loss event, and the default notification}.

2/1.7. Backtesting\textsuperscript{12}

“The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.”

This is the core of \textit{back-testing methodology} and the banks must inventory the implementing adjustments after each act of backtesting.

2/1.8. The Collateral Calculation\textsuperscript{13}

“The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from

\textsuperscript{10} IAS 39.AG89
\textsuperscript{11} IAS 39.AG90
\textsuperscript{12} IAS 39.AG89
\textsuperscript{13} IAS 39.AG84
foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.”

Obtaining reliable valuations on collateral is highly dependent with market environment for collaterals, which still missing in Albania. There are some efforts to implement TeGoVA standards on collateral valuation (like BKT), but some commercial banks are still reluctant to access valuers experts.

2/1.9. The Reversal of Impairment Losses

“If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor’s credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.”

The identification of reversal event is very important. A standard definition regarding the reversal event becomes necessary, but also it must be clear that according to IFRS, no correction of former booking entries (i.e. no correction of former “low” interest income due to unwinding) as reversal is related to a new event.

2/2 Risk Exposure & Impairment Assessment according BASEL II

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<th>The Basic Guideline</th>
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</table>

14 The European Group of Values’ Associations, TEGoVA: European Valuation Standards, Sixth Edition ‘Blue Book’ -2009

15 [IAS 39.65]

2/2.1. The Basic Scheme
BASEL II focuses in 3 components:

1- **Minimum capital requirements** for a bank, whose management has to develop strategies and deal with credit market and operational risk.

2- **Supervisory and Review Process** to define a reporting structure compliant with regulatory authorities [Bank of Albania] aiming a greater transparency, and more efficient accountability from bank’s management.

3- **Market discipline** to reduce the information asymmetry by fulfilling the requirements for disclosures to markets regarding the bank performance and management transparency.

Many Central Banks in developing countries like Bosnia, Turkey, Kosova, Macedonia, etc., have already started moving towards compliance of Basel II and have introduced models on Risk Based Supervision. With the cumulative effects of 3 years lasting crisis 2007-2010, the early warnings indicators for

![Diagram showing Expected Loss calculation](image-url)
the performance of the financial system are warning for systemic concerns of the banking system. The banks would set up proper organizational structure, policies, and procedures to focus efficiently in three major areas of risks – *Credit Risk, Market Risk* and *Operational Risk*.

A proposed integrated approach to risk management, requires to harmonize the *overall business objectives* with magnitude of *risk appetite* and *capital allocation*, and going further by developing *risk identification/assessment and control policies and procedures* and translate all in an action plan.

### 3. RISK MANAGEMENT FIGHT PLAN\(^\text{17}\)

The sophisticated risk analysis and methods modeling, from Albanian banks viewpoint, urges professional capacity building, data integration about credit exposures, operational risks and accurate measurements.

*It becomes an important prerogative that Banks need to develop databases that maintain five to seven years detailed historical risk data.*

In the following paragraphs we summarize the main topics of BASEL II implementation:

#### 3/1. The Integrated Risk Management Architecture

The need for integrated risk management architecture is compatible with the criterion of Minimum Regulatory Capital. Higher capital level claim higher risk

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\(^{17}\) BIS Basel: Core Principles Methodologies -2007 ISBN 92-9197-710-1
level. Under the Basel II, the banks are responsible to assess their own capital requirements, both *regulatory capital* and *economic capital*. Under the New Accord, the banks are required to develop an *Internal Rating Based Approach [IRB]*, an *Internal Model for Risk Estimation* and the models for *Credit risk*, *market risk* and *operational risk*.

### 3/2. Requirements of Risk Based Supervision

The compliance with Basel II necessitates the banks to review actively their current status of risk management architecture and apply a risk based supervision model.

The *risk based supervision will not be transaction based* but *systems/procedures and operational based*. The *revision and development of systems and procedures* need to properly document systems, procedures and operations.

### 3/3. Bank Level Preparations

To comply with Basel II and meet the requirements of risk based supervision, the banks within Albanian context necessitate to undertake actions in following areas:

✓ Setting up risk management architecture and outline Risk Based Internal Audit

✓ Running a *Management Information System and setting up Compliance Units*.

### 3/4. Risk Focused Internal Audit

The internal audit has a wider range function by shifting the relevance from *transaction testing method* to *system/procedures and operational detection/auditing methods*. In this way the following benefits are expected:

✓ A sound risk focused internal audit means less supervisory intervention

✓ A highlight of deficiencies to the Top Management in time.

✓ Potential problem areas are easily identified.

### 3/5. Potential Adjusting/Reorganizing Modules

Basel II outcome interrelates *risk based supervision, risk focused internal audits*, the risk detection and assessment of IT systems, and gap inventory. This is due to the increased awareness of risks posed by internal systems breakdown, fraud, and external events, compliance decline, etc. A domain expertise through recruitment, acquisitions, and alliances requires a Risk Based Supervision Process, by reassuming:
The design and development of appropriate organizational structure
The services to document systems and procedures on risk mitigation basis.
The reputational risk control and efficient management information systems
The proactive revision of reporting and control system by internal audit system
The feedback of compliance units

4. THE CONVERGENCE AND DIVERGENCE BETWEEN IFRS AND BASEL II

In the context of the widespread adoption of Basel II and IFRS, we propose to introduce a new format bank spreadsheet, which will be attached to the consolidated financial statements in accordance with IFRS. By the way, the banks are strongly expecting Bank of Albania’s interpretation of accounting standards and a new conceptual regulatory framework. It is very imperative to distinguish the objectives of IFRS and the impending Basel II, remarkably to loan loss provisioning policies. First of all, IFRS aim to show a snapshot of the value of a bank’s assets and liabilities as can at best have been estimated from events known at the balance sheet date. Secondly, the basic IFRS dealing with asset quality of the banks is IAS 39, which endorses the transparency to report loan losses that have been incurred. Finally the main purpose of Basel II in relation to asset quality is to ensure that sufficient loan loss reserves and/or capital are available to cover all expected and unexpected losses.

In this context Basel II broadly expects a bank’s loan loss reserves to cover the expected losses over the next 12 months and its capital to cover unexpected losses

4/1 Bridging the GAP between Basel II and IAS 39

On loan quality risk analysis, the fundamental difference between the creation of provisions according to IFRS [IAS 39] and as per Basel II is that under the IAS 39 the losses are considered as incurred losses and under the Basel II are regarded as expected losses.

IAS 39 aims to avoid the risk of Incurred But Not Reported [IBNR] and Basel II aims to avoid the risk of Expected But Not Reported [EBNR].
Here remains, however, the question of how this approach should be dealt with by the auditor of the bank’s financial statements, whose task is to verify that the financial statements have been prepared in compliance with international financial reporting standards. It is precisely this point that could become problematic, not least because of certain differences between the two frameworks. Listed below, these differences become apparent upon detailed comparison of the incurred loss (serving as a basis for provision creation) according to IAS 39 and the expected loss according to Basel II: We have summarized in a decalog all the hot points for the relevant differences:

1- The actual concepts of incurred and expected loss differ from IFRS to Basel II,
2- Basel II specifies a minimum number of credit risk categories, IAS/IFRS do not,
3- Basel II, unlike the IAS/IFRS, defines default as a loss upon the first reporting of a loan,
4- The individual and/or group approach of impairment loans are different,
5- The definitions of existing security values differ and they also follow different methods,
6- The reporting requirements are dissimilar,
7- The definitions of capital from the accounting and regulatory viewpoint are divergent,
8- The IFRS presentation approach reflects the current economic situation, meanwhile the Basel II takes the view of cyclical economic losses,
9- The exposure upon impairment varies between Basel II and the IAS/IFRS;
10- The loss amount is calculated using different methods.

From the above list, it is clear that the interaction between the two frameworks is not so great as would at first sight seem. If a bank keeps to the Basel II framework when creating provisions, the auditor may, for example, examine whether requirements under IAS 39 have been fulfilled with regard to the three Basel parameters like EAD, LGD and PD:

\[
\text{EAD} = \text{Exposure At Default} \quad | \quad \text{LGD} = \text{Loss Given Default} \quad | \quad \text{PD} = \text{Probability of Default}
\]

There remains moreover an open question, of how a bank should proceed to create provisions if it plans to use the standardized approach for the calculation of capital requirements, given that the three mentioned parameters are only used when calculating credit risk capital requirements with advanced methods like IRB approach.
4/2 The Solution: Pros & Cons

As a first solution for banks, we support and suggest, is the viable design and construction of two models:

- The **MODEL 1** serves for measuring **credit risk** according to Basel II, and
- The **MODEL 2** serves for the **calculation of provisions** according to IAS 39.

The utmost worry we have is that such a solution would, however, be to a large extent impractical and expensive for banks. So far the question which keeps on is **whether and where these models can be interlinked, and a synergic effect outcome from the similarity of two doctrines may be utilized.**

In particular, capital requirements that are tied to banks’ actively measured risks will be more volatile than the previous **constant capital requirements.** They may also reinforce the business cycle because banks’ asset risks, such as credit risks measured with internal credit ratings, tend to move in accordance with the business cycle.

**Capital buffers** can partly absorb unexpected increases in future minimum capital requirements in a downturn and may hence attenuate the procyclical effect. Buffers seem to help but may not suffice to prevent a credit crunch in a recession18.

Meanwhile IAS 39 does not accept hidden reserves! **No creation of hidden reserves:** It goes without saying that overstatements of loan loss provisions do not meet the conditions set by IAS 39. Any excessive allocation of value adjustments, overstatements of provisions is not allowed. (IAS 39.BC 116)

4/3 Stress Testing: **BASEL II**

To measure the size of sufficient extra capital buffers, Basel II framework requires banks to carry out **stress tests** on their potential future minimum capital requirements. Under the **first pillar** of Basel II it is stated that banks using the **internal ratings based approach** (IRBA) ‘should…consider at least the effect of **mild recession** scenarios’. An definition of a mild recession, given by Basel II, is two consecutive quarters of zero growth. Another definition of mild recession is provided by FSA (2005) which suggests considering a downturn which happens

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18 Eg Heid (2007) and Repullo and Suarez (2007).
on average once in 25 years. The specific form of stress tests is left to banks to decide, subject to supervisory review.

The stress testing framework we propose is modeled with central macroeconomic variables such as the GDP growth\(^\text{19}\). Another suggestion is that stress test of future minimum capital requirements must be developed jointly with credit losses, especially for longer stress test horizons. Our results demonstrate the importance of jointly modeling and measuring the need for a precautionary capital buffer arising from potential future credit losses and changes in the minimum capital requirement.

![Graph showing loan loss provisions and corporate sector default rate](image)

Source: Sorge and Virolainen (2006)

The change in the minimum capital requirement alone necessitates a buffer which at the 99% confidence level is 2.26% of total credit assets [FAF D.C.]. In a joint model which incorporates credit losses, the buffer is 3.83% of total credit assets [BIS Banca]. The results also suggest that buffers implied by the specific deterministic scenarios envisaged by the regulators are much smaller than what banks would probably prefer to hold.

*Sorge and Virolainen Model* argues a positive correlation and a close covariance between loan losses and borrowers propensity to default [See below]. May be in a near future we will have available data to confirm this relationship within Albanian context.

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\(^{19}\) Sorge and Virolainen (2006) and Virolainen (2004)
5. DISCRIMINATING BASEL II AND IFRS BY PRODUCTS, TARGETS, AND OBJECTIVES

Basel II is a *product* of regulators which first task is to protect a bank’s *creditors* and it’s a based on *expected losses*. The *objective* of Basel II is to ensure that a bank has sufficient reserves/provisions or capital to cover expected losses over the next 12 months.

By contrast, the approach of impairment test based on IFRS is a model of incurred losses. The *objective* of IFRS is to ensure that financial statements as at a given date properly present in the balance sheet the incurred loss for the given period.

The main hypothetical drawbacks of implementing IAS 39 by such a method are (besides what has already been mentioned) as follows:
(a) The transition from the expected-loss model to the incurred-loss model,
(b) The reporting of interest income on impaired loans, and
(c) The discounting of provisions for loans.

In addition, the models must include a significance criterion and banks should have objective evidence of the impairment of the financial asset or the portfolio of financial assets, for which they are creating a provision. It is also important to use *back testing*, in other words the regular re-examination of results in comparison with estimations in order to eliminate differences between the estimated reduction in value and actual losses.

This applies to both models, that used for the Basel II and the one used for accounting in accordance with IAS 39.

*A key detail which results from this purpose but which is often neglected is the definition of Probability of Default (PD) under Basel II, according to which the probability is estimated for a period of 12 months and not for the lifespan of the financial asset.*

5/1 Implementation/Installment Concerns

Along with implementation of the models we have inventoried many practical problems to be faced:
- The determination of portfolios that have the same risk characteristics,
- The handling with undrawn credit facilities,
- The handling financial assets with variable interest rate,
- The setting and taking account of the fair value for securing financial assets,
- The defining individually significant financial assets,
- The identifying objective evidence for the impairment of a portfolio.
It is necessary to distinguish between losses for which the bank must and must not create provisions.

Taking into consideration that IAS 39 is an accounting, not a management, standard, it does not define which model is good and which one bad. Even more, this standard does not draw any distinction between financial assets and group financial assets. Many experts believe that, in the longer run, IFRS will also have a positive influence on management practices. It will impact not only the fairness of financial statements for all external readers like the shareholders/investors, fiscal authorities, depositors, and so on, but also many major governance issues.

On the issue of selecting an item from a portfolio of items assessed on a group basis, we oppose the view relating to cases where individual impairment identifies. It is not necessary to select such a financial asset from the portfolio and create an individual provision for it; on the contrary, it should be possible to leave it in the portfolio and cover the requirement of provisioning with the portfolio’s provision.

As we introduced in previous part of this prose, the interrelation between IAS 39 and Decision Making implies an algorithm for the assessment of the financial asset. The decision-making according to this viewpoint has four levels:

- **The First Level** is the objective evidence and significance of the financial asset (the materiality mentioned in IAS may vary between banks);
- **The Second Level** is the method of evaluating the impairment, and
- **The Third Level** and **Fourth Level** consist of recording the impairment loss on the financial asset at the individual or group level.

An analysis of discounted cash flows is at the same time applied to all future expected cash flows, including the relevant estimates for received collateral, while the original effective interest rate applied to the financial asset is used for the discounting.

The implementation of **Markov Chain** to measure the portfolio impairment, requires the independence of the impairment estimate from a specific previous development of the portfolio; this estimate is based solely on the current state of the portfolio while taking into account the past statistical parameters. The individually insignificant financial assets will be assessed on a portfolio basis, and individual provisions will only be created for individually significant loans for which evidence of impairment exists.

In developing a specific procedure for the calculation of portfolio provisions,
one of the requirements was that the calculation keeps as accurately as possible to the expected or future loss on the assumption that the quality of the specific portfolio in the near future will resemble its quality in the past.

Within Albanian context, the crucial issue remains therefore the quality and accessibility of the data on the bank’s portfolio. The existing data store was utilized and the model was synchronized with the parent company’s model. The results were tested using back testing and bootstrapping, a simulation method used in this case to test the stability of the transition matrix from one theoretical state of the portfolio to the other.

Portfolio provisions can only be reported if there is objective evidence of the impairment of portfolio financial assets, or if the portfolio includes a loss event that has already occurred; it is not possible, however, to create a provision for a portfolio in which the impairment or loss event is merely expected.

Moreover, a portfolio may only be considered impaired where there is a significant probability that the assets will in future be individually impaired.

Where a rating system is used that meets the requirements of the advanced Basel II approach to the measuring of credit risk (IRB approach), it should be
possible to consider as group impaired portfolios those portfolios that have the worst rating among portfolios in which a default has not been identified.

A method for the calculation of group provisions argues that the main parameters of the calculation would be those used by Basel II except that the probability of default would be cumulated up to maturity.

The Loss Up to Maturity would be calculated in the same way as the expected loss in Basel II, with the exception that the probability of default according to Basel II (having a term of only one year) would be replaced by the probability of default up to the maturity of the financial asset. It may also be noted that impairment losses reported on a group basis represent a transitional step towards the identification of impairment losses on individual assets in the group of those financial assets evaluated for impairment as a group.

Summary Table of Comparative Analysis on IFRS and Basel II

5/2 Loss Identification Period

There will be a lag between the loss event, and the default notification. The Loss Identification Period (“LIP”) represents this time lag. According to IFRS the balance sheet allowance should include losses incurred but not yet identified by the Bank at the balance sheet date. Complying with IAS 39 means identifying these losses at the balance sheet date and distinguishing these from future losses.
6. ILLUSTRATIVE EXAMPLE: IMPAIRMENT ANALYSIS ACCORDING IFRS

Before introducing an illustrative example it is very important to reassume:

The impairment phenomena an objective evidence or event driven. A financial asset/group of financial assets is impaired and impairment losses are incurred if, and only if:

1- There is the objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”);

2- The loss event/events has an impact on the estimated future cash flows of the financial asset/group of financial assets that can be reliably estimated (IAS 39.58)

No loan loss reserve is allocated if no objective evidence of impairment exists for an individual assessed asset. The IFRS model is an incurred loss model and the basis of calculation is discounted cash flow method and starts up on drawn balances only. In assessing the present value of estimated future cash flows the IFRS approach takes into account the fair value of collateral. The provisioning requirement states that “An entity shall assess at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall ... determine the amount of any impairment loss”. Models can be used to assess impairment on a portfolio basis as per the requirements of IAS 39 (e.g. loss event identification). There are explicitly stated that:

✓ A loan that has been individually assessed for impairment and found not to be individually impaired should be included in a collective assessment of impairment!
✓ No impairment losses should be recorded on initial recognition!

6/1 Calculation of Impairment

The impairment loss equals the carrying amount of the loan minus its recoverable amount. The recoverable amount equals the present value of the estimated future cash flows (including interest, capital and revenues from the realisation of collateral) discounted with the original effective interest rate for fixed rate loans and current effective interest rate for variable rate loans. The formula for the recoverable amount is:

\[
\text{Recoverable Amount} = \frac{CF_1}{1 + r} + \frac{CF_2}{(1 + r)^2} + \ldots + \frac{CF_n}{(1 + r)^n}
\]
\[
\text{Recov. amount} = \sum_{t=t_0}^{T} \frac{CF_t}{(1 + r_{eff})^{(t)}}
\]

**Where:** \( CF_t = \) expected cash flow at time \( t \) [e.g., from collateral]; \( r_{eff} = \) original effective interest rate; \( t = \) expected timing of cash flow; \( t_0 = \) date for which the recoverable amount is being calculated; \( T = \) timing of last expected cash flow.

According IFRS 39, a **trigger event of impairment** is within the definition:

“*A financial asset or a group of financial assets is impaired ..., if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a, loss event’) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated*”. The objective evidence includes observable data about:

- Significant financial difficulty of the issuer or obligor;
- A breach of loan contract;
- The lender, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with individual financial assets in the group.

Regarding the calculation of interest rate and of transaction costs it is important:

“*When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument [...] but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see IAS 18), transaction costs, and all other premiums or discount*” (IAS 39p.9). Transaction costs “[...] are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.” (IAS 39p.9)
ILLUSTRATIVE CASE

The Loan € 100,000 is granted to XYZ on 31 December x1, repayable at the end of the 5 year contract with 7 % interest p.a. (interest payable annually on 31 December). Cash paid out is 95 % (i.e. € 95,000) and Effective interest rate = 8.26 %. Early capital repayments possible but not expected. Loan coverage is with 20% collateral. The borrower XYZ has a Bank deposit of € 10,000 which matures in x4 and may be used for repayment of capital.

31 December x2: Cashflow of € 7,000 (interest payment) | Early capital repayment of € 10,000

31 December x3: No interest payment made; Bank is told that customer cannot pay at present, but will fully repay all amounts over the coming years.

Bank expectations regarding future cashflows No future interest payments will be received

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Only 10% of the loan capital will be repaid in the year x6 | Realisation of collateral = € 20,000 in x6 | Release of bank deposit to repay loan = € 10,000 in x4

Further assumptions: No changes to the revised expected cashflows over the remaining period | Expected cash flows are received
31 December x3

Expected cash flows discounted with the original effective interest rate of 8.26 %

**Expected Cash Flows:**
Early capital repayment (€ 10,000 on 31 December x4) | Collateral (€ 20,000 on 31 December x6) | Capital repayment (€ 10,000 on 31 December x6) | Recoverable amount therefore € 32,881 | Book value (amortised cost as at 31 December x2) = € 85,848 | Impairment = difference between amortised cost and recoverable amount = € 52,967

**Years x4 to x6**
Calculation of recoverable amount by discounting the expected cash flows with 8.26 %
The period over which the expected cash flows are being discounted and over which the discount is spread is getting steadily shorter. It leads to unwinding of the discount.

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7. CONCLUSIONS

An efficient synergy may be utilized without doubt when gathering the source data used in both areas of Basel II and IFRS, and certain numeric characteristics may be transferred having due regard to the descriptive differences. In the end, however, the universality of both standards will to some extent necessitate mutually communication, primarily between banks and their external auditors in regard to the IFRS, while the BoA will have a complementary role, but the change of Regulation 52 is not a question of if but when. Any way we have still to challenge in the future to come for these issues.

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THE ROLE OF INTERNAL AUDITING ACTIVITY TO IMPROVE MANAGEMENT AND INCREASE THE VALUE OF PUBLIC ENTITIES

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Abstract

Internal Audit in the public sector in fulfilling its mission as an independent activity, aims to support the management of public entities to achieve their objectives by providing objective assurance and advice to add value by promoting changes that improve the activity of management and increase responsibility.

The mission of internal audit as defined in its strategic objective is to provide recommendations for improving the system and increase the value of the subjects.

The main directions of activity of the audit with a view to increase the value of a public entity must be considered:

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Improving decision-making processes of policies and procedures, drafting strategies and setting targets in public entities or audited entities (improving decision-making structures and their activity, reorganization of governing bodies often reviewing their functions and senior management.

Improvement of internal and external legal and procedural framework, that directs the activities of entities with a view to approximating of this activities with contemporary standards; (establishment of procedures, clear rules to prevent negative phenomena, verification, authorizations, separation of duties according to functions and roles of each officer).

Improving financial management system, in order to ensure effectively use, economy and efficiency of public funds. (increase the quality of planning and implementation of the state budget, establishment of prudential regulations to prevent fraud and theft, protection of assets etc.).

Development of professional capacity of auditing public entities, in order to ensure a high level of quality of audit activity. The mission of internal audit determines its strategic objective which: is to provide recommendations for improving the system and increase the value of the subject. Achieving this goal in a determined largely by the quality and applicability of the recommendations, but also shows the audit responsibility to find more effective ways of management awareness of public entities on the value and benefits of implementation of recommendations;

Lack of conceptualization and low level of awareness of management on the new role of modern internal audit as a tool to ensure well-functioning of public entities and providing value for their money. Creating a favorable environment for understanding and conception of such new systems for different levels of management will significantly have an impact in raising awareness and accurate understanding of internal audit support and assistance for the management of public entity in meeting the objectives.

Development of methods and strategies based on risk, to assess the activities of public entities.

In planning the internal audit activities are identified and assessed the main risks to the activity of public entities. The main directions of the field with greater risk can be considered;

- **Financial management systems.** In most cases we consider that financial management is the area where the risk is present;

- **The actors circulate significant amounts of public funds which are provided by a number of funding sources.** Especially in this category there are included subjects who also have a low level of financial control systems and other controls;
- Investments in strategic work, including not only enforcement of the legal framework, but the degree and quality of implementation of contracts.
- Subjects or areas highlighted weaknesses in internal control system, which occurs with deficiencies in regulatory and procedural framework within separate public entity.
- Subjects with a low level of knowledge and use of information technology systems.

**Keywords**: systems, standards, risk evaluation.

### 1. THE ROLE OF AUDIT SERVICES IN THE GOOD GOVERNANCE OF THE ORGANIZATIONS

In the context of the today organizations managerial environment, which is in the constantly changing, managers usually are overloaded by competences. They need to take decisions in proper time in order to determine the future performance of the organization. Decision making requires an objective assessment of the organization and it should be made at the appropriate moment, and should be noted that any wrong decision has “a certain price”, which has to be “paid” in the market (has its own cost). To avoid the wrong decisions’, the organization’s governance should based on accurate and objective information. In this context, the audit services play a key role. Within an organization, both audited entity and auditors should well understand the meaning and the importance of the audit role.

The main duty of an organization is to achieve the required level of performance. But at the same time, an organization must meet all major standards, rules, laws, regulations, policies that form the framework where the performance of the organization will be evaluated. Therefore the internal audit plays an important role in senior management education to find appropriate solutions to meet the objectives, and helps managers to develop tools and techniques for the organization governance. The internal auditor who possesses a good understanding of the organization governance plays an important role for ensuring the sustainability and success in both public sector and business world as well.

Internal audit is an *independent and objective activity* designed to improve and to add value to the organization’s operations. It helps the organization to accomplish its objectives by bringing a systematic and disciplinary approach of evaluating and improving the efficiency, risk management, control
and governance processes. A unit of independent internal audit provides recommendations for establishing the systems of internal control and their effective functioning.

Internal Audit (IA), provides advice and assurance that management systems and controls framework have been established in accordance with rules and standards, and principles of sound financial management. These include substantive and compliance tests, systems-based audit approach, audit of performance, audit of information’s technology (IT) and any other type of ex post verification which is considered necessary to ensure that the management is working in accordance with financial rules and legal framework of the organization. The process of internal auditing should establish proper mechanisms to reflect that the audit findings and recommendations fit on financial laws and regulations.

Internal audit should be organized in a proper way that it could not participate in any business processes, and not be part of the operational structures of the organization. IA should report directly at the executive chief of the organization. Internal auditors are independent in planning their work, and their annual and strategic plans are approved by the decision-making body of the organization; furthermore they are independent in performing audit activities and reporting process. The top management of the organization is responsible for implementing the recommendations of Internal Auditors.

2. THE MAIN USERS OF INTERNAL AUDIT SERVICES

It is important to note that who are the main users of audit services, the importance and the quality of services provided as well as the level of the security of information. Generally is defined that the main users of internal audit services are:

First of all, the organization’s owners (shareholders) and those who invest their capital in the organization. In most of the cases the above categories of peoples do not have sufficient knowledge on specific fields of finance, accounting thus in order to protect their interests or to perform their job, they are willing to pay for internal audit services. In the other hand, the presence of audit services to the organization, in most of the cases make impossible or prevents frauds and occurrence of errors, which would damage the interests of owners.

