Book of Proceedings

12th INTERNATIONAL SCIENTIFIC CONFERENCE OF BUSINESS FACULTY

"ECONOMIC POLICY AND EU INTEGRATION"

Durrës, Albania, 12 – 13 May, 2022

12th International Conference

"ECONOMIC POLICY AND EU INTEGRATION"

Organized by Faculty of Business

University "Aleksandër Moisiu" Durrës

May 12-13, 2022

Durrës, Albania

SCIENTIFFIC COMMITTEE

SOTIROFSKI Kseanela, *Rector of University "Aleksandër Moisiu" Durrës, Albania*

FORTUZI Shkëlqim, *Dean of Business Faculty, University "Aleksandër Moisiu" Durrës, Albania*

GRUDA Servete, *Vice Dean of Business Faculty, University "Aleksandër Moisiu" Durrës, Albania*

GASHI Silvana, *Vice Dean of Business Faculty, University "Aleksandër Moisiu" Durrës, Albania*

MYFTARAJ Ervin, *Head of Marketing Department, University "Aleksandër Moisiu" Durrës, Albania*

MERKO Flora, *Head of Economics Department, University "Aleksandër Moisiu" Durrës, Albania*

VANGJEL Rovena, *Head of Finance-Accounting Department, University "Aleksandër Moisiu" Durrës, Albania*

NEXHIPI Olta, *Head of Management Department, University "Aleksandër Moisiu" Durrës, Albania*

MUKA Majlinda, *Head of Turism Department, University "Aleksandër Moisiu" Durrës, Albania*

ALIAJ Ada, *Business Faculty, University "Aleksandër Moisiu" Durrës, Albania*

ROESSLER Owe, *Professional studies Faculty, Fachhochschule Bielefeld, Germany*

KATRANDIJEV Hristo, *Head of Marketing Department, University of National and World Economy, Sofia, Bulgaria*

BANKOVA Petkova Youvka, *University of National and World Economy, Sofia, Bulgaria*

MARINOV Krasimir, *University of National and World Economy, Sofia, Bulgaria*

WACH Bernhard, *Center of Enterpreneurship, HF. Bielefeld, Germany*

QINETI Artan, *Slovak University of Agriculture, Nitra, Slovakia*

ALBAGLI Claude, *President of CEDIMES Institute, France*

PAPAJORGJI Petraq, *University of New York Tirana, Albania*

DEDAJ But, *Dean of Economic Faculty, University of Prishtina, Kosovo*

MEMA Mit'hat, *Senate member University "Aleksandër Moisiu" Durrës, Albania*

HOTI Ulpian, *University "Aleksandër Moisiu" Durrës, Albania*

HORSKA Elena, *Slovak University of Agriculture, Nitra, Slovakia*

KUME Kristaq, *University "Aleksandër Moisiu" Durrës, Albania*

BEZHANI Eda, *University "Aleksandër Moisiu" Durrës, Albania*

KULE Dhori, *Dean of Economic Faculty, University of Tirana, Albania*

LATIFI Juliana, *Chair of the competition Commission, Competition Authority, Albania*

NOTI Elton, *University "Aleksandër Moisiu" Durrës, Albania*

TARTARAJ Azeta, *University "Aleksandër Moisiu" Durrës, Albania*

OSMANI Elez, *Institute for Research and Development, Montenegro*

SCALERA Francesco, *University of Bari "Aldo Moro", Italy*

ZAROTIADIS Grigorios, *President of ASECU, Greece*

TREBICKA Brunela, *University "Aleksandër Moisiu" Durrës, Albania*

KORSITA Bajram, *Chairman of PhD commission, University "Aleksandër Moisiu" Durrës, Albania*

SALLAKU Fatbardh, *Rector of University "Agriculture University" Tiranë Albania*

XHAFERRI Seadin, *University of Tetovo, North Macedonia*

OXHAKLIESKA Dragica, *Dean of Faculty of Economics, "St. Kliment Ohridski" University, Bitola, North Macedonia*

DODA Sanie, *University "Aleksandër Moisiu" Durrës, Albania*

SKËNDERI Nagip, *Member of PhD commission, University of Prishtina "Hasan Prishtina", Kosovo*

CELIK Faik, *Foreign Trade Department "Hekere Ismet" University, Kocaeli, University*

FETAHI Besnik, *South East European University, Tetovo, North Macedonia*

BOCA Dana Gratiela, *Technical University of Cluj-Napoca, Romania*

GUNSEL Ayse, *Faculty of Economics and Administrative Sciences, Kocaeli, University*

CEKMECELIOGLU Gunduz Hulya, *Faculty of Economics and Administrative Sciences, Kocaeli, University*

NETSEVA-PORCHEVA Neicheva Tatyana, *University of National and World Economy, Sofia, Bulgaria*

KOLA Blerim, *University "Aleksandër Moisiu" Durrës, Albania*

DEL VESCOVO Donatella, *University of Roma, Italy*

CAPUTI IAMBRENGHI Paola, *University of Bari "Aldo Moro", Italy*

GRUMO Rosalina, *University of Bari "Aldo Moro", Italy*

DE MARCO Eusebio, *University of Bari "Aldo Moro", Italy*

GJONI Luljeta, *University "Aleksandër Moisiu" Durrës, Albania*

XHAFERRI Besa, *University of Tetovo, North Macedonia*

PUSCA Corneliu Andy, *President of Danubius University of Galati, Rumania*

NUTA Florian, *Vice Rector of Scientific Relations of Danubius University of Galati, Rumania*

MARINESCU Stefan Emanuel, *Vice Rector of International Relations, Danubius University of Galati, Rumania*

BALAJ Driton, *University of Prishtina "Hasan Prishtina, Kosovo*

NIMANI Artan, *Rector of University "Fehmi Agani", Gjakov, Kosovo*

RAILEANU Beatrice Alina, *Vice Rectour for Innovation and entrepreneurship, Danubius University of Galati, Rumania*

SIRBU Karmen, *Vice Rectour for Strategic Development, Danubius University of Galati, Rumania*

MRSIK Jadranka*, American University, Skopje, North Macedonia*

HEBIPI Llokman, *Dean of Business Administration Faculty,University of Tetovo, North Macedonia*

VELINOV Emil, *Skoda Auto University, Czech Republic and RISEBA University of Applied Sciences, Latvia*

SMIGLK-KRAJEWSKA Magdalena, *Department of Finance and Accounting, Faculty of Economics and Social Sciences, Poznan, University of Life Sciences, Poland*

MARINESCU MIHALI Liviu, *Dean of the of Communication and International Relations of Danubius University of Galati, Rumania*

ORGANIZATIONAL COMMITTEE

Executive Committee
Prof. Dr. Shkelqim Fortuzi
Prof. Dr. Servete Gruda
Prof. Asoc. Dr. Flora Merko
Prof. Asoc. Dr. Ervin Myftaraj
Dr. Sabrina Vasileva Kalinkova
Dr. Rovena Troplini
Dr. Ermir Shahini
Dr. Majlinda Muka
Neviana Muho, Msc

Programme Committee
Dr. Eldian Balla
Dr. Juliana Imeraj
Dr. Ariola Harizi
Dr. Denada Lica
Dr. Jonada Mamo
Prof. Dr. Luljeta Gjoni
Dr. Diana Nikolova Genkova
Dr. Emil Stoyanov Hristov

Conference Secretariat
Erjonilda Hasrama, Msc
Dr. Silvana Gashi
Dr. Zoica Zharkalli
Dr. Alma Zisi
Dr. Erisa Musabelli
Celnik Mujollari, Msc.
Dr. Ankov Christo Ivanov
Dr. Konstandinova Elena Antonova

Conference Coordinator
Dr. Olta Nexhipi

Local Arrangements
Dr. Shqipe Xhaferri
Dr. Taulant Kullolli
Prof. Asoc. Dr. Sanie Doda
Dr. Armela Anamali
Dr. Selma Kacaniku

Pres and Communication
Prof. Asoc. Dr.Blerim Kola
Dr. Brunilda Licaj
Dr. Vaeld Zhezha
Dr. Borislava Borisova

"Economic policy and EU Integration"

May 12-13, 2022

Durrë, Albania

Keynote speaker:

> Mauro Gianfranco Bisceglia – Department of Economics and Finance, University of Bari Aldo Moro

Dear students of "Aleksandër Moisiu" University, dear young people of this wonderful land, whom I greet with affection, I am happy to be here among you.

I am honored to sit alongside the Academic Authorities of this University, whom I cordially greet; and I apologize, if I have put the greetings of the Students before those of the Authorities.

I thank the Organizing Committee of this 12th International Scientific Conference of the Faculty of Economics of Durrës for the trust it has placed in me, in addressing this prestigious invitation, of which I am flattered.

A special thanks, allow me to address it to Professors Flora Merko e Olta Nexhipi, without of course affecting the high consideration, towards the entire Organizing Committee, which only for reasons of time, I do not mention individually.

Today, We, scholars, professors, researchers, and students, are gathered here in this great University, "Aleksandër Moisiu" University, in Durrës, to discuss very important issues concerning Economic Policy and European Integration.

The conference, which is starting in its work, will certainly lead to a high-level scientific comparison.

It will certainly allow scholars and researchers from several countries to exchange ideas, confront each other, get to know each other, establish new relationships, personal and scientific, consolidate existing ones, to start new analyses and new studies.

All this has commendable importance for the growth and development of a country.

The task, to which I am called to perform today, is not easy to carry out. And precisely as such, it is not my intention to go to the chair to offer a boring and certainly sterile lesson. I will try to focus my and your attention, if I can, on a few elements, which I consider of crucial importance. Elements that I would like to highlight to facilitate an appropriate and fruitful reflection, on the topic put forward in this forum.

These two days of work aim to focus the attention of scholars on Economic Policy and European Integration, and consequently on the implications that these actions incite.

Hence, leap into my mind all those actions that healthy political economics and a consequent possible social and geopolitical integration determine.

Therefore, with a relapse of observations and analysis:

<div align="center">

on Structural Reforms

on Growth Dynamics

on the development of labor markets

on financial and banking system

</div>

in general and in primis, I would say:

<div align="center">

on Sustainability

</div>

On the sustainability of each of these development analyses.

And concerning this last concept or the concept of sustainability, I would like to define it using, or rather borrowing, the definition of Sustainable Development given in 1978 by Brundtland (President of the World Commission on Environment and Development), who defined it as follows:

«Sustainable development is the development that meets the needs of the present without compromising the ability of future generations to meet their own needs.»

Therefore, precisely in consideration of the sustainability of whatsoever development dynamic, a consequence of **choices**, **and decisions**, even if simple, it must first of all ask:

We are taking into consideration, the future generations, our young people, the person who is next to us.

We are making the right choice, we are making the right decision.

In summary

<div align="center">

Is the choice that is being implemented sustainable?

Is the decision that is being taken sustainable?

</div>

Or are we just trying to satisfy our aspirations, our ambitions, or rather, our *unprejudiced needs?*

It should be obvious and natural to ask ourselves these questions, but it is not always like this. I would therefore like to dwell on this issue.

The sensitivity of the person allows them to the things in the appropriate direction, to think appropriately, and to pursue the right direction.

Sometimes people do not see, do not dwell, and do not face such problems.

Perhaps because they do not consider these issues important, and therefore not to be considered at all; or perhaps because they do not even imagine how important a proper consideration of them could be, or simply they don't see it.

Or, if you allow me, they do not want to see it (there is no worse blind than those who do not want to see)

The sensitivity of the person determines the sustainability of the choices.

Making choices often provokes contrasts, and conflicts, with the personal interests of actors, called to decide; with the interests of the people called to make these choices.

For this reason, they are not always easy choices to mature and face.

In this regard, I ask a question to myself, but at the same time, I address it to each one of you.

From what is determined a choice, right or wrong; or a decision, the worst or the best.

Be it economic, political, or otherwise.

I am sure that many of you, are thinking about the reasonableness of the individual, the professional preparation of the person called to decide, and the level of education of the person concerned.

Surely it is so, I cannot detach myself from these considerations, but you will agree with the undersigned if I add that to all this a decisive and final weight I would say, is to be attributed to:

conscience

To the conscience of the subject called to pronounce,

To the conscience of each of us.

Every choice that a subject must make, regardless of the utility function of the same, is concave or convex.

Regardless of whether the subject is averse or prone to risk. It is conditioned by the conscience.

From the conscience that the person carries within himself.

Now do not ask me where the conscience is, whether in the head, in the heart, or even in the feet.

Please do not ask me difficult questions.

Therefore, a decisive role in sustainable choices is interpreted by conscience.

The conscience plays a fundamental role in the choice of sustainable decisions.

I am shifting your attention to this thing that cannot be seen and touched, as I would like to dwell on this entity, very close to us all, indeed strictly intimate, which plays a fundamental role in all this.

Conscience

Have we ever asked or do we ask, what we do in the daily role of professors to contribute to the development and growth of our collectivity?

Before any answer, I would like to anticipate an important subdivision that I see in the role of the professor.

A part of this role is devoted to research and a part to teaching.

We are called today to this assembly to highlight only one aspect of our work, that of scholars, of scientists.

I absolutely do not want to enter into the merits of this aspect and its implications, obvious, certain, and indisputable, that have on the social and economical development and growth of a country.

And therefore on economic policies and European integration.

Fair and obvious aspects, but I would leave it to tomorrow to provide us with every implication and suggestion.

I would like, instead, to dwell for a moment on the second part of our role:

teaching.

I would like to reflect with you on this role. A role that involves personally and directly every teacher, but implicitly also the Universities. The Universities of which the professors are part. I would like therefore lead the audience in some reflections.

In particular, I would invite you to observe and ask you, the reason for my (and your) attention to these issues.

What implications do these aspects have, for the growth and development of the country?

What consequence is reflected in the European integration of a country?

Well.

Most of you will answer, rightly, "a good formation implies good professionals and therefore wise and appropriate decisions and, consequently, greater growth, better development, excellent integration." Surely it is so, but it is not enough. In formation, in education, culture must not be lacking, attention towards the conscience of the person must not be lacking.

Thus, conscience returns.

Teaching and conscience intersect for a noble scope.

And here, my mind inevitably orients itself in a very specific direction.

The role of the University.

The task of every professor. His contribution to the formation of conscience.

The task of the professor in contribute to the formation of minds.

The task of the professor in contribute to the formation of women, of men.

These women and man who will have to make the right and opportune decisions, who will have to make the right and opportune choices, to lead the nation toward a European transition.

Therefore, I see the task of the professor as a sufficient condition of a responsibility, which upstream is implicitly in the Universities, towards the formation of

People

In coming here, reflecting on Economic Policy and European Integration, I asked myself some simple questions:

1. What is the role that University develops in this process
2. What is the burden that the University must bear to provide its fair and appropriate contribution?

Well, many of you I imagine are thinking about the role of the formation that the Universities develop for their students. Many are thinking of the role that the University develops in the field of research. Undoubtedly I cannot fail to conform with these views, but I am sure that you too will be equally convergent with these subsequent observations and considerations of mine.

a) Universities must undoubtedly be concerned about the formation of their students, but I think that in this formative process, they must put in the foreground the formation of the person, the formation of the conscience, and the level of culture of the human being. Not only education.

b) Universities must not prescind from these crucial points, in their role of forming.

c) The role that the University plays in the research is fundamental, but the maximum contribution that could be given in that area would be nullified, if it were not strictly accompanied by taking care of the human being, by putting the person at the center of attention.

Concerning the attention toward people, I would like to quote Don Luigi Maria Epicoco, a young parish priest, who in one of his books highlights the thought and behavior of Pope Francesco towards "special attention for the people, especially for the invisible ones".

The peasants who cultivated the land teach us, that to obtain good fruits we must have great respect, for the earth and for the people who inhabit it.

The greek philosopher and poet, Xenophanes, said:

"from the earth, everything comes"

I would like to add, also and above all, the survival of people, if not the people themselves.

Therefore the University that places the *person¸* the *human being* at the center of its attention, sets itself a noble objective and provides an exemplary contribution to the growth and development of a country.
The Universities that work to help raise the:

moral and economic dignity of the human being

in my humble opinion, contribute strongly to the development, growth, and progress of a country, and do so, in a

sustainable

way.
Personally, the commitment I put into my profession as a "professor" has a precise objective:
contribute to ensuring that human beings can work and live in slightly more beautiful places, that they earn something more and feel more and more free and thinking souls.
For this to be achieved, the contribution of each of us is fundamental. Each of us, in our role, should try not to turn our backs on cultural poverty, on the narrowness of the soul, on the drying up of the spirit, on the paucity of consciences, and I am sure that even the objectives of growth and development, even the objectives of integration, would be more easily and effectively achievable.
Universities, therefore, have a decisive and high-risk role in carrying out their work within the communities in which they sow. But as we have had the opportunity to consider and weigh, to speak of Universities means to speak first of all of **the people,** of **souls**, of **consciences;** that constitute them. Hence, it means speaking first of all of us teachers, who within them lend our work and constitute it.
So the main responsible for the high risk which I referred to earlier, are precisely us
Our consciences must not shirk the great responsibility they have towards the minds to which we are called to sensitize.
Because only if we succeed in effectively sensitizing people's minds and consciences, we can talk about the right choices, progress, economics, and politics.
Our role is to stimulate minds in search of their own attitude; to discover their passion; to free their dreams. If we succeed in giving this to the young people who entrust themselves to our Universities, then we can say that we have effectively accomplished our work and offered the right contribution for development, growth, and progress; not only for a good economy, of a healthy integration but mainly for the

culture

of the community in which we live and we have done it in a

sustainable

way.
We cannot think of talking about the topics put forward in this Conference, we cannot enter in the merits of those problems, if first of all, we do not care about *culture*, *conscience,* the *people* that determine a collectivity.

I have a dream

to give a small contribution to *embellishing all humanity.*
I repeat,

embellish all humanity,

And if this dream of mine were shared, by two, by four, by eight people or even if it were shared by succession $(x_n)_{n \in N}$ with $x_n = 2^n$, then the probability of seeing the humanity beautifying, would tend to one, and we know, from a probabilistic profile, that that number, even if unitary, is a certainty.

Let's just try to imagine how many implications the embellishment of humanity, or rather the embellished humanity provokes.

And I am not referring only to the aesthetic beauty of things and people, I am referring to the beauty of humanity as a broad concept, to the beauty of the soul and the consciences.

I would like to be able to think that people worked the right hours, to harmonize Progress and Humanism, and find a healthy balance between mind, soul, and body because the soul and the body need to feed themselves every day.

The great Ptolemy I of Alexandria and Emperor Hadrian said: «books have shown me the way of my life, life made me understand the content of books. Whoever builds libraries, will have built public granaries for future generations. ».

Let us ensure that our Universities build more and more libraries.

Let us ensure that our Universities,

<div align="center">

together
</div>

Continue to be more and more, provided granaries, for future generations.

I have used the term **together** because I am convinced that no goal can be achieved alone.

The human being is a social animal. Alone he can only do a little. In collaboration, he can give even what might seem impossible.

Above, I mentioned an interesting exponential succession, in thinking that a dream of mine could come true. I would use the same succession to bring together all the Universities as granaries for future generations. All this I feel can decline in one word:

<div align="center">

Cooperation.
</div>

Cooperation between Universities, and the 12th International Scientific Conference of the Faculty of Economics of the "Aleksandër Moisiu" University of which we are starting the work, is a striking example.

Allow me to conclude these considerations of mine, these reflections, in affirming that, We here today are

<div align="center">

"**celebrating the University**"
</div>

We are celebrating the University as:

<div align="center">

The institution at the service of the "community"

The institution at the service of the "youth"

The institution at the service of the "Country "
</div>

In greeting and thanking you for the patience shown in listening to me, I hope that the heart has suggested the right words in sensitizing the souls of each of us, towards a path that leads humanity to the right beauty

Happy Conference to all!