Banks and any kind of lenders and creditors are interested in effective use by economic entity of their principal financed to them according to the
respective agreement. Through IA services they can review or evaluate the prospect of repayment of their capital according the credit agreement, thus they can take a decision of continuing or terminating the lending of their capital.

Organization partners. In performing their activity, organizations realize different relations with new partners who want to build knowledge about the organization’s business and its prospects.

Employees are interested to pursuits the performance of the organization, because of the fulfillment of their economic and professional needs. This fulfillment of needs is derivation of the organization’ performance.

The managers of the organization, who have the legal and moral obligation to manage the organization toward fulfillment of the organization’ goals by using with efficiency the available resources.

The Internal Audit Service is very important for the Government. The Government protects the interests of its citizens through legislation framework. Defining the real and objective situation of public sector entities is important for the implementation of economic and fiscal policy in the country. A good financial service and internal audit helps the public organization in good allocation of resources in the most possible way of effectiveness.

3. INTERNAL CONTROL AND AUDIT

Internal auditors should be able to asses the organization before any internal audit work can begin. The consulting role of internal audit argues that the auditor may help set up the necessary infrastructure (control framework) while the assurance role suggests that internal audit can go on to make sure the framework is owned by managers and that it makes sense and works well. It is difficult to talk about risk management without talking about internal control, as they are both necessary aspects of ensuring the business succeeds.

Good governance of any organization is based on a good management team who face with risks and being able to have the good overall control of the organization’ activities. Modern audit recommends that internal control framework is one of the most fundamental and important topics which the internal auditor needs to master.

Executive managers of the company have the appropriate means and multiple ways to improve the functioning of the organizations. In this context, the internal controls play a very important role, which are build and set were is needed, in order to lead the organization in the right course towards meeting
the established goals and implementing its mission as well as to minimize the unexpected experience that may occur during the operationally.

Internal control framework gives the possibilities to the management to have a quickly connect with the economic changing in the competitive environment, with the changes of priorities and customer requirements, and makes possible the restructuring of the development in the future. Internal controls promote efficiency, minimizing risk of reduced value of asset and help to give assurance in reliability and comparatives of financial statements according with the framework of primary and secondary legislations. As internal controls serve to many important goals and targets, today is increased the need for having a more effective internal control framework and also a good reporting system. Internal control framework today is seemed to be (is used) as a solution of various and important problems of the organization.

Always the existence of risks is accompanied with obstacles in the achievement of the objectives and potential failure seems quite. It is necessary to establish internal controls framework to address these risks, because otherwise there are many possibilities that the objectives set by the organizations will not be meet. In the same time the internal controls framework have its costs and this requires applying the cost and benefit analyze of the internal controls, if they are worthily and set in the right place.

A part of internal controls depends on risk appetite of the organization, so in that way how much risk the organizations have decide to tolerate or and how much risk can not be tolerated. Poor controls lead the organization towards the losses, scandals, failures and damage of its overall reputation, as well as the reputation of sectors (units) within the organization which belong to these weak controls. Certainly in those organizations where the risks are tolerated and where the new enterprises are been designed without a system of risk control, during the operations will occur a series of problems and unexpected situations.

The development of Public Financial Internal Control (PIFC) framework as whole, in our country is very important. Aimed to this purpose is important that the leaders of public institutions in our country having a better understand of the content of financial management and internal control framework. In this concept are included two very important elements of public internal financial control framework:

- Financial Management;
- Internal Control framework.

The meaning and content of these elements is essential for the functioning
of the PIFC system, because without recognizing their meaning and content is impossible to develop, improve and implement PIFC system in our country.

Financial management, represents management structure (General Directorates, departments, directories, branches, sections, sectors, offices, etc.), and it composed with managers and employees of various levels of management.

While the internal control framework represents the whole of provisions (sub-legal acts, methodologies, methodology, guidelines, regulations and other ordinances of this nature) which have to be drafted, approved and implemented by management and employees of financial management structures to achieve the objectives in a public entity.

In view of the mission and duties prescribed by law, every public entity should develop a structure and organic composition with clearly functions and defined tasks, in order to realize the goals in short, medium and long term, while serving its country in accordance with development strategies. These structures of vacancies are confirmed under the authority provided by law in superior bodies (decision-making body) and after of their approval, they meet with employees in accordance with the requirements of the job vacancies, referring to professional requirements and the law of the “civil servants status”.

The concept of internal control is a quite complex process. Different Countries have different conception of the internal control framework, and in accordance with their traditions they use different technology and philosophy of its implementation.

In the practice of our country, internal control and internal audit is misunderstanding quite often, and some times even this misunderstanding is extent as seen in the position of practical use both words and similar practices, so as synonyms of each other.

It should be emphasized that, “Internal control” is a process which involving the drafting and approval procedures of all provisions (legal acts of legislation, methodologies, methodology, guidelines, rules, directions and more of this kind) to be implemented by management and employees of financial management structures to achieve objectives in a public entity. Thus, the notion “control” is quite different from the notion of “internal audit”, which itself is a process that reviews the internal controls of certain subjects, and provides recommendations for improving the operations of a business.

Internal audit as an essential component of governance, is a disciplinary activity that provides maximum effectiveness if it performed in conjunction with the audited organizations and their employees. Through this method
achieved the best results shared, because no other unit knows better the business activity than the internal audit. Involvement and cooperation between management and the auditor is crucial at every stage of audit activity.

Audit Principles are universal. International Standards on “Professional Practice of Internal Audit” are issued by the Board of Internal Auditing Standards of the Institute of Internal Auditors, which is a global professional body. These standards act as best practices across countries, and they are well adapted to the specific environment in Albania.

4. ROLE OF AUDIT COMMITTEE

The Audit committees have an important role in the audit activities (AC). An audit committee typically consists of a minimum of three non-executive directors. The Audit Committee has a delegated authority to act in accordance with its terms of reference and to investigate different areas that has determined in his agenda. Internal and external audit present periodic reports to the Committee meetings and prepare an annual report for each financial year. The role of Audit Committee is already recognized in business activity and they are becoming mandatory for listed companies on the bourse, but also and for smaller companies where is advised their presence.

An Audit Committee established by the board to perform those tasks assigned from the board as a specialized forum. The role of Audit Committee includes the following components:

- The external audit process. To review the external audit process and make recommendations to the board where appropriate.
- The final accounts. To consider the annual accounts and the external audit report that attaches to these accounts.
- Systems of internal control. To consider the adequacy of systems of internal controls. The current move to require directors to report on their systems of internal control means that this is starting to assume a higher profile.
- Internal audit. Involvement in the appointment of the internal auditors and ensuring that the internal audit function operates to professional standards, performs well and discharges its responsibilities under the audit plan and strategy.
- Risk management. The audit committee will ensure that there is an effective system of risk management within the organization and that this system supports the controls which, in turn, provide a reasonable expectation of achieving organizational objectives.
Compliance and propriety. An oversight of systems and procedures is in place to ensure compliance with regulations, policies, laws and procedures and the organization’s code of conduct. Also ensure that the organization is able to prevent, detect and respond to fraud and allegations of fraud.

Financial management. To consider the finances and expenditure of the organization and ensure that there is a good financial reporting and budgeting system in place and that this feeds properly into the process for preparing the annual accounts.

Special investigations. The audit committee may request special investigation from the internal audit, compliance officer, external auditor and external specialists where there is a need to probe into sensitive problems that fall within its remit.

The tasks, responsibilities, and goals of audit committees and internal auditing are closely intertwined in many ways. Certainly, as the magnitude of the ‘corporate accountability’ issue increases, so does the significance of the internal auditing/audit committee relationship. The audit committee has a major responsibility in assuring that the mechanisms for corporate accountability are in place functioning.

The main role and responsibilities should be set out in written terms of reference and should include:

To monitor the integrity of the financial statements of the company, reviewing significant financial reporting issues and judgements contained in them;

To review the company’s internal financial control system and, unless expressly addressed by a separate risk committee or by the board itself, risk management systems;

To monitor and review the effectiveness of the company’s internal audit function;

To make recommendations to the board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of them;

To monitor and review the external auditor’s independence, objectivity and effectiveness, taking into consideration relevant UK professional and regulatory requirements;

To develop and implement policy on the engagement of the external auditor to supply and non-audit services;
6. MAIN ISSUES ABOUT AUDIT SYSTEM IN OUR COUNTRY

Actually, the internal audit in the public sector in our country is at a stage where it has made an important progress for the development of internal audit activities in accordance with international standards and the fulfillment of requirements for the purpose of European integration of Albania.

The internal audit structures which aim to fulfill their responsibility as defined in the Law on Internal Audit, in the Audit Manual, in the Audit Charter and Code of Ethics, develop and implement Strategic and Annual Plans to conduct their activities. In these plans are defined: the objectives to be achieved, indicators of measuring the audit performance, available capacity and assessment of risk management. In the Strategic Plan and Annual internal audit units are identified and assessed the main risks for the operation of organizations. From the analyzing of audit structure activity, risk level is determined by taking into account risk factors that lead to Prioritization of areas with higher risk.

In our country, the risk areas that require the attention of audit services can be considered as follows:

Financial management systems. In most cases, it is remarked that financial management is the area where the risk of misuse of funds is more present. “The most significant findings” are identified in areas / public procurement funds, payrolls, financial transactions, income tax collection and customs in which are identified the weaknesses and the most important shortcomings.

Subordinate entities that circulate significant amounts of public funds which are provided by a large number of funding sources. Particularly in this category are included subjects who also have a low level of financial control systems and other controls, such companies are considered strategic sectors (KESH, ALBPetrol).

Investments in strategic actions, including not only the appliance of the legal framework, but the level and quality of implementation of contracts. These areas are shown not only high financial risk, but operational concerns with the quality of works, payments not in conformity with the current state of work, supervision and taking over of objects.

Subjects or areas of significant weakness in internal control system, which occur with deficiencies in the regulatory and procedural framework within the public entity. This has to do with subjects that are newly created or have undertaken structural changes and have not yet fulfilled their basic and functionally regulation;

Human resources management because of frequent turnover of staff and
low level professional staff adversely affect achieving the objectives and the quality of the subject, the large number of cases in trial courts are often indicators of changes that are legally and technically unjustified;

Subjects with low levels of knowledge and use of information technology systems, where there are still entities that process information manually, where the risk of errors in calculation or data appears quite high. Insufficient knowledge of these systems make the subjects exhibited at a high degree of risk because it can not adapt and use such systems and often required (Oracle system for Treasury Branches in the districts, the system of preparing Medium term budget program, or the public procurement).

Based on the definition of areas with higher risk above, the audit structures decide their priorities. Thus, in subjects or areas with higher risk are involved the main sources of auditing, which means that staff involved in these audits, is a high professional level, and provides sufficient time for evaluation of subjects, technical expertise upon request and other sources.

Some factors affecting the effectiveness of audit activity in our country, which should require future improvements, can be summarized:
1. The quality of preparation of materials at lower levels than required by standards.
2. Lack of knowledge of the conception and evaluation of internal control. Consequently, in many cases still is worked with previous methods of financial inspection. Even when is given an assessment of control systems, most of the cases it is made from theory and is paid very little attention to real risk assessment of internal control, while this should be the starting point for the auditor job.
3. Uncertainty to the above often leads to a limited role of auditor-just stating - and are not given recommendations to improve systems so that negative events do not turn into ordinary phenomenon.
4. Frequent deviations from plans, the auditing with the management initiative, increase the risk of touching the audit functional independence, which is expressed exactly in the independent drafting of audit plans under valuating the subject based on risk.
5. Besides the unsatisfactory level of preparation of the reports, significant deficiencies are identified in the treatment of observations by the party audited. Findings not directly addressed, direct discussion and acceptance by the parties, can lead to inadequate provision of recommendations and unenforceable, all that has brought a negative impact on the results of work and in its quality.
6. The status of some audit structures remains unresolved. There are still structures that operate under the framework of internal audit, but are called revision-control structures or similar.

7. Communication of audit findings, exchange of information between relevant institutions remains a weak point of the system when it comes to local government units. Although it is specified in the Law on Internal Audit Manual and procedures, reporting lines are not respected, these units remain passive about activities carried out under the whole system and in such conditions does not reflect their work as the field changes.

8. The professional developing of auditing is a problem that affects less the central government structures but more the local government structures. The consequences of low quality work create a negative chain reaction which is reflected later in other public entities which may have functional subordination.

9. And last but not in order of importance, is the incomplete conception and low level of awareness on the role of new management and a modern internal audit under the PIFC system as a tool to ensure public well management and assuring their value for money.

7. CONCLUSIONS AND RECOMMENDATIONS

As one of the three pillars of the system of Public Internal Financial Control, the audit function is conducted, developed and continuously improved in order to win his new role as modern assessment and advisory systems and to ensure achievement of its strategic, always in accordance with standards and international best practices.

Under this approach it is important a more critical stance towards the problems and risks that affect the performance of the internal audit mission, especially in public sector entities. Key issues that require attention consist of:

1. Despite positive developments and progress that has been made recently the PIFC system in Albania, it is still not fully recognized by the heads of public entities. This brings as a consequence the incomplete conception of the internal audit role as part of this system.

Creating a favorable environment for understanding and conception of such new systems for different levels of management will impact significantly on increasing awareness and understanding of the exact internal audit support and assistance to manage the organization / entity in meeting objectives.
2. Legal and regulatory framework for internal audit has clearly defined the basic principles as a “functional and organizational independence” of the auditor, but often this principle is violated or not respected by creating conditions for **violation of the independence of the Auditors in the exercise of their function**.

Following up problems and promoting correct and consistent actions to the laws and regulations should be the focus of future activities. Events associated with increased awareness and understanding the role of internal audit can create the right climate for further development of the system.

3. Providing a **high level of quality of audit structures** remains a quite sharp problem that arises continuously for solution either on the analysis of individual units to audit public companies as well as seen in the context of the entire system of public audit.

Establish and maintain a quality assurance program for the work of internal audit structure that consists in developing the regulatory existing framework, theoretical and practical, as well as building professional audit capacity that will promote the increase of quality in auditing.

4. The current level of professional training and skills of audit staff structure is still far from the standards required. Performing internal audit function will be useful and effective only if there are skills, tools and resources needed for **institutional and professional support this function**.

Develop and implement the National Strategy for professional development of Auditors will be the basis on which will be carried further the process started. Internal auditor should not only be certified that they have knowledge about their function, but must maintain and further develop their professionalism and accountability for a correct exercise of this function.

5. **Risk assessment is a process which is a few developed** in the methodologies applied in practice by the auditor. Concrete cases of risk assessment are sporadic and not the usual practice of audit work. On the other hand, for people running the organizations / entities, the concept of “Risk Management” and setting the controls exactly as his response, remains a new matter, from the products of which it is gained nothing.

Introducing to the auditors the practical development of methods and strategies based on risk assessment and public entities must be accompanied with an awareness campaign to manage problems relating to address and assess the risk.

6. Ensuring **sustainability of professional staff** is a problem that often faces audit particularly in structures of dependence on public entities or other levels of local government. Unreasonable movements of trained staff bring
not only the loss of professional experience gained, but influence also the quality of audits performed.

Law on Internal Audit clearly defines that each employee’s of audit structures should have won the title “internal auditor of the Public Sector” but also must be submitted to a continuous process of training to update knowledge. Directors of audit structure and head of office in public entities should be aware of the consequences that such unreasonable motion have in achieving their objectives.

7. Developing, improving and updating the legal and regulatory framework for internal audit remains an important direction for other audit activities.

While improved standards of continuous change, experiences and best practices are becoming increasingly feasible, it is a must, and keeping the level of international standards and practices of all theoretical and practical frameworks for the audit. This would provide a strong basis for the development and implementation of an effective function of internal audit.

In the auditing process importance is dedicated to providing management recommendations aimed at the improving of internal control systems and operation of the public entity to achieve the objectives. In general, data consist of recommendations:

1. Recommendations for improving the decision making processes of policies and procedures, developing strategies and setting targets in the audited entities (decision making structures and improving their operations, reorganization of executive councils and often review their functions and top management);

2. Recommendations for improving the implementation process of policies, procedural framework of internal and external entities operating the activities (establishment of procedures, clear rules to prevent negative phenomenon, verifications, authorizations, separation of duties according to the functions and roles of any officer);

3. Recommendations for improving the financial management system in order to ensure effective use, economical and efficiency of public funds (increase the quality of planning and implementing the state budget, the establishment of prudential regulations to prevent fraud and theft, maintaining assets, etc.);

4. Recommendations for professional development of employees in public and especially the staff working in financial management structures.

5. Recommendations for the establishment and professional development of audit capacities.

The mission of internal audit determines its strategic objective which is to provide recommendations for improving the system and increase the
value of the subject. Achieving this goal is determined to a large extent on
the quality and applicability of recommendations, but also shows the audit
responsibility to find effective ways to raise awareness on the management
of public entities on the value and benefits from the implementation of
the recommendation. Therefore, assessment of the audit activity structure
is not limited to submission of proposals for action and recommendations
given, but considering the important factors and indicators of the degree of
implementation of recommendations given.

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THE LOCAL BUDGET AND THE EQUATIONS OF ITS BALANCING

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Abstract

The local budgets play a very important role in the economic development of local communities. Through them, the units of local governance defines as to how much they will spend, for what it will be spent, and when will start and finish the projects. Based on the structure of the local budget we see that the main sources of the incomes are the local incomes (LI), and the grants from borrowing (B). The unconditional grants (UG) are distributed from the government according to a formula where are taken in consideration economical and demographic factors, meanwhile the delegated budget (DB) is delegated only for wages and social security and health care expenses according to the number of employees that cover the common functions³. So in order for us to have a local budget in the function of the economical development we need to increase the local incomes and the borrowing. The increase of the local incomes and borrowing in a yearly basis, illustrates the local economical growth perspective. As to what belongs to the local expenses, the biggest specific weight is on investments (I).

We must understand that the higher the investments the more promising the local budget in the aspect of financial incomes.

In this study we will verify mathematically the comments of scholars and analysts over the role of local incomes and borrowing in the development of the local governmental units.

We will illustrate the transformation of the basic equation \( I = E \) (3.1) to the equation \( LI + G + DB + B = PE + SSE + HCE + OE \) (3.2) and its transformation in the equation \( LI + B = (Pli + SSli + HCli + OEl + Ili) + Ib \) (3.6) which means that the local economical growth is dependent mainly from the local incomes and borrowing.

**Keywords:** local budget, balance, local incomes, grants, borrowing, delegated budget, investments, and expenses.

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³ Are called common functions or delegated: the Health Care Service in the Public Health Care Centers and Polyclinics and the Primary Education.
1. WHAT IS THE LOCAL BUDGET

**Definition:** A budget is the basic document of the policies, planning and controlling for every unit of the local government.

The budget is a number presentation of the activities, programs and services that the unit of local government will do during a certain year. Through the local governmental unite budget, the units of local governance defines as to how much they will spend, for what it will be spent, and when will start and finish the projects. First as an operational plan the budget orders the local administration during the upcoming fiscal year that serves as the base for the financial report in the local council and in front of the citizens.

It is very difficult to give one definition that could illustrate all of the characteristics of the budget. There do exists different thoughts and definitions for the local budget such as ⁴: “The local yearly budget explains the sources of the incomes that are forecasted for the upcoming year, and details the forecasted expenses such as are the wages, social security, health care and operational expenses and investments.”

Even thus we believe and think that the definition given at the beginning is more completed in the aspect as to what we are trying to prove in our study.

In the local government we confront always the fact of constraint sources and needs, and high demands. By this mean the local government considering all the purposes and the functions of the budget, must lead between the constrained sources and needs and the high demands (unconstrained).

The process of the budget and its balancing is the most important of the local government for every year. This process not only defines how much money it will be spent but it also serves as a work plan for the local governmental units. The budget is the central element of the decision making and all the decisions that are linked with the activities and all the services of the governance are limited or constrained by the opportunity to finance them. Many of the decisions with which the mayors and the councils of the units are confronted are constrained from the prospect of the budget.

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⁴ Dr. Sherfedin Shehu, Leah C. April and H. L. Pete Jenkins; The Manual for the Local Budget in Albania., pg.10-11.
2. THE STRUCTURE OF THE LOCAL BUDGET AND ITS BALANCE

Before we present the local budget structure in our country, let us get familiar in principle with a local budget. The local budget presents the incomes and expenses. The incomes have two sources, internal and external. The internal sources include the local incomes, and the external sources include the unconditional grants, delegated budgets, and also the different borrowings. Expenses are detailed in expenses for payrolls, expenses for social security, and expenses for health insurance, operational expenses and investments.

Table 2.1 LOCAL BUDGET

<table>
<thead>
<tr>
<th>INCOME (I)</th>
<th>EXPENSES (E)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-Local Incomes (LI)</td>
<td>1-Payroll Expenses (PE)</td>
</tr>
<tr>
<td>2-Unconditional Grants (UG)</td>
<td>2-Social Security Expenses (SSE)</td>
</tr>
<tr>
<td>3-Delegated Budget (DB)</td>
<td>3-Health Care Expenses (HCS)</td>
</tr>
<tr>
<td>4- Borrowings (B)</td>
<td>4-Operational Expenses (OE)</td>
</tr>
<tr>
<td>Total Incomes (I)</td>
<td>5-Investments (I)</td>
</tr>
<tr>
<td>(E) Total Expenses</td>
<td></td>
</tr>
</tbody>
</table>

Incomes of the local budget (local incomes)
1. The local incomes include taxes, local taxes and the other un-taxable tariffs that are collected and administered from the local government units.
2. Grants are called the unconditional transfers from the central government without usage condition.
3. Delegated budget is called the conditional transfer that is given from the central government and is used for payrolls, social security and health care in the common functions with the local government units.
4. Borrowings are monetary values that are borrowed to the local governmental unit from the different banks in the form of credits.

Expenses of the budget (local expenses)

6 Or “Unconditional transfers”.
7 Ose “Conditional transfers”, or “Conditional grant”.

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1. Payroll expenses are included all the expenses for the workers in the local government administration according to the base wage, work experience, qualifications, position, distance, special funds etc.

2. Expenses for social security, accounts for expenses for the social security contribute from the employers and employees.\footnote{The legislation for the social security and health care insurance decides the percentage of the contributions paid from the employer and employee.}

3. Operational expenses include all the expenses for material and office services such as water, energy, telephone, post services, fuel charges, exchange parts, different insurances, and expenses for travel, and expenses for street, building, and automotive maintenance, etc.

4. Investments include expenses for purchasing land, buildings, street construction, reconstructions, new canals, purchasing automotives, different machineries, etc.

The incomes of a local budget must always equal the expenses, when these sides of the budget do not equal the budget will not be approved. Let us illustrate with an example how is dealt with an unbalance in a local budget. We will explain how the finance department will deal with an imbalance in the budget or how they will balance the incomes with the expenses, in a certain municipality.

The city hall Y, for the year 200x, has these sources of income and expenses according to the departments:

**Table 2.2 –The forecasted budget of the Y City Hall for year 200X**

<table>
<thead>
<tr>
<th>INCOMES</th>
<th>EXPENSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-Local incomes</td>
<td>200</td>
</tr>
<tr>
<td>2-Unconditional Grants</td>
<td>400</td>
</tr>
<tr>
<td>3-Delegated Budget</td>
<td>300</td>
</tr>
<tr>
<td></td>
<td>300</td>
</tr>
<tr>
<td></td>
<td>300</td>
</tr>
<tr>
<td></td>
<td>4-Cultural department</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>900</strong></td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td><strong>Total 1.000</strong></td>
</tr>
<tr>
<td>1-Finance department</td>
<td>200</td>
</tr>
<tr>
<td>2-Service department</td>
<td>200</td>
</tr>
<tr>
<td>3-Education department</td>
<td>300</td>
</tr>
<tr>
<td></td>
<td>300</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1.000</strong></td>
</tr>
</tbody>
</table>

Local Budget Deficit -100

As we can see the *Forecasted Budget* for the City Hall Y is not balanced. Between the incomes and the expenses of this city hall there is a deficit. The Finance Department pertaining to this city hall reports to the mayor that to afford all the expenses there isn’t enough income from the budget. There is less 100 ALL income than needed. This means we have a local budget deficit.
of 100 ALL. The financial managers present this budget the city hall council with its deficit. To balance the financial situation the leader of the finance in the city hall proposes to the council the following:

- **An increase in the local incomes**

  The tax collection department in collaboration with the finance department discusses a possibility of tax growth, but still they are just estimates. But at the end that local incomes were added by 20 ALL. The above mentioned deficit was softened a little and is now 80 ALL (100 – 20). In these conditions the department of finance clarifies with convincing arguments that the rest of incomes cannot be changed. We are talking about the grants and the delegated budget since these incomes are given from the central government and the state budget. In these discussions about the 80 ALL, the financial manager (the mayor), to balance the budget proposes:

- **Lowering the operational expenses to balancing the budget.**

  The proposition of the financial department of the city hall is approved, thus lowering the operational expenses for the departments as below:

  **Table 2.3/ALL**

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Were</th>
<th>Lowered</th>
<th>Remain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance Department</td>
<td>200</td>
<td>25</td>
<td>175</td>
</tr>
<tr>
<td>Service Department</td>
<td>200</td>
<td>25</td>
<td>175</td>
</tr>
<tr>
<td>Cultural Department</td>
<td>300</td>
<td>30</td>
<td>270</td>
</tr>
<tr>
<td>Total change</td>
<td>700</td>
<td>80</td>
<td>620</td>
</tr>
</tbody>
</table>

  **Incomes**

<table>
<thead>
<tr>
<th>Were</th>
<th>Grew</th>
<th>Remain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Incomes</td>
<td>200</td>
<td>20</td>
</tr>
</tbody>
</table>

Finally the city hall budget is approved from the council with the above mentioned changes.

**Table 2.4 - City hall budget for year 200X/ALL**

<table>
<thead>
<tr>
<th>INCOMES</th>
<th>EXPENSES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1-Local incomes</td>
<td>220</td>
<td>1-Finance Department</td>
</tr>
<tr>
<td>2-unconditional grant</td>
<td>400</td>
<td>2-Service Department</td>
</tr>
<tr>
<td>3-Delegated budget</td>
<td>300</td>
<td>3-Education Department</td>
</tr>
<tr>
<td></td>
<td>4-Cultural Department</td>
<td>270</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>920</strong></td>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

In our hypothetical example are not given all the details of a budget, but that was not the purpose of the example. The purpose was to illustrate and explain the balancing of the budget, thus illustrating the balancing the equaling of the incomes with the expenses.
3. THE EQUATIONS OF THE LOCAL BUDGET AND ITS BALANCE

From the table 2.1 “Local Budget” in sub case 2 “The structure of the local budget and its balance” we conclude:

\[ \text{Incomes} = \text{Expenses}, I = E \quad (3.1) \]
\[ \text{Incomes}, I = LI + G + DB + B \quad (3.1.1) \]

Where:
\[ LI \] – Are the local incomes
\[ G \] – Is the grant that is granted or given from the central government.
\[ DB \] – is the delegated budget from the ministries of the line for payroll expenses (PE) and social security expenses (SSE) and health care expenses (HCE).