Table of Contents

-

Business model research: A review of main challenges and research methodologies

Aida Bitri

Epoka University, Albania

Technical University of Sofia, Bulgaria

abitri@epoka.edu.al

Abstract

Business models can be studied from different research streams. There is not a generally accepted definition for the business model concept. Different economic theories support different views of business models. When combining with technology and tech innovations, the business model field becomes even more complex. Under the umbrella of the "information systems" new research streams can help understand business model challenges. In the current era of great technological changes, such Internet of Things, Artificial Intelligence and Data analytics, it seems that researchers face new challenges.

This review paper tackles the complexity of the business model field. It conducts a review of the different research methods used to study business models related problems. Instructions on how to go through and overcome the business model research challenges are given.

Keywords: Business models, tech innovation impact, research challenges, business methodology

JEL classification: (O31, O32, O33, M15)

1. Introduction

In the last thirty years, research in business models has attracted the attention of many researchers, scholars, and practitioners. Despite the growing interest in business models, there is still work to be done to make them properly defined and understandable (Zott et al,2011; Baden-Fuller et. Al, 2013). Well-known papers and authors in the field, begin their work, stating that a generally accepted definition of the business model is still lacking (Wirtz et al., 2015; Zott et al,2011; Schinder et al,2013). (Dagonova et al, 2009) uses the term "strange entities" when referring to business models.

Authors have expressed their concern about the complexity of the research field and the misorientation it can give (Porter 2001, Wirtz et al., 2015, Zott et al, 2011). Most researchers study the relationship between business models and other economic theories, or other research streams (Baden-Fuller et al, 2010). They rarely focus on the holistic view of the business model.

Information Technology drives continuous changes in the business model field, making it difficult to understand how they work and how to analyze them. A fast search on different academic repositories

exposed the number of papers in the field. Researchers and scholars might find themselves lost in the pool of research papers.

The list of different perspectives, research streams, theories, and new research trends due to technological innovations make things more complex by causing more confusion. As a result, analyzing the literature and finding a framework on the topic, understanding business models, and working with them, can be a real challenge. Simple questions like: Where to start from; become complex ones. Despite the complexity and the non-definition of the terminology, the business model research field is an interesting ground to work. New technological applications have increased the interest in this field. Moreover, there are different approaches to studying the wide dimension of the Business Models and the set of tools and methodologies to represent, analyze, and evaluate the activities and processes related to business models (Gassmann et al,2016;).

This study presents the main challenges researchers face and gives directions on how to overcome these challenges. Moreover, it analyses various research methodologies and proposes possible uses for them based on different problems. Therefore, it helps researchers understand better the techniques and methods that can be used in designing business models, thus, it results in a better/higher contribution to the literature as well.

2. Methodology

A systematic approach was followed to review the literature and work on the findings. A search process was conducted to collect as many as possible important papers on the business model field. Keywords as "business model tools", "business model", "business model" + "Technological Innovations", "business model tools and methodologies", "business model innovation" "understanding business models", "business model" + "business model innovation", were used for a search in different academic repositories, like SpringerLink, ScienceDirect, IEEE, Emerald insights, Google Scholar, Mendeley, and jstor.org.

On google scholar, 1,090,000 results were founded. The selection of the proper research papers was a difficult procedure. The papers that fulfilled the following criteria were selected:

Written between 2000 and 2020.
The most cited papers.
Written by the most cited authors of the business model field.
The papers studying the holistic view of the business model were selected. Research papers focusing on one specific component and letting the others out were not part of this research.
Papers describing the dynamic part focused on the impact of technological trends, and not just the static part of the business model, were part of this research.

Each paper was studied in the light of its research stream used to define the business model term. All papers were listed and next to each, the perspective and the economic theories found in them were anointed. The methodology of each paper was analyzed and categorized according to the specific problem

it aimed to solve. Review papers had an important part in this research since they helped to build the framework and the theory needed to go further with the work presented in this paper. By the end of the process, 54 papers were on the table.

3. Discussions

Business model – an undefined concept

In the ocean of papers related to the business model concept, it is difficult to understand what the business model is. This does not stress the impossibility of understanding the business model, but rather the difficulty of working with it. Famous well-known authors of the business model research field have done great work on grouping and presenting different definitions of the business model (Tesch F. J.,2019). According to (Tesch F. J.,2019; Gassmann et al. 2016; Shneider et al, 2013; Zott et al,2011; Teece J. D.,2010; Wirtz et al, 2015), business models can be understood from different perspectives and different conceptualizations like (abstract, architectural, components). All these studies show the broad field of business model research and the diversity in its use. In (Tesch F. J.,2019), a list of the most used business model definitions can be found.

While studying business model-related research works, it becomes easier to see that authors try to focus on one aspect of the business model, letting out the others. General knowledge of the different theories and research streams is necessary. A complete summary of the definitions that currently exist is a good start to doing research in the business model field.

Studying the business model concept in the light of the different research streams

Business models are used not only to explain how the focal firm is organized and works based on some specific components but also how to interact with the outer world of the firm. Different perspectives can provide valuable insights into the study of business models. (Gassmann et al, 2016) in their work have done a great job at trying to explain the concept of business model from different angles, more precisely in seven different angles called the seven schools: Value component business model perspective, technological perspective, activity system perspectives, strategic perspective, process-based perspective, cognitive perspective, and duality perspective.

(Zott et. al, 2011) in their paper have discovered that three main phenomena are trying to be addressed with the employment of business model by research articles: e-business, strategic issues, and innovation and technology management. As mentioned earlier in this paper, the business model is not only a static component of a firm, but it can be studied from an industry perspective, an organizational point of view, and a relationship with other partners across organizations' borders point of view.

In the early years, business models were confused with business modeling and operational approach, but later academics started to distinguish the business model from the concept of business modeling and started using it as an abstract representation of the organization (Wirtz et al., 2015, Amit

and Zott, 2001; Eriksson and Penker, 2000, Wirtz et al., 2015) and as a management tool (Margretta,2002, Konczal 1957, Wirtz et al., 2015).

There are three main research perspectives seen in the study of business models mostly, technology-oriented, organization theory, and strategy (Wirzt, 2015). Authors that link the business model and strategy see the business model as an abstract tool of a company's competitive advantage strategy presentation (Hammel,2000; Wirtz et al, 2015). Despite some concept convergence between the fields (Chesbrough and Rosenbloom, 20002; Wirtz 2000), authors have come to different business model definitions from the strategy's definition (Wirtz et al, 2015). According to (Dahan et. al, 2010), a business model can be seen as means to implement strategies properly (Wirtz et al., 2015).

On the other side, Business Models are not part of a single discipline. Otherwise, it would be manageable to study them. It is important to study them in the light of different perspectives, theories, and research streams. However, this doesn't mean that the focus should be only on one direction and leaving out of the picture the other directions. The tools can vary from one discipline to the other, their aim and the purpose of the use of the business model, and the reason for what we want to achieve by studying business models.

This paper suggests choosing the research streams that can be explained by economic theories and the ones that best present the purpose and aim of the research. At the same time, linking the components and concepts from different research streams can shed light on valuable insights. A clear link between the chosen perspective and the other research streams can help design the model that best represents the research problem.

Modeling the business model problem

After clearly identifying the research streams, authors, and theories that best present the research problem in the business model field, it is necessary, as in all research and problem-solving situations, to define a model that best explains the problem. Models can help understand how real-life things work. Models can present a problem or the solution in different forms, such as mathematical models, schematic models, physical models, econometric models, conceptual models, and all other presentations. David Teece in (Teece J. D, 2010) declared that "In essence, the business model is a conceptual rather than financial model of a business". In their study, (Baden-Fuller et al, 2010) have done a great job trying to explain and understand to what type of scientific models, business models can be compared. Is it a mathematical, economic, or biological model? All models used in different sciences come with specific characteristics and all of them address one simple problem-the lack of knowledge. In economy, researchers design mathematical models and reason with them to come up with the results. Biologists, on the other hand, use real lab experiments to test their research hypotheses.

According to (Badent-fuller et al, 2010) research business models are more like organism models of biology than mathematical models found in the economy. In both ways, it is difficult to make a purely mathematical representation of the situation since the business model lies somewhere between general theory and a non-full empirical description (Baden-Fuller et al, 2010). Schemes can be the best way to present conceptual models. As they can help to create a general idea of where stand the business model is

in the scientific problem, what the components are, and how the business model relates to the other parts. (Disking Z., 2000) explains that a field to be ready for mathematical application must have achieved a certain development stage. Despite, the maturity of the business model field, "explicit mathematical account of its foundations is still an open problem" states Disking. In his paper, he explains that mathematics in business models is all about semantic relationships expressed in a graphical language, such as a diagram, or schemes, together with predictions and hypotheses. Based on this paper's work, the abovementioned statement is supported. It was found, that 92% of the collected research articles present their problem in a schematic or narrative model. Most of them had a representation of the components or the variables in a schematic or descriptive form.

According to the collected papers, mathematical and empirical functions can be used when studying business model innovation. According to (Wannakroiroj et al, 2020), the changes in the Net Asset Turnover Ratio (NATO), a financial element, can be used to measure business model innovation. The authors state that the growing productivity of a firm can be explained by this NATO-measured change in Business model innovation.

Two papers were found in the current research, using Game Theory to solve mathematical functions to present business model-related problems.

In both papers (Casadesus-Masanell et al, 2013; Yang et al, 2021)) the authors expressed the business model as a simple profit function and continued their analysis based on these functions. As (Casadesus-Masanell et al, 2013) conclude, a profit function is a reduced form of presenting the business model concept. This approach supports mathematical analysis for solving some problems in some cases but does not support holistic analysis of problems. Computational modeling, System Dynamics, and Scenario Planning are some tools that are used to study business models as continuously changing models from a complex and dynamic system perspective (Groesser et al, 2015; Yun et al, 2016; Tesch et al 2016). In their paper (Tesch et al, 2017), the authors give hints on the frameworks that might help you present your business model problem.

Research methodologies in business model research

The most used research methodologies to collect data include case studies, multiple case studies, longitude case studies, in-depth interviews, and questionnaire surveys. In the business model field, it is difficult to support theory with empirical evidence. Furthermore, collecting data from primary sources and direct communication with businesses can be a big challenge. Mainly papers in this research review use exploratory approaches and focus on developing new theories based on real-life experiences.

Table 1: Business Model research methodologies

Conceptual/examples/review/essay	20%
Case study and Multiple case study	43%
Interviews and survey	28%
Public data set	9%

In the business models field, it is necessary to keep in contact with businesses and industry. The field lacks empirical studies. In most cases, data collection is a complex process, and finding the right data source is essential. Financial spreadsheets and public data from secondary resources can be a source of data for the research work (Tesch et al, 2017; Zott et al, 2007). Their use should be justified by the proper use of theory.

Multiple qualitative methods (Taran et al.,2018), statistical methods, and tests can be used for data analysis. Some examples taken from the current review include Multivariate regression techniques (Zott et al, 2008), PLS-SEM (Schmidt et al, 2020), case and cross-case analysis (Zott et al,2001; Bjorkdahl J., 2009), structural equation modeling (Schmidt et al, 2017). When researchers lack access to data, especially when studying business dynamics with Game theory and System dynamics methodology, simulation can be a solution for the research.

References

C. Zott, R. Amit, and L. Massa, "The Business Model: Recent Developments and Future Research," Journal of Management, vol. 37, no. 4, pp. 1019–1042, May 2011, doi: 10.1177/0149206311406265.

C. Baden-Fuller and V. Mangematin, "Business models: A challenging agenda," Strategic Organization, vol. 11, no. 4, pp. 418–427, Nov. 2013, doi: 10.1177/1476127013510112.

B. W. Wirtz, A. Pistoia, S. Ullrich, and V. Göttel, "Business Models: Origin, Development and Future Research Perspectives," Long Range Planning, vol. 49, no. 1, pp. 36–54, Feb. 2016, doi: 10.1016/j.lrp.2015.04.001.

S. Schneider and P. Spieth, "Business model innovation: towards an integrated future research agenda," International Journal of Innovation Management, vol. 17, no. 01, p. 1340001, Feb. 2013, doi: 10.1142/s136391961340001x.

L. Doganova and M. Eyquem-Renault, "What do business models do?," Research Policy, vol. 38, no. 10, pp. 1559–1570, Dec. 2009, doi: 10.1016/j.respol.2009.08.002

C. Baden-Fuller and M. S. Morgan, "Business Models as Models," Long Range Planning, vol. 43, no. 2–3, pp. 156–171, Apr. 2010, doi: 10.1016/j.lrp.2010.02.005.

M. Porter, "Strategy and the Internet," Harvard Business Review, Mar. 2001. https://hbr.org/2001/03/strategy-and-the-internet.

D. J. Teece, "Business Models, Business Strategy and Innovation," Long Range Planning, vol. 43, no. 2–3, pp. 172–194, 2010, doi: 10.1016/j.lrp.2009.07.003.

O. Gassmann, K. Frankenberger, and R. Sauer, Exploring the Field of Business Model Innovation. Cham: Springer International Publishing, 2016.

J. F. Tesch, Business Model Innovation in the Era of the Internet of Things Studies on the Aspects of Evaluation, Decision Making and Tooling. Cham Springer International Publishing, 2019.

R. Amit and C. Zott, "Value creation in E-business," Strategic Management Journal, vol. 22, no. 6–7, pp. 493–520, 2001, doi: 10.1002/smj.187.

Hans-Erik Eriksson and Magnus Penker, Business modeling with UML : business patterns at work. New York: John Wiley & Sons, 2000.

J. Magretta, "Why Business Models Matter," Harvard Business Review, May 2002. https://hbr.org/2002/05/why-business-models-matter.

E. F. Konczal, "Models are for managers, not mathematicians," The Decision science process. Inlegrating the quantitative and behavioral, pp. 211–218, 1978, Accessed: Dec. 21, 2021. [Online]. Available: https://www.econbiz.de/Record/models-are-for-managers-not-mathematicians-konczal-edward/10002068245.
G. Hamel, "Leading the Revolution," HBR Store, 2002.

H. Chesbrough, "The role of the business model in capturing value from innovation: evidence from Xerox Corporation's technology spin-off companies," Industrial and Corporate Change, vol. 11, no. 3, pp. 529–555, Jun. 2002, doi: 10.1093/icc/11.3.529.

B. W. Wirtz, Electronic Business. Wiesbaden: Gabler Verlag, 2000.

N. M. Dahan, J. P. Doh, J. Oetzel, and M. Yaziji, "Corporate-NGO Collaboration: Co-creating New Business Models for Developing Markets," Long Range Planning, vol. 43, no. 2–3, pp. 326–342, Apr. 2010, doi: 10.1016/j.lrp.2009.11.003.

C. Baden-Fuller and V. Mangematin, "Business models: A challenging agenda," Strategic Organization, vol. 11, no. 4, pp. 418–427, Nov. 2013, doi: 10.1177/1476127013510112.

Z. Diskin, "On mathematical foundations for business modeling," Proceedings 37th International Conference on Technology of Object-Oriented Languages and Systems. TOOLS-Pacific 2000, 2000, doi: 10.1109/tools.2000.891368.

R. Casadesus-Masanell and F. Zhu, "Business model innovation and competitive imitation: The case of sponsor-based business models," Strategic Management Journal, vol. 34, no. 4, pp. 464–482, Sep. 2012, doi: 10.1002/smj.2022.

S. N. Groesser and N. Jovy, "Business model analysis using computational modeling: a strategy tool for exploration and decision-making," Journal of Management Control, vol. 27, no. 1, pp. 61–88, Oct. 2015, doi: 10.1007/s00187-015-0222-1.

M. Björklund, M. Abrahamsson, and H. Johansson, "Critical factors for viable business models for urban consolidation centres," Research in Transportation Economics, vol. 64, pp. 36–47, Sep. 2017, doi: 10.1016/j.retrec.2017.09.009.

L. Schmidt and L. Scaringella, "Uncovering disruptors' business model innovation activities: evidencing the relationships between dynamic capabilities and value proposition innovation," Journal of Engineering and Technology Management, vol. 57, p. 101589, Jul. 2020, doi: 10.1016/j.jengtecman.2020.101589.

Taran, Y., Nielsen, C., Thomsen, P., Montemari, M., & Paolone, F. (2015). Business Model Process Configurations: A Mapping Tool For Fostering Innovation. In R&D Management conference. Pisa

Bjorkdahl, J. (2009) 'Technology cross-fertilization and the business model: The case of integrating ICTs in mechanical engineering products', Research Policy, 38(9), pp. 14681477.

Wannakrairoj, W., & Velu, C. (2020). *Productivity growth and business model innovation. Economics Letters, 109679.* doi:10.1016/j.econlet.2020.109679

The relationship between, Foreign Direct Investment, Remittances, well-being, and Well Governance. A Case Study for Albania

Arben Kambo

Department of Mathematics and Informatics, Agriculture University of Tirana, Albania
akambo@ubt.edu.al

Flora Merko

Department of Economic Science, University "Aleksander Moisu" Durres, Albania
floramerko@uamd.edu.al

Alma Delija

Department of Agribusiness Management Policy, Agriculture University of Tirana, Albania
amadelija@gmail.com

Abstract

In this article, we provide the results of our empirical work at the macroeconomic level, which aims to answer the questions, about the relationship between the Human Development Index, Quality of Governance, Foreign Direct Investment, and remittances in Albania, analyzing data covering 20 years (2000-2019). Multiple Regression technics are used to carry out the objective. Referring to our results remittances have had no significant impact on reducing corruption in Albania. The role of Foreign Direct Investment in corruption reduction had been higher compared to the role of remittances. Control of Corruption has had a positive impact on remittances. Policymakers must do much more to maximize the positive impact of remittances, making them less costly and more productive. The Human Development Index has hurt Foreign Direct Investment. Foreign Direct investments have had a downward trend over time. The remittances have had e negative impact on Human Development Index. We think that is because most of the remittances might have been spent on poverty reduction, real estate, and investment.

Keywords: governance, remittances, relationship, investment, regression.

JEL classification: C30, 51, 52

Paper type: Case Study

1. Introduction

1.1 The foreign direct investment

The foreign direct investment *(FDI) as a source of economic activity has increased rapidly over the last decade. The intensification of FDI activity has important implications for both origin and destination countries in terms of economic growth, productivity, wages, and employment. Referring to (Pavlova, 2018),* FDI is driven by four main factors: a) markets: **companies may seek access to promising new markets by investing abroad.** From this perspective, inward FDI should tend to be positively correlated with the size of the host country's economy and its market potential in terms of economic growth; b) Assets: **Asset-seeking FDI is driven by access to new, complementary resources and capabilities.** This type of investment is motivated by a firm's interest to improve or expand its existing technologies, managerial skills, or labor force. It is often directed towards advanced countries; c) natural resources: **FDI flows may also be driven by the desire for access to natural resources;** d) efficiency-seeking: **The efficiency-seeking FDI is mainly driven by lower labor costs and higher productivity.**

1.2 Governmentality

Govern mentality is the study of power that emphasizes governing people's conduct through positive means rather than the sovereign power to formulate the law. The concept of governmentality takes the definition of government as the exercise of organized political power by a nation or state and expands it to include the active consent and willingness of individuals to participate in their governance. As a form of thinking that strives to be systematic and clear about how things are or ought to be, rationality suggests that before people or things can be controlled or managed, they must first be defined. According to the World Bank, good governance is evaluated by the implementation capacity of governance principles of a country, providing a framework for market development and economic growth.

1.3 Indicators of National Well-Being

Famously, what counts for economists is whatever one can measure quantitatively, and especially monetarily. Historically, per-capita Gross Domestic Product was the dominant measure of national well-being and vitality used by economists and international security, development, and political institutions and experts. However, critiques of the limitations of GDP as a measure even of sustainable economic development began decades ago. More importantly, non-economic indicators of well-being on a national scale were herded. Various alternative concepts and measures have been proposed, many focusing on broader conceptions of humans and community. (Sen, 2000).

1.4 Human Development Index

Human Development Index was created by the United Nations Development Program to measure human development, wellness, and quality of life in society across multiple dimensions. Thus, HDI measures development along two social dimensions and one economic dimension to provide a slightly broader indicator based on widely available population measures.

A study from (Churilova et al.) compared HDI with other variables of well-being and found it to be a strong indicator of human development. HDI has also been critiqued for its limitations as a comprehensive measure of population well-being and the many other dimensions it ignores (Ranis et al., 2006). However, HDI has become the most widely used and accepted international measure of development and due to the alternatives lacking complete data, we use the HDI.

1.5 Remittances

When migrants send home part of their earnings in the form of either cash or goods to support their families, these transfers are known as worker's or migrant remittances, (Adams Jr, R.H. and Page, J., 2005). They represent the largest source of foreign income for many developing economies. It is hard to estimate the exact size of remittance flows because many take place through unofficial channels. These are recorded in the balance of payments; exactly how to record them is being reviewed by an international technical group. Unrecorded flows through informal channels are believed to be at least 50 percent larger than recorded flows.

2. Literature Review

Recent studies have been carried out for measuring institutional quality and its impact on foreign direct investment in host countries. (Globerman and Shapiro 2002) emphasize the link between governance and FDI flows and found that good governance is more important for developing economies in transition than others. (Gani, 2007) notes that the rule of law, control of corruption, regulatory quality, government effectiveness, and political stability are positively correlated with FDI. The study of (Stein and Daude, 2007) provides two channels with poor quality institutions that may discourage FDI inflows. Recent studies of the relationship between FDI and corruption found that corruption reduces FDI inflows (Egger and Winner 2006)). Empirical results of the work of the World Bank (Daniel Kaufmann, 1999) developed a set of six composite indicators covering the perception of governance. Kaufmann's studies correlate the quality of governance with the per capita income in all the countries studied.

The econometric studies by (Kaufmann et.al.1999) showed that the variables of good governance, such as control of corruption, stability of property rights, or democracy are closely correlated with variables, such as GDP growth rate per capita, investment, and human capital development. However, there is little research to find out if corrupt countries derive less benefit from FDI received. According to (Ndinga, 2002) poor governance helps reduce inward FDI. (Chan and Gemayel, 2004), have shown that the risk and the political instability of a country are the primary determinants of the weakness of FDI.

To provide a better measure of a country's economic and social development, the UNDP developed the HDI as a composite index in the 1990s.

The HDI has not been free of criticism, several modifications and alternative approaches to measuring human development have been proposed (Anand & Sen, 2008); (Chakravarty, 2003); (Ravallion, 2012). Their work (Fiszbein et al. 2011) suggests that improving governance leads to improved human development. They argue that there is still limited agreement on how improvements in governance improve human development, but they argue that there needs to be a more systematic approach to measuring the outcomes of governance inputs. Their methodology, combining both qualitative and quantitative approaches, is supported by (Ottervik, 2011) who finds a strong relationship between good governance and human development.

Different empirical studies show that corruption influences the resources spent on education and health. (Mauro, 1998) finds that corruption reduces government expenditure on education and health. Mauro claims that public officials do not want to spend more on education and health because those programs offer fewer rent-seeking opportunities. Similarly, (Gupta and Davoodi, 1998) show that corruption reduces the level of social spending, fosters education inequality, lowers secondary schooling, and causes inequality. They find that corruption increases income inequality: one standard deviation increase in the growth rate of corruption reduces the income growth of the poor by 7.8 percentage points per year.

Corruption also tends to distort the allocation of economic benefits. A share of the country's wealth is distributed to insiders and corrupt bidders, contributing to inequalities in wealth. The decisions on the use of remittances are part of the life-cycle considerations (Nikas and King, 2005) and immigrants face the dilemma of accumulating savings or purchasing consumer or capital goods. Most of the research findings for Albania converge to the conclusion that remittances, particularly the initial flows, were spent on the financing of basic needs, which can also be explained by the fact that more than one-quarter of the Albanian population in the 1990s was living below the poverty line (Duval and Wolff, 2010). Remittances were mainly used to construct or repair houses, purchase clothes, and medical care, acquire land and animal stock and finance the everyday needs of people. As far as the construction of houses is concerned, it has been pointed out that it absorbed a large proportion of remittances in Albania, (Dalakoglou, 2010). According to (Germenji and Milo, 2009), the returnees invest their savings much more than the money of remittances. However, a big proportion of those who repatriate does not work after returning. This is the case, especially in rural areas and half of the returnees use their money to buy land, though only 24% of them are self-employed in agriculture.

3. Description of Governance Indicators, Human Development Index, Remittances, and Foreign Direct Investment

According to the World Bank, (Kaufmann 1999), some dimensions of governance are defined as follows: a) the process by which governments are selected, monitored, and replaced: 1-Voice and Accountability (VA). VA measures the extent to which a country's citizens can participate in electing their government, as well as freedom of expression and association and free media. It contains number several

indicators measuring different features of civil liberties, political process, and political rights. 2-Political Stability (PS). This indicator measures the perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically motivated violence and terrorism. b) The capacity of the government to effectively formulate and implement sound policies: 3- Government Effectiveness (GE). GE measures the quality of the civil services, the quality of public services, the quality of policy formulation, and implementation, the degree of its independence from political pressures, and the credibility of the government's commitment to such policies. 4-Regulatory Quality (RQ).

Measures the capacity of the government to formulate and execute sound policies and regulations that permit and promote private sector development c) The respect of citizens and the state for the institutions that govern economic and social interactions among them: 5-Rule of Law (RL). RL measures the extent to which agents have confidence in, accept, and act according to the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. 6- Control of Corruption (CC).

The human development index consists of the mean of three components: (1) per capita GNI (as a proxy for material or economic well-being), (2) population life expectancy (as a crude proxy for general health and bodily wellness), and (3) an education index based on averaging the mean years of schooling for adults over 24 years old and expected years of schooling for school-aged children (as a crude proxy for the mental development of human capabilities). There are two steps to calculating HDI values. Minimum and maximum values are set to transform the indicators expressed in different units into indices between 0 and 1. They are set at the following values:

Table 1: Indicators for calculation of HDI.

Dimension Indicator	Indicator	Minimum	Maximum
Health	Life expectancy (years)	20	80
Education	Expected years of schooling (years)	0	18
	Mean years of schooling (years)	0	15
Standard of living	GNI per capita (2017 PPP$)	100	75000

Source: Human Development Reports

Having defined the minimum and maximum values, the dimension indices are calculated as:

$$\text{Dimension index} = \frac{\text{actual value} - \text{minimum value}}{\text{maximum value} - \text{minimum value}}$$

Because each dimension index is a proxy for capabilities in the corresponding dimension, the transformation function from income to capabilities is likely to be concave (Anand and Sen, 2000) that is, each additional dollar of income has a smaller effect on expanding capabilities. Thus, the natural logarithm of the actual, minimum, and maximum values is used for income.

The HDI is the geometric mean of the three-dimensional indices:

$$\text{HDI} = (I_{Health} * I_{education} * I_{income})^{1/3}$$

For more details see the technical note on calculating the human development indices. The World Bank's Development Indicators database contains estimates of GNI per capita in constant purchasing power parity (PPP) terms for countries.

A foreign direct investment (FDI) is a purchase of an interest in a company by a company or an investor located outside its borders. Generally, the term is used to describe a business decision to acquire a substantial stake in a foreign business or to buy it outright to expand its operations to a new region. In our study, we use Foreign Direct Investment net inflows in the host country (% of GDP) as a proxy variable of FDI. **Remittances are the amount of money or goods** as part of their earnings in the form of either cash or goods to support their families. Our study uses remittances, received in a year (% of GDP) as a proxy variable for remittances.

4. Data Source, Analysis Techniques, and Objectives of Study

4.1 Data source

In this article, we provide the results of our empirical work which aims to offer answers to the questions of the relationships between the Human Development Index (HDI), quality of governance (WGI), Remittances, (REMIT), and Foreign Direct Investment (FDI) in Albania.

Several models are estimated, based on Remittances, Human Development Index, quality of governance, and Foreign Direct Investment (FDI) over the period 2000-2019. The data on governance indicators are taken from the World Bank's project of Worldwide Governance Indicators (WGI), (Kaufmann, 1999). A country-year time series of six governance indicators are taken from the Worldwide Governance Indicators and a country-year time series on FDI, and Remittances, are taken from World Bank Indicators. A country-year series of data on the Human Development Index is taken from the United Nations Development Program. The indexes of each governance indicator vary between -2.5 (weak) and 2.5 (strong) governance performance (Kaufmann 2006). Principal Component Analysis, a dimensionality-reduction method, is used to reduce the dimension of large data sets of WGI, by transforming the large set of variables into a smaller one that still contains most of the information in the large set, (Smith 2002). We use this method to reduce the World Government Indicators from 6 to 3 (GE, RL, CC) which together explain 95.5% of all the variation of WGI into a dependent variable. We use Foreign Direct Investment net inflows (% GDP) as a proxy variable of FDI and Remittances (%GDP), (REMIT) receipts at the home migrant country as a proxy variable of remittances.

The variables used in the econometric analysis, their symbols, and data sources are briefly presented in Tab. 2:

Table 2: Variables Used in the Analysis.

Variables	Symbol	Unit of measure	Source
Human Development Index	HDI	0-1	United Nations Development Programmer, Human Development Reports
Foreign Direct investment net inflows (% of GDP) in host countries	FDI	% ,(% 0f GDP)	World Bank Indicators 2019
Voice and accountability	VA	(-2.5;+2.5)	World Bank Indicators 2019
Political stability and absence of violence/terrorism	PS	(-2.5;+2.5)	World Bank Indicators 2019
Government effectiveness	GE	(-2.5;+2.5)	World Bank Indicators 2019
Regulatory quality	RQ	(-2.5;+2.5)	World Bank Indicators 2019
Rule of law	ALL	(-2.5;+2.5)	World Bank Indicators 2019
Control of corruption	CC	(-2.5;+2.5)	World Bank Indicators 2019
Remittance receipt (%GDP) at home country of migrants	REMIT	%, (% of GDP)	World Bank Indicators 2019

Source: Calculations of authors.

4.2 Regression Analysis and Estimation Method

By combining the time series across a reasonable number of years, we have identified an interrelationship between changes in the quality of governance and changes in well-being, foreign direct investment, and remittances. A regression model is generally defined as the dependent variable vector *Y* and the design n x p matrix *X* of factors and the vector of true residuals ε of dimensions nx1: $Y=X\beta+\varepsilon$ where $\hat{\beta}$ is an estimate of β and for the corresponding fitted residuals, $e = Y - X\hat{\beta}$

The regression analysis commonly makes use of the least-squares (LS) and the HAC method (heteroscedasticity and autocorrelation consistent) is used for the estimation of model parameters. We have used the first differences of all variables and all needed tests are performed. The underlying data and models along with a full range of results are reported in our estimation appendix. We used the Gretl program, a cross-platform software package for econometric analysis.

4.3 Objectivse of the study

We tried to answer some questions, based on macroeconomic data analysis, if the remittances received by migrants have a positive impact on the level of human development and if they are more significant than foreign direct investment. We analyze the remittance's effect on human development.

The data for the desired variables are available for 20 years. The relationship between the quality of governance, Human Development Index, Foreign Direct Investment, Remittances, are analyzed in terms of the following hypotheses: a) The Remittances, Human Development Index, Foreign Direct Investment, have a positive impact on the Control of Corruption b) The Remittances, quality of governance, Foreign Direct Investment, have a positive impact on wellbeing; c) The Remittances, wellbeing and well governing have a positive impact on Foreign Direct Investment; d) The quality of governance, have a positive impact on Remittances.
We use 3 different measures of the quality of governance (or WGIs) which explain 95.5% of all variation (out of six) for the models.

5.   Summary and Discussion

This study examined the impact of the quality of governance, Human Development Index, Remittances, and Foreign Direct Investment on the Control of Corruption. We analyses also the relationship between Human Development Index and Foreign Direct Investment, remittances, and well governance by analyzing data covering 20 years (2000-2019) for Albania, developed by the World Bank is used as a proxy for different aspects of governance. The HDI, developed by the UNDP is used to measure human development and FDI net inflows (% GDP) as a proxy for FDI net inflows. Remittances received at home from migrants countries (% of GDP), (REMIT), as a proxy of remittances. The results have been estimated with OLS. We also have made certain tests assumption of the regression.
Model 1, Table 4: The remittances in Albania have had positive impact on the control of corruption. When the first difference of remittances increases by one unit (%), the first difference of CC index increases by 0.0011 units, holding the other factors remain unchanged, and it is significant.

When the first difference of Foreign Direct Investment (FDI) increases by one unit (%), is followed by the CC index increases by +0.015 units, holding the other factors remain unchanged, but are insignificant. The HDI has negatively indicated on CC but is insignificant.
Model 2, Table 5: The factors that hurt HDI but are insignificant are: CC, FDI, RL, and CC. The REMIT has e negative impact on HDI. When the first difference of REMIT increases by one unit (%), is followed by the first difference decreases of HDI by -0.0016 units (%), holding the other factors remain unchanged. They have had a downward trend over time. When the time increases by one unit (year), is followed the first difference in the Human Development Index (HDI) decreases by -0, 00033 units (%), holding the other factors remain unchanged.
Model 3, Table 6: the Control of Corruption has had a positive impact on FDI. When the first difference of CC increases by one unit, is followed by the first difference of Foreign Direct Investment (FDI) increases by +10.23 units, holding the other factors remain unchanged. The HDI has had e negative impact

on FDI, but insignificant. Foreign Direct Investment (FDI) has had a downward trend over time. When the time increases by one unit (year), is followed by the first difference of FDI decreasing by -0.085 unit, holding the other factors remain unchanged. The GE and REMIT have had a positive impact on FDI, but, are insignificant. The Rule of Law has had e negative impact on FDI. When the first difference of RL increases by one unit, is followed by the first difference of FDI decreasing by -12.73 units.

Model 4, Table 7: The Control of Corruption (CC) has had a positive impact on Remittances (REMIT). When the first difference of CC increases by one unit, is followed by the first difference of Remittances (REMIT) increases by + 4.13 units, holding the other factors remain unchanged. Government Effectiveness has had a negative impact on REMIT. When the first difference of GE increases by one unit, is followed by the first difference decreases of Remittances (REMIT) with -2.586 units, holding the other factors remain unchanged. The Rule of Law has had a positive impact on REMIT but, is insignificant.

6. Results and Political Implication

The remittances have no statistically significant positive impact on reducing corruption in Albania. Refers to our results 1% increase in the first differences of remittances (in % of GDP) will lead to + 0.0011 units increase in the first difference of CC index, but it's insignificant. More studies need in the future to explain the mechanisms of how remittances influence corruption reduction. The role of remittances in corruption reduction is lower compared to the role of Foreign Direct Investment. High corruption can lead to high poverty and inequality. First of all, a higher growth rate is associated with a higher rate of poverty reduction. On the other hand, has been shown that income inequality is harmful to growth. Corruption can lead to tax evasion and poor tax administration, favoring wealthy population groups. That's why policies that reduce corruption in Albania will reduce poverty and income inequality. Theoretically and practically, an economy with high human capital and good population quality will help reduce corruption. Referring to our findings, when the first difference of HDI index increases by one unit, is followed by the first difference decrease of CC Index by -4.48 units (%), but it is insignificant. That's why we may think that most of the remittances are spent on poverty reduction, real estate, and investment, compared to human development spending. Government Effectiveness has had a positive significant impact on CC. When the first difference of GE increases one unit, it will lead to a + 0.252 units increase in the first difference of CC index.

For Albania, policies should focus on improving the quality of economic and administrative governance and appropriate education and training reforms. The FDI has had an important role in CC. When the first difference of FDI increases by one unit, is followed by the first difference increase of CC index with +0.015 unit. As the literature review indicates, corruption can indirectly affect human development by lowering economic growth and incentives to invest. As the literature claims, public officials do not want to spend more on education and health because those spending programs offer less opportunity for rent-seeking. Similarly, other authors show that corruption reduces the level of social spending, fosters education inequality, lowers secondary schooling, and causes inequality. This finding indicates that reducing corruption and improvements in the political system and transparency can increase the HDI and well-being. The REMIT has e negative impact on HDI.

When the first difference of REMIT increases by one unit (%), is followed by the first difference decreases of HDI by -0.0016 units (%). We think that's because of poverty reduction, health informal spending, and capital investment destination of most of the remittances. More studies need to be done on this topic in the future.

Policymakers must do much more to maximize the positive impact of remittances, making them less costly and more productive. Foreign direct investments (FDI) are an important determinant of economic growth. FDI does not only contribute to growth and economic development but also affects income by contributing to economic development and employment. The Control of Corruption has had a positive impact on FDI. When the first difference of CC increases by one unit, it is followed by the first difference increases of Foreign Direct Investment (FDI) index by +10.23 units. Improving human capital in Albania is a crucial factor in increasing foreign direct investment. Foreign Direct Investment (FDI) has had a downward trend over time. When the time increases by one unit (year), is followed by the Foreign Direct Investment (FDI) decreases by -0.085 units. Policymakers must do much more to analyze the reasons, and encourage foreign direct investment.

The Control of Corruption (CC) has had a positive impact on Remittances (REMIT). When the first difference of CC increases with one unit, it is followed by the first difference increase of Remittances (REMIT) with +4.13 units (%), holding other factors remain unchanged. The REMIT has hurt HDI. When the first difference of REMIT index increases one unit it is followed by the first difference of HDI decreasing by –0.001 units. That proves once again the conclusion that most of the remittances go for poverty reduction and investment. The Remittances (REMIT) have had a downward trend over time.

This finding indicates that reducing corruption and improvements in the political system and transparency, can increase remittances and FDI inflows and encourage investors to bring their capital. The findings indicate that policies should focus on increasing investment in public education and improving human capital, supplying an appropriate technical education, attracting more remittances, and FDI inflows. Our study is based only on the macro-level data, however, we think that more studies are needed in the future to better analyze and harmonize the findings of studies in this field at the macro and micro level, explaining interrelationships between these variables, and the mechanisms of interaction between them.

Appendix of calculation results:

Table 3: Principal Components Analysis

n = 20
Eigen analysis of the Correlation Matrix

Component	Eigenvalue	Proportion	Cumulative
1	5.0306	0.8384	0.8384
2	0.4590	0.0765	0.9149
3	0.2452	0.0409	0.9558
4	0.1303	0.0217	0.9775
5	0.0905	0.0151	0.9926

Eigenvectors (component loadings)

	PC1	PC2	PC3	PC4	PC5	PC6
GE	0.435	0.127	0.109	-0.088	0.224	0.851
RL	0.415	0.322	-0.112	0.735	0.325	-0.255
CC	0.425	0.006	-0.335	0.094	-0.834	0.055
RQ	0.397	-0.270	0.834	0.007	-0.149	-0.230
PS	0.405	0.483	-0.107	-0.654	0.154	-0.374
VA	0.369	-0.758	-0.396	-0.121	0.321	-0.122

Source: Calculations of authors.

Table 4: Model 1: Heteroskedasticity-corrected, using observations 2001-2019 (T = 19)
Dependent variable: d_CC

	Coefficient	Std. Error	t-ratio	p-value	
const	0.0748027	0.0498109	1.502	0.1590	
d_FDI	0.0150144	0.00513440	2.924	0.0127	**
d_GE	0.252610	0.0739445	3.416	0.0051	***
d_RL	0.274769	0.219349	1.253	0.2342	
Years	−0.00202427	0.00240817	−0.8406	0.4170	
d_REMIT	0.00111987	0.00999567	0.1120	0.9126	
d_HDI	−4.48263	2.86726	−1.563	0.1439	

Statistics based on the weighted data:

Sum squared resid	21.96230	S.E. of regression	1.352846
R-squared	0.911493	Adjusted R-squared	0.867239
F(6, 12)	20.59699	P-value(F)	0.000011
Log-likelihood	−28.33627	Akaike criterion	70.67255
Schwarz criterion	77.28362	Hannan-Quinn	71.79140
rho	−0.010245	Durbin-Watson	1.955945

Source: Calculations of authors.