Expenses:

\[ E = PE + SSE + HCE + OE \quad (3.1.2) \]

Where:
\[ PE \] – are expenses for payroll, a fund which is managed from a part of the Grant, the delegated budget, and a part of the local incomes.
\[ SSE \] – are expenses for social security expenses that are managed from a part of the grant, the delegated budget, and a part of the local incomes.
\[ HCE \] – are expenses for health care insurance that are managed from a part of the grant, the delegated budget, and a part of the local incomes.
\[ OE \] – are expenses for office expenses, food, water, electrical energy, fuel, exchange parts, automotive insurance, work benefits, etc. that are managed from the grant and the local incomes.
\[ I \] – are expenses for building and buying or reconstructions of inventories of the local unit that are managed from the grant and the local incomes.

Let us substitute the equation (3.1.1) and (3.1.2) with the original equation and we will have:

\[ LI + G + DB + B = PE + SSE + HCE + OE \quad (3.2) \]

Now let’s present in and analytical manner the components of the right side of the equation (3.2). First, let’s start with the payroll expenses (PE).

\[ PE = Pg + Pb + Pli \quad (3.2.1) \]

Where:
\[ Pg \] – Expenses that are used for payroll that are administered from the grant for the institutions depending directly from the local government.
\[ Pb \] – are expenses for payroll that is profited from the local units from the ministries of the line.

---

$Pli$ – are expenses for payroll for the background sector that are administered from the local incomes of the local units.

*Secondly*, the expenses for the social security (SSE):

$$SSe = SSg + SSdb + SSli \quad (3.2.2)$$

Where:

$SSg$ – are expenses for the social security of the institutions directly dependent from the local governmental units that are administered from the grant.

$SSdb$ – are expenses for social security that are administered from the delegated budget. This budget comes altogether with the payrolls from the ministries of the line.

$SSli$ – are the expenses for the social security for the background sector that are administered from the local incomes.

*Thirdly*, expenses for the health care insurance ($HCE$):

$$HCE = HCg + HCdb + HCli \quad (3.2.3)$$

Where:

$HCg$ – are expenses for the health care insurance of the institutions that are directly dependent from the local governmental units that are administered from the grant.

$HCdb$ – are expenses for the health care insurance that are administered from the delegated budget. This budget comes altogether with payrolls from the ministries of the line.

$HCli$ – are expenses for health care insurance for the background sector that are administered from the local incomes.

*Fourth*, operational expenses:

$$OE = OEg + OEli \quad (3.2.4)$$

Where:

$OEg$ – are operational expenses that are administered from the grant

$OEli$ – are operational expenses that are administered from the local incomes.

*Fifth*, expenses for the investments:

$$I = Ig + IIi + Ib \quad (3.2.5)$$

Where:

$Ig$ – are expenses for investments from the grant

$IIi$ – are expenses for investment that are administered from the local incomes

$Ib$ – are expenses for investments from the borrowings.

If in the equation (3.2), $LI + G + DB + B = PE + SSE + HCE + OE$ we
substitute the right side with the equations (3.2.1); (3.2.2); (3.2.3); (3.2.4) and (3.2.5), we will have the following results:

\[ LI + G + DB + B = (Pg + Pb + Pli) + (SSg + SSdb + SSli) + (HCg + HCdb + HCli) + (OEg + OEli) + (Ig + Ili + Ib) \]  (3.3)

If we group the expenses according to the source of their administration or the source that bears up the costs, which means the grants, the delegated budget, local incomes and the borrowings we will have at the end:

\[ LI + G + DB + B = (Pg + SSg + HCg + OEg + Ig^{10}) + (Pb + SSdb + HCdb) + (Pli + SSli + HCli + OEli + Ili) + Ib \]  (3.4)

But, there always is a big but:

\[ (Pb + SSbd + HCdb) = BD \]

\[ (Pg + SSg + HCg + OEg + Ig) = G \]

Making the respective changes in the equation (3.4) we will have:

\[ LI + G + DB + B = G + DB + (Pli + SSli + HCli + OEli + Ili) + Ib \]  (3.5)

As we simplify the G and the DB from both sides of the equation (3.5) we thus have:

\[ LI + B = (Pli + SSli + HCli + OEli + Ili) + Ib \]  (3.6)

During the planning of the budget we always are confronted from the countless needs and the limited sources of incomes. From the mathematical transformations of the equation (3.2) we saw that to equalize both his sides we need to focus at the local incomes and the borrowings. Such a fact is verified from the equation (3.6).

4. CONCLUSIONS

I. Local Budget:

a) Is the basic document of the policies, planning, and controlling for every unit of the local governance

b) Describes the sources of income that are forecasted for the upcoming year and details the expected expenses such as the payrolls, social security, health care, operational expenses, and investments.

II. By the means of the budget the local governmental unit defines as to

---

10 Generally from the grant in the beginning of the year we cannot plan a fund for investments because it is not sufficient to bear the needs for the wages, social security, health care and operational expenses so \( Ig = 0 \) thus \( I = Ili + Ib \)
how much it will spend, for what will it spend, and when will start and end the projects that are planned.

III. To balance the local budget we must:
   a. Increase the local incomes
   b. Decrease the operational expenses

IV. The balance of the local budget, is proved mathematically as described below:

\[ I = E \quad (3.1) \]
\[ LI + G + DB + B = PE + SSE + HCE + OE \quad (3.2) \]
\[ LI + G + DB + B = (Pg + Pb + Pli) + (SSg + SSdb + SSli) + (HCg + HCdb + HCl) + (OEG + OEli) + (Ig + Ili + Ib) \quad (3.3) \]
\[ LI + G + DB + B = (Pg + SSg + HCg + Oeg + Igl) + (Pb + SSdb + HCdb) + (Pli + SSli + HCl) + (OEli + Ili) + Ib \quad (3.4) \]
\[ LI + G + DB + B = G + DB + (Pli + SSli + HCl) + (OEli + Ili) + lb \quad (3.5) \]
\[ LI + B = (Pli + SSli + HCl) + (OEli + Ili) + lb \quad (3.6) \]

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11 Generally from the grant in the beginning of the year we cannot plan a fund for investments because it is not sufficient to bear the needs for the wages, social security, health care and operational expenses so Ig = 0 thus I = Ili + Ib
CUSTOMERS’ DESERTION RATE IN MICROFINANCE INSTITUTIONS, FACTORS AND THEIR ANALYSIS

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Abstract

Considering that customers’ desertion has several negative effects in the institution financial self-sufficiency, efficiency and productivity, this study aims at identifying the factors that influence the quality of relationship client-MFI and finding ways how management might effectively influence on them.

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to make the necessary improvement and adaptations. The study outlines the factors that influence MFI-s customers’ desertion: “resters”, need for loan latter, (i.e. considered as potential clients), dissatisfied lost to competition, need for bigger amount of loans than offered by MFI-s, dissatisfied with credit terms and conditions. Results are important because they show the need to build loyalty of “resters”, understand which products need to be refined, new products to be provided to ensure they will return to us latter; see how many clients went to competitors, why and what are they looking for; in order to develop competition survival strategies; see which are our competitive advantages and build on them, understand what type of support credit officers need to be more effective in reaching their lost clients. By understanding the complexity of factors influencing customers’ desertion, MFI-s will be able to improve the products for the target group. This will have a direct impact on client satisfaction and improvement of retention rates, which further on will have a beneficial impact on overall institution sustainability.

The methodology used is the “survey”, as a way to achieve the best result, closer to reality. The survey was performed through individual interviews, fully / partially structured questionnaires, phone calls / face to face interviews / questionnaires filled by the clients.

Keywords: loyalty, desertion, retention, MFI-s.

1. GENERAL DESCRIPTION OF BESA FUND

Besa Fundi j.s.c is a juridical entity that operates as a non – governmental and non – political organization in compliance with the Albanian legislation.

Besa Fund started its activity in February 1994 as a department of the Albanian Development Fund depending by the Council of Ministers, to implement the urban microcredit project, funded by World Bank.

In May 1999, with the Decision of the Council of Ministers, this project was transferred from Albanian Development Fund to Besa Fund, with SOROS as the Founder. Besa Fund is a legal entity operating as a non-government and non-political organization, in compliance with the Albanian legislation (actually, since December 2008 it is operating as a Joint-stock Company – non-banking financial institution).

Mission of Besa Fund is to support the country in its economic growth and poverty reduction in urban and semi-urban areas, by promoting micro, small
and medium enterprise sector in Albania, through the creation of a private self-sustaining Albanian microfinance Foundation. Given this mission, Besa Fund:

✓ Provides funding for micro and small businesses, based on the market conditions;
✓ Provides technical assistance for these businesses following the practices of business management;
✓ Trains and educates new managers on new up-to-date concepts and practices of business management.

Besa Fund finances every type of legal micro, small and medium businesses that generate incomes such as (i) trade and services (ii) productive or processing activities (iii) handicraft (iv) family tourism (vi) construction (especially repairing) (vii) transport (viii) bills or custom tax payment etc.

Actually Besa Fund operates in 46 Offices covering about 80% of the urban and semi-urban areas of Albania. Besa Fund has a staff of 207 employees, out of which 153 credit officers.

### General Data of Besa Fund activity

<table>
<thead>
<tr>
<th>Indicators</th>
<th>December 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative clients</td>
<td>56,042</td>
</tr>
<tr>
<td>Cumulative portfolio</td>
<td>236 million US$</td>
</tr>
<tr>
<td>Active clients</td>
<td>14,909</td>
</tr>
<tr>
<td>Loan portfolio</td>
<td>43 million US$</td>
</tr>
<tr>
<td>Average active loans</td>
<td>3,314 US$</td>
</tr>
<tr>
<td>Portfolio at risk</td>
<td>1.19%</td>
</tr>
</tbody>
</table>
2. STUDY STRUCTURE

This study is structured as follows:
1. A general analysis of DR and RR indicators for all Regional Offices of Besa Fund for the period 2000-2006.
2. The definition of offices that will serve for the “pilot study”, where the study will be performed.
3. Elaboration of a questionnaire to identify reasons for the customers’ desertion.
4. Study through questionnaires in the Regional offices in Tirana, Vlora, Korca and Shkodra.
5. Processing of questionnaires.
6. Findings and Recommendations.
3. STUDY OBJECTIVES

This study aims at identifying some of the tangible reasons on which the management staff may influence most effectively for an immediate improvement or adaptation. On this basis, the study aims to identify the following categories of clientele:

a. No need for second loan
b. There is a need for a second loan, but latter
c. There is a need for a second loan, but the client will choose a bank or another MFI
d. There is a need for a second loan in a much larger amount than Besa Fund offers
e. The client is not satisfied by the terms of credit offered by Besa Fund
f. The client is not satisfied at the level of service offered by Besa Fund staff
g. Other reasons may be specified by the interviewed person.

4. METHODOLOGY

The methodology to be used will be the “survey” as a way to achieve the best result closer to reality. Primary research through the “survey” is seen as structured in a summary form to identify only those elements that have functional value for the study.

5. “SAMPLE”

In our opinion, the definition of the “sample” is the most delicate issue in this study. The “sample” should represent, without any “deviation”, the targeted clientele category for this study. We believe that a “sample” of 3% of active clients that is about 212 clients, that will be included in the survey, is a representative “sample” to achieve “findings” and the appropriate conclusions.

Improvement of the reliable clientele level through monitoring and knowing its desertion rate is an indicator to be considered by MFI-s. Analysis of this indicator is important because it affects the long-term success of the institutions that rely on the “loyal” clientele, being the “core” for new products or services that might be offered in the future. The influence of the desertion rate in the activity of the MFI should be carefully analyzed because it has several negative effects like:

- negative influence on financial self-sufficiency
- reduces the efficiency and productivity
- missing profits
- it is required other marketing efforts
- negative influence on social issues
- a greater chance to lose the poorest customers
- limited time to have a positive impact

**Definition of customers’ desertion:** Customers’ desertion has to do with the level in which no active client repeats its loan, through receiving a new loan. Although this is a general definition, measuring the customers’ desertion is estimated according to (i) time period (ii) nature of financial services (iii) institutional procedures.

**Measuring the customers’ desertion rate:** Customers’ desertion rate is measured by means of several calculation techniques, based on information obtained by using the following indicators:

- **DR:** Desertion Rate
- **LP:** Number of Loans paid off during the period
- **WO:** Number of Loans written-Off during the period (or otherwise classified as difficult or unlikely to be paid)
- **FL:** (follow-on loans) – Number of repeated loans during the period
- **AC begin:** Number of active clients at the beginning of the period
- **NC:** Number of new (first time) clients during the period
- **AC end:** Number of active clients at the end of the period
- **L:** Number of loans disbursed during the period
- **Formula – Waterfield** – Standard of CGAP

This formula focuses on the key decision of the client, who after the
repayment of the current loan, he/she “receives or wishes to receive a subsequent loan”.

✔ When a client receives a successive loan, he is considered a repeated customer, regardless of whether there is a period of “rest”/distance in time between the repaid loan and the subsequent loan.

✔ \[ RR = \frac{FL}{LP} \] (formula Waterfield)

**Limitations of this formula**

✔ This formula provides RR for a credit cycle.
✔ To calculate the customers’ desertion and retention (repeat loan) rate for a year in a MFI, it should be taken into consideration the average loan duration.
✔ Example: assume that RR under this formula is 0.8 (80%). If we think the loan does 4 cycles during the year, then \((0.8 \times 0.8 \times 0.8 \times 0.8) = 0.41\) (41%) of clients are repeated customers.
✔ When RR> 100%, we must deduct the customers who are expecting to receive the loan.

**Formula 2**

✔ \[ RR = \frac{(L-NC)}{(AC \, begin + NC - AC \, end)} \]
✔ \[ RR = \frac{FL}{(LP+WO)} \]

**Formula ACCION**

✔ \[ DR = \frac{(AC \, begin + NC - AC \, end)}{AC \, begin} \]
✔ This indicator is estimated for activities that have not just started.
✔ It primarily indicates the clients retention for the institution
✔ It is used for certain periods of time.
✔ \[ RR = \frac{AC \, end}{(AC \, begin + NC)} \]
✔ \[ DR = \frac{(AC \, begin+NC+R–AC \, end)}{AC \, begin} \]

**R - “Resting” clients:** Number of clients who, after the repayment of a loan, do not receive a second loan though being satisfied with the service. They do not need or expect to receive a successive loan after a short time.
✓ This is the most completed formula accepted by the majority of microfinance researchers.
✓ No formula may show what will be the eventual reaction of customers (mainly those who do not repeat the loan).
✓ When, from the calculations, the number of repeated customers is considerable, then it results that RR is approximately 100%. But, in order to obtain a more reliable level of this indicator, it is necessary that the calculations should be done for longer periods of time.
✓ The longer the period for which this indicator is calculated, the more completed and near the reality this indicator is.

Measuring the customers’ desertion rate, seen from an analysis of factors influencing on this indicator.
✓ Last type of product used
✓ Use of services
✓ Poverty situation
✓ Level of customers’ loyalty
✓ Seasonality
✓ Level of loan payments
✓ Business variables
✓ Variables of household economies
✓ Characteristics of Individuals (geographic)
✓ Use of credit

How to identify the customers’ desertion

In order to identify and analyze customers’ desertion rate we used the following tools:
✓ Individual interviews
✓ Levels of RR counted as not reliable
✓ Taking signal for further analysis
✓ **Fully or partially structured questionnaires**
✓ Phone calls / face to face interviews / questionnaires completed by the clients themselves
✓ Staff involvement.

The data of this indicator in Besa Fund

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Shkodra</td>
<td>525</td>
<td>178</td>
<td>579</td>
<td>24%</td>
<td>82%</td>
<td>579</td>
<td>139</td>
<td>596</td>
<td>21%</td>
<td>83%</td>
</tr>
<tr>
<td>Korče</td>
<td>701</td>
<td>258</td>
<td>762</td>
<td>28%</td>
<td>79%</td>
<td>762</td>
<td>320</td>
<td>935</td>
<td>19%</td>
<td>86%</td>
</tr>
<tr>
<td>Tirana</td>
<td>1,072</td>
<td>442</td>
<td>1,303</td>
<td>20%</td>
<td>86%</td>
<td>1,303</td>
<td>438</td>
<td>1,581</td>
<td>12%</td>
<td>91%</td>
</tr>
<tr>
<td>Vlora</td>
<td>416</td>
<td>173</td>
<td>455</td>
<td>32%</td>
<td>77%</td>
<td>455</td>
<td>144</td>
<td>504</td>
<td>21%</td>
<td>84%</td>
</tr>
</tbody>
</table>
Given the above mentioned data, it results that the level of clients’ repetition is about 88%, while customers’ desertion rate is about 16%.

7. SUMMARY OF THE RESULTS: REGIONAL OFFICES OF TIRANA, KORÇA, SHKODRA AND VLORA

Key Findings of Study:

The main findings of the study would be identified entirely based on results of the standard questionnaire and on possible links and correlations among different responses in the standard questionnaire.

A. General data about businesses interviewed.

Gender: About 73% of the interviewed persons were male and 27% female.

It is noted that the biggest role and weight stands for males, but being compared to the other previous years, we see that the role of women is always increasing. This is more evident in Tirana area, where this percentage goes 68% to male against 32% female.

In the area of Korca and Vlora it is also evident the growing role and weight of women.

It is not the same in Shkoder, where we have 92% male and 8% female.
Active clients according to gender
2002-2006

<table>
<thead>
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<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Males</td>
<td>79%</td>
<td>83%</td>
<td>83%</td>
<td>81%</td>
<td>80%</td>
<td>80%</td>
</tr>
<tr>
<td>Females</td>
<td>21%</td>
<td>17%</td>
<td>17%</td>
<td>19%</td>
<td>20%</td>
<td>20%</td>
</tr>
</tbody>
</table>

The results of the study show that the division male-female is similar to the distribution of active clients according to gender in Besa Fund. Charting the distribution according to gender in years, it results to be almost the same levels: 17-20% female and 80%-83% male.

*Regarding this indicator, the “sample” is considered representative.*

**Age:** The data show that the people interviewed belong to different age category as follows:

- age 40-44: about 28%,
- age 45-49: about 22%,
- age 35-39: about 15 %,
- age 55-59: about 14 %, while the remaining % belongs to other age categories.

Without going into detailed analysis, we may say that this age group represents the category of businessmen who have sufficient experience, a relatively good knowledge of the market where they operate and, on this basis, they are able to be efficient in decision making. So, they are a category that consider loans as a supporting element in their business and are responsible for their obligations and difficulties when receiving a loan.

3**Age structure**

*a 0-14:* 24.1% (male 454,622/female 413,698)
*a 15-64:* 66.6% (male 1,228,497/female 1,170,489)

---

3 Data according to INSTAT for the age group based on the last registration of population.
Age 65 and more: 9.3% (male 154,352/female 178,865) (2007 est.)

The above structure gives us the age group structure in Albania. It is evident that the age group of 15-64 years makes about 67% of the population. This phenomenon matches with our study, where the highest percentage belongs to the age group from 35-60 (about 90%), which generally coincides with the age structure of Besa Fund clients.

**Business type or category:** Regarding the business types, the trade sector is dominant and counts for 45%, followed by the sector of services with 28% (Bar Restaurants + handicrafts).

![Types of Businesses](image)

Regarding the production and transport sector they do respectively count for 7% and 2%.

While construction and mechanics count for 1% and 3%.

The other activities count for about 14%.

<table>
<thead>
<tr>
<th>Outstanding by sectors</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>Quarter I: 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade &amp; Services (as % of outstanding)</td>
<td>87%</td>
<td>82%</td>
<td>85%</td>
<td>89%</td>
<td>89%</td>
<td>87%</td>
</tr>
</tbody>
</table>

As seen, the dominant number of businesses belongs to services and trade with about 73%, a figure that matches businesses that have received a loan from Besa Fund.

**Secondary activities:** Only 39 of the interviewed or 19% of them declared that they have a second business. Seen as a whole, it might be considered that this level of activities diversification is satisfactory. Regarding the lending activity, it can be considered as opportunity for mitigating the risk. Though it is a low level, it corresponds to the nature of businesses that we finance,
which, in general, are small and micro businesses that may be considered family businesses. In this respect, we may say that this level of diversification of activities coincides with the nature of businesses that we finance.

**Age of Businesses:** Regarding this indicator, we make a division into two groups, as follows:
- Year 1990-2000: about 47% of businesses have started the activity
- Year 2000-2006: about 53% of businesses have started the activity

So, we may say that we have to do with consolidated businesses and with start-up businesses that have just started their activity. By analyzing the progress of the businesses and their consolidation in Albania, we may say that the data of this indicator match to the Albanian businesses reality.

**B. Cases of borrowing**

**Amount of loans received from Besa Fund.**

![Pie chart showing loan sizes](chart.png)

About 74% of the interviewed have received a loan ranging from 50,000 - 500,000 ALL;
26% of them have received a loan ranging from 500,000-2,500,000 ALL.
The average loan amount received is **500,000** ALL.

**Loan duration:** Loan duration is up to 24 months. About 53% of the persons interviewed have repaid their loans 5-12 months after they have received it. About 47% of them have repaid the loan 12-24 months after they have received it.
It is clear that many loans are paid off before the end of the loan terms, including here big amount of loans. This is noted more on those clients who have secondary activities.

**Causes for not applying for a second (successive) loan to Besa Fund:** Obviously, the answer to this question gives several reasons why some clients have not applied for a successive loan to Besa Fund. It is worthy to underline and carefully analyze the fact that 56% of respondents declare that they didn’t need another loan and 15% of them declare that they will need a loan latter. The need for another loan is on average 3 years.

- 71% of respondents (150 interviewed persons out of 212) belong to the category that might come back as borrowers of Besa Fund at a later time.
- About 6% of the interviewed have declared that they need another loan, but they would choose another microcredit institution.
- Another 6% of the interviewed declared that they would need loans in greater amounts than those offered by Besa Fund. The amount required is on average about 5,075,000 ALL.
- About 13% of the interviewed have declared to be unhappy with the loan conditions offered by Besa Fund: 17 of them declared not happy with the duration of the loan, 18 others are not happy with the interest rate and only 1 person isn’t happy with the duration of the loan approval.

**Applying for loans at other analogous institutions:** 76% of the interviewed declared that they did not apply for loan in any bank or analogous institutions. In general, this figure refers to the category of those customers who are satisfied with the level of service offered by Besa Fund and consider it as a potential source for future loans. According to our opinion, this customer’s category is a potential group to be considered as future borrowers of Besa Fund.

Only 24% of the interviewed have applied for loans in other microfinance institutions or banks. In Tirana, only 12 out of 95 interviewed have applied to other analogous institutions.

**Possibilities to get a successive loan from a bank, agency or another microcredit institution**

Out of 52 interviewers who that they have applied for loans in banks, agencies or microcredit institutions, 47 of them have been qualified to get a loan and only 5 of them didn’t get a loan.
The fact that the majority has been qualified by other microcredit institutions or banks makes evident the fact that, actually, it exists a broad operational and competitive market. This phenomenon is more evident in Shkoder, where about 50% of the interviewed (18 persons) have applied for credit at other institutions and the 18 of them have received loans.

Reasons for not receiving credit at other institutions were that 5 interviewed did not have sufficient assets to guarantee the loan.

**Information about other microcredit institutions operating in Albania:** About 78% of respondents know about other microcredit institutions. Almost all respondents cite PSHM, ProCredit Bank and other banks, which have recently started with microcredit like Raiffeisen Bank and National Commercial Bank (BKT). This fact should be analyzed in two perspectives:

First: The fact that interviewed customers said they knew other institutions operating in the market has to do with an already consolidated market and with a clientele that carefully considers the terms and conditions of loans of all operators in the market. At the same time, it means that Besa Fund should closely follow the eventual changes of the competitors, because the clientele is in contact with these possible changes. So, the loyalty of our clientele would be as long as we’re flexible to changes in microcredit market conditions.

Second: The fact that the interviewed customers know to the greatest extent the competitors of Besa Fund, but, at the same time, 71% (150/212) can be considered as potential future customers of Besa Fund, show that these clients consider Besa Fund as a competitive opportunity that provides satisfactory services and offers its product “at least at the market conditions” - i.e. a product, which is at the level of its competitors or has a remarkable advantage for its customers.

**Consideration for lending institutions (banks or other non-banking institutions).**

Although the data obtained from responses to this question are not directly related to the purpose of our study, they give a general idea of the level and quality of service of these institutions.

Thus, only 38% of respondents declare that these institutions are very effective and offer very good services and 31% of them declare that they perform services of an average quality.

So, in total, about 69% of lending institutions perform good services (optimal).
8. SUGGESTIONS & RECOMMENDATIONS

In general, our opinion is that the conclusions were achieved because they rely on a representative “sample” which produced valid conclusions, when we consider the limited number of the respondents (only 212). We consider that the main characteristics of the respondents are within the range of Besa Fund characteristics.

So, out of all the interviewed, about 73% of them were male and 27% female, which is within the average of Besa Fund (male / female ratio is respectively 80% / 20%). Regarding the division of the credited business sector, the dominant weight goes to the trade sector with 45%, followed by services with 28% (Bar Restaurants + handicraft). This data is in an approximate level with that of Besa Fund, where 88-90% of businesses belong to trade + services sector.

Finally, another characteristic, that would be a complete argument on how representative is the selected “sample” is the average loan received by the group of interviewed persons, which is about 500,000 ALL. So, based on this indicator and the other above-mentioned indicators we are convinced that the selected “sample” is fully representative for the whole clientele of Besa Fund.

As a conclusion: all the data, information, features derived from analysis of the data from the questionnaires can be considered entirely representative. That is why the conclusions and recommendations resulting from these data are completely valid.

All respondents have been Besa Fund customers, but not actually and their analysis is extended multidimensional, aiming at identifying the reason why they didn’t apply for successive loans.

- About 56% of the interviewed persons do not need a second loan, while 13% need a successive loan in a later time.
- About 71% of the interviewed think that will return for a successive loan in the future.
- 6% are in need of a loan exceeding the maximum amount of loan offered by Besa Fund.