Table 5: Model 2: Heteroskedasticity-corrected, using observations 2001-2019 (T = 19)
Dependent variable: d_HDI

	Coefficient	Std. Error	t-ratio	p-value	
const	0.0109610	0.00115255	9.510	<0.0001	***

d_FDI	−0.000107573	0.000457457	−0.2352	0.8181	
d_GE	−0.00380844	0.00636915	−0.5980	0.5610	
d_RL	−0.0111792	0.0159520	−0.7008	0.4968	
d_CC	−0.00583133	0.0127980	−0.4556	0.6568	
Years	−0.000332805	8.62531e-05	−3.858	0.0023	***
d_REMIT	−0.00162728	0.000644605	−2.524	0.0267	**

Statistics based on the weighted data:

Sum squared resid	22.69567	S.E. of regression	1.375248
R-squared	0.858558	Adjusted R-squared	0.787837
F(6, 12)	12.14007	P-value(F)	0.000173
Log-likelihood	−28.64832	Akaike criterion	71.29664
Schwarz criterion	77.90771	Hannan-Quinn	72.41549
rho	0.549022	Durbin-Watson	0.899661

Statistics based on the original data:

Mean dependent var	0.006526	S.D. dependent var	0.004464
Sum squared resid	0.000223	S.E. of regression	0.004314

Statistics based on the original data:

Mean dependent var	0.017061	S.D. dependent var	0.078505
Sum squared resid	0.055093	S.E. of regression	0.067757

Source: Calculations of authors.

Table 6:Model 3: Heteroskedasticity-corrected, using observations 2001-2019 (T = 19)
Dependent variable: d_FDI

	Coefficient	Std. Error	t-ratio	p-value	
const	1.42878	0.922446	1.549	0.1474	
d_GE	2.76578	3.04115	0.9095	0.3810	
d_RL	−12.7398	3.79546	−3.357	0.0057	***
Years	−0.0858320	0.0469165	−1.829	0.0923	*
d_REMIT	0.171022	0.358532	0.4770	0.6419	
d_HDI	−0.847373	69.2137	−0.01224	0.9904	
d_CC	10.2243	3.82075	2.676	0.0202	**

Statistics based on the weighted data:

Sum squared resid	18.19731	S.E. of regression	1.231439
R-squared	0.753216	Adjusted R-squared	0.629823
F(6, 12)	6.104237	P-value(F)	0.003938
Log-likelihood	−26.54976	Akaike criterion	67.09953
Schwarz criterion	73.71060	Hannan-Quinn	68.21838
rho	0.139318	Durbin-Watson	1.678826

Statistics based on the original data:

Mean dependent var	0.194208	S.D. dependent var	1.575912
Sum squared resid	28.57751	S.E. of regression	1.543198

Source: Calculations of authors

Table 7:Model 4: Heteroskedasticity-corrected, using observations 2001-2019 (T = 19)
Dependent variable: d_REMIT

	Coefficient	*Std. Error*	*t-ratio*	*p-value*	
const	−0.389006	0.144853	−2.686	0.0169	**
d_GE	−2.58667	1.37303	−1.884	0.0791	*
d_RL	0.724511	1.63371	0.4435	0.6638	
d_CC	4.13309	1.50837	2.740	0.0152	**

Statistics based on the weighted data:

Sum squared resid	40.41255	S.E. of regression	1.641393
R-squared	0.492726	Adjusted R-squared	0.391271
F(3, 15)	4.856601	P-value(F)	0.014817
Log-likelihood	−34.12950	Akaike criterion	76.25899
Schwarz criterion	80.03675	Hannan-Quinn	76.89834
rho	−0.234915	Durbin-Watson	2.340151

Statistics based on the original data:

Mean dependent var	−0.400676	S.D. dependent var	0.745697
Sum squared resid	9.104579	S.E. of regression	0.779084

Source: Calculations of authors
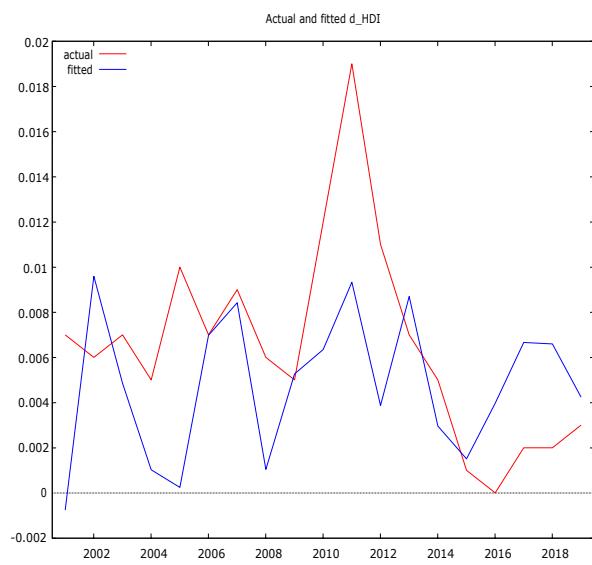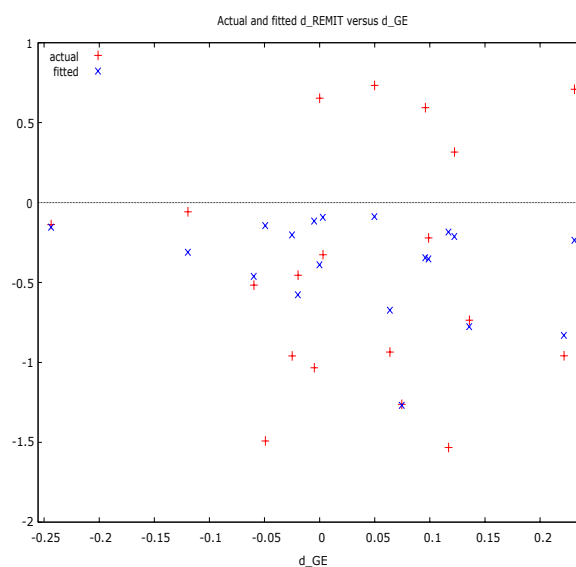
Chart 1:   *Chart 2:*

Source: Calculations of authors   *Source: Calculations of authors*

Chart 3   *Chart 4*
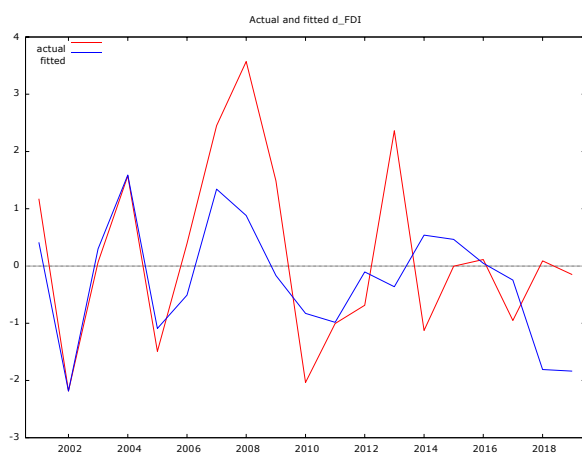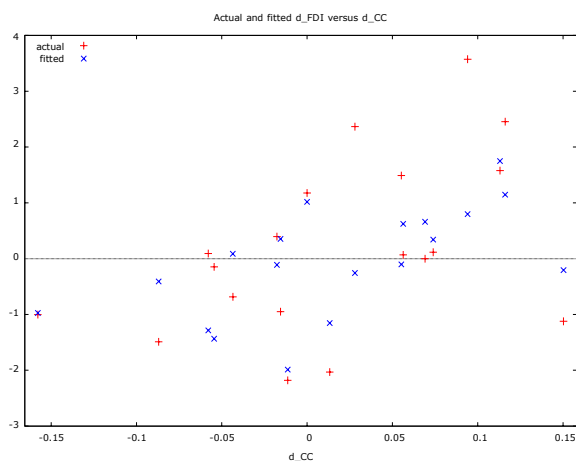
Source: Calculations of authors   *Source: Calculations of authors*

Chart 5
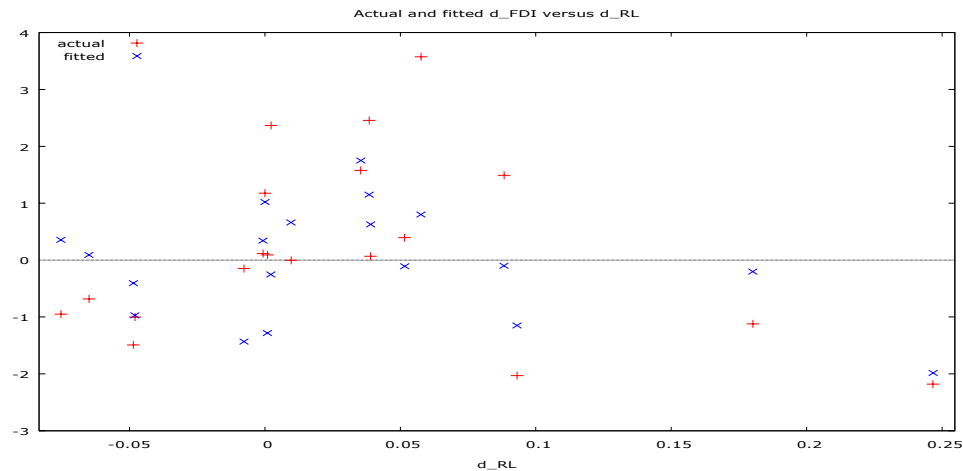
Source: Calculations of authors

References

About the World Bank. worldbank.org.

Adams Jr, R.H. and Page, J., 2005. Do international migration and remittances reduce poverty in developing countries? World Development, 33(10), pp.1645-1669.

Amartya Sen: Violence, Identity, and Poverty. https://journals.sagepub.com/home/jpr Published January 1, 2008

Amighini, A.A., Rabellotti, R. and Sanfilippo, M., "Do Chinese state-owned and private enterprises differ in their Internationalization strategies?", China Economic Review, Vol. 27, 2013, pp. 312-325.

Anand, Sudhir, and Amartya Sen. "Human development and economic sustainability." World development 28.12 (2000): 2029-2049.

Asiedu, E., "Foreign direct investment, natural resources, and institutions," IGC Working Papers, International Growth Centre, March 2013.

Blonigen, B.A., "A Review of the Empirical Literature on FDI Determinants," Atlantic Economic Journal, Vol. 33(4), 2005, pp. 383-403.

Carril-Caccia, Federico & Pavlova, Elena, 2018. "Foreign direct investment and its drivers: a global and EU perspective," Economic Bulletin Articles, European Central Bank, vol. 4.

Chakravarty, Satya R. "A generalized human development index." Review of development economics 7.1 (2003): 99-114.

Chan, K.K. and Gemayel, E.R., 2004. Risk instability and the pattern of foreign direct investment in the The Middle East and North Africa region. IMF Working Papers, 2004(139).

Churilova, E., et al. "Influence of world social and economic indicators' linkage on the development of human potential." Journal of International Studies 12.4 (2019).

Dalakoglou, D., 2010. Migrating-remitting-'building'-dwelling: house-making as 'proxy presence in post-socialist Albania. Journal of the Royal Anthropological Institute, 16(4), pp.761-777.

Daniel Kahneman and Angus Deaton: High income improves evaluation of life but not emotional well-being Effects of good governance on economic development–A case study on Romania Belieu, ZC Pop, DL

Țâmpu Review of Economic Studies and Research Virgil Madgearu 8 (1), 5-23.

Daude, C. and Stein, E., 2007. The quality of institutions and foreign direct investment. Economics & Politics, 19(3), pp.317-344.

Davies et al. (2015), op. cit.; and Nielsen, B.B., Asmussen, C.G. and Weatherall, C.D., "The location choice of foreign direct investments: Empirical evidence and methodological challenges", Journal of World Business, Vol. 52(1), 2017, pp. 62-82.

Dunning, J.H., "The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions", *Journal of International Business Studies, Vol*. 19(1), 1988, pp. 1-31.

Duval, L. and Wolff, F.C., 2010. Remittances matter: Longitudinal evidence from Albania. Post-Communist Economies, *22*(1), pp.73-97.

Evgeni Peev, Institutions, economic liberalization, and firm growth: evidence from European transitioneconomies, European Journal of Law and Economics, 10.1007/s10657-014-9450-3, 40, 1, (149-174), (2014).

F. Y. Edgeworth (2003). Peter Newman (ed.). F.Y. Edgeworth: Mathematical Psychics and Further Papers on Political Economy. Oxford University Press. ISBN 978-0-19-828712-4.

Fiszbein, Ariel, Dena Ringold, and F. Halsey Rogers. "Making services work: indicators, assessments, and benchmarking of the quality and governance of public service delivery in the human development sectors." World Bank Policy Research Working Paper 5690 (2011).

Gani, A., 2007. Governance and foreign direct investment links: evidence from panel data estimations. Applied economics letters, 14(10), pp.753-756.

Germenji, E. and Milo, L., 2009. Return and labor status at home: evidence from returnees in Albania. Southeast European and Black Sea Studies, 9(4), pp.497-517.

Globerman, S. and Shapiro, D., 2002. Global foreign direct investment flows: The role of governance infrastructure. World Development, *30*(11), pp.18991919.http://info.worldbank.org/governance/wgi/iIndex.as px#home, accessed on, 2019.

Good Governance: Pakistan's Economic Growth and World Wide Governance Indicators, Pakistan Journal of Commerce and Social Sciences 2014, Vol. 8 (1), 274- 287.

Greene, W.H., Econometric Analysis, 5th edition, Upper Saddle River: Prentice-Hall, 2003.
Gujarati, D.N., and Porter, D.C., Basic Econometrics, 5th edition, New York: McGraw-Hill, 2009.
http://gretl.sourceforge.net

Gupta, S., Davoodi, H. and Alonso-Terme, R., 2002. Does corruption affect income inequality and poverty? Economics of governance, 3(1), pp.23-45.

James C. Riley Estimates of Regional and Global Life Expectancy, 1800-2001, Population, and Development Review, Vol. 31, No. 3 (Sep. 2005), pp. 537-543.

Jim Oeppen and James W.Vaupe: Broken Limits to Life Expectancy Science Vol. 296, 10 May 2002.

Kahneman, Daniel, and Angus Deaton. "High income improves evaluation of life but not emotional well-being." Proceedings of the national academy of sciences 107.38 (2010): 16489-16493.

Kaufmann, D., Kraay, A. and Mastruzzi, M., 'the Worldwide Governance Indicators: A Summary of Methodology, Data and Analytical Issues', 2010, World Bank Policy Research Working Paper no. 5430.

Kaufmann, Daniel, Aart Kraay and Massimo Mastruzzi (2006b). "Governance Matters V: Aggregate and Individual Governance Indicators for 1996-2005". World Bank Policy Research Working Paper No. 4012.Washington, D.C.

Kaufmann, Daniel, Aart Kraay and Massimo Mastruzzi (2009). "Governance Matters VIII: Aggregate and Individual Governance Indicators for 1996-2008". World Bank Policy Research Working Paper No. 4978.Washington, D.C.

Kaufmann, Daniel, Aart Kraay, and Pablo Zoido-Lobatón (1999). Aggregating Governance Indicators. World Bank Policy Research Department Working Paper No. 2195, Washington, D.C. 3, pp. 681-712.

Kaufmann, Daniel, Aart Kraay, and Pablo Zoido-Lobatón (1999a). "Aggregating Governance Indicators."World Bank Policy Research Working Paper No. 2195, Washington, D.C.

Kaufmann, Daniel, Aart Kraay, and Pablo Zoido-Lobatón (2002). "Governance Matters II– Updated Indicators for 2000/01". World Bank Policy Research Department Working Paper No. 2772, Washington, D.C.

Kaufmann, Daniel; Kraay, Aart. 2007. Governance Indicators: Where Are We, Where Should We Be Going? Policy Research Working Paper; No. 4370. World Bank, Washington, DC. World Bank.

Kaufmann, Daniel, and Kraay, Aart and Mastruzzi, Massimo, the Worldwide Governance Indicators: Methodology and Analytical Issues (September 2010). World Bank Policy Research Working Paper No.5430, Available at SSRN: https://ssrn.com/abstract=1682130.

Kahn, K.B., Kay, S.E., Slotegraaf, R.J. and Uban, S. eds., 2012. The PDMA handbook of new product development. John Wiley & Sons.

Leandro Prados de la Escosura, 2010. "Improving Human Development: A Long-Run View," Journal of Economic Surveys, Wiley Blackwell, vol. 24(5), pages 841-894, December.

Mauro, P., 1998. Corruption: causes, consequences, and agenda for further research. Finance & Development, 35(001).

Ndinga-Kanga, M., van der Merwe, H. and Hartford, D., 2020. Forging a resilient social contract in South Africa: states and societies sustaining peace in the post-apartheid era. Journal of Intervention and State building, 14(1), pp.22-41.

Nikas, C. and King, R., 2005. Economic growth through remittances: lessons from the Greek experience of the 1960s applicable to the Albanian cause. Journal of Southern Europe and the Balkans Online, 7(2), pp.235-257.

Ottervik, M. (2011) Good Governance and Human Development: The Case of China and India. Paper STVK01, Department of Political Science, Lund University, Lund.

Peev, Evgeni, and Dennis C. Mueller. "Democracy, economic freedom and growth in transition economies." Kyklos 65.3 (2012): 371-407.

Ranis, Gustav, Frances Stewart, and Emma Samman. "Human development: beyond the human development index." Journal of Human Development 7.3 (2006): 323-358.

Ravallion, Martin. 2012. "Why Don't We See Poverty Convergence?" American Economic Review, 102 (1): 504-23.

Smith, L. I. (2002). A tutorial on Principal Components Analysis (Computer Science Technical Report No.OUCS-2002-12). Retrieved from http://hdl.handle.net/10523/7534.

Sudhir Anand; Amartya Sen. Journal of Human Development A Multi-Disciplinary Journal for People Centered Development. http://www.informaworld.com/smpp/title~content=t713431425.

Thomas Carothers, Foreign Affairs Vol. 77, No. 2 (Mar. - Apr. 1998), pp. 95-106. Published by: Council on Foreign Relations. "United Nations Development Programme (UNDP)". www.un.org.my.

World Bank, 'Worldwide Governance Indicators.

The importance of strategic management orientation for enterprises in the private sector and the impacton the development of the Albanian economy

Olta Nexhipi
University of Aleksander Moisiu, Durres, Albania
oltanexhipi@uamd.edu.al

Aishejla Myshketa
University of Aleksander Moisiu, Durres, Albania
aishejla.myshketa@gmail.com

Abstract

The development of private sector is the engine of growth of every country. Successful businesses drive growth, creates new opportunities for labor market, bring new products and services for customers and pay the taxes that finance services and investment. In the private sector, strategic management orientation has long been recognized as important for the organizational performance. This research aimsto provide thoughts and information on perception of strategic management and how this strategic approach can be oriented towards three horizons: costs, markets, users. The analysis of the literature review shows the new trends in strategic management orientation on Albanian enterprises and how this help in the development of private sector. My focus will be on the Albania private sector and its effect in the economic development. The significant finding of this study is focused on the changes occurred in the Albanian economy by compering different micro and macroeconomics indicators.

Keywords: *Strategic managementorientation, private sector, Albanian economy, micro and macroeconomic environment, economy development.*

JEL classification: *F6, L1, L2, M1, O1*

1. Introduction

In the private sector, strategic management orientation has been recognized an important tool for organizational performance. It is referred to an organizational capacity to create a culture of shared valuesand behaviors by being oriented towards three horizons: costs, markets, users. (Stephen P. Osborne, 2020).Strategic management combined with other managing disciplines such as human resources management, marketing research, total quality management, operational management, organizational behavior, social responsibility, etc, are the core subjects to provide enterprise's strategy. Those disciplines are important forthe success of most SME and large enterprises in business world and also in the Albania business environment. Those tools help enterprises to gain competitive advantage, on the path of challenges towardsa globalizing economy, especially in those countries which are looking currently towards European UnionIntegration and globalization trends, such Albania does. (Stephen P. Osborne, 2020).

The aim of this study is to create ideas on the current level of Albanian entrepreneurs' strategic management. This study is focused especially on the active SME and large enterprises from 2016 to 2020 (INSTAT, 2021). All the data has been retrieved from INSTAT and has been analyzed beyond strategy management approach. In this paper is analyzed the impact of strategic management in Albanian enterprisesand also how a good strategic management approach, affects private sector and its impact in the economy.How a good strategic management plan helps those enterprises to grow and to overcome crises?

The Statistical Business Register contains information on active enterprises that operates in the Albanian territory. That information helps to analyze the structure and the economic development in the short and long term. At the end of 2020 the Business Register contained 166,386 active enterprises from which 17,319 were registered during this year. A total number of 40,053 are farmers that has been registeredto tax offices with Identification Number to Person of Tax (NIPT). The main activities in the Albanian economy are focused on trade activities. During 2020, has been registered approximately 22.1% enterpriseswith foreign owner or foreigner and Albanian partners, covered around 3.6% of total active enterprise andemploy 12.4% of total employment. According to this percentage 62.2% are European foreign and joint enterprises. Enterprises with partners from Italy and Greece represent 77.8 % of total foreign and joint enterprises.

The study is divided in two parts, where the strategic management level of Albanian enterprises isstudied based on selected criteria. The first three criteria's taken in consideration are costs, markets, users and they are analyzed on behalf of their effect in Albanian enterprises. The second part analysis the strategicmanagement level on a macroeconomic basis. In this part the analysis will be focused on SMEs and large enterprises that operates in the Albanian market and how they affect in the economy by analyzing variables such as: number of active enterprises, number of people employed, added value. Those variables are retriedfrom a range of time 2016 to 2020.

2. Literature review

In the early 90s, after the changes of political regime, brought changes on the way companies do business. Politics and economic freedom, privatization and market price were factors that affect the decision-makingprocess of Albanian firms. In this situation, an effective strategic management plan

was necessary.Strategic planning is the core discipline that help enterprises to make fundamental decisions and actions that shape and guide the organization. (Bryson 1988, p. 5). On the other hand, strategic managing is also the way to manage a firm in a strategic manner on a continuing basis. It consists on the process of mission, vision, goals and the internal and external environment of an enterprise. The selection of a winning strategy constitutes on a strategic planning as well as proposals for organizational, administrative changes, setting measures on control systems and strategy implementation, which make the links to the implementation and evaluation of the strategy.

According to Albanian law, SME are enterprises with a total number from 1 to 249 employed. Theclassification of enterprises is done according to number of employees (measured as employed on a full- time basis). Based on Law No. 10042, date 22.12.2008, for some changes and additions in Law No. 8957,date 17.10.2002, "For small and medium enterprises", as amended, enterprises are classified in: micro, small and medium enterprises. (Law on supporting SMEs, 2008) SME are treated for statistical purposes according to the number of employees (measured as employed on a full-time basis), which are classified asfollows: Micro enterprises has a total number of employees from 1 to 9 which has a turnover and / or annualbalance sheet not exceeding 10 million ALL, small enterprises from 10 to 49 employees and which has a turnover and / or annual balance sheet not exceeding 50 million ALL and medium enterprises from 50 to 249 employees. Enterprises with 250+ employees, called large enterprises, even though in 2020 constituteonly 0.2 % of enterprises, engaged 18.4 % of the workforce, realized 31.8 % of investment and 21.1 % of turnover. (Law on supporting SMEs, 2008).

Cost orientation is the first tool that helps to provide a good strategic management approach. Costorientation focuses upon reducing internal waste and increasing internal efficiency. Even though only this parameter is not sufficient to guarantee an effective performance or sustainability on testing market conditions. (Osborne et al 2015). Many enterprises in the Albanian business environment, in both manufacturing and service sectors, are faced today with dramatic changes. The aggressive international competition, increasing customer demand for new services and products have changed the way of doing business. In order to compete in today's environment have become more customer-driven in order to satisfycostumers needs for high quality and low-price products and services. In order to archive a competitive advantage and to increase market share organizations need to drive prices down and at the same time to improve constantly services and products quality. In the Albanian enterprises, especially in SME, is a process very difficult to improve because of the lack of management experience.

For SME-s is difficult tobuild a solid management plan and is difficult to maintain low costs for products and services and at the same time low prices. On the other hand, for big enterprises this is easier because of their well-defined management structure. Big enterprises have all the necessary tools, human resources and capital, to providea good management strategy in long terms and to maximize their profits. Another problem is related with the Albania's large informal sector. The tax burden is borne and paid by a relatively small number of enterprises, giving informal enterprises an unfair advantage. In this case formal enterprises may not be ableto lower their prices or expand their businesses because for them is difficult to compete with the lower business costs of their competitors. (OECD, 2019)

Competition-orientation is another important task that helps in the creation of solid business culture towards firms that are oriented to market performance. Due to globalization, competition is nowadays hard and unpredictable. The focus of SME and large firms is to provide a solid market position and the marketization of their products and services. (Powell & Osborne 2015, 2020). Albania has experienced a difficult transition period, and they have work hard to establish an economic system orientedtowards free market. Nowadays, the economy of our country has become an integral part of initiatives for liberalizing and facilitating fair competition among firms that operate in the Albanian economy. (Edi Spaho, Dr, 2020). Restrictive agreements and practices are regulated by Law No. 9121 of 28 July 2003 on competition protection (Competition Law), as amended. (Law No. 9121 of 28 July 2003). The CompetitionLaw is aligned with the standards and principles of EU competition law with Article 101(1) of the Treaty on the Functioning of the European Union, Article 81(1) of the EC Treaty. (Treaty on the Functioning of the European Union (TFEU), EC Treaty). Under the EU and Albania Stabilization and Association Agreement, which entered into force on 1 April 2009, Albania is obliged to progressively harmonies its competition protection legislation with the relevant EU regulations and implement all necessary reforms to comply with EU standards. (EC). Strategic management plays a crucial role in the company's success in the competitive market. It is an essential part of firm's strategy to achieve its objectives in a fair competitionenvironment. Adopting and implementing competition rules mean to better serve market needs and to be successful in international and domestic market. The increasing of competitive environment has changed costumer behavior by putting much pressure on management quality.

Global competitiveness is a variable that help to understand how countries compete with each otherby analyzing different economic indicators. Albania is the 81 most competitive nation in the world out of 140 economies that has been taken into consideration. (Global Competitiveness Report, 2019). The report is made up of 98 variables retrived from international organizations as well as from the World Economic Forum's Executive Opinion Survey. In this paper are analyzed two indicators: competitiveness rank and competitiveness index in a period from 2007 to 2019. (Global Competitiveness Report, 2019). The variablesare organized in 12 pillars and the most important of them are: institutions; infrastructure; ICT adoption; macroeconomic stability; health; skills; product market; labor market; financial system; market size; business dynamism; and innovation capability. The indicators are analyzed on a GCI (Global Competitiveness Index) varies between 1 to 100, in which 100 is the higher degree of competitiveness. In this analyze a new methodology was introduce aiming to integrate the notion of the 4th Industrial Revolution into the definition of competitiveness. In this case the role of human capital, flexibility and agility are emphasized as important tool for the success of an economy. (Global Competitiveness Report, 2019).

Table 1: Albania competitiveness rank and competitiveness advantages

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Competitivness Rank	98	109	108	98	88	78	89	95	97	93	80	76	81
Competitivness Index	3.55	3.48	3.55	3.72	3.94	4.06	3.9	3.84	3.83	3.93	57.29	58.1	57.61

Source: World Economic forum

Figure 1: Albania competitiveness rank and competitiveness advantages
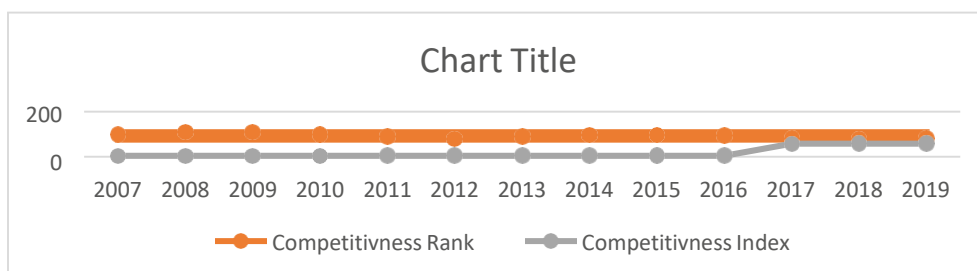
Source: World Economic forum

In the first figure is shown how the two variables, competitiveness rank and competitiveness index,has changed from 2007 to 2017. From 2017 to 2019 those changes have been decreased. This means that in the last years' Albanian global competitiveness advantage has increased and is more solid by approximating its rank and index.

Costumer-orientation is another task that help to understand what constitutes 'value' for the customers of a firm and how to embed such value at the heart of sustainable business practice (Narver et al1998). Costumers are the ones that buy our products and services and bring us revenues, so it's important to study their preferences, desires, budget, etc. Costumer orientation and costumer protection has been twoimportant points that Albanian firms has been focused, in order to expand market share and market position.The main goal of a firm is maximizing their profits and one way of doing this, is by attracting as many happy costumers as they can. Some statistics of World Bank describe the manner companies treat costumersin different countries, including also Albania. (World Bank, 2019).

The data analyzed have been retrievedfrom World Economic Forum Global Competitive Index for a period from 2007 to 2017. (World EconomicForum Global Competitive Index, 2019). Albania experienced a year-on-year average growth rate of 3.03%form the time period 2007 to 2017. (World Economic Forum Global Competitive Index, 2019). The data have been analyzed from a basis of a customer satisfaction indicator ranged from 1 to 7 where 1 represents indifferent to customer satisfaction and 7 highly responsive to customers and seek customer retention. (World Economic Forum Global Competitive Index, 2019).

Table 2: Degree of costumer orientation on Albanian enterprises

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Degree Of Customer Orientation in Albanian firms	3.93	3.95	4.2	4.73	5.29	5.01	4.49	4.69	5.36	5.26	5.14
World median	4.55	4.6	4.65	4.6	4.55	4.53	4.49	4.55	4.6	4.66	4.66

Source: World Economic Forum Global Competitive Index,
2019In your country, how well do companies treat
customers?

1 = indifferent to customer satisfaction

7 = highly responsive to customers and seek customer retention

Figure 2: Degree of costumer orientation on Albanian enterprises
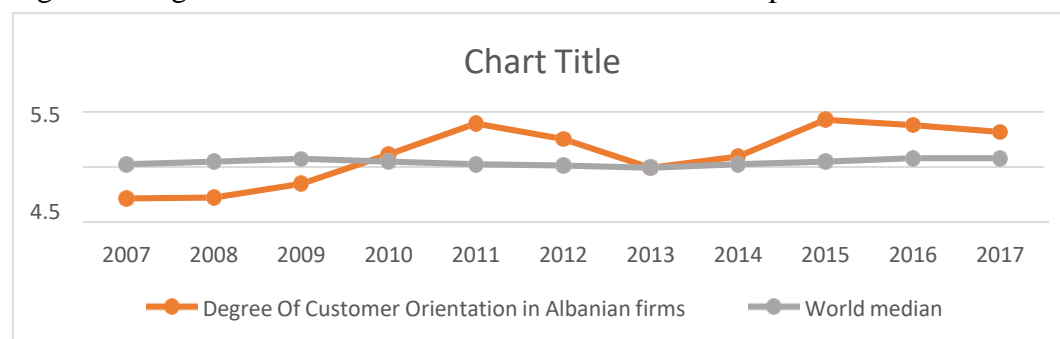
Source: World Economic Forum Global Competitive Index, 2019

In the second figure is shown how the perception of costumer orientation has changed from 2007 to 2017 in the Albanian market. The data shown in the graph are compared with the world median of perception of costumer orientation. As it is shown from the graph Albania has had an increase on this variable from 2007 to 2011 with an index of 5.29. The highest index is on 2015 with 5.36. This shows thaton 2015 the focus on costumer orientation has been higher than previous years. As it is also shown in the graph the world median stays low and with insignificant changes from year to year. This is because of the wide range of data that has been taken in consideration. In those data are reflected different economies withdifferent status and point of view. As it is illustrated also from the graph from 2009 the index of Albanian costumer orientation is always higher than world median. (World Economic Forum Global Competitive Index, 2019).

3. Methodology or Materials and Methods

The aim of this study is to evaluate the level of strategic management in the Albanian enterprises. The study focuses on SMEs and large enterprises that operate in the Albanian territory from 2016 to 2020. The study is divided into two parts, where the strategic management level of these companies is studied based on each selection criteria. The first part of the paper examines and evaluates the strategic managementlevel by considering three horizons: costs, markets, costumers.

The second part analysis the strategic management level by considering the size of the firm and the nature of industry the firm belong to. This study intends to analyze the business environment of Albanian enterprises, how much those companies know the environment in which they operate and how much capable are they to get oriented in this environment. Also another important point of the study is to describe how those changes have affected Albanian environment from year to year and how this have affected different economic indicators such as number of enterprises, number of employees and value added. The data that have been used are data's retrieved from trustable sources such as: INSTAT, World Bank, World Economic Forum, etc.

4. Results and Discussion

Overall, the Albanian economy can be defined as dominated by micro and small enterprises, by characterizing it as a micro-business oriented one. (INSTAT, 2020) The major economic activities are tradeand services. Nowadays especially SME-s constitute a significant part on the Albanian economy by generating new jobs in the economy. During this paper from the analysis made I concluded that SMEs especially small and micro ones have difficulties to apply all strategic management tools. This phenomenonhappens because of their lack of human resource's capacity and the lack of capacity to make long term planning and controlling. For SMEs is difficult to penetrate and stay in the markets for a long time. Actuallyfrom the statistics above is shown that SMEs are the ones that do not have a long life economic activity. From the statistics above is important to noticed that, even though there is a small number of large enterprises, their impact on the economy is significant. (INSTAT, 2020)

The statistics analyzed during this paper shows that large enterprises contribute significantly on employment rate and value added. (INSTAT, 2020) As discussed during the literature review large enterprises are more stable and uses better strategic management tools especially in long terms. For a solideconomy is important to have long lasting enterprises, means a secure market for goods and services, secureemployment market and fair competitiveness. Albania is still an unsecure market for both SME and large enterprises. Both categories have its own impact in the Albanian economy. In one side we have SME that generate a lot of new jobs and growth but they are not stable ones. On the other hand, we have large enterprises that generate growth by providing products and services with high standards and quality but aresmaller in number. Large enterprises find their place in the market by sharing values, ethics and a better work environment for their employees, by comparing it with international standards and by using correctlystrategic management tools such as costs, marker, users.

Figure 3: Economic indicators in Albanian economy from 2016 to 2020 separated by industries (number ofenterprises, number of employed and value added).
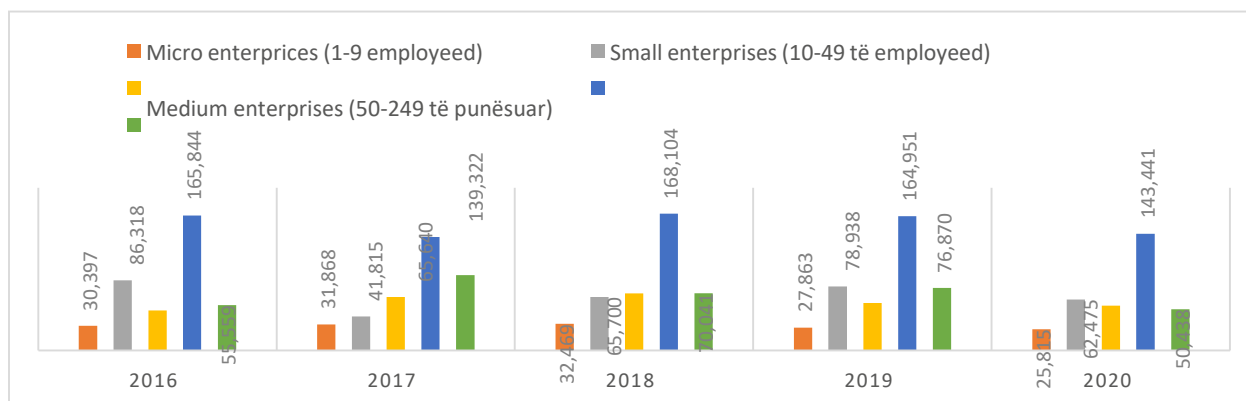
Source: INSTAT, Institute of Statistics

Figure 4: Economic indicators in Albanian economy in 2020, number of enterprises
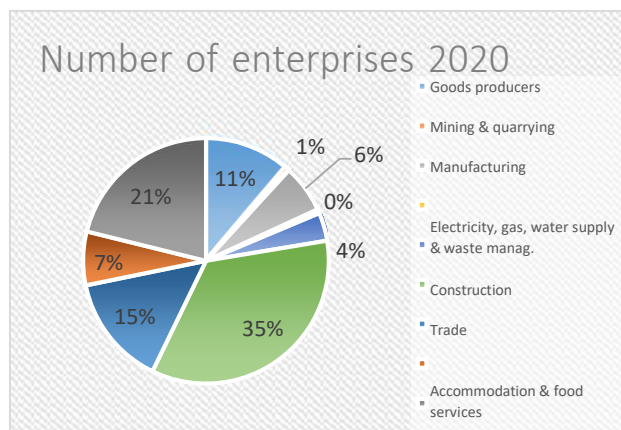
Source: INSTAT, Institute of Statistics

Figure 5: Economic indicators in Albanian economyin 2020, number of employed
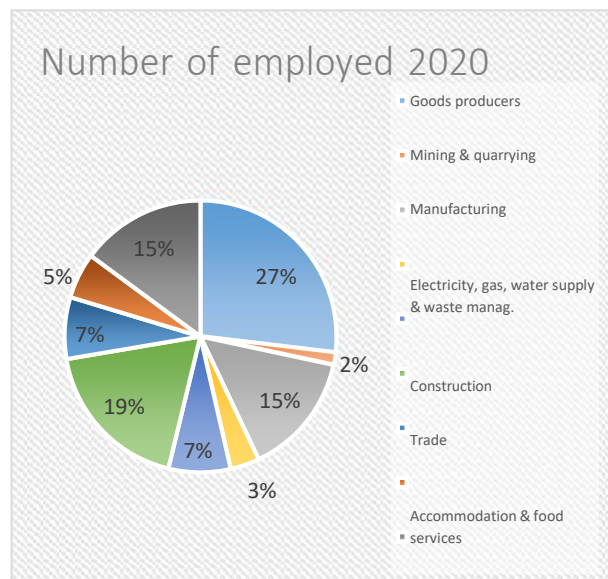
Figure 6: Economic indicators in Albanian economyin 2020, number of value added

Source: INSTAT, Institute of Statistics
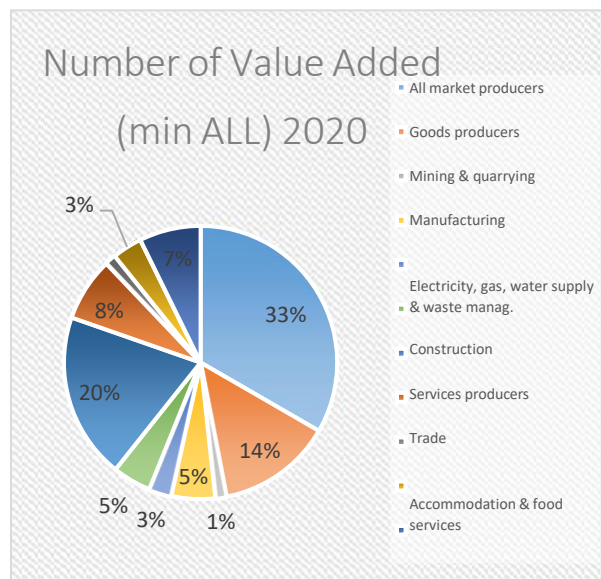
Source: INSTAT, Institute of Statistics

For more than two decades, a lot enterprises and new businesses have been growing through a hugeamount of challenges. Managers take the responsibility for creating competitive advantage and for openingnew possibilities for the Albanian market. In this part of the paper I am going to analyze different economicindicators that shows changes occurred in the Albanian economy from 2016 to 2020. Those changes are related with the types of enterprises and industries. Figure number 3 shows the percentage of SME and large enterprises in the Albanian economy from 2016 to 2020. From the statistics of the first graph is emphasize another time the domination that SME, especially micro and medium enterprises have in the Albanian economy. This graph shows changes occurred in the number of enterprises depending on each category, from one year to the other, by creating an unstable economy and difficulties in the market.