It is worthy to analyze the fact that 13% of respondents are in general unhappy with the terms of loans offered by Besa Fund. 8% are unhappy with the loan duration, 8% with the interest rate, and only 1 client unhappy with the terms of loan approval.
Given the above data, we can make the following recommendations:

**First**: Theoretical assessment according to the chosen formula, where RR in 2006 was 88%, is a very positive indicator considering that customers’ desertion rate DR 16% includes over 70% of customers who potentially could return as customers of Besa Fund (about 11% within the level of 16% belong to the category that might return as borrowers). This category belongs to customers who haven’t applied for a successive loan because either they don’t need a loan for the moment or will receive it in a later time.

**Second**: Most of the respondents belong to the category of customers that have a relatively gradual progress in their business, so they think to satisfy their need for credit to Besa Fund. Thus 76% of respondents said that they did not apply for credit in any bank or other institution. This indicator, seen in correlation with the indicator that 78% of respondents know other institutions operating in microcredits, as PSHM, ProCredit Bank and other banking institutions that have recently started the service of microcredit as Raiffeisen Bank and National Commercial Bank (BKT), is an indirect indicator that they are satisfied with the level of service and microcredit product provided by Besa Fund. As a conclusion we may say that they are satisfied with the level of service and terms of our loans (70% correlates with 64%).

**Valid recommendations for management could be:**

- Application of preferential interest rates will help the quality improvement of the analyzed indicator and, at the same time, will support the consolidation of current clientele. We would recommend the application of a preferential interest rate of 1.9%; 1.85% for the clients who reapply for the third or the fourth loan.

- The fact that 78% of respondents had knowledge of analogous institutions (mainly ProCredit, PSHM, BKT, and Raiffeisen) means that the promotion of this activity is high. Seen in this point of view, a valid recommendation for management would be the organization of a “more effective” publicity campaign that means a more complete analysis of this element.

- The fact that all these institutions have massive promotional campaigns (in all mass-media) and that a detailed analysis of all their micro and small loan products shows that their interest rate is at the level of 2% per month (“flat “or” declining “), while for SME loans they apply interest rates from 1.5-1.8%, makes us seriously take this fact into consideration. Currently, 38% of the loans outstanding of Besa Fund are loans with an
amount over 1,400,000 ALL. Regarding the promotional campaigns in the mass-media, we consider them as a very important element, based on the following arguments:

- The market segment of loans over 1,400,000 ALL is becoming “very preferable” not only from banks, but from the other MFI-s also. In the situation where 38% of Besa Fund outstanding belongs to this segment, an “aggressive” promotional campaign, mainly through informing promotion on national/local TV would serve to increase the clientele number. So, in a way, it would serve to diversify the risk of desertion of the clients who apply for amounts above the 1.4 million ALL.

- Promotion in mass-media (through one or several alternative “spots”) would serve the increasing of consumer loan lending, a product already launched as a separate product from Besa Fund.

✓ A valid suggestion, in the framework of customers’ desertion minimization, would be the application of “flat” repayment calendar for business loans. In the situation when all the other operators are applying this type of repayment calendar and, when the technical possibilities of Besa Fund allow the application of such calendar, it would be the right decision to increase the offer to clients to repay in such a manner (namely “flat”), which could however affect modestly the minimization of the customers’ desertion.

✓ The survey shows that 30 respondents (or about 14%) have repaid the loans after 5-12 months from its disbursement. Although this can not be called a phenomenon, a valid recommendation would be to find ways to create “barriers to exit.”

✓ Although the management staff of Besa Fund considers the “declining” method of repayment and the non application of fees in case of advance repayments as competitive advantages, we would recommend the applications of “fees” in case the clients repay before 70% of the loan maturity.

✓ Although application “fee” is a coercive instrument for loans up to three years, regarding the four or five years loans the application “fee” remains 3%, which does not slows down or limits the advance repayment of loans, i.e. the customers’ desertion.

✓ Another valid recommendation would be regaining the customers, who are away at other institutions. Although those clients have left and currently they are clients of other institutions, keeping contacts with them through SMS, phone, etc. would be a simple and effective instrument. Another simple instrument with a psychological effect on customers would be the pre-approval for repeated loans 2-3 months before the full repayment of
the loan: analyze client’s business and require a formal pre-approval by the credit committee to make an offer to these clients.

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Fair Value And The Financial Crisis

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Abstract

“Even now, there are many of those who believe to have committed few mistakes: it was like a flood in 100 years that couldn’t be predicted, rather than something that they themselves inflicted and that has happened very often and frequently”.

The dynamics of the international reporting standards evolution, which

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also condition the evolution of reporting standards in Albania, creates the necessary space for the implementation of the new standards. However, based on the problems related to this process and additionally considering the economic crisis situation which has also affected the neighbor countries, the solution to the problems arising from the unification process of the national standards with the international financial reporting standards becomes even more urgent. The greatest contribution of the new standards and especially the use of fair value, is in the prevention of the possible future crises as a result of the premonitory signals that the fair value provides regarding the financial instruments. In fact the global financial crisis that gripped over the world, should be seen and analyzed from many angles, to understand which were the factors that caused it, as well as the role and responsibility of the institutions and the different professions. This paper is conceived in order to analyze the current global economic crisis, from the financial, accounting, auditing, and reporting, point of view related to fair value.

Keywords: fair value accounting, financial reporting standards, economic crisis, financial instruments, financial assets.

1. THE IMPACT OF FAIR VALUE ACCOUNTING IN THE QUALITY OF FINANCIAL INFORMATION AVAILABLE TO INVESTORS (USERS OF FINANCIAL STATEMENTS)

As a result of the global stock markets downfall, many powerful financial institutions collapsed or surrendered. Worldwide, the government intervention in the private sector increased, especially in the financial industry, in order to restore stability to the financial system. These circumstances, put the accounting and auditing profession in front of new challenges and difficulties which had not been previously encountered. The accounting standards and the role of Auditors have been in the focus of the debate regarding the factors and effects of the financial crisis. “Blaming fair value accounting for the credit crisis, it is like going to the doctor for a diagnosis and then blaming the doctor for showing you that you are sick” 4. The debate is mainly focused on the role of fair value accounting in the financial crisis, resulting in a request for its suspension, with the argument that it has contributed to non-transparent

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4 Dane Mott and Sarah Deans, J.P. Morgan Securities Inc. 28.07.2008
financial statements, in the current conditions of market uncertainty. Over the past decade, we notice a growing use of fair value in measuring the elements of financial statements. Fair value is the price at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in a transaction. Thus, fair value provides accurate information in real time about the value of the asset/liability presented in the financial statements. Methods of determining the fair value rely also on subjective assessments. For this reason it was necessary the improvement and clarification of these methods and related disclosures to the accounting and financial reporting standards. In 2006, after numerous discussions, FASB\(^5\) issued FAS 157 “Fair value measurement”, in response to deficiencies theretofore related to these measurements.

Therefore in this paper, we tried to analyze the pros and cons arguments regarding the fair value accounting, and the conclusions drawn from it, as well as the impact of crisis in the auditing profession. In conditions of uncertainty, increased professional skepticism and identification and evaluation of the risks that could result in incorrect and misleading presentation in the financial statements, are actually the most significant challenges for the auditors. Estimates of some domestic and foreign institutions have identified that the financial information in greater part of economic entities in small and medium enterprises, is not considered reliable. This is often attributable to poor levels of law enforcement and to some extent, limited domestic capacity to prepare and audit financial statements, and the high level of informality in economy and high tendency to avoid taxes. The impact of fair value accounting in the quality of financial information useful to investors is considerable. In practice we find a broad support by investors, for the point of view that fair value information is useful and enhances the quality of financial information available to them.

*The definition of fair value:* According to IAS 39 and many standard scholarly estimates, fair value is *the amount by which an asset can be sold in a real transaction between independent parties that agree to the transaction in a normal situation without being obliged to sell and without being in terms of liquidation.* This definition, among others, aims to make the difference between fair value and liquidation value.

In specific IAS 39 defines that:

- **a.** The existence of a listed price in an active market is the best indicator of fair value and the price should be used to assess the assets and financial

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\(^5\) Financial Accounting Standards Board
liabilities. A financial instrument is considered quoted in an active market if its price is listed and easily available.

b. If the market for a financial instrument is not active, the institution must determine the fair value using a valuation technique which should include all factors that are important for market participants. Also the techniques for defining the fair value should be in accordance with accepted economic methods used to determine the price of financial instruments.

c. An institution is excluded from the assessment of an instrument to fair value if other ratings are acceptable and the difference between them and the fair value is small.

Surveys: The study of contemporary practices for fair value, shows that most investors and other users of financial statements that provide input, evidence the view that fair value accounting reflects with transparency, under current economic conditions of the market (the global financial crisis), the value of assets and liabilities of the companies in which they invest. Most of them indicate that the suspension of fair value accounting would result in a loss of information and investors confidence. However, these comments clearly indicate that fair value accounting may also file a challenge, especially in cases of lack of active markets. Financial Statement users also expressed the need for completion of fair value accounting with comprehensive explanatory information to assumptions used for measurements, particularly when it is necessary to make estimates of fair value in the absence of the quoted prices. Furthermore, some doubt the usefulness of fair value reporting if management does not use the internal measurements of fair value to make operational decisions. However, there is very little evidence to show that investors and other users believe that the amortized cost would be a better alternative than fair value.

Usefulness of Fair Value Accounting\(^6\): Many investors who were against the use of fair value accounting, presented a series of concerns about its use, including the fact that it underestimates the “real economic value” of financial instruments when markets experience difficulties. Others who support the fair value accounting, testified that it provides investors with important financial information about the financial instruments and serves to increase transparency and consistency of financial reporting. However, they acknowledged the challenges of its implementation. These agreed that fair value accounting under SFAS no. is not the main cause of current global economic crisis and that a suspension or cancellation of fair value accounting,

\(^6\) Data from the SEC roundtables (SEC report), October 29 and November 21, 2008
would not strengthen the confidence of investors in the current environment. Many participants acknowledged that fair value accounting and regulatory capital requirements are separate issues and should be considered detached from one another. However, most users of financial statements, agreed on two issues of fair value accounting that need improvement:

1. The application of existing accounting standards to determine whether certain assets are impaired, and
2. Preparation of estimates of fair value in the absence of quoted prices in active markets.

*Market behavior influences in fair value accounting:* investors (users), who stated that did not believe that fair value accounting was a cause or contributing factor in the current global economic crisis, emphasized that the accounting information aims to report the economic activity, but does not cause it. Other users disagreed with this, presenting their views that fair value accounting has contributed to the current global economic crisis and has served to unnecessarily reduce the regulatory capital of many financial institutions. They argue that when asset prices fall and liquidity is reduced, banks are forced to sell their investments or increase their capital (as a result of the interaction of regulatory capital requirements that are based on the value of their assets). If the banks’ portfolios are estimated at market value, their capital position deteriorates, which causes the sale of assets and their furthest price decrease. The sale creates a “liquidity spiral” which results in bankruptcies of banks. As a result, banks are forced to strengthen their lending practices, thus reducing credit availability in general. Despite these sentiments, a generalizing idea dominates to users of financial statements that: the belief that fair value information is important to investors and must be communicated in one way or another. Of special importance is the best way for presenting this information. Some users prefer the inclusion of fair value information only in the disclosures to financial statements or in the statements of management, while others showed that the registration of fair values in the financial statements is a more appropriate manner.

*Interaction with regulatory capital requirements:* Another topic that generated a significant amount of discussion was the interaction between regulatory capital requirements and accounting information generated by following U.S. GAAP. Users of financial statements, generally agreed that fair value standards used for the purpose of providing information to investors should not be suspended or overridden in an attempt to address liquidity or capital standards for bank regulatory purposes. They expressed the view that
concerns about the impact of fair value accounting “requiring” an entity to sell assets and / or raise additional capital are inaccurate. Some financial statement users observed that accounting standards are established to provide information (they are the “messenger”); they do not require an entity to sell assets or raise additional capital. Thus, if concerns exist surrounding the use of fair value information for capital purposes, these participants suggested such concerns should not be addressed by changing the information provided to investors.

Financial statement presentation: Important elements to be discussed are possible changes to the presentation of fair value measurements in the financial statements. In contemporary literature there are several alternatives. One alternative includes presenting changes in fair value of investments in securities due to credit impairment separately from changes due to other factors, such as changes in liquidity. Under this approach, a company would only report changes in fair value caused by credit impairments in net income, with all other changes reported directly through equity. However, this approach could generate significant operational concerns about the ability to disaggregate the components of a fair value measurement and envisioned future disagreements between preparers and auditors on this point. Improved income statement presentation of fair value measurements would enhance the transparency and usefulness of financial statements for investors and other users. These arguments generate the need for more comprehensive and detailed disclosures including sensitivity analyses for fair value estimates, forward-looking information related to the expected value of certain investments at future dates (e.g., maturity), as well as detailed discussions of the valuation techniques and inputs used by management.

2. ABOUT THE USE OF FAIR VALUE MEASUREMENTS

Fair value accounting with comprehensive and detailed disclosures provides a reliable information, in real time and more comparable, than the amounts to be reported under alternative accounting treatments. Fair value reporting, requires an accounting standard that reports an important and useful value of financial instruments regardless to market direction. By studying the ideas given from international practices about the use of fair value measurements we come to some generalizations:

1. ITAC 7, states and believes that financial reporting would be substantially

7 Investors Technical Advisory Committee
improved if fair value was the required measurement approach for all financial instruments reported by financial institutions as well as non-financial services enterprises. They maintain their support of fair value accounting and believe that it should serve as the principal measure for reporting financial instruments.

2. Other institutions\(^8\), in the specific case of fair value reporting, note that investors require an accounting standard that reports a relevant and useful value of financial instruments regardless of the direction of markets. Fair value accounting with robust disclosures provides more reliable, timely, and comparable information than amounts that would be reported under other alternative accounting approaches.

3. ICFA\(^9\), support for fair value accounting is backed by a poll conducted of our 12,000 person EU membership, which shows that 79% were opposed to suspension of fair value and 85% believe that suspending fair value would decrease investor confidence in the banking system. They acknowledged that there were some limitations and implementation difficulties associated with the fair value measurement approach including measurement error. But these limitations are not unique to the fair value approach. In fact, fair value has a well established history of application under US Generally Accepted Accounting Principles (US GAAP) for financial assets for over 15 years. Considering its overall benefits, fair value is the best available alternative of measuring financial instruments and it significantly contributes to the overall transparency of financial institutions.

4. ICGN\(^10\), states that the impact of SFAS 157 and other accounting standards promote improved transparency and disclosure of information to ensure present and potential investors, shareowners, creditors, management and other users have the most accurate information to make investment, credit and resource allocation decision. They support the transparency that has been given by fair value, but emphasize that fair value reporting is still an evolving target and much more work is required to find the most appropriate language to communicate information about financial position and performance. There may be serious questions with respect to the application of fair value when markets are not functioning properly. The role of the auditor in the process of reporting the quality of financial instruments should be addressed. Financial reporting must meet the needs of investors and other users of financial reporting.

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8 Center for Audit Quality, CFA Institute, Consumer Federation of America, Council of Institutional Investors and Investment Management Association

9 Institute of Certified Financial Analysts

10 International Corporate Governance Network (ICGN)
5. Securities analyst\textsuperscript{11}, expresses an unfavorable opinion of the so-called “fair value accounting” because it allows far too much leeway for interpretative judgment. Any cogent investor would rather see things carried at amortized costs and make their own judgment as to the degree to which underlying long term value might be more or less than amortized cost. Fair value, while conceived with the best intentions in mind, causes both too much noise in the system and produces a degree of balance sheet variation wholly inconsistent with orderly markets.

6. CSG \textsuperscript{12}, states that they do not believe fair value accounting was the cause or even a contributing factor to the current credit crisis. Fair value accounting did not create the losses, but rather reflected the market conditions by initially bringing to light the impact of poor lending practices and the resulting effect on the current lack of liquidity and overall crisis in the financial markets. Fair value accounting reflects the effects of a transaction on an entity’s financial statements. It does not, however, drive the underlying economic activity.

7. “The reality is that fair value accounting and enhanced disclosures have helped markets quickly identify where problems exist and react to those problems. While it cannot be denied that at times markets have overreacted to some information, such a reality is a part of human nature and likely will persist no matter what accounting method is used\textsuperscript{13}”.

8. Dennis Jullens\textsuperscript{14} states, in choosing a measurement basis for financial instruments, we defend our preference for fair value over historical cost by quoting John Maynard Keynes who stated “I would rather be vaguely right than precisely wrong’. Suspending fair value accounting and allowing banks to recognize their financial assets on the balance sheet at an adjusted historical cost number gives a wrong impression of the bank’s balance sheet strength. This could even prolong the crisis as neither investor nor analysts can have any insight into the true financial position of entities in the financial sector if financial assets are not recognized on the balance sheet at a proxy for their fair value.

9. Neri Buckspan\textsuperscript{15}, supports the basic premise that fair value, when coupled with robust disclosure, is a relevant basis of accounting for financial assets and liabilities. However, he recognizes that accounting for assets and liabilities at theoretical market price measures may produce results that could

\begin{itemize}
\item \textsuperscript{11} Jeffery B. Cross, retired securities analyst
\item \textsuperscript{12} Credit Suisse Group
\item \textsuperscript{13} Dane Mott and Sarah Deans, J.P. Morgan Securities Inc.
\item \textsuperscript{14} UBS Investment Research
\item \textsuperscript{15} Ron Joas, and Sue Harding, Standard &Poor article
\end{itemize}
mask the underlying economics for certain businesses and activities, especially during volatile and uncertain economic and market conditions. These inherent limitations underscore the need for financial statements to complement fair value measures with additional information about uncertainties in the measurement of assets and liabilities.

3. MESSENGER OR CONTRIBUTOR?

Opinions and discussions above suggest that assigning the accounting the messenger role, downplays his importance in the current financial crisis given that the message is not neutral, but conditioned by accounting standards. However, two issues arise from the use of information based on fair value accounting from the regulators view:

First, information is very unstable. According to the fair value accounting big fluctuations in the stock market in the past, with many closing days showing loss / profit of previous days to the extent 5-10%, implicate similar fluctuations in all the assets based on equity (shares). Thus, a company can be solvent one day (assuming a greater profit from the shares), and non solvent the next day (assuming huge losses from shares) and so on. While it is considered informative, is the financial reporting based on fair value useful to regulators in planning and tracking their interventions? The answer is that information received from fair value accounting in particular, is necessary but not sufficient. Others performance and risk measurements are necessary to identify the objectives of regulatory actions. A similar argument could be used to justify that information by fair value accounting, is not sufficient for the objectives of the government (for the long term), because it is not stable enough and is also hard to verify. In a way, the use of information received from fair value accounting may have two opposite implications regarding the duration and severity of the current crisis. On the one hand, prudence of the values from fair value accounting has allowed managers to postpone the day of recognition, when the assets obtained through unfavorable loans were identified. Furthermore, the instability that it includes in the financial statements may have reinforced the impression of financial performance and stability during the bubble created from subprime loans. On the other hand, when the values of the above assets failed, fair value accounting caused the restructuring of the balance sheet which may have affected the crisis magnitude.

Secondly, some argue that the values of fair value accounting, are a tool to remove the attention of information users and the real issue is the quality
of the disclosures. Analysts argue that the focus should be on disclosures so that regulators and investors can understand the factors that rely upon estimations of fair values. Fair value accounting without proper disclosures is not fair and does not even give a better reflection of risky values.

Pros-and cons on fair value accounting: We presented so far the fair value accounting, its applications and impact on financial reporting as well as its potential role in the current financial crisis. Although we cannot come to a final conclusion, there are reasons to believe that fair value accounting is more than just a bad news messenger, and thus may have affected in the acceleration of the crisis, especially in the financial section. While the importance of fair value accounting for investors may be questioned, its other qualities (or vulnerabilities) may be overestimated by the standard setters and regulators. The current crisis represents the first serious challenge to the above tendency, and especially fair value accounting, and it is likely to generate ample empirical studies in the coming years, which will allow us to better evaluate the pros and cons on fair value accounting.

However, if it’s not fair value accounting, what will it be? The standard setters, and some accounting academics, argue that there is no alternative measurement or reporting model. For example, Barth, a member of the International Accounting Standards Board, argues that “Although the objectors of a more extensive use of fair value may be right regarding some issues, the standard setters are not aware of other acceptable alternatives”. On the other hand, standard setters should focus on essential competencies of accountants, such as: “providing conservative verifiable information that market participants can use as input in their personal assessments, as well as the calibration of the unverifiable information belonging to them or to the others”. Beyond fair values, assumptions on measurements and hypotheses are more criticized being that they allow users to rebuild the reality according to their priorities. The debate continues on the accounting and reporting, and deals with the point of what is the contribution to society expected by accountants, and indirectly, what competencies and skills they should possess regarding the above. People may hypothesize that current accounting standards, such as those regarding fair value can contract the accountants’ skills and preliminary studies and overshadow other needs for information to investors and other stakeholders.

16 Barth 2007, page 12
4. FINANCIAL REPORTING UNDER FAIR VALUE IN ALBANIA

During the transition to a market economy, Albania successfully managed to implement several important elements of institutional and legal framework of financial reporting. However, based on some estimates of local researchers and international organizations (WB, IMF, etc.), Albania should be undertaking further steps in order to achieve its goals for a powerful reporting framework created just for the Albanian economy needs and in line with the “acquis communautaire” to EU and the international standards and practices. The existing framework is not always consistent and complete, and limited technical and financial resources contribute to the institutional weakness in several areas. Recently, financial reporting has become more complex and rigorous. Also, the legislative framework of the EU (acquis communautaire) on financial reporting has evolved significantly in recent years. Preparation of a new accounting law in 2004 with the objective of improving the quality of financial reporting in Albania also gave a basis for improved coordination with the acquis communautaire and international standards and practices. The new law on accounting, showed a desire for change but there is still too much to be done to resolve existing deficiencies. During these years, a significant job has been done to improve financial reporting and auditing. Creating the appropriate institutional capacity and further strengthening of the statutory/legal framework of financial reporting, will be an important challenge. Extended financial reporting and auditing requirements should be supported in parallel by the strengthening of institutional and professional capacities in order to ensure and to maintain a reliable and qualitative financial reporting. Just the analysis of business organizations in Albania, have highlighted the need to strengthen institutional and professional capacities. There are significant deficiencies in human resources capital in many important areas, such as drawing accounting and auditing standards, their monitoring and strengthening, as well as in preparing and auditing financial statements.

The situation of financial reporting infrastructure in Albania and the legal framework for financial reporting in Albania is characterized by a lack of consistency. In addition, numerous laws and regulations should be communicated sufficiently to economic entities which need to follow and implement them in order to facilitate the applicability of the law. The availability of published financial information is very limited in Albania. Current requirements for the storage and publication of financial statements are in line with best international practices in this field such as with the
requirements of the First, the Fourth and Seventh Directive of EU Law on Business Organizations. Also the implementation of new standards in Albania has several problems. According to the Reports on the Observance of Standards and Codes 17 organized by the WB and IMF, based on a survey of some companies and banks, the following problems were identified regarding the fair valuation of assets and implementation of new accounting standards.

First, assets and liabilities are under or over estimated. Thus, in a number of banks financial statements is stated that the “lack of liquidity / cash in the Albanian market makes it impossible to determine the fair value of all financial assets and financial liabilities.” Thus, these banks, conclude without supporting evidence that “fair value for trading securities and investments does not change materially from their book values.” In the absence of a rigorous effort to assess the fair value, it is impossible to determine if the values are reasonable.

Secondly, foreign exchange forward contracts, are not recorded in the financial statements. Bank Accounting Manual requires banks to treat foreign exchange forward contracts as off balance sheet transactions, therefore, not recorded in the balance sheet or income statement until they are settled by the payment or collection of coins that will be exchanged. Gains or losses on foreign exchange forward contracts are recognized on the date of settlement / payment. This methodology is not in accordance with IAS 39, which requires all derivative instruments including foreign exchange forward contracts to be measured by fair value (market value), with changes in fair value to be recorded in the income statement or equity in case of the protective cash flow instruments. Fulfilling the requirements of IAS 39 would contribute to greater transparency and better management of such financial instruments.

Thirdly, the companies analyzed did not measure fixed assets in accordance with IAS 16, Property, Plant & Equipment. These companies have made reassessment of fixed assets at the end of the year using coefficients, rather than fair value (market value) as required by IAS 16. Consequently, book value of fixed assets (and related depreciation expenses) may be over or under estimated.

5. CONCLUSIONS

The Accounting Standards and the role of Auditors have been the focus of the debate regarding the factors and effects of the financial crisis.

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The debate is mainly focused on the role of fair value accounting in the financial crisis, reaching up to the request for its suspension, with the argument that it has contributed to non-transparent financial statements, in the current conditions of market uncertainty. In fact, more than a cause, fair value served as a messenger of the symptoms of this crisis highlighting all the deficiencies related to the elements reported on financial statements. Analyzing the international recommendations for improving the usefulness of fair value to investors, it requires the users of financial statements to update these statements quickly in order to reflect the latest developments. These include increased use of IFRS, expanded use of fair value measurement in the financial reports. Education for accounting students should also be enhanced, several changes should be made to ensure that the requirements and test content to RAE\textsuperscript{18} meet the challenges of continuous market changes and needs of financial statements users.

*Our recommendations regarding the above issues are as follows:*

1. A “rational approach” in expanding the use of fair value in financial reporting until several issues and practical challenges to fair value reporting are better understood and solved. These include: the uncertainty of some estimates performed in the absence of quoted prices, continuous demand for detailed accounting guidance to conduct such estimates, and the lack of a system to provide continuous professional education and certification requirements for assessment professionals.

2. Besides the recommendation of improvements in the presentation of financial statements, we recommend additional disclosures on the various attributes of measurement. Such disclosures would enable investors to better understand risks and uncertainties related to them, such as sensitivity analysis to describe the fluctuations of the fair value estimates.

3. Finally, we conclude that to improve the fair value usefulness in Albania, further steps should be undertaken in order to achieve its goals to have a robust framework of financial reporting. This will be achieved by eliminating some deficiencies such as:

*First,* in the absence of a rigorous effort to assess the fair value, it is impossible to determine if the values are reasonable. Thus, in several financial statements of banks it is stated that the lack of liquidity/cash in the Albanian market, makes it impossible to determine the fair value of all financial assets and liabilities. For this reason assets and liabilities are under or over estimated.