In figure 4 and 5 is analyzed the number of enterprises and employees divided by sectors, during 2020. In number of enterprises, trade sector has the highest percentage of SMEs with 35 %, while electricitygas, water supply and waste management sector has the lowest percentage with 1%. In number of employees, trade sector employed 19 %, while the sector with the lowest number of employed is electricitygas, water supply and waste management sector with 3%. On 2019 trade sector has the highest percentageof SMEs with 40.1 %, by employing 28.5% of the total active labor force. On the other hand, electricity gas, water supply and waste management sector has the lowest percentage with 0.6 %. (Instat, 2019). Value-added helps explain why companies are able to sell their goods or services for more than they cost to produce. Adding value to products and services is very important as it provides consumers with an incentive to make purchases, thus increasing a company's revenue and bottom line. Market producers havethe highest percentage of value added

33 %. On the other hand, electricity gas, water supply and waste sector have the lowest percentage of value added by 1%. From all the figures above and from all the tablesat the appendix section it is noticed an unstable economy because of the changes occurred in the number ofenterprises and also in the divisions of sectors from year to year.

5. Conclusions and Recommendations

Strategic management highlights long term-performance. Many companies can manage short-termhigh performance but only a few can sustain it in the long run. To be successful in long run need to adapt their activities to satisfy new and changing market. In this case strategic planning becomes increasingly important, as the environment becomes more unstable. Increasing risks of error, costly mistakes, and eveneconomic ruin are causing today's professional managers in all organizations to take strategic managementseriously in order to keep their companies competitive in an increasingly volatile environment. The implementation of strategic management through its three horizons costs, users and market is difficult especially for SMEs because of their lack of human resources and incapability to respond rapidly to external factors. Poor management, lack of managerial education, lack of initiative are some reasons why SMEs have problems in long-run. Managers should analyze the environment where the business is set up, is to beinstalled or is to be expanded.

The role of private sector in the Albanian performance is unquestionable. SMEs are highly important for the still fragile Albanian economy, due to their significant contribution to GDP and employment. The same analysis can be made for large enterprises. Large enterprises even though are smaller in number, constitute only 0.2% of the market, they engaged 18.4 % of active employees. This phenomenon happens as a result of the size of large enterprises and their market credibility and sustainability.

During the last decade the aim of Albanian government has been to support SME by introducing several strategic programs to support SME development. The most recent program, 'Business and Investment Development Strategy for the Period 2014- 2020', is in line with EU strategies for SMEs, including the principles of the Small Business Act/ SBA, produced by EC since 2011. This strategy reflects economic development policies aimed at improving the welfare of citizens and facilitating European integration. The focus on SME is because of the importance that they have in the Albanian economy. The aim of those strategic programs is to help them to face different problematics, such as managerial and financial ones.

Appendix

Table 3: Economic indicators in Albanian economy from 2016 to 2020(number of enterprises and numberof employed).

Indicators	Number of enterprises					Number of employed				
Year	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Micro enterprices (1-9 employeed)	102,965	101,595	100,876	96,924	95,558	194,015	192,817	194,867	196,403	186,400
Small enterprises (10-49 të employeed)	4,413	4,839	5,246	5,736	5,674	87,796	95,574	102,950	114,451	111,347
Medium enterprises (50-249 të punësuar)	996	1,077	1,147	1,251	1,173	98,491	107,171	113,911	122,330	114,767
SME (1-249 employeed)	108,373	107,511	107,269	103,911	102,405	380,302	395,563	411,727	433,184	412,514
Large enterprises (250 emplyeed)	152	166	181	179	169	89,363	97,350	103,979	97,669	91,472
Gjithsej	108,526	107,677	107,450	104,090	102,574	469,665	492,913	515,706	530,853	503,986

Source: INSTAT, Institute of Statistics

Table 4: Economic indicators in Albanian economy from 2016 to 2020(turnover, investment, value added)

Indicators	Turnover (min ALL)					Investment					Value Added (min ALL)				
Year	2016 2017	2017 2018	2018 2019	2019 2020	2020	2016	2017	2018	2019	2020	2016 2017	2018	2019	2020	2016
Micro enterprices (1-9 employeed)	480,991	409,991	474,255	481,945		30,397	31,868	32,469	27,863	25,815	116,583	105,530	116,099	130,770	121,554
Small enterprises (10-49 të employeed)	563,124	713,963	729,171	673,675		86,318	41,815	65,700	78,938	62,475	107,491	125,197	130,690	143,274	142,153
Medium enterprises (50-249 të punësuar)	420,624	564,666	583,552	555,661		49,130	65,640	69,935	58,150	55,151	104,518	128,148	143,799	147,422	142,847
SME (1-249 employeed)	1,464,739	1,688,620	1,786,978	1,711,281		165,844	139,322	168,104	164,951	143,441	328,591	358,875	390,588	421,466	406,554
Large enterprises (250 emplyeed)	416,923	491,685	476,774	436,518		55,559	92,390	70,041	76,870	50,438	162,435	166,768	174,890	160,617	142,026
Gjithsej	1,881,662	2,180,305	2,263,752	2,147,799		221,404	231,713	238,145	241,821	193,880	491,026	525,642	565,478	582,083	548,580

Source: INSTAT, Institute of Statistics

Table 5: Economic indicators in Albanian economy from 2016 to 2020 separated by industries (number ofenterprises, number of employed and value added)

Indicators	Number of enterprises					Number of employed					Value Added (min ALL)				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
All market producers	108,526	107,677	107,450	104,090	102,574	469,665	492,913	515,706	530,853	503,986	491,026	525,642	565,478	582,083	548,580
Goods producers	13,875	13,701	13,560	13,220	12,925	167,464	177,143	184,850	190,636	185,434	218,561	223,885	244,969	242,627	225,176
Mining & quarrying	498	487	646	688	690	11,120	11,281	11,540	11,318	10,173	27,067	31,802	34,414	36,570	20,763
Manufacturing	9,337	9,035	8,669	7,961	7,370	95,562	100,642	106,470	109,140	100,554	70,559	82,269	85,269	88,554	85,583
Electricity, gas, water supply & waste manag	656	701	637	641	571	20,571	22,559	21,814	22,953	23,868	55,716	35,658	49,567	44,271	43,483
Construction	3,384	3,478	3,608	3,930	4,294	40,210	42,661	45,027	47,224	50,839	65,219	74,157	75,719	73,231	75,347
Services producers	94,650	93,976	93,890	90,870	89,649	302,202	315,770	330,856	340,218	318,552	272,465	301,757	320,510	339,457	323,404
Trade	45,041	44,571	44,441	41,660	40,204	113,957	121,324	125,445	131,030	127,808	113,075	119,148	124,048	129,682	124,046
Accommodation & food services	20,043	19,599	18,966	17,394	16,847	52,141	54,524	56,183	59,104	50,595	17,621	20,893	24,546	27,797	21,659
Transport & information & communication	7,838	7,389	7,654	7,902	8,179	34,256	34,380	38,236	38,116	37,447	57,055	61,682	63,794	64,844	58,006
Services	21,729	22,416	22,830	23,914	24,419	101,848	105,541	110,992	111,967	102,702	84,714	100,034	108,121	117,133	119,693

Source: INSTAT, Institute of Statistics

References

Blanco, F., & Karadayi, L., & Karalashvili, N., Qorlazja, L., (2021), *COVID-19 impact on Albania's private sector: taking stock, looking ahead*, World Bank Blogs, Available at: https://blogs.worldbank.org/developmenttalk/covid-19-impact-albanias-private-sector-taking-stock- looking-ahead

Domi, Sh., Capellares, J., Musabelliu, B., (2019), Customer orientation and SME performance in Albania:*A case study of the mediating role of innovativeness and innovation behavior*, Journal of Vacation marketing,Vol.26(1) 130–146 Available at: https://journals.sagepub.com/doi/full/10.1177/1356766719867374

Duli, M., (2019, *ALBANIA Report on the preparation of post-2020 strategy*, Regional Cooperation Council, Co-founded by European Union, Available at: file:///C:/Users/HP/Downloads/Albania-report-Post-2020- Strategy.pdf

Hoxha, Sh., Hoxha, M., (2020), *Doing Business in Albania: Overview,* Available at: https://uk.practicallaw.thomsonreuters.com/0-636-2448?transitionType=Default&contextData=(sc.Default)&firstPage=true

IBRD, World Bank, (2017), Degree Of Customer Orientation, 1-7 (Best), Index 1-7 (Best), Availableat:https://tcdata360.worldbank.org/indicators/ha5ece102?country=BRA&indicator=627&viz=li ne_chart&years=2007,2017

INSTAT, (2018), *Institute of Statistics*, Albania, Available at: http://www.instat.gov.al/en/statistical-literacy/business-register-in-albania/

INSTAT, (2019), *Institute of Statistics*, Albania, Available at: http://www.instat.gov.al/en/statistical-literacy/business-register-in-albania /

INSTAT, (2021), Institute of statistics, *Albania, Statistics on small and medium enterprises, 2019*, Available at: Statistics on small and medium enterprises, 2019

Kraja, Y., (2013), Competitive advantage and its impact in small and medium enterprises (SMEs) (case of Albania), European Scientific Journal 9, No. 16

Kume, V., Leskaj, V., (20210), *Strategic management aspects in albanian companies,* ReserchGate, Avaiable   at: https://www.researchgate.net/publication/49583927_STRATEGIC_MANAGEMENT_ASPECTS_IN_A LBANIAN_COMPANIES

Ministry of finance, republic of Albania, (2014), *Albania Public Finance Management Strategy,* Available at: https://financa.gov.al/wp-content/uploads/2017/09/Albanian_PFM_strategy_2014-2020-1.pdf

OECD, (2019), Albania: small business act profile, chapter 13, Available at: https://www.etf.europa.eu/sites/default/files/2020-01/albania_sba_profile_0.pdf

Prifti, R., & Alimehmeti, G., (2017), Market orientation, innovation, and firm performance—an analysis of Albanian firms, *Journal of Innovation and Entrepreneurship* volume 6, Article number: 8, Available at: https://innovation-entrepreneurship.springeropen.com/articles/10.1186/s13731-017-0069-9

Rëmbeci, G., (2019). Measuring the Performance of SMEs for Evidence - Informed Economic Development Policies in Albania, Annual Review of Territorial Governance in the Western Balkans, Journal of the Western Balkan Network on Territorial Governance, pg. 98-106, Available at:https://www.co-plan.org/wp-content/uploads/2020/02/Measuring-the-Performance-of-SMEs-for- Evidence_Godiva-Rembeci.pdf

Sevrani, K., (2008), ICT IN SMALL AND MEDIUM ENTERPRISES (CASE OF ALBANIA), ICBS 2008, Available at :   http://dspace.epoka.edu.al/bitstream/handle/1/189/58-169-1-PB.pdf?sequence=1&isAllowed=y

Spaho, E., (2015), Albania's challenge for access and competitiveness in EU Market: When good will requires more than legal regulation. An inside of Albania's efforts to increase the presence of its domesticproduct in EU markets, Academicus - International Scientific Jour, Available at: https://academicus.edu.al/nr6/Academicus-MMXII-6-113-125.pdf

U.S   Department of State, (2021), *2021 Investment Climate Statements: Albania,* Available at:https://www.state.gov/reports/2021-investment-climate-statements/albania/

Wheelen, Th., & Hunger, J., (2017), Strategic Management and Business Policy TOWARD GLOBAL SUSTAINABILITY, Library of Congress Cataloging-in-Publication Data, THIRTEENTH EDITION, Available at: http://www.mim.ac.mw/books/Wheelen's%20Strategic%20Management.pdf

World Economic Forum, (2019), *Global Competitiveness Report,* Available at: https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

Opportunities for the Development of New Tourism Products in the Context of Post-Covid-19 Patient Recovery. Case study: Romania

Cosmina-Simona Toader

Banat's University of Agricultural Sciences and Veterinary Medicine "King Michael I of Romania" from Timisoara, Faculty of Management and Rural Tourism, Romania,

cosminatoader@usab-tm.ro

Brunilda Liçaj

University "Aleksander Moisiu", Faculty of Business, Durres, Albania,

brunilda.licaj@yahoo.it

Abstract

Romania is a country with many natural and anthropic resources that support the practice of spa tourism, recreation, medical, health and wellness. Its territory includes more than 1,300 mineral water resources, 45 balneo and climatic resorts and more than 30 tourist resorts located in areas with beneficial climatic factors and where there are conditions to ensure the maintenance and improvement of health. According to the national statistics in the spas and climatic resorts were registered at the level of 2019, 597 tourist reception establishments with tourist accommodation functions, the existing accommodation capacity was 35,643 places and the average duration of one stay was 4 days.

In the current context, when the post-COVID-19 medical recommendations aim at pulmonary, cardiovascular, neurological and even psychological recovery, and on the Romanian territory there are numerous areas with particular atmospheric conditions, with a therapeutic effect on physical and mental health, the development of tourism products that include services for the recovery of patients after COVID-19 can be an opportunity for the support and development of Romanian medical tourism.

This article aims to present the natural and anthropic resources that support the practice of spa tourism in Romania, especially the right resorts for the recovery of patients after COVID-19. The authors also carried out an analysis of the offers of the Romanian travel agencies regarding the existence of tourist products that would include medical services such as post-COVID-19 recovery in order to draw conclusions and proposals. The authors used observation as a research method to develop the article. The information found in the article was obtained by studying the specialized literature, the websites of some travel agencies and some statistical reports mentioned in the bibliography.

Keywords: recovery, spa resort, tourism products, travel agencies.
JEL Classification: L83, Q26, Z32

1. Introduction

The health crisis imposed by the Covid-19 pandemic has led to major global changes in all economic sectors. *(Hussain & Fusté-Forné 2021)* According to the World Tourism Organization, the tourism sector has been most affected.[1] The consequences of the COVID-19 pandemic on tourism have been and are still major.[2] According to the World Travel & Tourism Council in 2020, globally, the contribution of the Travel & Tourism sector to GDP was 5.5% (USD 4.671 billion), compared to 10.4% in 2019 (USD 9.170 billion), a decrease of 49.1%. It should be mentioned that in the period 2014-2019 Travel & Tourism generated 1 out of 4 new jobs worldwide. If in 2019 this sector "involved" 334 million jobs, in 2020 it decreased by 18.5%, reaching 272 million jobs.[3]

Also, according to information provided by the World Tourism Organization (UNWTO), in 2020 the number of international tourist arrivals was 403 USD million (73% less than the previous year), the international of tourism receipts was 549.1 USD billion 63% less than the previous year) with 1,364 USD receipts per arrival.[4]

In terms of inbound arrivals, the most visited countries in 2020 were France, Italy, Mexico, the United States, Spain, Turkey, Austria, Germany, the United Kingdom and Poland.[5]
In Romania, in 2020, the contribution of Travel & Tourism to GDP was 2.9% (7,004.3 million USD), compared to 6.1% (15,734.3 million UDS), registering a decrease of 55.5%. In the Travel & Tourism sector, in 2020, there were 559.6 employees, compared to 575.8 in 2019. The number of foreign tourists who visited Romania in 2020 was 5 million (61% less than the previous year), registering $ 1.4 billion international tourism receipts (60% less than the previous year) and 287 UDS receipts per arrival. The countries of origin of foreign tourists who visited Romania in 2020 are: Germany (15%), Italy (9%), Hungary (15%), United Kingdom (15%), Poland (15%) and other countries (61 %).[6,7]

Given that the tourism industry is present everywhere, and its impact on it and its impact on other sectors cannot be attributed to a single entity, cooperation between tourist destinations, tourists, public institutions and private institutions for short and long term support is vital for the recovery of tourism.[8,9,10]

Consequently, it is necessary to develop planning strategies for the recovery of the tourism sector, and small-scale measures can be taken to capitalize on resources and turn threats into opportunities *(Dincu, et al, 2021)*, moreover, design new tourism products to address the current needs of tourists, for example recovery post COVID-19.

---

[1] COVID-19: Putting People First. World Tourism Organization (UNWTO). 2020.
[2] One Planet Vision for a Responsible Recovery of the Tourism Industry. World Tourism Organization (UNWTO). 2020.
[3] Global Economic Impact and Trends 2021, World Travel and Tourism Council.
[4] Global and Regional Tourism Performance, World Travel and Tourism Council
[5] Country Profile – Inbound Tourism, World Travel and Tourism Council
[6] Romania, 2021 Annual Research: Key Highlights. World Travel and Tourism Council
[7] Romania, Country profile overview, World Tourism Organization (UNWTO)
[8] COVID-19: Tourism Recovery Technical Assistance Package. World Tourism Organization (UNWTO). 2020
[9] Supporting Jobs and Economies through Travel and Tourism: A Call for Action to Mitigate the Socio-Economic Impact of COVID-19 and Accelerate Recovery. World Tourism Organization (UNWTO). 2020.
[10] Restrictions on Travel Easing as Europe Leads Cautious Restart of Tourism. UNWTO. 2020.

2. Literature Review

A great part of population has been affected by the COVID-19 pandemic, with a high morbidity and mortality rate. If at first the attention was directed to the clinical description of the acute disease, recently the attention began to turn to persistent symptoms that manifest after the initial period of the disease. SARS-CoV-2 infection can cause multiple organ damage and can leave complex, multiple sequelae, such as pulmonary, cardiac, neurological, musculoskeletal, psychological, etc., which can lead to disabilities and decreased quality of life. Respiratory damage and its consequences are presented as a common element in post-COVID-19 patients, the remaining clinical picture being that of a restrictive respiratory syndrome.

The most common symptoms described by patients in the post-COVID-19 period are: fatigue, shortness of breath, chest pain, loss of taste and smell, cough. Less common symptoms are headaches, arthralgia, anorexia, dizziness, myalgia, insomnia, alopecia, sweating and diarrhea. According to the literature, some symptoms, such as fever, chills and olfactory/gustatory symptoms, improve more quickly (2-4 weeks), while others (fatigue, dyspnea, tightness in the chest, cognitive deficits and psychological effects) can last for months.*(Carfì, et al, 2020; Chen, et al, 2022; Xiong, et al, 2021)*

The battle against COVID-19 did not end with the detection and treatment of acute disease, the burden of secondary disease is high and not limited to acute disease, therefore epidemiological studies will continue to identify the long-term effects of this disease. *(Peramo-Álvarez, et al, 2021)* Although there are no long-term studies, post-COVID-19 symptoms have a high incidence.
Therefore, after overcoming the acute stage of the disease, the effects of the disease can extend over varying periods of time, the quality of life of patients being affected. Careful monitoring, restoring functionality and work capacity shortening the return time to a normal life. In this context, some patients may need post-COVID-19 medical recovery. Recommendations for post-COVID-19 recovery are made by healthcare professionals and differ depending on the type of sequelae. Thus, recovery can be done through physical therapy, electrotherapy and balneotherapy. Post-COVID-19 recovery can be performed in hospitals, at the patient's home, via telemedicine, in specialized centers, and in spas in treatment centers. *(Ciortea, et al, 2021)*

The purpose of the present article is to identify the natural and anthropic resources that support the practice of spa tourism in Romania, especially those spa resorts proper for the recovery of patients after COVID-19 in order to highlight the opportunity of developing new tourist products in context of post COVID-19 patient recovery. The article also contains an analysis of the offers of 10 Romanian travel agencies regarding the existence of tourist products which include medical services such as post-COVID-19 recovery in order to draw conclusions and proposals.