\textsuperscript{18} Registered Accounting Expert
Secondly, foreign exchange forward contracts are not recorded in the financial statements. This methodology is not in accordance with IAS 39, which requires all derivative instruments including foreign exchange forward contracts to be measured by fair value (market value), with changes in fair value to be recorded in the income statement or equity in case of the protective cash flow instruments. Fulfilling the requirements of IAS 39 would contribute to greater transparency and better management of such financial instruments. Thirdly, many companies do not measure fixed assets in accordance with IAS 16, Property, Plant & Equipment. Consequently, book value of fixed assets (and related depreciation expenses) may be over or under estimated.

In conclusion, the users of financial statements should have better knowledge of the theory and practice of fair value of all components of financial reporting. The use of fair value in Financial Reporting, will best meet reporting requirements on the performance and financial condition by providing us a more reliable information for all the users of financial statements, as well as helping these users, in the transparency and comparability of the financial performance for an easier decision-making.

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Profitability, Marketing, Economic Impact and Financing Of Port Investment

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Abstract

This article addresses some of the features related to port investment, starting from the evaluation of the main paradigms that characterize the port industry from a global point of view, and focusing on the relations, synergies and conflicts between the numerous stakeholders actually involved. Marketing strategies of port investment are a key issue in modern port economics with respect to planning port development, financing and assessing the return on investment. Profitability, marketing, economic impact and financing are seen

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as the most critical nodes in the complex chain of port investment decisions. The paper builds up a comprehensive scenario where single aspects and variables related to port investments can fit into a general scheme of interrelations that identifies feasible outcomes. The foreseeable outputs in terms of demand and supply provide insights for possible incentives to efficiency to be improved upon by decision-makers at different levels, promoting the reduction of conflicts and a synergy of interests.

Keywords: Port investment, marketing strategy, economic impact, profitability.

1. INTRODUCTION

As far as investing in port assets is concerned, there are two ways, almost in contrast with one another, of regarding the port:

✔ The port may be considered a public service that is generally useful to the economy, justifying the tax system being utilized for the purpose of funding the investments required.

✔ The port may be considered a business system that operates within a highly competitive market and requires investment projects to be selected with efficiency.

The line drawn between these two functions changes, depending on the country, environment, business, social and political culture, period and political trends. In most institutional models, the large infrastructures that either provide access to a port or are used for general purposes attract public investments, while terminal superstructures are instead invested in by the terminal company itself.

A seaport to be considered related to the above mentioned points is port of Durres, located in the heart of Durres city, which is approximately 39 km from Tirana. The port of Durres is Albania’s largest sea port. Durres is one of Albania’s oldest cities and has grown and expanded while preserving monuments of the ancient city, and now is the second largest and one of the most economically developed cities in Albania due to the large port that allows trading in the Adriatic Sea.³

The recent construction of a motorway that links Durres with Tirana has

³ www.apdurres.com.al
cut down the traveling time to the capital to only 30 minutes. Tirana is also accessible by train, between Durrës and Tirana there is a frequent and cheap rail service. Also the construction of the motorway that links Durres and Prishtina will cut down the traveling time and cost between Albania and Kosova.

The port of Durres, beyond its physical dimensions, is historical, and certainly the reality is that in the future it will be an important actor in the lives of not only this city of our country but also throughout the region. Always important strategic point in the eastern Adriatic coast, the port has been developed in years as a privileged institution that has enjoyed particular attention. Thousands of people, workers, managers, leaders and important personalities have given their contribution to its development.

The exports volume increased and imports volume decreased during recent years considering the work volume in port of Durres, as it is described in Fig. 1;

![Volume of work exports - imports](image)

*Fig. 1. Volume of work export – import.*

Financing of investment in the Port of Durres is one of the main priorities for the Albanian Government and foreign financial institutions as the World Bank, European Union and the European Investment Bank.

World Bank with an investment of $ 23 million has completed the rehabilitation project for the Port of Durres which includes rehabilitation of the piers, warehouses and buildings.

European Union - Fare Program with an investment of € 4.4 million, has completed the project which includes rehabilitation of the Ferry Terminal, pier reconstruction of 120 ml and 60 ml of building the new pier. As we see in Fig. 2,
the total volume of work, and exports and imports in particular increased during recent years in port of Durres, so some investment is really needed.

Fig. 2. Realization of natural tones.

TDA - Trade and Development Agency (USA) with a project of $ 9.1 million, which involves studying the feasibility of new container terminal and its equipment at the Port of Durres. TDA has also given a grant of $ 1.4 million to purchase two “reach stacker, a” spreader “plumber and some other assets.

European Investment Bank (IEB) with an investment of € 17 million. The project included financing the construction of Container Terminal, drainage systems, emergency excavation for the entrance channel and the aquarium, and the purchase of a mobile crane for the Port of Durres.

Infrastructure Rehabilitation Project. The project started its implementation. Now it is buying mobile crane with a capacity of processing 120 tons of containers and continues the implementation of two other components of the project:

✓ Laying asphalt, drainage works worth about € 10.4 million.
✓ Digging for emergency and incoming channel port aquarium worth € 3.3 million.

In early 2006 there was inaugurated the completion of paving works on the sites after the piers, which was conducted by the Croatian company “Montmontaza”. The number of cars, trucks and trailers by ferry processing increased during recent years as according to Fig. 3, also the number of passengers by categories using port of Durres increased during recent years as in Fig. 5.
Fig. 3. Ferry processing.

Fig. 4. Ferry processing (total).

Fig. 5. Passenger categories (total).
2. PROFITABILITY, SOCIAL DESIRABILITY AND PORT INVESTMENTS

Investment is a variation of the total stock of capital goods used in productive activities. In the port sector this is necessarily a variation in instrumental assets, as the product – the throughput – is a service and therefore cannot be stocked. Investment is carried out by a port business in order to have the desired level of throughput capacity at its disposal. Investing in ports, therefore, has a direct impact on overall port capacity and supply.

Neoclassical production theory expresses investment as a variation over time of the level of capital used by a business. It usually hypothesizes a standard (Cobb–Douglas) production function as;

$$Q_t = L_{t}^{-\beta} K_t^{\beta}$$

where $L$ and $K$ are, respectively, the amounts of labor and capital employed over a period of time, investment is the variation in capital levels $\Delta K$, which takes place between one period and the next.\(^4\)

According to neoclassical economists, the investment decision is a direct function of the amount of capital needed to produce the level of output $Q$ deemed optimal by a business (for example, the amount needed to maximize its profits), and an inverse function of the interest rate, which is the cost of the investment. The investment, as a variation in the level of capital, will be equal to;

$$I_t = K(Q_t, Q_{t-1}) - K(i_{t-1}, Q_{t-1})$$

According to Keynesian theory, investment takes place if the marginal efficiency of capital is higher than the market interest rate, which represents the return of the other possible uses of the resources employed. It is also normally considered that the rate of profit expected from the investment should be greater than the interest rate plus a spread (to “reward” the risk of the profit achieved proving to be lower than that originally expected). Since the potential investor will rank possible investment projects starting from those with the highest marginal efficiency, the well-known inverse relationship results between (cumulated) investment and the market interest rate.

In the port industry, the product is throughput, and the investment is the

\(^4\) www.seaportcapital.com
creation of throughput capacity. Port investments are those increases in capital goods that allow greater throughput via an increased efficiency in using the production factors. These include the following:

✓ infrastructures, such as breakwaters, dams and lock systems that enable access along canals and rivers, the excavation or dredging of riverbeds and the construction of new piers, wharfs, yards, etc.;

✓ terminal “superstructures” (cranes, means of transport, buildings used for storage or port services); and

✓ other assets useful for the production of port services.

Most port investments – particularly infrastructural investments – bear the following features:

✓ their profitability is at least in part indirect, since they are part of collective capital, which acts as a location factor for business activities and generates positive externalities;

✓ they also generate environmental costs and negative externalities;

✓ the construction of infrastructures brings with it significant indivisibilities, owing to economies of scale, financial requirements and network economies;

✓ they require considerable time to be accomplished, including a lengthy planning and design period, and subsequently boast an extremely long economic life. As a result, there is a hefty time lag between costs (incurred primarily before the port comes into operation) and revenues, and a long payback period for the investment itself;

✓ high risk and high uncertainty of expected profit, due in part to the difficulty of estimating costs;

✓ in the case of “general purpose” assets (such as dams, canals and basins) cost cannot be imputed to individual users, while the benefit for each user cannot be quantified either; and

✓ infrastructure costs are “sunk” (i.e. lost whenever the investor decides to withdraw from the market), and therefore act as “exit barriers” that jeopardize the market’s contestability and create the risk of a monopoly.5

Comparing direct usefulness (profitability), be it positive or negative, with external usefulness (be it positive or negative) produces four possible combinations, shown in Fig. 6 as a Cartesian graph, where direct profitability (profit forecast) is shown along the abscissa and social utility (net benefit) is shown along the ordinate.

5 Chorley Henry; Sketches of a Sea-Port Town, Volumes 1-2, 2010
Assuming that the coordinates at the origin of the axes are, respectively, market interest rate (to which a risk premium may be added), and 0 (or, alternatively, the above-mentioned “standard” socioeconomic internal rate of return), the bisector of quadrants II–IV separates the situations bearing total (direct+external) positive utility, above the bisector, from those bearing total negative utility, below the bisector.

Private profitability normally stems from the private nature of benefits (port services or assets are “private goods”, featuring excludability and rivalry between users): in the port arena, this can be the case for services (both to goods or to ships), superstructures (cranes) and, to a lesser extent, terminal infrastructure. Public profitability stems from the existence of long-term external benefits, such as hinterland accessibility, “public” or “club” goods such as nautical assets (dredging, breakwaters, locks, etc.), land based networks and general local accessibility. Fig. 6 shows the situations that may then arise.

Quadrant I contains those situations where investment is driven by private profitability and also implies a public benefit. It is promoted by the market and there is no reason for it to be halted by the public administration (although it may be regulated in order to enhance public benefit). On the opposite side, quadrant III clearly shows investment projects that appear neither profitable nor socially desirable and, therefore, should never be promoted.
Quadrant II features investments deemed “socially useful” (external economies, accessibility, etc.) but with little or no direct profitability. If the balance is positive (i.e. above the bisector), investments should be promoted by adopting the appropriate policies, which might include grants and public-private partnerships (PPPs), capable to shift profitability even if the offsetting costs reduces overall utility, and therefore moves the point closer to the bisector. What is an unprofitable investment for private capital may, nevertheless, be regarded as socially desirable (for example, as a driver of regional economic development). Ports have often been regarded, be it rightly or wrongly, as drivers of regional development as well as a source of considerable external benefits.

Nowadays the “local” net external benefit is less certain, although ports are regarded – more than before – as essential gateways for the competitiveness of the hinterland. This may drive forward an investment even with no private profitability. The investment can be entirely public, or (if public resources are scarce) publicly co-financed in order to supplement private profitability and push it above the threshold that is critical for the private investor (i.e. interest rate + risk premium). Yet, the risk is to promote investments that are actually below the bisector.

If we assume that any compensation policy shifting benefits/costs from one sector to another does have a cost, then no policy can make the point shift from below to above the bisector.

Quadrant IV shows investments that are profitable for the investor, but a source of net external costs. This situation is common nowadays, and increases in port capacity required by terminal and logistics companies often gives rise to conflict and opposition at a local level, due to there being no (or very few) external benefits in comparison with external costs.

An investment should nevertheless be encouraged for projects placed above the bisector, through the offsetting and reduction of external costs to “shift” the investment towards quadrant I, (even if offsetting costs reduces the investment’s overall utility, and again it moves the point closer to the bisector). Investments where social disutility of external costs exceeds direct profitability (below the bisector) must instead be prevented by way of appropriate bans and restrictions, etc.

A pure market economy would promote all – and only – investments in quadrants I and IV (where direct profitability is higher than the market interest rate), while a centralized economy should promote all – and only – investments in quadrants I and II (as shown in Fig. 6).
3. HOW TO CREATE A PORT INVESTMENT MODEL?

The port capacity installed by the investor (be it public or private) may be exploited by the investor itself, if it acts as the asset’s manager and charges the carrier for use. Alternatively, it may be leased to a stevedore, which manages it and charges the carrier. Moreover, the carrier and the terminal operator may be vertically integrated (the so-called dedicated terminals) and in some cases, the carrier may also overlap with the shipper, which may manage its own ships and sometimes its own terminal(s) as well.

However, if only business functions are considered, the port investment “chain” involves the following players: (i) the investor investing in the port facility; (ii) the terminal operator; (iii) the carrier using the port, or its representatives; and (iv) the shipper, or its representatives.

The investment’s return is determined by the stevedoring industry’s profits, which in turn influence those of the shipping industry, logistics and eventually the profits of the manufacturers/shippers and the utility of consumers.6

We can investigate the effects generated by the port investment, so as to highlight significant relationships between players, as well as the implications for investment decisions and for the funding of investments. It focuses on the “microeconomic” effects of an investment, disregarding any macroeconomic benefits to employment, earnings and their distribution, any environmental benefits–costs (both direct environmental impact and the balance between the environmental impact of maritime transport and that of alternative transport). These macroeconomic effects are rather difficult to measure, while the environmental effects are uncertain, since the development of maritime transport through port investments leads to an increase in the environmental costs associated with a port and maritime transport, but on the other side it encourages a modal split with a more sustainable environmental impact.

A port investment may be “extensive”, if its aim is to increase productive capacity while average costs remain unchanged, or “intensive”, if its aim is to increase productivity and reduce unitary costs. From a theoretical perspective, the notion of a purely extensive investment may be viable when, for example, a terminal operator – having to meet sharp rises in demand – decides to

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6 Balbaa Alsnosy; Managing Environmental Sustainability in Seaports: Towards an integrated method, 2010.
increase its throughput capacity by adding new infrastructures that offer the same productivity as those already in use. When, on the other hand, demand is stagnant or competition from other operators is already fierce or on the rise, a terminal operator may well plump for a purely intensive investment, aimed at increasing productivity. Actually, though, it is very likely that in the former situation the new assets would be more productive than those already in place, thanks to technological improvements that are likely to have been introduced. As a result, an increase in quantity also translates into an increase in average productivity. In the latter situation, a rise in productivity is normally achieved, thanks to the reduced time per unit of throughput, and the consequent increase in throughput per unit of time. It is therefore very realistic to assume that between these two “theoretical” extremes, the effects of the investment will, in practice, be distributed between an increase in quantity and a reduction in costs. In a market of perfect competition this cost reduction would turn into a correspondent reduction in price (or in generalized cost) without increase in profit.

On the other hand, in a monopoly situation, or if demand is extremely inelastic, it could lead purely to a rise in profit, without any benefit being enjoyed by the user (with a reduction in price approaching or equal to zero). In any intermediate situation, the effect will be distributed, depending upon the elasticity of demand and the position of the cost curves, between an increase in profit and a reduction in price, accompanied by an increase in throughput.

From a microeconomic viewpoint, then, an investment in a port asset normally causes an increase in the level of throughput (total and per unit of time) as well as an improvement in the level of service. This causes a reduction in the generalized cost \( C_g \) of the port service (equivalent to a reduction in price) and/or an increase in the profits of the stevedore.

The decrease in generalized cost will cause throughput to increase, at a rate that will be directly correlated to the degree of competition within the port services market: the greater the competition, the greater the reduction in price and the increase in throughput; the lower the competition, the greater the profits netted by the manager (unless demand is completely inelastic).

The increase in throughput leads in turn to an increase in the stevedore’s profits, and usually to increasing returns to scale as well, thereby triggering a further fall in the cost of production, generalized cost, price and potentially a further increase in profits.

Moreover, this reduction in generalized cost/price leads to a decrease in the generalized cost (price) of the whole transport cycle, triggering within the
transport industry the same kind of effects: lower prices, higher volumes and higher profits. Again, an increasing return to scale is likely to occur, and these effects can therefore build up to become stronger. Finally, the same kind of effect will also be seen for shippers (and possibly for intermediate operators such as logistic operators, forwarders, etc.): a lower generalized cost causes both volumes and profits to rise, with possible further increases due to economies of scale. The final decrease in prices for transported goods can eventually benefit final consumers. There is therefore a “chain” running from port investors, to port operators, carriers, forwarders or logistic operators, all the way through to shippers and consumers, as shown in Fig. 7.

Assuming a linear demand function, such as;

\[ p = a - bq \]  \hspace{1cm} (3)

for every possible position we can have:

\[ US = q \left[ a - (a - bq) \right]/2 = 1/2 bq^2 \]  \hspace{1cm} (4)

This is a parabola on an ever-upward slope in the first quadrant.
The revenue function is then; 
\[ TR = aq - bq^2 \]  (5)
and the function of the long-run average cost (LRAC) is straight, expressed that is to say by the function; 
\[ TC = cq \]  (6)
and, total profit can therefore be expressed as; 
\[ TΠ = TR - TC = (a - c)q - bq^2 \]  (7)
The profit-maximising quantity is given by; 
\[ \frac{dTΠ}{dq} = 0 \]  (8)
from which we obtain;
\[ a - c - 2bq = 0 \]  (9)
\[ q = \frac{(a - c)}{2b} \]  (10)
The quantity that maximizes the sum of profit and consumer’s surplus, considering thus both direct and external profitability, is then; 
\[ \frac{dTΠ + US}{dq} = 0 \]  (11)
from which we obtain;
\[ a - c - 2bq + bq = 0 \]  (12)
with the optimal quantity emerging thus;
\[ q = \frac{(a - c)}{b} \]  (13)
As a result, the quantity that maximizes the sum of profit and consumer surplus Equation (13) is double the quantity that maximizes profit Equation (10).

4. INVESTMENT, PROFITABILITY, PRICING, PRIVATE AND PUBLIC FINANCING

These results suggest some remarks on the financing of port investment. Port investment may produce both direct and indirect benefits. Direct benefits provide a funding channel by way of the pricing applied for the use of infrastructure, revenues and the consequent profit for the company that builds and/or manages the terminal (if two different companies are involved, the profit of the terminal operator will be used to pay the charge to the company that owns the port facility). Net public benefits justify the utilization of fiscal resources instead.

So far, port investments have very often attracted public investment, due to the very features of the infrastructures and systems associated with ports. However, there has been no proper criterion in place to determine – if only theoretically – the extent to which the public taxation system should be
involved in a port infrastructure.

This particular issue is closely linked to the price charged for using infrastructure, for two reasons: (i) the pricing applied to, and the payment made for, the utilization of a port asset generates a level of private profit that is complementary to the public taxation system (the greater the resources obtainable from pricing, the lower the resources required from taxation, and vice versa); and (ii) the pricing criterion itself may reflect not only the port operators’ profit-maximizing strategies (or just its market strategies), but also the purpose of maximizing the welfare generated by the investment.7

5. BUSINESS STRATEGIES AND MARKET FORMS OF INVESTMENTS

Two attributes of the investments that characterize – even if not exclusively – companies operating within ports are the degree to which investments are reversible and uncertainty, which is typical of every decision that has anything to do with the future.

The first of these two attributes would appear to be of considerable importance in our case, since a growing number of private firms are being asked to invest not only in port superstructures, but also in actual infrastructures.

Suffice it to consider, for example, the many dedicated terminals – typical of the container transport sector, and similarly the cruise transport sector – in which the transport company is vertically integrated to become a terminal company as well, thereby participating in the cost of the terminal investment proportionally to its share in the venture. In these situations, it is clear how at least part of the investment should be regarded as irreversible, making it interesting therefore to ascertain how this circumstance, together with the uncertainty as to how the operating environment will evolve, may cause the company to accumulate surplus, or insufficient, capital.

According to authors irreversibility and uncertainty of investments involve two types of effect;

1. the so-called “user-cost” effect, which leads firms to under-invest. This is because entrepreneurs are more reluctant to invest, given that their inability to disinvest results in a higher user-cost of capital in relation to current investment decisions; and

7 Martin Baker John and Baker Louis; A View Of The Commerce Of The United States And The Mediterranean Seaports: Including The Adriatic And Morea, 2009.
the so-called “hangover” effect, indicating the reliance of current capital stock on past behavior, which leads firms to over-invest in the presence of irreversibility and uncertainty.

5.1. Stackelberg Equilibrium

It is worthwhile remembering that the Stackelberg duopoly considers two firms – known as “L” and “F” (leader and follower) – that need to decide (not at the same time) how much capital to employ. The function of profits for these two firms may be expressed as:

\[
\Pi^L(K_L, K_F) = K_L(1 - K_L - K_F)
\]

\[
\Pi^F(K_L, K_F) = K_F(1 - K_L - K_F)
\]

This situation leads firm L (the firm to decide first, since it is the first to introduce a new technology or to enter a particular market) to select the amount of capital in such a way as to maximize its own profit function, while taking into account the reaction curve of firm F. This means that where;

\[
K_F = R_F(K_L) = (1 - K_L)/2
\]

the equilibrium – which is different from the Cournot equilibrium, based on companies making their choices at the same time – makes the levels of capital employed equal to;

\[
K_L = 1/2
\]

\[
K_F = 1/4
\]

Profits and the ratio between them therefore emerge as;

\[
\Pi^L = 1/8
\]

\[
\Pi^F = 1/16
\]

\[
\Pi^L/\Pi^F = 2
\]

The firm investing first therefore accumulates twice as much capital as the other, while also netting a profit that is double that realized by the follower. If at a later stage a rise in demand is expected, the model shows how both firms will increase their productive capacity to a similar extent, so that the ratio between the respective profits of the two firms remains unchanged. We are thus witnessing a game that repeats itself by the same procedures. In other words, this duopoly leads the firms to cover three-quarters of the amount that would be exchanged in a market of perfect competition, leaving unchanged their respective market share as leader and follower, with one twice that of the other. Compared with monopolistic equilibrium, this model guarantees that a higher amount is exchanged (50% more in fact). This gives rise to the capacity surplus seen in these types of oligopoly.
6. CONCLUSIONS

Port investment is a key issue in modern port economics with regard to planning port development, financing and assessing the return on investment.

In the literature, the topic of infrastructure investment has been historically tackled either from a pure macro-economic perspective or from the mere firm’s point of view (the managerial decision process related to port investment). These approaches focus mainly on the macro-economic costs and benefits of the port industry and, on the other side, on the economic efficiency of the port function for port users.

This paper overcomes that kind of segmentation. It addresses some of the features related to port investment starting from the evaluation of the main paradigms that characterize the port industry from a global point of view, and focuses on the relations, synergies and conflicts between the numerous stakeholders actually involved. Profitability, economic impact and financing are seen as the most critical nodes in the complex chain of port investment decisions.

Port investment has been described as the result of the equilibrium of several interactions between different forces and interests, where the most relevant aspects are (i) the public/private combination, which imprints the port industry and (ii) the geographical scale of evaluation. The mix between public and private interests, and the specific role of public bodies, may in fact be seen as the core of a specific port investment theory, which evaluates direct and indirect effects as well as uncertainty in returns. The different perspectives of evaluating the impact of port investment can lead to a different evaluation of the costs and benefits involved, and their desirability.

The framework of the paper has been primarily based on the description and critical evaluation of the public/private and local/global tradeoffs, which in turn affect the assessment of port impacts, the development of funding, pricing and tax systems, the competitive scenario and distortions, which are likely to occur in inter-port and intra-port competitions.

The main contribution of the paper may be seen in the effort of building up a comprehensive scenario where single aspects and variables related to port investments can fit into a general scheme of interrelationships, which identify feasible outcomes. The foreseeable outputs in terms of demand and supply provide insights for possible incentives to efficiency to be improved by decision-makers at different levels, promoting the reduction of conflicts and the synergies of interests.
Although the topic has clearly practical implications, the work follows a theoretical approach rather than an empirical one. The proposal is, in fact, to develop an overall framework of analysis with a certain degree of originality in comparison with consolidated fields of the past literature, limiting at the same time the risk of a rapidly non-updated decision-support tool.

The implementation of a number of outlined policy guidelines can be considered as an implicit agenda for future research.

**Symbols**

C = cost  
EIB = European Investment Bank  
EU = European Union  
GC = Generalized Cost  
Inv = Investment  
P = Price  
PPP = Public – Private Partnerships  
s.l. = service level,  
TDA = Trade and Development Agency  
Th = Throughput  
US = Users’ Surplus  
WB = World Bank,  
π = Profit

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E_COMMERCe
(Changing Albanians buying culture)

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Abstract

The online information and shopping service industry has its roots in United States. However in the recent years it has been increasing rapidly its impact also in Western Europe and also Asian countries. Although it shows to be in its infancy phase internet usage and online marketing are continuing to grow explosively also in Albania. The Albanian market is not longer ignoring the technology and has started to use it in all fields of life. The usage of internet from companies is leading consumers and businesses toward the acceptance of electronic commerce. The electronic markets are

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helping businesses and individuals to be clever consumers and to pay their transactions easier. Ecommerce has started to be an important competitor for the physical market worldwide. It empowers consumers to have greater control over the marketing process, and helps businesses to advertise and to give information about their products. Information technology is not used only from the consumer but in the mean time helps businesses to take information from consumers and see at what they are more interested and in the mean time make a demographic division of their customers.

This research is concerned about the usage of internet from the Albanian society and the impact it has in the people everyday life. You will have the possibility to take a look at data’s that show the internet usage and in the mean time the probability it has to grow. You will see how the electronic market impact businesses and consumers and in the mean time how consumers are profiting from this innovation. By taking in consideration the questionnaire data and also secondary researches we have tried to bring a clear view of the market by making SWOT and PEST analysis and also trying to predict the future slope of internet usage for the purpose of ecommerce. The research in this paper is conducted and directed to the two types of markets the B2B and the consumers market and also the analysis are given for this two buying forces. As a conclusion we will give also some challenges and problem that ecommerce faces. This is why in the paper will be given limitations and suggestions which the online markets creators should take in consideration.

Keywords: e_commerce, commercial transaction, internet usage, economic slowdown, customer choice, influence rate.

1. INTRODUCTION

Electronic commerce is a term that refers to the buying and selling of products and services through the usage of computer networks and internet. Albania has started to join these buying networks in the last 7 years, and these actions have helped several people in making their choices with lots of commodities. In this paper we are going to show all the commodities and the changing Albanian culture of buying. In our explanations, we will first look into the history of the development of ecommerce world wide, the profits that is generated in different countries through this new market, and then we will explain the way how Albania has faced this new reality.

According to our data, the online market has shown to be a very potential
one because it offers a variety of products and at the same time different price segments. People have the commodity of shopping at any time from everywhere they are and on the other hand, this can be considered two side profit commerce, as long as producers and sellers can offer their product even by not physically meeting in their working place. This is a service which is also understood from Albanian customers who have started to use the online market today and who are satisfied from the opportunities given.