3. Materials and Methods

In order to attain the purpose of the article, the authors have been made the following steps:

- setting the purpose of the article and aspects to researche
- setting the proper research method and instrument
- studying different sources related to researched aspects (specialized literature and statistical reports)
- developing of the observation form
- selection of 20 travel agencies from Romania
- studying the offers of selected travel agencies
- filling the observation form
- analyzing of colected data
- drawing conclusions

Fig.1. Methodological steps

Literature review	**Data collection methods:** - document analysis
	Sources: - reports, statistics, published works related to COVID-19 effects, medical recomandations and recovery
	Analyzed aspects: - sequelae post-COVID-19 - recommendations for post-COVID-19 recovery
Studying aspects related to spa tourism in Romania	**Data collection methods:** - document analysis
	Sources: - reports, statistics
	Analyzed aspects: - natural and anthropic resources of spa tourism from Romania - spa resorts suitable for post-COVID-19 recovery in Romania
Studying the offers of 20 travel agencies in Romania to observe the presence of medical tourism packages related to post-COVID-19 recovery	**Data collection methods:** - observation (with observation form)
	Sources: - travel agency websites
	Analyzed aspects: Q1. Does the travel agency offer tourist packages in spa resorts from Romania? Q2. Do the offered tourist packages include post-COVID-19 recovery procedures?

Regarding the study travel agencies offers, selection of the travel agencies was made according to their financial results, popularity and presence in online. In this sense, were chosen 10 travel agencies who registered the best financial results in Romania, 5 travel agencies which were

nominated as the most popular in Romania and 5 travel agencies which are find on a simple search on internet and are visible on social media.[11,12]

4. Results and Discussions

The tourist resort is represented by the locality that has natural tourist resources and the necessary structures to ensure and develop specific tourist functions. Depending on the importance, level of organization and endowment of the resorts, they can be of national, zonal and local importance. Depending on the tourist function performed, the tourist resorts can be spas, climatic resorts and resorts for rest and recreation. By balneo resort is meant the locality that has resources of mineral substances, scientifically proven and traditionally recognized as therapeutically effective, specific facilities for treatment and which has an organization that allows the provision of health care in appropriate conditions. By climatic resort is meant the locality located in areas with beneficial climatic factors and which has conditions to ensure the maintenance and improvement of health and / or work capacity, as well as rest and comfort.

By balneo-climatic resort is meant the locality arranged and equipped in order to capitalize on natural factors of cure and climatic resources, associated with natural or anthropic tourist resources. Balneo and recovery medical assistance is provided in spas, climatic and balneo-climatic resorts, in the form of: [13,14]

- prophylactic and / or recovery of work capacity, including anti-stress and / or anti-overwork;
- therapeutic cures;
- recovery treatments for groups of chronic diseases and / or for patients with various functional deficits and / or with different degrees of disability.[15,16]

Currently, in the over 80 resorts in Romania (spas, climates and spas of national, zonal and local interest), different diseases are treated (cardiovascular, rheumatic, respiratory, digestive, hepatobiliary, renal, neurological, orthopedic-traumatic, endocrine, metabolic and dermatological) through various procedures and treatments (physiotherapy, electrotherapy, massage, inhalations, aerosols, fitness, mud packs, mineral water baths, salt water baths, thermal water baths, internal mineral water cures, anti-stress treatment, Gerovital treatment, skunks).

---

[11] Activities of travel agencies and tour operators. Sector Study

[12] The best travel agencies in Romania

[13] Decision No. 1154 of July 23, 2004 on the approval of the Unitary Technical Norms for the accomplishment of the complex documentation for the attestation of the functioning of the spas, climatic and balneo-climatic resorts and for the organization of the entire activity of use of the natural factors

[14] The draft Government Decision on amending the Government Decision no. 1016/2011 on granting the status of spa and balneo-climatic resort for some localities and areas that have natural healing factors.

[15] Law no. 343 of May 31, 2002 for the approval of the Government Ordinance no. 109/2000 on spas, climatic and balneo-climatic resorts and spa and recovery medical care

[16] Ordinance no. 109 of August 31, 2000 on spas, climatic and balneo-climatic resorts and spa and recovery medical care

An evaluation of the Romanian spa resorts was carried out by the Romanian Balneology Association. The evaluation of the resorts took into account 50 evaluation criteria, organized by different areas, such as attractiveness, natural resources, human resources, quality of services, development policies and strategies, investments, promotion, credibility, public relations, civic involvement. Table 1 shows the top of spas in 2018.

Table 1. Top of spa, climatic and balneo-climateric resorts, 2018

No	Spa resort	Total score	No	Spa resort	Total score
1	Baile Felix - 1 Mai	70	16	Slanic Prahova	50
2	Techirghiol	67	17	Vatra Dornei	48
3	Baile Tusnad	65	18	Ocna Sugatag	47
4	Sovata	64	19	Buzias	46
5	Covasna	63	20	Ocna Sibiului	45
6	Băile Govora	62	21	Singeorz Bai	44
7	Băile Olanesti	60	22	Balvanyos	43
8	Turda	59	23	Praid	42
9	Eforie Nord	58	24	Lacul Sarat	41
10	Baile Herculane	56	25	Baltatesti	40
11	Calimaneati-Caciulata	55	26	Bazna	38
12	Amara	54	27	Pucioasa	37
13	Geoagiu Bai	53	28	Borsec	35
14	Mangalia - Neptun	52	29	Moneasa	34
15	Slanic Moldova	51	30	Sarata Monteoru	33

Source: https://bioclima.ro/sta%C8%9Biuni.php

Among the spa, climatic and balneo-climateric resorts, in the top in 2018, we have identified those resorts can be considered suitable for the recovery of various post-COVID-19 sequelae. This can be seen in figure 2.

Fig.2. Distribution of the most important balneo-climatic resorts on Romanian Map
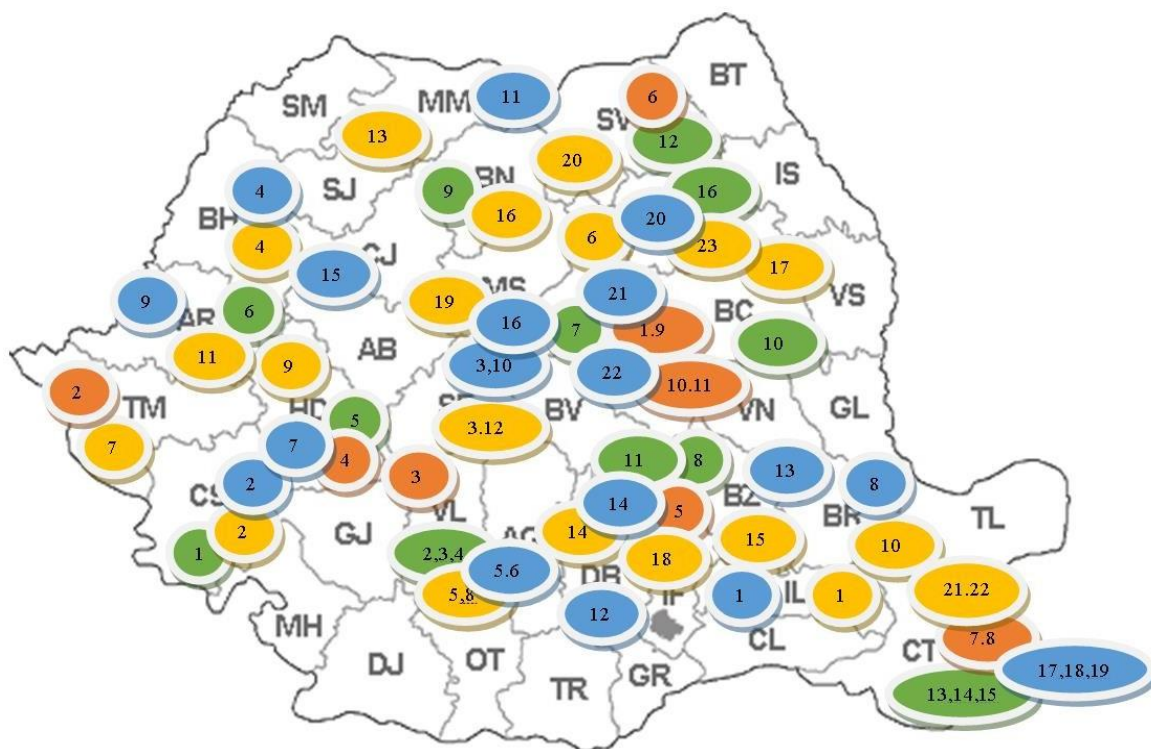
Balneo-climateric resorts according to indications for treatment			
Pulmonary recovery	**Cardiac recovery**	**Neurological recovery**	**Rheumatic recovery**
1. Baile Herculane	1. Baile Tusnad	1. Amara	1. Amara
2. Baile Govora	2. Buzias	2. Baile Herculane	2. Baile Herculane
3. Baile Olanesti	3. Calimanesti-Caciulata	3. Bazna	3. Bazna
4. Calimanesti-Caciulata	4. Geoagiu Bai	4. Baile Felix - 1 Mai	4. Baile Felix - 1 Mai
5. Geoagiu Bai	5. Slanic Prahova	5. Baile Govora	5. Baile Govora
6. Moneasa	6. Vatra Dornei	6. Baile Tusnad	6. Calimanesti-Caciulata
7. Praid	7. Eforie Nord	7. Buzias	7. Geoagiu Bai
8. Sarata Monteoru	8. Neptun-Mangalia	8. Calimanesti-Caciulata	8. Lacul Sarat
9. Sangeorz Bai	9. Borsec	9. Geoagiu Bai	9. Moneasa
10. Slanic Moldova	10. Balvanyos	10. Lacul Sarat	10. Ocna Sibiului
11. Slanic Prahova	11. Covasna	11. Moneasa	11. Ocna Sugatag
12. Vatra Dornei		12. Ocna Sibiului	12. Pucioasa
13. Eforie Nord		13. Ocna Sugatag	13. Sarata Monteoru
14. Techirghiol		14. Pucioasa	14. Slanic Prahova
15. Neptun-Mangalia		15. Sarata Monteoru	15. Turda
16. Baltatesti		16. Sangeorz Bai	16. Sovata
		17. Slanic Moldova	17. Eforie Nord
		18. Slanic Prahova	18. Neptun-Mangalia
		19. Sovata	19. Techirghiol
		20. Vatra Dornei	20. Baltatesti
		21. Eforie Nord	21. Borsec
		22. Techirghiol	22. Balvanyos
		23. Baltatesti	

Source: processed after data provided by https://statiunibalneare.com/ and www.inrmfb.ro

According to the Statistical Yearbook of Romania, in 2019 there were 6 sanatorium spas, with 1,811 beds. Also, the number of beds in the rehabilitation, physical medicine and balneology units was 8,471.

Granted by means and social insurance were offered 164,400 balneary treatment and rest tickets, distributed in 45 balnear and climacteric resorts from Romania. The total value of the treatment tickets was 54,842,662 euro. Regarding the existing accommodation structures in the tourist resorts, they number 597 tourist accommodation structures, of which 135 are hotels.

The total number of places in the accommodation structures is 35,643, of which 24,712 are found in hotels. The index of net utilization of operating capacity was 51%, and the average length of stay was 4.2 days.[17]

The number of Romanian tourists who purchased tourist packages in the spa area from organizing agencies was 152,804, and from intermediate agencies 13,575.

The study of the tourist offers of a number of 20 travel agencies in Romania highlighted the aspects presented in table 2.

Table 2. The results of the study carried out on the tourist offers of the selected travel agencies

Travel agency	Q1 (yes/no)	Name of spa resort(s)	Q2 (yes/no)	Name of spa resort(s)
1	no	-	no	-
2	no	-	no	-
3	no	-	no	-
4	yes	Baile Herculane / Baile Olanesti / Baile Govora / Baile Felix	no	-
5		Baile Felix / Baile Tusnad / Baile Herculane / Covasna / Sovata / Calimanesti-Caciulata / Baile Govora / Baile Olanesti / Geoagiu Bai / Vatra Dornei / Sangeorgiu de Mures / Slanic Moldova	no	-
6	yes	Sovata / Covasna / Baile Tusnad / Praid / Turda / Balvanyos / Geoagiu Bai / Sangeorz Bai / Ocna Sibiului / Borsec / Sangeorgiu de Mures / Tasnad / Vata de Jos / Bixad / Eforie Nord	no	-
7	yes	Baile Felix / Baile Herculane / Baile Olanesti / Geoagiu Bai / Ocna Sugatag / Baile Tusnad / Calimanesti-Caciulata / Covasna / Slanic Moldova / Sovata	no	-
8	no	-	no	-
9	yes	Baile Herculane / Baile Govora / Baile Olanesti / Baile Tusnad / Buzias / Cacica Bai / Geoagiu Bai Pucioasa / Balvanyos / Bazna	no	-
10	yes	Baile Felix / Baile Govora /	no	-

---

[17] Romania Statistical Yearbook 2019, National Institute of Statistics

		Baile Herculane / Baile Olanesti / Baile Tusnad / Borsec / Balvanyos / Cacica Bai / Calimanesti-Caciulata / Covasna Geoagiu Bai / Ocna Sugatag Pucioasa / Slanic Moldova Sovata / Vatra Dornei		
11	no	-	no	-
12	yes	Baile Felix / Baile Govora / Bazna / Baile Herculane / Balvanyos / Calimanesti-Caciulata / Covasna / Ocna Sugatag / Sangiorgiu de Mures / Slanic Moldova / Turda / Baile Olanesti / Vatra Dornei / Sovata / Baile Tusnad	no	-
13	no	-	no	-
14	yes	Baile Felix / Baile Govora / Baile Herculane / Baile Olanesti / Vatra Dornei / Slanic Moldova / Covasna / Sovata	no	-
15	yes	Baile Felix / Baile Govora / Balvanyos / Tusnad / Baile Herculane / Baile Olanesti / Praid / Sovata / Turda / Vatra Dornei	no	-
16	yes	Amara / Baile Herculane / Geoagiu Bai / Sovata / Baile Felix / Baile 1 Mai / Baile Tusnad / Ocna Sugatag / Vatra Dornei / Calimanesti-Caciulata / Pucioasa / Baile Govora / Baile Olanesti / Covasna / Slanic Moldova	no	-
17	yes	Baile Felix / Baile Herculane / Calimanesti-Caciulata / Baile Govora / Baile Olanesti / Baile Tusnad / Sovata	no	-
18	yes	Baile Tusnad / Baile Felix / Covasna / Baile Herculane	no	-
19	no	-	no	-
20	yes	Sovata	no	-

Source: own researches

As can be seen from Table 2, most of the selected travel agencies offer tourist packages in Romanian spas, but none of them offer special post-COVID-19 recovery packages, although there are hotels, treatment centers in Romanian resorts that have such packages in their offers.

5. Conclusions and Recommendations

Post-Pandemic Recovery of tourism should aim at adopting a tourism product policy aimed at developing competitive and attractive tourism products on the domestic and international market, and modernizing and expanding the Romanian tourism offer. In this sense, focusing all stakeholders on capitalizing on the potential by transforming resources into competitive tourism products is both a rational policy and an advantageous and sure path to progress and prosperity.

At present, the Romanian travel agencies, whose offers have been analyzed, offer tourists package-type stays in spas and climates in the country, but do not sell tourist packages that include post-COVID-19 medical recovery services. The numerous balneo-climatic resorts in Romania that are suitable for the post-COVID-19 recovery can support the recovery of Romanian tourism to a considerable extent.

References

Activities of travel agencies and tour operators. Sector Study, [Online]. Available: www.risco.ro

Carfî A, Bernabei R, Landi F, for the Gemelli Against COVID-19 Post-Acute Care Study Group. (2020). Persistent Symptoms in Patients after Acute COVID-19. *JAMA*. 324(6):603–605. doi:10.1001/jama.2020.12603

Chen, Y., Zhang, N., Zhang, J., Guo, J., Dong, S., Sun, H., Liu, W. J. (2022). Immune response pattern across the asymptomatic, symptomatic and convalescent periods of COVID-19. *Biochimica et Biophysica Acta - Proteins and Proteomics*, *1870*(2). https://doi.org/10.1016/j.bbapap.2021.140736

Ciortea, V. M., Nistor, A. R., Szabo, F., Motoașcă, I., Bendea, E., Borda, I. M., Ciubean A.D., Ungur R.A., Irsay, L. (2021). A current challenge of rehabilitation medicine: the management of disabilities induced by acute SARS-CoV-2 infection. *Health, Sports & Rehabilitation Medicine*, *22*(1), 53–60. https://doi.org/10.26659/pm3.2021.22.1.53

Country Profile – Inbound Tourism, World Travel and Tourism Council. [Online]. Available: https://www.unwto.org/country-profile-inbound-tourism

COVID-19: Putting People First. World Tourism Organization (UNWTO). 2020. [Online]. Available: https://www.unwto.org/tourism-covid-19.

COVID-19: Tourism Recovery Technical Assistance Package. World Tourism Organization (UNWTO). Madrid, Spain, 2020. [Online]. Available: https://webunwto.s3.eu-west-1.amazonaws.com/s3fs-public/2020-05/COVID-19-Tourism-Recovery-TA-Package_8%20May-2020.pdf

Decision No. 1154 of July 23, 2004 on the approval of the Unitary Technical Norms for the accomplishment of the complex documentation for the attestation of the functioning of the spas, climatic and balneo-climatic resorts and for the organization of the entire activity of use of the natural factors

Dincu, Ana-Mariana, Brad, I., Bălan, Ioana Mihaela, Raba Diana Nicoleta, Hammad Ahmed Adel (2021). The role of travel agencies in choosing a tourism destination, *Lucrări Ştiinţifice. Zootehnie şi Biotehnologii* (Scientific Papers: Animal Science and Biotechnologies), vol. 54 (1)

Hussain, A.; Fusté-Forné, F. (2021). "Post-Pandemic Recovery: A Case of Domestic Tourism in Akaroa (South Island, New Zealand)". *World*, 2, 127–138. https://doi.org/10.3390/world2010009

Global Economic Impact and Trends 2021, World Travel and Tourism Council. [Online]. Available: https://wttc.org/Portals/0/Documents/Reports/2021/Global%20Economic%20Impact%20and%20Trends%202021.pdf?ver=2021-07-01-114957-177

Global and Regional Tourism Performance, World Travel and Tourism Council. [Online]. Available: Available: https://www.unwto.org/global-and-regional-tourism-performance

Law no. 343 of May 31, 2002 for the approval of the Government Ordinance no. 109/2000 on spas, climatic and balneo-climatic resorts and spa and recovery medical care

One Planet Vision for a Responsible Recovery of the Tourism Industry. World Tourism Organization (UNWTO). 2020. [Online]. Available: https://webunwto.s3 .eu-west-1.amazonaws.com/s3fs-public/2020-06/one-planet-vision-responsible-recovery-of-the-tourism-sector.pdf

Ordinance no. 109 of August 31, 2000 on spas, climatic and balneo-climatic resorts and spa and recovery medical care

Supporting Jobs and Economies through Travel and Tourism: A Call for Action to Mitigate the Socio-Economic Impact of COVID-19 and Accelerate Recovery. World Tourism Organization (UNWTO). 2020. [Online]. Available: https://www.e-unwto.org/doi/pdf/10.18111/9789284421633

Peramo-Álvarez, F. P., López-Zúñiga, M. Á., López-Ruz, M. Á. (2021). Secuelas médicas de la COVID-19 (2021). *Medicina Clínica*, vol. 157, Issue 8, 2021, 388-394. https://doi.org/10.1016/j.medcli.2021.04.023. [Online]. Available: https://www.sciencedirect.com/science/article/pii/S002577532100289X?pes=vor

Restrictions on Travel Easing as Europe Leads Cautious Restart of Tourism. UNWTO. 2020. [Online]. Available: https://www. unwto.org/news/restrictions-on-travel-easing-as-europe-leads-cautious-restart-of-tourism

Romania, 2021 Annual Research: Key Highlights. World Travel and Tourism Council. [Online]. Available: https://wttc.org/Research/Economic-Impact

Romania, Country profile overview, World Tourism Organization (UNWTO). [Online]. Available: https://www.unwto.org/country-profile-inbound-tourism

Romania Statistical Yearbook 2019, National Institute of Statistics

Romanian Association of Balneology, https://bioclima.ro/sta%C8%9Biuni.php

Romanian Institute of Recovery, Physical Medicine and Balneoclimatology, www.inrmfb.ro

The best travel agencies in Romania, [Online]. Available: http://www.traveler.ro/cele-mai-bune-agentii-de-turism-din-romania/

The draft Government Decision on amending the Government Decision no. 1016/2011 on granting the status of spa and balneo-climatic resort for some localities and areas that have natural healing factors.