The second element, in which this paper is related, is the buying potential of Albanian customers; it is a chapter that will bring data about the potential of Albanian costumers in different markets. We are going to analyze the spending in total and in the mean time the spending that are done on the internet, and also we investigate on the reasons that drive the buying potential toward this market. The data will be explained with graphs and will also be interpreted, so you will have the possibility to have a better view of the Albanian customers’ choice in the online markets.

As every other market also the online market has its positive and negative elements. These elements will be discussed and we will also provide a range of reasons that made the Albanian customers to choose the online market, and the reasons that the online market has a daily increase of customers. The low price has shown to rank as one of the most important reasons. Then the quality of the products is also ranked among the most important ones. We will also discuss about the delivery time dilemma, which makes people to think more than once in buying. And we cannot leave apart the security dilemma of the customers which may be informed or not about the risks that they may face from giving out their privacy elements of their bank accounts. All this issues will be discussed based on the previous experiences of the customers and also based on the available data regarding them.

The aim of this scientifically research is to know peoples’ perspectives regarding the change of their buying attitudes; this is why we have used our primary and secondary dates. The primary ones are concerned on two types of questioners: the face to face ones and the multiple choice one. The first one is directed to a group of 420 people from 7 cities of Albania. This sample of people has given their position in the usage of this new market and they have also provided real life examples of what they do. This sample is aged from 20 – 40, this is the group of people that are raised in the world wide web period and, same important, they are the group of people that work and also have their own money to spend. The second questionnaire was collected online, which is directed to a mass of people anonymously without précising their age or
sex. There are collected 2000 responses from people of different ages living in different parts of Albania. This second results will be shown with graphs and will be analyzed to see the position of customers in today’s online market.

After gathering all this data and after analyzing them based, on the actual market, we are going to make a SWOT analysis to measure the today position and also the perspective of the future for this market. We will discuss the way in which this market has been expanded in Albania and the power of the “word of mouth” persuasion in our country.

After these discussions and analysis we will bring out a conclusion and also some suggestions and limitations that people have to take in consideration when they use the electronic market.

2. ECOMMERCE DEVELOPMENT AND THE WORLD CONSUMERS

The first time that the term ecommerce is used was in the years 1960. It was used to show the execution of the commercial transactions electronically with the help of the leading technologies such as Electronic data interchange and Electronic Funds Transfer. This project had the possibility to have a real meaning and to be applied in the late 1970s; it helped companies to send electronically their commercial documents. The year of start was 1970, but the average population did not have the possibility to profit from this commodity up to 1994, which actually was not a commodity in all meanings this because it was difficult to create security protocols\(^3\) that could allow the connections to the internet for the mass of people. However in 1984 the ASC X 12\(^4\) standard became stable and reliable in transferring large amounts of transactions. The next major step occurred in 1992, when the Mosaic web-browser was made available; it was the first ‘point and click’ browser. The Mosaic browser was quickly adapted into a downloadable browser, Netscape, which allowed easier access to electronic commerce. The development of DSL was another key moment in the development to of e-commerce. DSL allowed quicker access and a persistent connection to the Internet. Christmas of 1998 was another major trigger event in the development of e-commerce. AOL had sales of 1.2 billion over the 10 week holiday season from online sales.

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3 For example HTTP and DSL
4 Provider company
Internet usage had its boom in the year 2000, a period during which people started to understand the importance and convenience of making online sales. The first ones that started to make online sales were supermarkets\(^5\), using it for grocery sales and then ecommerce experienced a big extension only when the business to business commerce started. Other varieties growing today include Consumer-to-Consumer (C2C) where consumers sell to each other, for example through auction sites. Peer-to-Peer (P2P) is another form of e-commerce that allows users to share resources and files directly. According to all available data, ecommerce sales continued to grow in the next few years and, by the end of 2007, ecommerce sales accounted for 3.4 percent of the total sales. And we also can notice from the graph that the changes are shown in scaled percentages and the annual increases stay approximately the same.

![Estimated U.S. Retail Ecommerce Sales as a Percent of Total Retail Sales (1999 - 2007)](chart.png)

Online shopping is a form of electronic commerce where the buyer is directly online to the seller’s computer usually via the internet. There is no intermediary service. The sale and purchase transaction is completed electronically and interactively in real-time such as Amazon.com for new books. If an intermediary is present, then the sale and purchase transaction is called electronic commerce such as eBay.com.

Electronic commerce is generally considered to be the sales aspect

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\(^5\) Called ALBERTSONS and SAFEWAY, they were the first ones that started to make online sales for the customers of their supermarkets.
of e-business. It also consists of the exchange of data to facilitate the financing and payment aspects of the business transactions.

History of ecommerce is unthinkable without Amazon and Ebay, which were among the first Internet companies to allow electronic transactions. Thanks to their founders we now have a handsome ecommerce sector and enjoy the buying and selling advantages of the Internet. Currently the 5 largest and most famous worldwide Internet retailers are: Amazon, Dell, Staples, Office Depot and Hewlett Packard. According to statistics, the most popular categories of products sold in the World Wide Web are music, books, computers, office supplies and other consumer electronics.

According to the research conducted in 2008, the domain Amazon.com attracted about 615 million customers every year. The most popular feature of the web site is the review system, which is the ability for visitors to submit their reviews and rate any product on a rating scale from one to five stars. Amazon.com is also well-known for its clear and user-friendly advanced search facility which enables visitors to search for keywords in the full text of many books in the database.

The development of the world usage of ecommerce from the time that it was created is shown in the graph below.

Ecommerce development is also related with Europe development. We also have taken in consideration data from European countries to see how their
development in the ecommerce has changed during the years. According to the table below, you will have the possibility to notice that Sweden, Netherlands, UK, Finland, Denmark and Germany score well, and business people in these countries generally understand English. As always in business, acceptance of new ideas, deregulation, entrepreneurship, incisive thinking and planning are vital, suggesting an agile company will outperform the large corporation if strengths are recognized and enforces. These data are from the period 2003-2004 while the newer data show a development and an increase of the usage of ecommerce.

<table>
<thead>
<tr>
<th>Country</th>
<th>Index</th>
<th>Country</th>
<th>Index</th>
<th>Country</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>8.40</td>
<td>Norway</td>
<td>8.17</td>
<td>Greece</td>
<td>7.03</td>
</tr>
<tr>
<td>UK</td>
<td>8.38</td>
<td>Austria</td>
<td>8.10</td>
<td>Portugal</td>
<td>7.02</td>
</tr>
<tr>
<td>Switzerland</td>
<td>8.32</td>
<td>Ireland</td>
<td>8.02</td>
<td>Czech Republic</td>
<td>6.45</td>
</tr>
<tr>
<td>Sweden</td>
<td>8.32</td>
<td>Belgium</td>
<td>7.77</td>
<td>Hungary</td>
<td>6.05</td>
</tr>
<tr>
<td>Denmark</td>
<td>8.29</td>
<td>France</td>
<td>7.70</td>
<td>Poland</td>
<td>5.52</td>
</tr>
<tr>
<td>Germany</td>
<td>8.25</td>
<td>Italy</td>
<td>7.32</td>
<td>Slovakia</td>
<td>5.00</td>
</tr>
<tr>
<td>Finland</td>
<td>8.18</td>
<td>Spain</td>
<td>7.07</td>
<td>Romania</td>
<td>4.00</td>
</tr>
</tbody>
</table>

As the market matures, it appears many e-tailors are more willing to go after the foreign customer base. Shipping management companies are offering more support for international e-commerce and this is one of the elements that made the European customers to change the online buying trends and to bring them to the point that are shown in the table below:
3. ALBANIAN BUYING POTENTIAL

Albania’s economy has improved substantially over recent years and it’s growth has outperformed many other countries in the region. However, it is still considered one of the poorest countries in Europe. According to the Bank of Albania, per capita income was $3,675 in 2008, expected to reach $4,000 in 2009. According to some preliminary data by the World Bank’s Poverty Assessment Program, 12.4% of the population lived below the poverty line in 2008, marking a considerable improvement from 25.4% in 2002. In recent years, the Albanian economy has improved, and infrastructure development and major reforms in areas such as tax collection, property laws, and business climate are proceeding well. During 2004-2008, Albania experienced an average 6% annual GDP growth. Fiscal and monetary discipline has kept inflation relatively low, averaging roughly 2.9% per year during 2006-2008. In 2008, inflation increased to 3.4%, still within the target range set by the Bank of Albania. Economic reform has also been hampered by Albania’s very large informal economy, which the IMF estimates at 50% of GDP.

After having this economic profile of the country we can also give a look to the table below which is related to the ecommerce data in Albania through the years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Users</th>
<th>Population</th>
<th>% Pop.</th>
<th>Usage Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>2,500</td>
<td>3,083,300</td>
<td>0.1%</td>
<td>ITU</td>
</tr>
<tr>
<td>2002</td>
<td>30,000</td>
<td>3,084,586</td>
<td>1.0%</td>
<td>ITU</td>
</tr>
<tr>
<td>2006</td>
<td>75,000</td>
<td>3,087,159</td>
<td>2.4%</td>
<td>ITU</td>
</tr>
<tr>
<td>2007</td>
<td>471,200</td>
<td>3,087,159</td>
<td>15.3%</td>
<td>ITU</td>
</tr>
<tr>
<td>2008</td>
<td>580,000</td>
<td>3,619,778</td>
<td>16.0%</td>
<td>GfK</td>
</tr>
<tr>
<td>2008</td>
<td>750,000</td>
<td>3,639,453</td>
<td>20.6%</td>
<td>ITU</td>
</tr>
</tbody>
</table>

This increase is related to some components that have shown to be very important in peoples’ life. First of all the potential of the buyers is now at the point that 1 in 5 families in Albania has a computer at home, this is an element that gives the possibility to people to be in touch with the market and therefore gives them the possibility to find advertisements about innovations in the market.

Liberalization of homepages creation is another element that has helped in this increase. It is an element that gives the possibility to the companies to create their web pages and to use this WebPages in order to get in touch with their clients. It also gives them the possibility to advertise their products and services.

The increasing of the number of credit cards and debit cards that is offered
from the banks is another element that does really influence on this data. The service of owning these cards is a new element that is offered from the banks in the last two years. It does really influence in the indexes because it helps the customer to have the possibility to buy all the product and services that he wants, at the time that he wants, from the company he chooses as the best one.

4. IMPACT OF INTERNET IN THE CUSTOMER CHOICE

Information gathering is one of the elements that influence the choice of the customers in the market. It is the first step that brings people toward the process of decision making. Many of these choices are relevant to customers but it is also a challenge to sort through them. The sorting process and the decision that people make on the product that they will buy is related with the type of the product, it differs from one product to the other one.

These that are looking for a mobile phone have the possibility to gather information about the options that they are looking for and the about the different prices that this product have. The ones looking for a place to live have the possibility to save time by looking all options and then visit the ones that are nearer to their desire. The online customers that are looking for music or for online films are the ones that mostly take in consideration for their choices the recommendations of friends and people they have around. This because these kinds of categories are the ones in which u cannot control the quality if you haven’t downloaded them before.

As we see according to the data collected and to the previous researches the internet is the first step in the buying decision process. Having the possibility to navigate in different sites makes our customers, clever ones. They have the possibility to have lots of information about the product they are looking forward to buy starting from the production up to the packaging of this product. Another commodity that also influences the today customers and makes them to use internet for buying is the time commodity. There are lots of people that have no time to go out in the market and check the prices and qualities so they make the online buying from their house in the most available time for them, which may be early in the morning, in the evening hours, during the night, hours during which the shops are supposed to be closed. The online selling can be done in every hour of the day and it also can come in your house based on the distance your house is. Today in America which has shown to make many sales online, we can find companies promising delivery within less than 12 hours.
4. QUESTIONNAIRE RESULT

In order to prepare this project there were used two types of data collection. The secondary data are used to bring past analysis and to see how things have changed from year to year and how the Albanian society has reacted to this change. The primary data were directed to two groups of people some of whom are considered to buy on regularly bases on internet.

The first one were people aged 20-40 and it used a face to face questionnaire which help us to make clear analysis of it. These questions were directed to the same sample of people in number\textsuperscript{6} who live in 7 different cities of Albania\textsuperscript{7}. According to the data collected we noticed that cities which had the higher number of internet usage for buying purposes and for information gathering were Tirane, Durres and Elbasan. In this three cities in the sample that we used almost 50\% of them used the internet for ecommerce\textsuperscript{8}. Females are more concentrated in buying books and clothes. The books are a category which according to the sample can have more varieties and more possibilities in choosing\textsuperscript{9}, and in the same time they can be found with an affordable price. Man most attractive category are cars, but they use internet just to have more ideas on the markets and on the innovations, they also buy the cars from the internet but in most cases they use internet for gathering information. They buy also books on internet and they also use it for buying gifts for people around them. An interesting fact that came out from this research is the fact that man admit that they are persuaded from ladies to buy online.

“When I wanted to make a gift for the New Year, to my girlfriend, the ladies I work with proposed me to buy for her something online, which was cheaper and with a better quality of the products that I could find in the market with the same price. I have to accept also that they helped me in the choosing process\textsuperscript{10}.”

The other cities\textsuperscript{11} samples mostly use the internet for information gathering

\textsuperscript{6} 50 people per city
\textsuperscript{7} The cities in which this interviews are made are: Vlora, Durres, Elbasan, Pogradec, Shkoder, Tirane dhe Fier.
\textsuperscript{8} Tirane 40/50, Durres 32/50, Elbasan 27/50
\textsuperscript{9} Deciding on the author and on the variety of offers contents
\textsuperscript{10} 26 year boy from Durres
\textsuperscript{11} Vlora 3/50, Pogradec 5/50, Shkoder 10/50, Fier 11/50
a very small group of them makes online buying this because they do not trust giving out their personal data, some of them have had bad experiences in online buying and they do not want to repeat the experience.

“Last year I tried to buy a wedding dress, which I choose online, but actually when it came in here first of all it was all dirty and I don’t know why and second it was not like I had seen it in the net. I don’t think I’m gone buy again from internet¹², and I also don’t thing my friends will buy, I told them about my experience”

So according to the data people have faced good and bad experiences which make them to be or not part of the ecommerce process. In general from the sample of people that were under the study we realized that 40% of them that were using the internet for buying, last year did not use internet for this purpose.

The second primary research was done as online questionnaire, directed to people that participated in forums in the internet. There were approximately 2000 responses and the sample didn’t have age restrictions, it started from the age of 18 up to 58. There were 1356 females and 644 Albanian males. They answered about their usage of internet on the last year, about the importance the internet has in their life and about the purpose they use the internet more. These data will be provided with graphs in the other section of this paper.

**Question 2:** How has your usage of the Internet changed over the last year?

**Question 3:** What do you primarily use the Web for?

The first trend, is the gender one that shows the gender of people that have participated in this project:

12 30 year old lady from Fier
Question 4
Buying (e.g. Buying products via the Internet).

Question 5
To what extent would you say you use the Internet to search for specific information on companies and product information? Would you say...

Question 6
When you buy on internet you:

Question 7
A good site to buy for you, is:

Question 8
Do you use the Internet to prepare your holidays?
6. SWOT OF THE ACTUAL MARKET

Being in front of real figures gives us the possibility to study the actual market and to make the SWOT analysis in order to create an idea about the way, how this market will develop in the future.

**Strength**

1) 24 hrs a day, 7 days in a week your business in operation.
2) You can do your business globally by sitting at your office, home or in bedroom.
3) The products reach to customers directly from the producers at a lower price than the market value.
4) It is fast and effective.
5) By visiting different websites one can within a short time can compare the price and buy on the best deal.
6) Financial transaction through electronic fund transfer is very fast and can be done from any part of the world.

**Weakness**

1) There is no direct interaction between the customer and the seller.
Therefore, the scope of convincing the customer does not exist.

2) Many times, people prefer to touch the product that they will buy, rather than having it from internet.

3) Sometimes, transportation cost increases the product cost.

4) Number of potential customers who can buy through Internet is still not enough.

5) Not every person has the possibility to buy online because of not having PC or internet home.

**Opportunity**

1) Everyday, the number of Internet users in Albania is increasing in a rapid way.

2) People of tomorrow will feel more comfortable to buy products through Internet only.

3) Big companies are already entering in this field so; they are making people habitual and confident about marketing through Internet at the cost of the companies.

**Threat**

1) Dishonest persons entering in this field which damage the confidence and faith of common people on marketing through Internet, this afraid the customers.

7. THE FUTURE OF ONLINE MARKET

“Ecommerce sales have continued to rise despite the economic slowdown. Research has shown that the future of ecommerce sales will continue to improve further over the next few years.”

In order to talk about future perspectives of online marketing in Albania, we have to take in consideration some important elements.

First of all we can start with the fact that marketing specialists predict a promising future for ecommerce. They base this promising future on the advance of technology. Nowadays people can buy online from their mobile phones. They have the chance to buy from everywhere, like buses, trains, beach, etc. now the use of mobiles for shopping online is in the phase of being used but in the future technology is in the phase of performing which means that new tools will be invented and online buying will be easier.

If we adapt this element in the Albanian society, we will notice that technology is quickly reaching our country and the most developed models of mobile phones are placed in Albania just 2 weeks after entering the market. This makes us believe
that as long as people today are using their computers to make buying and online transactions tomorrow, they will act from their mobiles, and being in favor of this commodity they will make more and more online buying.

Social commerce can be integrated in further ecommerce; this has been studied in the marketing researches of 2009. Based on the research we found out, that in forums people are not only exchanging their opinions about the things they discuss but they also exchange their experiences with online buying and they try to persuade their peers to try where they have succeeded.

Coming back to the Albanian society according to the researches and also according to the questionnaires we come to the conclusion that Albanian society is very persuaded from the word of mouth. This means that people today are trying buying from internet because they have been persuaded from friends. Day after day they are becoming parts of bigger networks on the net which will give them the possibility to listen more about brands and have the desire to have those products.

And the last but not least that we can mention the fact that Albania is a country that wants to break the geographical boundaries. Even though the Albanians do not have the possibility to shop in countries like they would, at least now they have the possibility to buy products from these countries. Thinking about a better quality and about trying new things which they never thought about, people now make use of ecommerce in order to fulfill their desires.

8. CONCLUSION

Once upon a time consumers had to go to a great line to acquire the things that made their life better; as time went by, retailers and marketers came up with inventive ways of getting customers. Along the way, various technological elements guided the evolution of ecommerce. Newspapers, magazines, radio and television offer to all consumers the choice what they wanted to purchase and where they wanted to purchase it. As time went by, people started to create the automatic experience which was firstly experienced in 1994. It was considered the ideal way that businesses found to reach their customers and satisfy them. Being in the dilemmas if people will use their credit cards to buy online or if people would rather buy from home than going into shops, companies went on and took the risk. Today ecommerce is considered a healthy and safe way to buy the desired products.

This evolution has come also in Albania and has made people to change
their buying attitudes. Today customers are very busy. They work, they have a home, they have a lot of responsibilities. They find it very hard to go and spend time in a shop if they can make their buying from home or any other place.

Albanians are ordering tickets online, because it is faster and cheaper, they are buying clothes, perfumes and accessories online because they want to have the brand they prefer, they are buying electronics from their house, they book their vacations from home and the group of people that has discovered this commodity is enjoying it, and it is also trying to persuade friends to trying it out.

Today’s technology is changing very fast and also Albania is doing so. People now have all chances to make online payments and to reach what they want through the World Wide Web. This helps them to evaluate offers and to choose the best offer that fits to their need.

We can not say that tomorrow Albanians are going to make all their buying online, but we have to accept the fact that the Albanian buying attitudes are changing and are directed to the development of technology.

9. SUGGESTIONS

✓ Computer courses in Albania have started to be very important, people are increasingly attending. They use of this knowledge for profiting would be the best thing people can do.

✓ Albanian companies now can have the chance to become known worldwide. They have the possibility to sell in every corner of the world and enter in the global market. Some Albanian companies are not yet known even to the local people; having a web page would help them also to interact with their own national clientele.

✓ The adaptation of the new technology in internet infrastructure would be a very helpful element for all internet users who will be upfront in a process, happening in a fast mode and does not put people in the threat of someone taking out their personal dates.

✓ Banks can increase the number of debit cards given out and they can also increase the limits of online buying. So people will have more possibilities to join this development of the technology and profit from it.

13 Today the limitation does not go more than 50 Euros. This depending on the bank. When people want to buy a higher value product they have to make a special contract.
BIBLIOGRAPHY

The quality is gaining importance in all areas of modern life. Tourism Quality has many dimensions. Through the quality management of tourist services make efforts to take into account the growing importance of individual aspects of quality. In tourism, visitors looking for products that are sure to get the highest quality, quality for which they pay, so that justifies the price. This fact as well as growing competition, the will to provide a service, loss of individuality through standardization of products, price-performance ratio,
etc. are the reasons for quality management in tourism.

Quality in tourism is a very complex phenomenon. To satisfy growing demand and rapidly changing consumer desires, tourist total quality management involves a process, which emphasized that any product or service is the result of a process where each step is associated with him before and after him. The quality of individual processes is full quality, which includes all areas of business and all staff. Quality has to do with meeting all quality requirements of foreign buyers as well as those internal.

Total quality management is about responsibility and initiative to manage higher and requires a long development and quality assurance. The management consists of three aspects: the establishment of a high standard of service to satisfy the desires of a certain segment of customers or staff, the implementation of this standard of service and improve its vazhmësi and the monitoring of service standards and reactions in case arising out various anomalies.

From a customer standpoint, tourism services are always the product of a comprehensive package of individual services. These services are linked like a chain: detailed information from a tourist center, the route to the destination, stay in hotel, food in a restaurant, eksursionet and finally return home. Each individual service leaves its mark and affect the holiday experience.

Some of the main directions for the management of service quality in tourism could be: knowledge of customer expectations, the further training of staff, taking into consideration the wishes of the individual, knowledge about customer satisfaction, knowledge about staff satisfaction, attentive customer services, regulation of errors, group work etc.

**Keywords:** tourism, tourist services, quality of service, quality of tourist services, gaps analysis, quality measurement scale

### 1. INTRODUCTION

Tourism is one of the most important economic phenomena, which characterizes the world today. He is one of the sectors with greater global growth. Tourism development brings about a positive implications. Today many communities tend to tourism, hoping to increase revenue, employment and development. It is a social and economic phenomenon, and being such a phenomenon is the product consumption. Tourism is a phenomenon of our era, due to a growing need for pleasure, vacation, development room of beauty to the nature, development of relation between different peoples and nations, which brings as a consequence
Tourism is defined as an industry, namely in terms of community activities that are subject to the use of tourist resources and the transformation of human resources, capital and raw materials into products and services. However it is difficult to determine the tourism sector in economic way. The main obstacle comes from the fact that each sector has its homogeneous products, and tourism is made up of heterogeneous products.

The contribution of tourism to economic development is very important to the economic development of the country. Tourism is vital for many countries because the income generated by the consumption of goods and services by tourists, the taxes levied on businesses in the tourism industry, and opportunities for employment in service industries related to tourism.

This industry includes transportation services, hotels, restaurants, bars, entertainment places and other services, such as the hospitality industry and the resorts. The development and success of this industry is closely linked with quality of service provided. The quality of tourist services should be evaluated regularly to assess customer satisfaction and reduce the gaps between customer expectations and perceptions of product consumed.

The importance of quality management in the tourism industry has become a necessity due to changing preferences, the behavior of tourists and to increase the competitiveness of new tourist destinations. Application of ideas to improve quality is an important issue for tourism ventures. Quality has many dimensions and tourism through tourist services quality management efforts to take into account the growing importance of quality aspects.

Quality management in a services environment requires adaptation of ideas to a variety of circumstances different from the production environment of tangible products. Modern methods of quality control in manufacturing industries have developed more. These include the development and manufacture of durable goods, where the work is done for someone else in another country. While work on the development of servece is a discrete activity, not a manufacturer and not a stable one.

According to Deming between services and physical products there are a number of differences. The main differences between products and services and manufacturing organizations are that the service is intangible and ephemeral, unstable, which often involved in offering customers product and is not perceived as a product of the worker.³.

The intangible nature of service as a product means that it is very difficult to

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³ Demming, E. Out of the crisis. 1986, Edward Demming Institute
establish quantitative conditions on the characteristics that contribute to product quality. The fact that services are volatile, they can not be stored and produced on demand. The process for implementation of a service is very complex and involves the coordination of basic systems and supporting enterprise in the implementation of contacts in a fast time customer. This is in contrast to manufacturing organizations, where even though the time may be an important aspect in delivering tangible products, it is not considered a feature that affects their quality.

In the case of service organizations the time is considered as product quality. For example, if a traveler who expects to arrive at a destination at a certain time, and the plane arrives two hours late, shows that the product is likely to have failed to meet the satisfaction of the person. And this happens no matter how comfortable it was flying the plane, how good was the service or the fact that flight was safe.

The customer is often involved in providing direct service and as such it represents an incalculable impact on the process. Customer also adds uncertainty to the process of implementation services, it is difficult to determine the exact requirements of the customer and what they saw as an acceptable standard of service. This problem grows from the fact that standards are often developed, based on personal preferences or edhetë humor, rather than technical performance can be measured.

In the services sector there is a problem of client variables. So while yesterday a client has been fully satisfied by a service, today is the same service, same client can not make them happy because of availability and good humor, not the customer. A significant difference between manufacturing and service organizations is the fact that an employee is not just a production job: he is aware that he has his part in the realization of something that someone will see, feel and use some way. In contrast, service organizations, people who work there are just a job. They are not aware that they have a product and this product is service.

In industry, the product is highly visible and is therefore identifiable, and product service organizations is often invisible and can not be identified easily by the customer. Often a person in a service industry there is the perception of his work to realize a product and the way in which this work is carried out has led to the success of the organization.

These differences between service organizations and manufacturing physical products affect the implementation of quality management in service organizations. The intangible nature of the product makes it difficult for any individual to determine how it is contributing to a common goal. As a person who is usually a physical object can easily identify the next step in this process, and identify its contribution to final product and its quality. Eg a clerk in a
hospital section can be difficult to identify customers and see how the quality of work will affect the final product. This change requires that, as in manufacturing, people become aware of the value of their role in producing a quality product and allowed to contribute to the continuous improvement of product quality.

Another change is that the basic use of surveys and scientific approach to problem solving in search of continuous quality improvement in the services sector faces difficulties. Measuring the weight of a package of cookies is a simple matter. It can be performed with precision, or facility which will be implemented this measure can be stored for later measurements of the other. If the results of measurements are taken in time, defects can be detected before shipment from the factory and thereby have avoided the high costs of a failure to reach customers. So, here the use of scientific method is relatively straightforward.

In services, the situation is very different. Consumer participation in the implementation of service quality makes the determination of the moment to moment differently. Services can not be saved, so measurements should be immediate. Also, the service provided at that time that he produced, so that each measurement made in this way is too late to avoid a failure in contact with the customer.

Tourism is a complex activity of humanity, leading to consumption of many products such as transportation, housing, meals, entertainment activities and other goods and services. The contribution of tourism to economic development of countries, regions, cities, communities and individuals is very important. In the context of globalization, the competition between global players in tourism related services of the industry is inevitable. To achieve quality of service, as perceived by the customer, is needed active involvement of the organization. Management of service quality in tourism plays an important role in increasing the value and positive impact on the success of the service.

Quality management in tourism is an approach that focuses on quality management as the key to success. The quality is gaining importance in all areas of modern life. In tourism, friends looking for products that are sure to get the highest quality, quality for which they pay, so that justifies the price. Further reasons for systematic quality management in tourism in a broad measure are: increasing competition, the will to provide a service, increasing the loss of individuality through standardization of products, price-performance ratio, etc..

Quality of service is defined as the difference between forecast and perception of customer service. It is considered of great importance in the tourism industry and service quality goal is to ensure a satisfied customer. The focus on quality initiatives in tourism are mostly staff selection and training of front line and continuous monitoring of the level of tourist satisfaction.
2. QUALITY MANAGEMENT PRINCIPLES

Quality management in tourism is an approach that focuses on quality management as the key to success. In work programs, run on the meaning of quality in tourism WTO on the basis of analysis of elements, describes as a legitimate right. Customers can not wait to get more than what they are rewarded with free, or that what is determined by social and environmental limits. The quality is gaining importance in all areas of modern life. In tourism, friends looking for products that are sure to get the highest quality, quality for which they pay, so that justifies the price. Further reasons for systematic quality management in tourism in a broad measure are: increasing competition, the will to provide a service, increasing the loss of individuality through standardization of products, price-performance ratio, etc.

Quality in tourism is a very complex phenomenon. Measuring the quality of service, which always includes the customer, as part of a transaction, it is always a balance between the expectations that the client has the service and their perceptions of services received. Service quality is high when the perceptions of consumers exceed their expectations. The components of perceived service quality are: 

- **Communication** relates to inform my clients with a clear language, by explaining the service, the customer receives benefits from its cost of service, etc..
- **Competence**, meaning that personnel operating contact and he must possess the ability to recognize company that provides good service.
- **Reliability** means the fact that workers are reliable and honest customers.
- **Feasibility**, indicating that the connection between the service offered and that the customer expected to be constant at all times.
- **Ability to respond**, shows the desire and willingness to offer service supplier in quality and time when the customer wants.
- **Safety**, which can be expressed with different dimensions sguri technical, financial security etc.
- **Touching**, involving mainly physical service as used equipment and instruments, physical appearance, etc. service. eg plastic credit cards, etc
- **Understanding the customer**, means the ability and commitment by

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4 WTO Quality Support Committee at its sixth meeting (Varadero, Cuba, 9-10 May 2003).
staff in recognition of client characteristics and its needs.

These are quality settings that can be taken only after being offered the service. In this case, failures can be detected only when it is too late to respond. Such measurements have great value for monitoring and continuous improvement of quality. They pëcaktojnë what is expected by the customer and on what basis should be provided. To be closer to those expectations, quality management needs of internal measures that will show how to provide what the customer expects. These measures consist of continued consultation and careful evaluation by the customer and the work of competitors and are necessary in order to create a quality measurement scale developed within quality standards. Quality of service categories are: time limit, integrity, parashikueshmëria, customer satisfaction.

**Timeline of service** is a feature of the service reasonable given high priority because the service must be produced on request in the specified time interval. Time limits can be divided into three types: time to gain attention from the company, waiting time and the time to provide the requested service.

**Integrity** deals with the sufficiency of services and shows what elements are included in the service so that consumers relate to it as a satisfactory product. This standard shows what features are necessary for the service.

**Parashikueshmëria** refers to consistency of service and frequency of application. Standards for predictability identify appropriate processes and procedures to be followed and include standards for the availability of people, materials and equipment, and hours of operation.

Finally **customer satisfaction** is essential for meeting the goals of success, which is based on positioning of a particular service offered on the market.

Once these standards are defined service next step is to develop measurement techniques to monitor how well standards are implemented. The concept of quality of service has seven major gaps of which the three most important are number 1, 5 and 6, of gaps as they have a direct relationship with customers. 6

**Gap no.1:** The discrepancy between customer expectations and perceptions of service from management as a result of lack of marketing orientation, communication and inadequate research of the highest layers of

**Gap no.2:** The discrepancy between the perceptions of management and specification of service as a result of insufficient commitment to a perception of quality of service and lack of goal setting. spacing.

**Gap no.3:** The discrepancy between the specified services and services as a result of unclear role and poor workers able, inappropriate technology

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and lack of control and lack of teamwork.

**Gap no. 4:** The discrepancy between the service offered and external communications as a result of insufficient communication and product trends to overestimated.

**Gap no.5:** discrepancy between customer expectations and their perception of service provided as a result of impact exercised by the customer and gaps in service provided. In this case, customer expectations are influenced by the level of needs, recommendations and personal experiences related to the them.

**Gap no.6:** discrepancy between customer expectations and perceptions of employees as a result of differences in the understanding of customer expectations of service providers in direct contact with the client.

**Gap no.7:** The discrepancy between perception and employee perceptions of management as a result of differences in the understanding of customer expectations between managers and service providers.

To satisfy growing demand and rapidly changing consumer desires, used several ways in which the total management which consists in the fact that management:

- relates to the inclusion of all areas of business and all the staff, then we have to do with the principle of guidance to staff.
- has to do with meeting all quality requirements of foreign buyers as well as those internal principle of management of the customer.
- has to do with managerial responsibilities and supporting initiatives to senior managers regarding the development and quality assurance, the principle of managerial accountability.

Also, the quality management process includes orientation, stressing that any product or service is the result of a process where each step is associated with him before and after him. The quality of the individual processes making full capacity, and increase quality standards in time through permanent cycle of planning, implementation, revision and correction (fig.nr1).

Total quality management consists of three aspects: quality goal, then, setting a high standard of service to satisfy the desires of a certain segment of customers or staff; quality development, active growth of this standard of service and improve its continuance, quality assurance, therefore, monitoring aware of the standard of service and or so even if the reactions emerge various anomalies.

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7 Karl Koch, State Secretariat for Economic Affairs, Berne, Switzerland, Quality Offensive in Swiss Tourism
From a customer standpoint, tourism services are always the product of a comprehensive package of individual services. These services are linked like a chain starting from the detailed information from a tourist center, the transportation route to the destination, stay in hotel, food in a restaurant, excursions and entertainment in the tourist center and finally return home. Each individual service leaves its mark and affect the holiday experience.

Also in the case of an individual hotel, a client consumes the whole package of services as a chain in which each service is associated with it as seed money and, information, arrival, registration, action by baggage, room booking, lunch and departure from the hotel. These service chains, which are specific to customers, provide support for systematic control of the hotel services and processes, showing where improvements can be made practical and appropriate measures taken.

Providing services in direct contact with customers is very important because any client requirements, needs and different opinions and even a staff to be discreet, the chances for mistakes or misunderstandings are inevitable. Such events are seen as critical incidents. These defects change the service levels in the chain which leads to failure to meet client needs and expectations. Customers are bound to remember critical incidents and not reluctant to talk about them. Research has shown that good service should be seven to repair a customer errors. Scheme given in Figure No. 2 illustrates the chain of services with critical incidents and good services.

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8 Karl Koch, State Secretariat for Economic Affairs, Berne, Switzerland, Quality Offensive in Swiss Tourism
Managers would do well to put themselves in place of client, to take seriously their reviews and feedback, and sistematiksh communicted directly with them, so repair the consequences of these critical incidents and to provide a good service.

3. DEVELOP A QUALITY MANAGEMENT PROGRAM IN TOURISM

Structures must be involved in the development of a program run tour operators and tourist destinations to give you the ability to control them and manage the quality of services and to take measures for the optimization of quality. This program should be aimed at increasing awareness of high quality in all companies that offer tourist services of a country. Practical ways should be developed to assist managers of these companies to achieve quality management. The program can be divided into several levels that can be expanded into a system of total quality management.

These levels are: level 1: promoting awareness of high quality, designed to systematically develop the quality of services, level 2: promoting quality management through quality management systems, where the goal is the development of quality management. Condition at this level is to be completed first level, level 3: setting systems total quality management in order to prepare a system of total quality management, which will be used by providers of tourist services. Instruments for the first level are:

- The chain of services: where to check for critical incidents in respect of a group of clients. “Good service” must meet the standards and necessary measures that derives from these services
- quality profile: where defined areas of cooperation for the quality of
service. To be aware of the quality should be analyzed six of the 10 aspects of data quality are: 1. knowledge of customer expectations. 2. Further training of staff, 3. assistance and care facilities, 4. consideration of the wishes of the ve-bags, 5. knowledge about customer satisfaction, 6. knowledge regarding staff satisfaction, 7. attentive customer services, 8. regulation of errors, 9. group work, 10. cooperation with others

✓ Complaints: through a questionnaire can be controlled customer complaints in order to take appropriate measures,
✓ action plan: the most important measures contained in the chain of services and instruments of complaints should be konmbiuara in an action plan for future.

Quality trainers who are fit and committed to this level must be prepared to face the instruments and implement a quality managing system. Documentation compiled by the coaches need to be analyzed by a specialized unit for the north- ning quality. Decision to approve the quality must be obtained from the regional committee of quality that gives the stamp. After a year, tourism service providers are required to review the results according to plan their action.

The second level of quality construction on the first level. This program deals with the requirements and the following instruments:
✓ The first level is a prerequisite
✓ quality trainers in the first level to take further training to enable them to become quality coaches.
✓ Tourism service providers should take undertaken to assess quality in different fields with the aid management instruments.
✓ providers of tourist services also undertake systematic checks on staff and also to meet customer requirements, a person unknown (mysterious) visiting tourist service company criteria outlined
✓ results recorded in stages and may occur in the form of a house of so-called “house of quality”. (Figure No.3) (9).
✓ From this, the hotel develops improvements to the quality measures that are included in the action plan.

The third level of quality is the same line. At this level it is hoped that those involved in the development of promotional opportunities that provide quality programs will help further the development of a culture of quality in tourism services.

9) Karl Koch, State Secretariat for Economic Affairs, Berne, Switzerland, Quality Offensive in Swiss Tourism
4. CONCLUSIONS AND RECOMMENDATIONS

Albania has many potential in tourism, people mikpritshëm and open to the visitor, security and stability, but represents weakness, which damage competitiveness, especially in the quality of services and infrastructure problems. There are a number of links that result in ineffective and, consequently, lead to lower service standards. Problems that begin at the most basic things, like customer service, to continue further with the sector management training or hiring qualified people in this area. Private, they have at hand the key to the success of the progress of tourism rather than the quality offered to vacationers, watch the trash as soon as investments made. The same story is repeated from year to year, where the word quality or customer service seem remote.

Tourism is a very competitive economic activity. Tourism is always the whole package of services the individual receives a tourist during his relocation from their place of residence to a tourist destination. Identification of elements in the quality of tourism services is very important to tourists always been satisfied. Just as understood by the providers of tourist services deficiencies or gaps between consumer expectations and perceptions of customer service and only after offering to reduce these shortcomings, can provide an enjoyable experience for the product by consumers. Many tourist destinations have been successful just because they are able to evaluate the tourist money spent. These
destinations are able to provide the desired quality tourist service.

Tourism is a multidisciplinary activity, where all disciplines or sectors should be pu-nojnė in perfect harmony between them. Each sector should provide quality service to make the overall experience much more pleasing and satisfactory. Total quality management can be applied in various fields of tourism. Many sectors involved in tourism such as transport, accommodation, travel intermediaries, communication system etc. Each of these sectors can be assessed using quality management tools. Based on the assessment of quality in each sector can be minimized gaps between tourists’ expectations and perceptions of quality of service provided and increase the satisfaction of tourist visitor. Tourist customer satisfaction is the result of engagement of all the factors that create the experience of a tourist on a tourist product. From the above analysis regarding the quality of those services and tourism in particular can draw the conclusion that the quality in tourism policies must follow certain steps are:

- Creativity invariant to improved service, so that service becomes more competitive in the market.
- Continuous improvement of production systems and services, improve quality and productivity, and reduce costs.
- The training of employees.
- Monitoring employees to help people and equipment to do a better job.
- The removal of barriers between departments. People search, design, sales and production must work as a team, to foresee problems of production and distribution that may be encountered with the service.
- The guide without fear, so that everyone may work effectively for the company.
- Elimination of orders for the work force by pushing for zero defects and new levels of productivity, here. Such messages only create useless relationship, as most of the causes of quality and low productivity belong to the system and thus lie beyond the ability of the workforce.
- Placement of all the companies working to achieve transformation. Transformation that’s all. The organization should: create an inspiring vision and enable others to achieve it promotes excellence and empowerment of people of quality, make a long-term commitment to quality and invest time, energy, patience and determination.

In the tourism industry, the customer is the ultimate tourist satisfaction and intention is necessary-week tour. Considering this we can say that a temporary tourist traveler is that track-tone with the hope of delight from the news and different experiences in a relatively long time and not a round trip.
Clients do not require certification, they just want a quality service.

However, total quality management can sometimes fail and not achieve the desired object-watt. In the opinion of researchers has several reasons why total quality management is not always successful as in the case: total quality management focus people’s attention on internal processes rather than on external results, total quality management focuses on minimum standards, Total quality management develops its own bureaucracy, total quality management does radical organizational reform, total quality management bears absolutely no relation with new foreign partners, total quality management creates cult of yourself etc..

In conclusion we think that implementing a total quality system is a difficult task, but it should be performed. In order to compete in the current market in tourism and in the future companies should be aware of the importance of total quality management. For this reason we think it is imperative that all tourist entities receive a certificate of quality. The organization should try to create a culture of quality. The company should focus on improving the staff through training, motivation, satisfaction, which will assist in the implementation of quality systems and to minimize costs. A problem of implementation of quality systems is that it is very expensive at first because of the investment needed for top quality staff.

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THE DETERMINANTS OF ROOM PRICES IN SARANDA HOTELS

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Abstract

The main objective of this paper is to examine the determinants of room prices for hotels in one of Albanian leading tourist destinations, Saranda, by offering an empirical evidence. It uses primary data from a survey of 54 hotels during summer 2008 in this region. The hedonic price method is used,

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expressing room prices in terms of the hotels’ characteristics. The hedonic price theory states that the price for a product may be thought of as an additive function of the various attributes embedded in the product. Within this framework, the present paper demonstrates how the room prices for hotels in Saranda can be linked to certain hotel attributes. The results indicate that the choice of attributes such as sport facilities and swimming pools, television and breakfast all had a positive impact on the price that tourists pay for rooms in the hotels of Saranda region. Hotel size has also positive effects on prices. By contrast, the dummy variables measuring sea view, air conditioning and distance to the beach did not appear to be related to hotel prices. The results of this paper may have a number of interesting implications for public authorities (local and regional), hotel managers as well as tourists who want to compare the “marginal utility” of different hotels’ attributes.

Keywords: tourism industry, Saranda, hotel prices, hedonic price model.

1. INTRODUCTION

Hedonic pricing theory is based on the hypothesis that every good can be treated as a bundle of attributes that define product quality and that differentiate closely related products. Producers and consumers evaluate any bundle of product attributes and the observed market price is the sum of implicit prices paid for each quality attribute. Hedonic techniques have been used extensively to assess the relationship between a product’s price and its attributes, where the price reflects the many decisions made by consumers and suppliers in the market place.

The theoretical foundation of hedonic pricing is provided in the seminal paper of Rosen (1974), who posits that goods are valued for their utility-generating attributes. The model suggested by Rosen brings together producers and consumers in a spatial context. The producers develop goods that contain final consumer characteristics and receive returns from economies of specialised production through the standard division of labour and specialisation. On the other hand, consumers match their preferences to the products available in the market. Rosen observed that the interaction of suppliers and demanders at the same time determines the hedonic price function and the implicit demand and supply functions for products. Hence,
the implicit prices do not only reflect consumer preferences, but also factors that determine production.

Initially, the hedonic framework was applied theoretically in the tourism context by Rugg (1973) and Morley (1992). The hedonic pricing analysis has also been used empirically to investigate the price competitiveness of holiday packages for specific operators and destinations (for example, Sinclair et al., 1990; Clewer et al., 1992 and Taylor, 1995). However, a small number of tourism studies have been undertaken recently using hedonic pricing. The most significant recent studies include Papatheodorou’s (2002) study of Mediterranean resorts, the examination of holiday hotels in sun-and-beach segment by Espinet et al. (2003), Thrane’s (2005) exploration of the sun-and-beach package tours in the Norwegian case, the estimation for Mediterranean resorts provided by Haroutunian et al. (2005), which examines the extent to which star ratings and tour operator information convey quality, and the analysis of Rigall-I-Torrent and Fluvia (2007), which emphasises the important effects of public goods on tourists and private firms in the tourism industry.

This paper applies empirically the hedonic price method in order to examine the determinants of room prices for hotels in one of Albanian leading tourist destinations, Saranda. It makes use of primary data collected from a survey of 54 hotels undertaken during summer 2008 in this region. Section 2 explains the hedonic price model and the variables used. Section 3 presents the choice of the functional form and Section 4 discusses the results of the study. Finally, Section 5 provides some conclusions and interesting policy implications for hotel managers, new investors in the area, as well as tourists who want to compare the “marginal utility” of different hotels’ attributes.

2. THE HEDONIC PRICE MODEL AND THE VARIABLES

Based on the hedonic literature, the following model is generally used to estimate the impact of qualitative attributes on the price of holiday hotels.

\[ P(Z) = f(Z_1, Z_2, ..., Z_n) \]

where, \( Z_i \) stands for holiday hotel attributes.

The dependent variable for the hedonic pricing analysis is the price in EUR per person per night in a hotel room. Most of the recent empirical
applications in tourism (for example, Papatheodorou, 2002; Aguilo et al., 2003; Haroutunian et al., 2005; and Thrane, 2005) have estimated hedonic models of hotel prices by means of Ordinary Least Squares (OLS), which is also used in this paper and may generally be considered appropriate for the estimation of a reduced form equation.

Before reporting the results of the estimation procedure, it is necessary to clarify a number of issues related to the variables included in the regression. A problem with hedonic price theory is that it offers few theoretical guidelines for selecting independent variables (Andersson, 2000 and Thrane, 2006). Therefore, the variable selection was based on the previous studies and in particular the list of relevant hotel attributes compiled by Espinet et al. (2003). Table 1 presents the final list of the explanatory variables considered in this model and their definition. These actual variables are either directly extracted from the questionnaires or derived from the information contained therein.

Variables such as age of the hotel and star rating category were not included in the model. This is because the majority of hotels were built during the transition period and there is not much variation in the first variable. Regarding the star rating category, some hotels have not specified this variable because in Albania there is not any official system for categorizing hotels according to star rating. Other variables such as bar-restaurant service and parking places were also not included as nearly all hotels in the sample (95 per cent) provided these facilities. This does not imply that these facilities are unimportant but indicates that they are basic hotel facilities and are expected to be available and the lack of variation makes it difficult to establish any price effect statistically. Two categories are considered in the model regarding the room capacity variable, that is, family rooms with double rooms as the base category. These two groups appear to be the main types of rooms in the sample. Another type is single room, but it has a very low frequency (two per cent) and therefore is not included in the regression as a separate group but is included in the base category.
Table 1 Final list of explanatory variables included in the hedonic price model

<table>
<thead>
<tr>
<th>Variable name (abbreviation in brackets)</th>
<th>Variable description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sports and swimming pool (Sportpool)</td>
<td>A dummy variable which equals 1 if the hotel offers sport facilities or swimming pool without extra payment, 0 otherwise.</td>
</tr>
<tr>
<td>Sea view (Sea)</td>
<td>A dummy variable which equals 1 for rooms with sea views, 0 otherwise.</td>
</tr>
<tr>
<td>Air conditioning (Conditioning)</td>
<td>A dummy variable which equals 1 for rooms with air conditioning, 0 otherwise.</td>
</tr>
<tr>
<td>Television</td>
<td>A dummy variable which equals 1 for rooms with television, 0 otherwise.</td>
</tr>
<tr>
<td>Room capacity</td>
<td>A dummy variable with two categories from Room1 to Room2 (Room1 for double (or single) rooms and Room2 for family rooms), Room1 being the reference category.</td>
</tr>
<tr>
<td>Type of board</td>
<td>A dummy variable with three categories from Board1 to Board3 (Board1 for only accommodation, Board2 for bed and breakfast and Board3 for full board), Board1 being the reference category.</td>
</tr>
<tr>
<td>Hotel size (Size)</td>
<td>Total number of rooms the hotel has (continuous variable).</td>
</tr>
<tr>
<td>Distance to the beach (Distance)</td>
<td>Distance to the beach (in metres) from the hotel (continuous variable).</td>
</tr>
</tbody>
</table>

The type of board variable includes two dummies, which are bed and breakfast and full board with only accommodation as the reference category. The half board category is not considered since the survey did not identify any hotel offering this type of board to tourists.

3. CHOOSING THE APPROPRIATE FUNCTIONAL FORM

The existing literature on hedonic prices in tourism suggests that authors generally have not considered the diagnostic tests in their specification of the functional form. Instead, the functional form has been determined on a priori grounds or according to the goodness-of-fit, which given a different dependent variable in different formulations (linear and logarithmic) is incorrect. Given this important limitation observed in the hedonic literature, more attention is paid to the econometric modelling in this paper, in particular the diagnostics of the estimations.

Most of the previous empirical applications in tourism seem to have followed Rosen’s (1974) suggestion that the log-linear functional form is appropriate when consumers are unable to demand alternative packages of
characteristics to those supplied or when there is joint supply of characteristics by firms. Initially, the full list of explanatory variables presented in Table 1 is included in the estimation and the diagnostic tests produced by Microfit 4.0 are considered carefully. These tests indicate that there is not sufficient evidence to reject the null hypothesis of linearity, normality and homoscedasticity (Table 2). Hence, the log-linear model is an acceptable model.

### Table 2. Diagnostic tests for the log-linear model

<table>
<thead>
<tr>
<th>Tests</th>
<th>T-statistics</th>
<th>Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Functional Form</td>
<td>CHSQ(1)=0.07900[.779]</td>
<td>Do not reject Ho: Linear relationship</td>
</tr>
<tr>
<td>Normality</td>
<td>CHSQ(2)=13.3803[.001]</td>
<td>Reject Ho: Normality</td>
</tr>
<tr>
<td>Heteroscedasticity</td>
<td>CHSQ(1)=0.68965[.406]</td>
<td>Do not reject Ho: Homoscedasticity</td>
</tr>
</tbody>
</table>

### 4. DETERMINANTS OF HOLIDAY HOTEL PRICES: EMPIRICAL RESULTS

The determinants of holiday hotel prices have been considered by a number of authors (for example, in Mediterranean resorts by Papatheodorou, 2002; Espinet et al., 2003 and Coenders et al., 2003; for Norwegian sun-and-beach package tours to the Canary Islands by Thrane, 2005; and for UK package tourism by Clerides et al., 2004). Since the log-linear form is used in this study, LNPRICE is the natural logarithm of the actual price per person per night in a hotel room.

Table 3 presents the empirical results of the estimation. The estimated model has a number of desirable properties, which are reported in the lower part of Table 3. The explanatory power $R^2$ (measure of goodness-of-fit) is 0.67, meaning that 67 per cent of the variation in prices above the mean is “explained” by the independent variables. This result is in line with previous hedonic studies in the tourism area, such as Coenders et al. (2001), Clerides et al. (2004) and Haroutunian et al. (2005).

#### i) Hotel size

Previous empirical work on the impact of hotel size has not produced conclusive results. On the one hand, large establishments are considered to be desirable to consumers possibly due to the variety of facilities offered that are not distinguished in hedonic estimation. Mangion et al. (2005) found a positive relationship between hotel size and hotel prices. On the other hand, Espinet et al. (2003) estimate that an increase in the hotel capacity tends to
be associated with a decrease in price. They suggest that larger size provides economies of scale. In other words, the relationship between hotel size and hotel prices is ambiguous. In this study, the effect of hotel size is positive and statistically significant at the one per cent in the regression. This positive effect may be attributed to additional facilities offered generally to tourists from the larger hotels, such as green areas, service quality and cleanliness, which are not present in the model.

Table 3 Estimate of determinants of Hotel Prices

| Hotel attributes                          | Coef. | T-value | P>|t| |
|------------------------------------------|-------|---------|-----|
| Sports and swimming pool                 | 0.124*** | 2.821 | 0.01 |
| Sea view                                 | 0.041 | 1.338   | 0.18 |
| Air conditioning                         | 0.112 | 1.452   | 0.15 |
| Television                               | 0.187*** | 3.363 | 0.00 |
| Room capacity                            | -0.312*** | -9.940 | 0.00 |
| Type of board (bed and breakfast)        | 0.407*** | 10.381 | 0.00 |
| Type of board (full board)               | -0.151** | -2.444 | 0.02 |
| Hotel size                               | 0.003*** | 6.518   | 0.00 |
| Distance to the beach                    | 0.0001 | 1.112   | 0.27 |
| Constant                                 | 1.895 | 17.986  | 0.00 |

Note:*significant at 10%; **significant at 5%; ***significant at 1%

**ii) Sports and swimming pool**

Many studies suggest that the presence of sports facilities and swimming pools in the hotel has an important positive relationship with prices (for example, Sard et al., 2002; White and Mulligan, 2002 and Mangion et al., 2005). However, in some studies the empirical effect is insignificant (for example, Espinet et al., 2003 and Thrane, 2005). In these cases, the lack of significance may be attributed to the fact that few hotels in the sample lacked such facilities. The situation in the present study is opposite: only 13 per cent

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3 Economies of scale characterises a production process in which an increase in the scale of the firm causes a decrease in the long run average cost of each unit. Typically, a company that achieves economies of scale lowers the average cost per unit through increased production since fixed costs are shared over an increased number of goods.

4 The coefficients are calculated by taking the antilog (to base e) of the estimated dummy coefficient and subtracting one from it and multiplying the difference by 100, thus, [antilog x – 1]*100. It applies for the interpretation of all dummy coefficients in the model (Gujarati, 2004).
and 12 per cent of the hotels in the sample offer sport facilities and swimming pool respectively to their tourists. As expected, this variable is positive and significant at one per cent level in the model. This result of the estimation indicates that in the hotels where there are sports facilities or swimming pools without extra payment the tourists are likely to pay more for the room compared to other hotels. The increase in prices may also be explained, at least in part, by the increase in hoteliers’ costs (both sunk and operational costs) due to these extra facilities.

**iii) Distance to the beach**

The impact of *distance to the beach* on *hotel prices* has been considered in many previous studies, but there is a lack of consensus on the effect. Espinet (2003) and Thrane (2005) found a negative relationship, suggesting that hotels located in front of the beach appear to be more expensive. Papatheodorou (2002) found that beachfront accommodation structures (those found at a distance of 50 m or less from the beach) and those located remotely (more than 700 m) are sold at a premium and a discount respectively compared to establishments erected in-between. Moreover, Coenders et al. (2003) have found different results in different zones of investigation. The differences between zones may be explained by the fact that in some zones there is no free urban soil available in front of the beach. Another result in the literature is the study of Mangion et al. (2005) who found no significant relationship between the closeness to a sandy beach and the hotel prices.

In the case of the present study, this variable was expected to have a negative effect on price, meaning that the hotels located far from the beach should be less expensive than hotels located by the beach. According to the estimates in Table 3, *distance to the beach* is not statistically significant. This could be related to the fact that most, though not all, of the hotels in Saranda region are generally located close to the beach and there are just a few hotels far from the beach.

**iv) Room capacity**

Most hedonic studies have not analysed the effects of *room capacity* on *hotel prices*. This can be explained by their homogeneous data with respect to this variable. An application that has included this variable in the hedonic analysis is Sard et al. (2002) who included the number of beds per room as one of the factors determining the price for package holiday and found a positive effect. According to Papatheodorou (2002), spacious accommodation is highly appreciated. He
argued that more space is positively regarded, as apartment accommodation commands a premium over hotel rooms and studios (the base category).

The present study has considered two groups of room capacities, family rooms and double rooms. As expected, hoteliers are likely to charge lower actual prices per person per night in a family room compared to double (and single) rooms, which are the reference category (with significance at the one percent level). The negative relationship between room capacity and hotel prices may be attributed to the fact that the fixed costs per room (both sunk and operational) are shared over more people in a family room, thus reducing the cost per person per room. This may enable hoteliers to charge lower prices per person per night in a family room compared to double rooms.

v) Air conditioning and television

Studies conducted in different countries have analysed jointly or separately these variables. For instance, in the final list of selected variables of Espinet (2003) they are jointly considered as a room equipment dummy variable. However, this variable had no significant effect on price in his study. Thrane (2005) uses separate dummy variables for these attributes and suggested that a television in the room appears to be an important determinant of package tour prices, while the presence of air conditioning did not have a significant effect on price.

In line with Thrane (2005), separate dummies are used in the regression of this study and the results are very similar. These results, presented in Table 3, indicate that Television is positive, with a significance level of one per cent, while in the case of air conditioning, this variable is not significant. These results may be partly explained by the cultural tradition and preferences of Albanian people. Certainly, air conditioning is extremely useful in Albania since the summer temperatures during the peak season reach usually very high degrees (35-40°C). However, television is traditionally a very popular and highly appreciated media which people may not want to be without even during holidays. It may also be the case, however, that the provision of a television is correlated to provision of other desirable features which are not included in the analysis (for example, service in the room), giving rise to the large estimated price effect.

vi) Type of board

The type of board variable has been used in a number of recent studies in the hedonic estimation (for example, Haroutunian et al., 2005; Mangion
et al., 2005 and Thrane, 2005). Haroutunian et al. (2005) consider the effect of full board and the results indicate that this variable is significant and positive compared to half board (base category). As explained in Section 2, two dummy variables are used in the model of the present study, bed and breakfast and full board with only accommodation as the reference category. As can be seen in Table 3, both variables are significant at one per cent and five per cent respectively. These results correspond to those of Thrane (2005), that is, a holiday that includes breakfast appears to be more expensive than a holiday that does not offer this, all else being equal. It may be that the bed and breakfast category is a favourite option of the tourists, but this variable may also have captured the effects of other characteristics (such as the qualified service, cleanliness and service in the room) which are not present in the model. The full board dummy, as expected, is positive.

vi) Sea view

Some recent studies have included a dummy variable for rooms with a sea view and found a positive relationship with prices (for example, Sard et al., 2002; Clerides et al., 2004; Marušić et al., 2005; and so on). In this study, as expected, the sign of the coefficient is positive but this variable is not statistically significant. In other words, a sea view does not appear to cause a significant change in hotel prices. This result, which is in line with the result of Espinet et al. (2003), suggests that tourists do not have any particular preference for rooms with a sea view compared to the rooms which do not have this attribute.

5. CONCLUSIONS AND POLICY IMPLICATIONS

This paper undertook empirical analysis to explore the main determinants of hotel prices in the Saranda hotels sector and to examine the extent to which changes in these determinants contribute to a change in the hotel price. These aspects were analysed by studying a representative sample of hotels. The empirical analysis based on an OLS model, however, gives estimates of the main determinants of holiday hotel prices other things being equal.

Overall the results are in line with and support the conclusions of many other previous studies (such as Papatheodorou, 2002 and Espinet et al., 2003). As tourists may learn from experience, this suggests that hoteliers should be careful of their pricing policy in the future. The analysis indicated that the choice of attributes such as sport facilities and swimming pools, television and breakfast all had a positive impact on the price that tourists pay for rooms.
in the holiday hotels of Saranda region. That is, as to be expected according to previous studies, there is sufficient evidence to say that the presence of these attributes contributed to higher prices per person per night in a hotel room.

An important decision for hoteliers is the hotel size. The empirical work found a positive relationship between this variable and hotel prices. Larger size provides economies of scale and also seems to result in higher revenues per room. Therefore, the analysis suggests the encouragement of new investments in large hotels or increasing the number of rooms in the existing hotels. Larger hotels may also be able to work with big tourist groups organised in package tours by the western operators, thus expanding the international market which is an important objective of Albanian tourism.

**BIBLIOGRAPHY**

Sustainable Development of Tourism in Kune-Vain Wetland System

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Abstract

The Protected Area of Kune – Vain (Nature Managed Reserve of the IV-th Category after IUCN) is made of a complex of lagoons of the most important ones on the Adriatic seacoast. The miraculous landscape, the biodiversity, the historic values of surrounding areas, the rich cultural and musical traditions and the traditional food consist in important factors for the development of tourism in this area.

The development of an unplanned tourism is accompanied with the damage of the foundational tourism resources. Many studies there have been undertaken for the sustainable development of the area, but still the tourism situation remains chaotic and far away from being sustainable. Due to the fragility of the potentials and the unplanned land use, the massive and uncontrolled tourism year after year has degraded the values of this area.

The mismanagement of solid and liquid urban waste creates visual disorders and at the same time it is a potential risk for the health of inhabitants of the area and the tourists that visit this area. In a small country like Albania and moreover for a closed and sensitive area like Kune – Vain, the deterioration of environmental values is converted rapidly in the reduction of tourism capacities.

This research is based on a deep study undertaken in the framework of Compiling the Plan for the Management of the Nature Reserve of Kune – Vain. Based on the existing information, and combined with the scientific survey and verifications in the terrain, in this research work there are analyzed potentials and there are evidenced problems of the development of tourism in the Kune – Vain area. On this basis there are suggested in details effective ways for the restoring and maintenance of the touristy potentials of the area through ecologic, social and financial instruments and mechanisms, with an adequate cost and with rapid action. This research work intends to give a positive example in the management of protected areas, by using the sustainable tourism as a conservation instrument.

Keywords: sustainable tourism, Protected Area, environmental evaluation, environmental remediation, Kune-Vain (Lezhe)
1. INTRODUCTION

Sustainable development is an orientated concept that is developed in the last decades of the 20-th century. One of most successful concepts was given in the year 1987 by the World Commission on Environment and Development (WCED) in the report “Our Common Future”. According to it, sustainable development is “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. The sustainable development concept is relatively a new one for Albania and is developed during the last two decades. Sustainability and awareness on environmental issues are a major part of the tourism development strategy in Albania. According to this strategy, Albania should build up and increase the sector potentials and should develop the tourism in such a way, so that it remains sustainable in the long term, in the cultural, social, environmental and economical points of view.

Development of nature tourism is in compliance with increasing of world wide tourism interest in not mass tourism. The proposed actions on the development of sustainable tourism try to give priority to nature oriented no-massive tourism and to even control as much as possible the massive tourism.

The Nature Reserve of Kune-Vain, is a wetland system located in the administrative district of Lezha, in the northern Albanian coast, in the latitude 41º45’N and longitude 19º 36’E . The area includes the Kune side in north of Drini of Lezha river and Vaini one in the south of the river (fig. 1). The total surface of the Kune Vain area (without Tale zone and Kenalla lagoon) is about 2000 ha. The Kune Island (part of the Kune side) is a Strict Protected Area (fig.1), and according Albanian environmental legislation, the tourism can not be applied there. The area is bordered by Shengjini beach and Ishull Shengjini village, Ishull Lezha village, Tale village and Tale beach etc.

For its diversity of the ecological factors, this wetland represents one of the areas with the greatest interest in Albania. This reserve is considered as one of the most important national resources of fish and it is an area with

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4 WCED (1987)
6 Richards and Hall (2000)
7 CEIA (2010)
8 Bego and Koni (1999);
9 Law on Protected Areas (2008)
10 Mullaj (1998)
international values for the wintering and reproduction of water birds\textsuperscript{11, 12, 13}. The biodiversity, the wonderful landscape and the rich cultural and historical traditions of the zone, make it also an ideal area for the development of eco-tourism.\textsuperscript{14} Because of the richness on habitats and biodiversity, the site was used since the early years in the 1900-s as a hunting area, and it is the First Protected Area in Albania, declared as such since 1940.\textsuperscript{15} From 1992, Kune Vain is declared Nature Managed Reserve of the IV-th, after IUCN category. Nowadays the site is under the administration of the Ministry of Environment, Forests and Water Administration. The area is very close to the ancient towns \textit{Lissus} (Lezha) and \textit{Nimfeum} (Shengjini), that are very important from the archaeological, historical and heritage point of view. Planning for further development of Shengjini port, the vicinity with Tirana city and “Mother Tereza” airport, with Hani i Hotit (Albanian Border with Montenegro) and geographical position in the middle of Albania, are evaluated as very important factors for tourism development, but in the same time these same factors pose a risk on the overexploitation of its natural resources.

This paper intends to give some guidelines on sustainable tourism development based on the carrying capacity framework. In the carrying capacity there are included both: the qualitative as well as the quantitative aspects and its estimation is empiric and relative for an area. Nevertheless, it is vital to attempt to arrive at some estimation of the carrying capacity of Kune-Vain site, using the best methods and knowledge available. In Kune-Vain case, the carrying capacity can be expressed as a ratio between the tourism potentials and the environmental, social, economical limits, and degradation factors. The situation is conditioning the immediate rehabilitation actions for remediation and strengthening of tourism potentials.

The objectives of this study are to:

- Give realistic vectors to orient environmental remediation of the site;
- Orientate the decision makers to increase the site feed-back, by income generated from tourism development;
- Orientate the evaluation of tourism capacity upon realistic and internationally known criteria;

\textsuperscript{11} Reci (1998)
\textsuperscript{12} Bego et al. (1998);
\textsuperscript{13} Vangeluwe et al. (1996)
\textsuperscript{14} Sinojmeri (1998)
\textsuperscript{15} NEA (2000)
Use the present illegally operating actors to contribute to the sustainable tourism development, for as long as they still are operating in the site;

In this way, the study aims to offer a positive example on the conservation of Protected Areas in all Albanian coasts, by using the sustainable tourism as a major instrument.

2. MATERIALS AND METHODOLOGY

This paper is the result of works done by the authors as part of CEIA (Center of Environmental Impact Assessment) team in the framework of WB/GEF Project “Management Plan of Kune-Vain Marshland” during years 2007-2009. Consultation and usage of existing scientific and technical information and data of the last 50 years were the basis of evaluation of changes in the environmental elements, above all, of those elements that are considered as basic tourism potentials. Among them, there may be mentioned scientific editions and reports of academic institutions, projects and other technical and scientific findings realized by the national and international specialized subjects, etc.

Interviews with tourism actors in the site, questionnaires, and round tables with interested parties, were carried out in order to realize tourism developer wishes and their understanding regarding environmental importance for their investment, visitor demands, administrative objectives, etc. Meetings with tour operators, tourism and environmental NGO-s etc helped to valuate the role of tourism instruments and their desires.

Difficulties were encountered in the collection of data on income from tourism facilities on the site. The reason is that such operators, because they were operating illegally, didn’t feel comfortable to give out the real data on their income. The field surveys helped to create a general picture on such data. An unrealistic visitors’ number is given by managing administration of the protected area, because they count only the number of cars that pay tickets in Vain side, making it impossible to evaluate the real number of visitors, and more over to estimate how much money they have spent in the site.

3. RESULTS AND DISCUSSIONS

There are three main tourism types that are developed in the Kune-Vain Protected area. One group is represented from the sea sun tourism and two other groups, classified as nature tourism, are respectively consumptive (hunting
and fishing, etc) and non consumptive tourism (walking, watching, scientific, educational, etc). According to field surveys it is estimated that about 7000 visitors come everyday in Kune-Vain during the summer period. In this number there are included not only the sea sun tourists, but also hunters, sport fishers, nature watchers, students etc. Actually, the entrance ticket cost is about 2 USD / car, the hunters pay 3 USD/hunting day and 8 USD/year per hunting permits.

The financial income of Kune-Vain Protected Area has several sources. In total, the income of managing staff as salaries and per diem are 34,450 USD/year. Other financial income collected in the Protected Area from fees and hunting permits and deposited in the local budget (but not in the managed area), during the three last years were about 900 USD/year. In the last years, in favor of Kune-Vain protected area, the World Bank has financed projects reaching the amount of 415,000 USD, by a total plan to reach approximately 700,000 USD\(^{16}\). The income of tourism services (hotels and restaurants) into protected area (illegal ones) is not calculated, in order to avoid the empiric results.

The very low income from tourism in Kune-Vain protected area, and its cumulative negative impacts on environmental richness are a clear testimony that unplanned activities in small and sensitive areas, in a short time, become destructives of tourism potentials. The area capacity is artificially reduced to its limits. Presently the tourism development in Kune-Vain doesn’t seem to be represented as a market response to national or international demands.

Table 1 gives the capacity weight versus potential limitation/degradation factors in Kune-Vain area. It looks clearly that the main potentials are reduced by miss-management, therefore decreasing the capacity weight. Restoring of such situation requires actions that control the degradation factors, thus offering the best opportunities, knowing at least theoretically the number of possible visitors/day in the site and then analyzing the limited factors.

Although it is missing an fixed value/criteria for the necessary minimal beach area per visitor, if it is considered to be 10m\(^2\) per visitor as the limit of surface that can ensure satisfied recreational conditions to sea sun tourists, it can be calculated 60,000 people, as the maximum of sheltering visitors per day (in a total 600 000 m\(^2\) of sandy surface- see tab 1).

**Tab. 1. Kune-Vain Area Capacity Weight versus potential limitation/degradation factors**

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\(^{16}\) CEIA (2010)

\(^{17}\) Bego et al. (1998)

\(^{18}\) Mullaj (1998)
<table>
<thead>
<tr>
<th>Potentials</th>
<th>Status of potentials</th>
<th>Limitation/degradation factors</th>
<th>Capacity weight</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Climate conditions</strong></td>
<td>Mediterranean (4 seasons)</td>
<td>60 days appropriate for sea sun tourism</td>
<td>High</td>
</tr>
<tr>
<td>Diversity in wildlife, attractive and easy observable animals and vegetation, beautiful and interesting landscapes</td>
<td>12 species of fish, 10 species of amphibians, 29 reptiles, 120 species of birds, 7 species of mammals. 17 200 ha of total surface are high forests. 277 species of vascular trees.</td>
<td>Poaching, over fishing and grazing Damaged habitats and disturbance of wildlife from human presence Tree cutting for building or parking purposes Dune erosion, garbage and inappropriate constructions Illegal constructions Driving into Protected Area Territory Not implementation of legislation</td>
<td>Reduced seriously</td>
</tr>
<tr>
<td>Uniqueness species, undisturbed zones</td>
<td>Birds: 2 globally threatened species, 2 extinct species, 12 species protected by international agreements, 2 endangered species, 3 threatened species, 12 rare species, 9 vulnerable, 12 insufficiently known. 1214 Mammals: 1 threatened species, 1 vulnerable, 1 endangered, 1 rare, etc. Kune Island (strict Protected Area), Nature monuments of Rivat e Drinit and Keneta e Kashtes, all together 134.84 ha.</td>
<td>Low conservation efforts Lack of information services and specialized guides Low community participation in conservation policies and efforts Not implementation of legislation</td>
<td>Reduced seriously</td>
</tr>
<tr>
<td>Sandy beaches/coasts</td>
<td>800 000 m²</td>
<td>Erosion, pollution, not allowed visitors in Kune Island (200 000 m² of sandy beach)</td>
<td>Reduced seriously</td>
</tr>
<tr>
<td>Existence of archaeological and historical sites in surroundings.</td>
<td>Existence of ancient towns of Lissus (Lezha) and Nymfea (Shengjini) The castle of Lezha, Scanderbeg grave, ancient churches etc.</td>
<td>Lack of effective tour operators in the closed towns. Lack of information and promotion</td>
<td>Medium</td>
</tr>
<tr>
<td>Autochthon culture and heritage</td>
<td>Unique and traditional costume, music, food, etc. Well understanding between three different religions; Catholics, Muslims and Christian</td>
<td>Lack of information and promotion</td>
<td>Medium</td>
</tr>
<tr>
<td>Compatibility of the surrounding areas for additional types of tourists</td>
<td>Marine sports in the Adriatic shore, rowing in the Drini river, riding in flats around the area, biking in the paths into Protected Area, climbing in the Renci mountain, etc.</td>
<td>Missing of effective Tour operators in the closed towns. Lack of information and promotion for using of surroundings for recreation, accommodation and services</td>
<td>Low/Medium</td>
</tr>
<tr>
<td>Accessibility and infrastructure</td>
<td>70 km far from “Mother Tereza” Airport 84 km far from Tirana (Albania Capital) 18 km far from Lezha city 5 km far from Shengjini city 5 km far from Shengjini Port</td>
<td>No limitation/degradation factors in transport Poor infrastructure on energy source and supply, lack of wastewater treatment, bad management of urban solid waste, etc.</td>
<td>Low/medium</td>
</tr>
<tr>
<td>---</td>
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</tr>
<tr>
<td>Visually attractive landscape on the access road</td>
<td>Appropriate topography from Lezha to Kune and Vaini sides</td>
<td>Roads on construction Quarries on Renci Mountain Inappropriate architectural structure of buildings Garbage and debris</td>
<td>Medium</td>
</tr>
<tr>
<td>Accommodation and services</td>
<td>22 Bar/Restaurants, 7 of which are also hotels and motels, into Protected Area. 3 Hotels in Ishull Shengjini (in the border of Protected Area), one of which, Hunting resort, built in 1943</td>
<td>Illegal constructions with not appropriate architecture into Protected Area territory. Missing of policies on classification of target operators for services and accommodation around Protected Area</td>
<td>Low/Medium</td>
</tr>
<tr>
<td>Health and safety conditions</td>
<td>Health care centers and emergency room service in the town of Shengjini.</td>
<td>Lack of bay watches and emergency health services in Protected Area entrance</td>
<td>Low/Medium</td>
</tr>
<tr>
<td>Infrastructure of Protected Area</td>
<td>4 watching towers 1 post block in Vaini 5 sheltering places in Vaini Hunting hutches in Kune and Vaini Paths and information tables for hotels and restaurants Office infrastructure and chancelleries Boats and motor bikes for management staff Field work facilities</td>
<td>Missing of information units Missing of post-blocks in the entrance of Kune and south of Vaini (ex-pheasant center) The Administration of a part of the territory inside the Protected Area by illegal subjects. Lack of information and orientation tables on site. Lack of signal signs for Protected Areas boundaries. Insufficiency of awareness activities</td>
<td>Low/Medium</td>
</tr>
<tr>
<td>Administrative staff capability</td>
<td>1 responsible (ranger), 8 technicians and 3 guards Un cleared dependence</td>
<td>Low Number of staff Low know-how of staff Low competency and authority of the managing Staff Missing of responsibilities</td>
<td>Low</td>
</tr>
</tbody>
</table>

One of the most significant limitations in this number on one hand it is related to the inadequacy of water supply for sanitary purpose, and on the other hand on the inability of huge wastewater volume treatment. Taking into account that minimum of sanitary water to be used by a tourist is 150 l / day (a German sea sun tourist consumes about 1,000 l / day), it results that about 9,000,000 liters of waste water / day will be generated during the summer season in the area by the 60,000 potential visitors. This volume is two times
higher than the one of waste water generated by inhabitants of Lezha Region (including Lezha and Shengjini towns). The wastewater treatment plant planned for Lezha and Shengjini and financed by WB/GEF will resolve only demands of two towns’ citizens and doesn’t include the tourism demands of Kune-Vain area. On the other hand, the conservation status of Kune-Vain and international environmental Conventions doesn’t permit that such waters to be discharged untreated in the lagoons or in the sea. The limit number of visitors is also conditioned by the maximal possible number and frequency of the hygienic services like: toilets, showers etc, inside the Protected Area borders, the disturbance to the biodiversity, energetic sources and supply facilities, other infrastructure demands etc. This analyze can create the idea from what and how can be started tourism development planning in this site.

Repairing of tourism potentials, increasing of monetary feedback on the site and use part of income for remediation of environmental features, are the keys for a sustainable tourism development. For as long as the illegally operating subjects are not relocated outside the Protected Area, for the time that they exploit its resources, they should be involved in conservation and profitable services, thus increasing their being interested in the sustainability of the site management.19 The main steps to remediate tourism potentials and sustain the activity can be considered:

✓ Maintain the sandy coasts by the control of land erosion. This action can be done by soft protection measures (sand bags), considered as more appropriate for the protected areas.20

✓ Increase the fishing potential by reopening and maintenance of Lagoon channels. Usage of the dredged material for filling of protective sand bags will help on a drastic decrease of the coastal protection costs.

✓ Construction an adequate number of open showers and toilets, together with their respective septic tanks (both in Merxhani and in Vain). Camouflage, frequent cleaning and disinfecting of the tanks are necessary.

✓ Better managed disposals of solid waste, by camouflage of waste bins, frequent cleaning and disinfecting. Awareness of community and visitors on the necessity of waste reduction and also on practicing the proper disposal of waste.

✓ Building of 2 small information centers one in Vaini (in construction) and one in Kune, by using as information instruments the existing illegal

19 Mc Neely and Jeffrey (1988)
20 Bruun (1985)
constructions (owners already agreed to cooperate) as far as they are operating in the site.

✓ Avoid for 2 years hunting in the area, inciting remediation of wildlife in lagoons.
✓ Strengthening of managing staff with one biologist / information expert and one financial expert. Opening a check point / post block and control hutch in Kune side and increase the number of guards.
✓ Controlling of motor cars passing into the protected area and using of attractive non motor vehicles transport. An exception will be for the cars moving for emergency reasons, inhabitants’ vehicles, furniture etc. These measures will help also to control the massive tourism.
✓ Monitoring of the site status and of the tourism impacts on it with a minimum frequency of four times per year (at least every season).
✓ Incite the development of tourism in surrounding areas, creating artificial ponds for hunting, flat lands for riding, developing and improving services, such as hotels and restaurants and their support infrastructure etc.
✓ Improving tourism support services, such as information and publicity, by preparing, editing and distributing promotional material, ecological and ethical codes, etc. Promotion of local traditions, offering and serving local products, traditional meals and drinks served by people dressed in their traditional dresses, local music, etc.
✓ Contracting tour operators, universities, schools etc, for inciting nature package tourism, offering convenient tickets and service prices.
✓ Use environmental friendly energy sources, such as solar energy etc.
✓ Improving income by tourism in the site by using appropriate financial instruments is another important key on the sustainable development of the site. One of the main steps is to avoid the money-flow outside the Protected Area. This can be done by the following measures:
✓ Opening of an independent bank account for the managing office and reaching an agreement with the Ministry of Economy and the Ministry of Environment, Forests & Waters’ Administration, to use as feedback for the site at least 75 % of the money collected by activities in the Protected Area territory. Use the money collected for rehabilitation and maintenance of environmental potentials will be a crucial step.
✓ Reaching agreements between the tourism facility owners (i.e. illegal operators) at the site and the managing office to use their facilities and their funds on coastal protection and channels’ dredging activities, on the allocation and maintenance of hygienic facilities (septic tanks, solid waste collection and transport). It is in accordance with the ’polluters pay’ Principle.
✓ Reaching agreements for application of fees to every tourism facility owner that generates income inside the Protected Area territory.
✓ Reaching agreements between the illegal operating businesses and the managing office to collaborate on notifying for the events of illegal activities, forest fires, etc and for their prevention.
✓ Promotion of natural, cultural and historical values of the area in and outside Albania in collaboration with local and national government, non-profit associations, tour operators etc.
✓ Incite package and group tourism.
✓ Increase prices of entrance tickets for vehicles, visitors, the hunters’ tickets, and also to apply severe penalties to poachers and illegal fishers.

As a conclusion, the status of Protected Area in Kune-Vain Wetland system conditions the careful remediation of tourism potentials in the area considering its environmental properties. Such factors expressing carrying capacity incite the development of the no-mass tourism. Implementation of the right financial instruments remains the key for economical development of the region. Public awareness and community participation are essential factors on the successful sustainable development of Kune-Vain.

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Fig. 1. Map of proposed spatial planning of development and conservation in Kune-Vain Protected Area. (Elaborated from the GIS-geo-formatted image. sc 1:10 000 Original, CEIA, 2010)

Legend
1/A – Strict Protected Zone; 1/B – Core Zone, low human presence / protective intervention; 1/C – Core zone, controlled recreational activity / low human presence; 2/A – Traditional development zone (fishing); 2/B – Sustainable Development Zone-(Tourism development); 3 - Sea and Inland buffer zone (tourism infrastructure).