Xiong, Q., Xu, M., Li, J., Liu, Y., Zhang, J., Xu, Y., Dong, W. (2021). Clinical sequelae of COVID-19 survivors in Wuhan, China: a single-centre longitudinal study. *Clinical Microbiology and Infection*, *27*(1), 89–95. https://doi.org/10.1016/j.cmi.2020.09.023

Sovereign loan. How did it suppress crisis and how much did the implementation of supportive schemes helped the economy?

Msc. Çelnik Mujollari
Faculty of Business "Aleksandër Moisiu" University, Durrës
niku.mujo@gmail.com

Prof. Dr. Shkelqim Fortuzi
Faculty of Business "Aleksandër Moisiu" University, Durrës
shkelqimfortuzi@yahoo.com

Abstract

This work is based on information and previous work, giving the possibility of assessing in detaileverything related to the sovereign loan. In the first part, it is presented the literature review on general information like the launch of twosovereign loans with the first amounting in eleven billion ALL and the second in fifteen billions ALL. Contrary to the first loan which aimed to help businesses to be able to pay their employees, the second loan was directed to circulating capital and investment. In this case, the risk of the loan is addressed by the state and private bank with the first addressing sixty percent of it and the second forty percent. Certainly, there are considered large amounts on size and contain interest rates that approach five percent in a five-year period timeframe. In order to obtain these sovereign warranty loans, each of the businesses should comply with the conditionsimplied and furthermore should present the necessary documentation required. We have emphasized the big earners of these warranties and by comparing we have declared our insights that every business eligible has in regard to the conditions displayed.

The second part of this work displays the impact of sovereign risk in the economic activity and financial stability and based on the empirical analysis it is proven that macroeconomic effects onfinancial stability are expand beyond the monetary policy and interest rate factor. Banks play a crucial in the economy because through their lending activity they finance it. However, the restrictions imposed by the European Bank Authority on banks that operate outside the European Union countries resulted in higher impact of sovereign risk on the economic activity and financial stability increased substantially, including in this case even the Albanian case.

Furthermore, we present the supportive financial mechanisms for member countries that are facing actual or potential macroeconomic problems through the solvency mechanisms and how can they help in the reduced possibility of such crisis happening in the future. Therefore, we study the role that these solvency plans have in reducing the possibility of incomplete sovereign commitments in emerging countries, by taking example framework plans supported by the IMF.

Keywords: *Sovereign warranty, Big Earners, Impact of sovereign risk, IMF Framework.*

1. Introduction

The purpose of this work is to study the sovereign warranty in our country. Sovereign warrantywas imposed during the COVID-19 period in order to help businesses affected by the government measure taken to prevent a financial crisis caused by the pandemic. In addition, we present the sovereign debt crisis and the supportive schemes created by the International Monetary Fund.

Research questions

-What is sovereign warranty?

-Which were the two warranties that government committed to help businesses during the COVID-19 period?

-Which are the eligible conditions to benefit?

-Which are the big benefiters?

-What impacts did the sovereign debt crisis have on businesses?

-What are the supportive programs?

Work structure

The work is structured in four sectors that are analyzed below:

The first part contains the introduction, the purpose and the research questions.

The second part contains the literature review which includes the theoretical approach on sovereign warranty, the conditions of eligibility for sovereign loans, big benefiters, the business insights regarding both sovereign warranties, the sovereign debt crisis and overall, the supportiveframework of International Monetary Fund.

The third part contains the methodology where hypothesis is identified, instruments that areused in this research etc. The last sector displays the analysis result related to supportive programs.

The second sovereign loan. The first six months business will only pay the interest

Because of situation created by the COVID-19, a lot of businesses suffer from severe liquidity conditions that would help to restart their activity. A capital impulse is necessary to restart theiractivity and bring income. For these reasons, the Albanian government decided to offer a sovereign warranty of fifteenbillion ALL, which is directed to circulating capital and investments on different business fields, with the aim of accommodating their post COVID-19 necessities.

Eligibility conditions of obtaining the second sovereign loan

The sovereign warranty was published in the Official Journal, where it was specified that the loan amounting in fifteen billion ALL would be issued to businesses from 18ᵗʰ of May2020. Throughout this sovereign warranty every business no matter of a big, medium or small scale could apply. Every business that applies for the loan should firstly be able to prove that their activity isaffected or terminated because of Covid-19.

There should not have fiscal obligations for period between December 2019 and February 2020. From these conditions are exempt businesses that have agreements for periodical fiscal paymentsand those that are in the application phase. The later ones can only use the loan for investments or to support the business activity.

Sixty percent of the loan will be ensured by the government and forty percent will be covered bythe Bank, varying from the risk prospects that the business presents collateral can be required or not. The maximal amount is three hundred million ALL (twenty hundred forty thousand euros, buthalf of it should not be larger than one hundred and fifty million ALL (one hundred and fifty thousand euros. The first couple of months, there will only interest be paid and the principal willstart to be paid on the seventh month. The loan interest will vary between three to five percent.

2. Framework Supported by IMF and Sovereign Debt Crisis

Presentation

The risk of running larger debts in not a new challenge for many countries. Four years before the Covid-19 pandemic, the global debt has reached a record of two hundred and twenty five percent of global GDP, a raise of twelve percent point of GDP in comparison with the previous high recorded registered in the beginning of the 2017 financial crisis(IMF 2018).As thepandemic emerges, the average debt in 2021 is expected to raise seventeen percent of GDP on the developed countries, twelve percent on emerging economies and eight percent in low incomecountries in comparison to the prediction before the pandemic.

Countries will face higher costs to fight the pandemic and lower income because of automatic stabilizers. (IMF 2020). Higher public debt exposes countries against an international unexpected tighter liquidity environment and therefore raise the risk of the inability to make the later payments. An important research question of this policy is if the IMF fund, in their mandate to provide supportive financial mechanisms for member countries that face actual or potential macroeconomic problems, can reduce the possibility of later crisis. In this paper, by taking as example the programs supported by IMF, we study the role of solvency frameworks in their ability to reduce the risk of facing an inability to meet the sovereign obligation in the emerging countries.

In theory, the mechanisms that the IMF supported framework can affect on the sovereign debtcrisis are not obvious. IMF loans can affect in the ability to pay the sovereign between conflicting channels. (Jorra 2012). Firstly, a mechanism can be created to address the needs of provisional liquidity, especially in the context of an illiquid government. In case that a government faces a temporary liquidity problem, using a credit line from IMF can ease the liquidity restrictions and avoid a self-fulfilling crisis. (Fisher 1997). Besides the easing of liquidity constrictions, IMF support can catalyst the investor participation through improving their trust which can result in capital mobilization from other resources. (Dhonte 1997; Fisher 1997; Bird and Rowlands 2002; Tirole 2002; Morrisand Shin 2006; Saravia 2010).

However, the catalytic effect on private lenders can come with higher costs on the long run plansespecially if the government accumulates higher level of private debt. (Fink and Scholl 2016). Secondly, IMF frameworks can affect debt crisis through the channels of improving policy. If countries not pay the consequence of their policy actions because of the IMF insurance provided-because of emergency loans that are cheaper than the free market conditions, this can create a moral risk that these countries will hesitate to undermine necessary but painful fiscal measures.A moral risk can specifically be created if the IMF fails to identify a temporary liquidity crisis from a permanent one (Vaubel 1996; Dreher 2004). Lastly, a third mechanism interconnected ina sort of way with the previous channeling, is the role of conditions implied by the IMF programs. Restrictions, if adjusted and implemented in the correct way, can help in the reconstruction of a stable macroeconomic position, including an improved fiscal position.
Therefore, the question of IMF supported programs having a positive or negative effect in the possibility of facing debt crisis is an empirical case.

The empirical assessment of this paper is supported in a large panel and representatives from onehundred and six countries that participated in the emerging period of 1970-2016. We address the common case of identifying the IMF assessment by using different strategies. In our referred approach we use the entropy balance approach, a generalization of conventional matching methods proposed by Hainmueller (2012) and used lately from Neuenkirch and Neumeier (2016) to study the effect of sanctions imposed by USA on poverty levels. From Balima (2017) we analyses the internal participation of sovereign bonds in financial dollarization. In contrast to other alternative methods, the relative balance entropy methodology will be discussed in thoroughly in details in the methodologic section.

This method gives us the ability to identify theeffect of programs supported by IMF by comparing similar countries in terms of stability after the elimination of specific factor of time and place. In the stability assessment, we use a variable instrumental approach and conventional case. Our variable instrumental strategy uses two policyvariables, the connection between main creditors of IMF in the main assembly of United Nationsand their previous executive elections as an external instrument of the country to sign a program with IMF. The matching methods use the matching of the bias results and the matching correctedby the bias to deal with the selection bias in approving the Fund's program.

3.Methodology

Entropy balance Framework

The objective of this paper is to analyze the role that these supporting programs have in the reduction of possibility of facing upcoming sovereign debt crisis (SDC) in countries that participate on these loans, by taking as an example the programs supported by IMF. Our challenge consists of creating a causal relationship that is executed exclusively from the application of an IMF program up until the appearance of a sovereign debt crisis (SDC). As is mentioned by Bird (2001) and Dreher and Walter (2010), the empirical studies on the effect of IMF programs usually face the problems of contradiction and endogeneity. On one side, it is difficult to predict correctly the result that would be obtained without a program and to specifythe quantity of effect that a program participation would generate. On the other side, countries usually head to the IMF on periods of economic downturn, especially where a crisis is on sightbecause of the mandate of international last lender resort that IMF represents. A couple of previous studies on this topic, use a twostep evaluation approach Heckman (1979) or a variableinstrumental approach (Przeworski and Vreeland 2000; Hardoy 2003; Barro and Lee 2005; Conway 2006; Jorra 2012). Other studies also use conventional matching methodology (Mumssen et al. 2013; Gündüz 2016).

In this paper, we use the entropy balancing methodology, a generalist ion of the conventional matching methodology proposed by Hainmueller (2012), in order to overcome the obstacles of counter factuality and endogeneity related to the approval of an IMF program. This methodology is used lately by Neuenkirch and Neumeier (2016) to assess the impact of American sanctions on poverty and by Balima (2017) to analyze the effect of sovereign bond market participation in the financial dollarization. The entropy balance allows us to identify the effect of IMF Programs by comparing countries that are part of the program with those that do not participate which have a lot of similarities in terms of observable characteristics, after theelimination of specific factor of time and place.

Entropy balance approach is based on the idea that the approval of an IMF supported programrepresents the independent variable while the SDC represents the outcome variable. Units of observation are on yearly basis, observations with (without) a program represent the treatment group(control). Mass of interest that we desire to evaluate is the average treatment effect on the treated, τ,defined as:

$$\tau = E\,[SDC\,(1)\,|\,P = 1]\,[E\,[SDC\,(0)\,|\,P = 1]$$

SDC is the outcome variable that measures the occurrence of a sovereign debt crisis.

P indicates whether the monitoring unit is subject to the program supported by IMF (P = 1) or not (P = 0).

Consequently, E [SDC (1) | P = 1] is the probability of experiencing a sovereign default during the program period and E [SDC (0) | P = 1] is the opposite result to the facts about countries signing programs - the likelihood of experiencing sovereign default in program countries if they had not approved programs. (Note 3) Since we cannot observe the latter, we need to identify a suitable representative.

If a program adoption were to be a random event, we could easily identify τ by comparing SDCsin program locations and non-program locations. However, as discussed earlier, the decision to request a program from the Fund is quite endogenous for some macroeconomic variables. For this reason, we can compare - after cleaning up for some specific factors - the programming and non-programming units that are as close as possible to the observable characteristics that meet these two conditions: (i) they are related to the decision of a country to sign a program with the Fund and (ii) they are related to the emergence of an SDC. Provided that the non-programming units are as similar as possible to the program units, the change in SDC is caused by the approvalof an IMF-supported program. With these remarks, the above equation can be rewritten as follows:

τ = E [SDC (1) | P = 1, X = x] [E [SDC (0) | P = 0, X = x]

Where X = x is a vector of observable covariates that can influence both a country's decision to sign a program and the likelihood of experiencing a default, as described in the data section below. E [SDC (1) | P = 1, X = x] is the probability of a predetermined phenomenon for program units, and E [SDC (0) | P = 0, X = x] is the expected probability of experiencing a default for synthetic control units. Practically, to evaluate τ with entropy balancing, we follow two steps in a row. A first step is to calculate the weights for the non-programmable units. These weights must meet pre-specified balanced constraints that include sample moments of observable characteristics, X.

After Neuenkirch and Neumeier (2016), equilibrium constraints impose equal covariate means between program and non-program groups. In doing so, we ensure that the non-programming group contains, on average, units that are not subject to a program that are as similar as possible to the program units. In the endurance exercises, we will also bring the 2nd and 3rd moments to the list of balanced constraints. A second step uses the weights of the first step in a regression analysis where SDC is the dependent variable and the cost of the IMF- supported program is the main explanatory variable. We then estimate the average effect of the treatment of IMF programs on the SDC, τ. In the second step, we also check for equilibrium entropy equilibria, as well as specific temporal and regional effects - as in a randomized experiment - to increase the efficiency of the estimates.

4. Research data

A data panel that covers one hundred and six developing countries from 1970-2016 period is used on this research. We focus exclusively on developing countries to reduce the differences on the instability parameters because of the differences on structural and institutional conditions

between programs countries and no program countries. (Dicks-Mireaux et al. 2000). The dependent variable represents the creation of a sovereign debt crisis. This variable is obtained by

the database of prelection sovereign default which is developed by the Bank of Canada's Credit Rating Assessment Group (CRAG); the last updated version of this dataset is obtained by Beers and Mavalwalla (2017). We prefer this database because of its relative comprehensiveness and because of the frequency of occurrence of sovereign standards, compared to the existing concurrent database. CRAG'S dataset is used lately from Eichengreen (2015), Reinhart and Trebesch (2016) and Reusens and Croux (2017). In a stability check, we also use the Laeven andValencia dataset. The CRAG Database compiles a comprehensive global official government debt database for arrears and stock of arrears with official creditors using a variety of sources which include regional and international organizations (Asian Development Bank, IMF, Paris Club, World Bank and IBRD annual financial statements) and academic authors (Fotnote6). In particular, the CRAG database collects previously published datasets compiled from various sources along with new information, making it one of the most comprehensive sovereign defaultdata available. Consistent with previous literature on sovereignty defaults (Reinhart and Rogoff 2011; Cruces and Trebesch 2013), a default is determined when a debt service is not paid on the due date or within a certain grace period or condition. However, given that the final settlement with creditors after a sovereign default can be very long, we follow Reinhart and Rogoff (2011) and consider only the first year of default as a year of crisis.

In doing so, we identify 115 sovereign debt crises in our model, with the first one taking place in1976 and the last in 2016. The average number of crises per year is related to two events, with several peaks in 1980, 1985, 1998, 2008 and 2013. In regard to our control variables, our regressions include similar covariates like Jorra (2012). In stability checks, we will introduce an additional covariance to ensure that the result is not driven by a specific choice of covariates.
Our core collaborations consist of the following: GDP growth rate, the ratio of reserves to imports, the ratio of debt service to exports, the ratio of external debt to GDP, and a variable thatcaptures parliamentary democracies

Annex Table 18 presents the data sources and definitions used in this paper.

A first step in assessing the relationship between IMF programs and SDC can be to compare theunconditional and conditional probabilities of SDC occurrence in our example.
In Table 1, the unconditional probability of a sovereign default - the number of crises divided by the number of missing country observations is 3.5-point percent (pp).
However, the conditional probability - the probability of experiencing a contingency debt crisis from having an IMF program over the last five years - is 2.7 pp. These correlations suggest that countries with IMF programs have approximately 0.8 pp lower probability of experiencing a debt crisis compared to non-program countries in our example. Based on these correlations, we investigate deeper into the analysis in the next section.

1st Table. Conditional and unconditional possibilities of a debt crisis in the analysis sample

	Conditional	Unconditional	Difference
Sovereign Debt Crisis	0.027	0.035	0.008

This table presents the conditional and unconditional probability of the occurrence of a sovereigndebt crisis in our example. Conditional probability is defined as the probability of experiencing apre-election, provided you have signed at least one IMF-supported program in the last five years. Unconditional probability is the number of crises divided by the number of observations of countries that are not absent per year.

2nd Table. Unweighted descriptive statistics

Variables	(1)	(2)	(3) = (2)-(1)		
	IMF Supported Program	No IMF Supported Program	Difference	t Test	P Value
Real GDP growtht - 1	4.073	4.161	0.088	0.443	0.658
Debt Service to exports t - 1	19.500	17.030	-2.470	-2.541	0.011
Reserves on imports t - 1	31.250	37.330	6.080	5.027	0.000
External debt to GDP t - 1	70.190	46.860	-23.330	- 11.494	0.000
Parliamentary democracy	0.128	0.173	0.046	3.644	0.000
Observations	1652	1616			

This table shows the method of pre-weigh covariance compliance tools for observations each year, in countries where IMF-supported (treatment group) in the 1st column and observations foreach year where there were no IMF-supported programs. (Possible control group) in column [2]. Column [3] reports the mean differences between the treated and control group, and the corresponding t-test statistics and p values.

5. Conclusions & Recommendations

Our result shows that IMF-supported programs significantly reduce the likelihood of subsequentsovereign debt crises by about 1.3% points.
We provide evidence that this finding is particularly strong for different specifications, as well as the use of alternative identification strategies, including a variable instrumental approach and conventional matches.

Furthermore, we provide suggestive evidence that (i) the catalytic role and the channel of securing liquidity, (ii) the role of the government regulatory effort, and (iii) the conditionality channel may be at work. In particular, we find that a country that signed a program with the Fund experiences a slight improvement in its sovereign credit rating and a decline in government debt to GDP and fiscal deficit to GDP over the program period compared prior to. Our results are consistent with the theoretical model of Corsetti et al. (2006) showing that lending support not only has an impact on the likelihood and potential incidence of a crisis, but also pushes the borrowing government to implement desirable policies and reforms.

Our results have some policy implications. Although the adoption of an IMF-supported program can be perceived as having a short-term political cost in relation to fiscal consolidation, the empirical results of this paper show that IMFinterventions provide long-term benefits by helping to avoid sovereign default costs such as reputation cost, international cost of trade exclusion, cost to the domestic economy through the financial system and political cost to the authorities - mentioned in the literature (Borensztein and Panizza 2009. In conclusion, while our paper provides suggestive transmission channels, future research may further detach the effects of these different channels. For example, it wouldbe interesting to evaluate how different types of IMF-supported programs compare in their stabilization role, and also to study how programs involving IMF disbursements compare to those that require only IMF advice.

References

Abadie, A. and G.W. Imbens. 2006 Large Sample Properties Of Matching Estimators For Average Treatment Effects Econometrica, Vol. 74, No. 1 (January, 2006), 235–267

Aguiar, M. and Gita Gopinath. 2006. "Defaultable Debt, Interest Rates and the Current Account." Journal of International Economics 69 (1): 64-83.

Alesina, Alberto, and David Dollar. "Who Gives Foreign Aid to Whom and Why?" *Journal of Economic Growth*, vol. 5, no. 1, Springer, 2000, pp. 33–63,

Alesina, Alberto, and Beatrice Weder. 2002. "Do Corrupt Governments Receive Less Foreign Aid?" *American Economic Review*, 92 (4): 1126-1137.

Bailey MA, Strezhnev A, Voeten E. Estimating Dynamic State Preferences from United Nations Voting Data. *Journal of Conflict Resolution*. 2017;61(2):430-456.

Balima, W.H. 2017. Do domestic bond markets participation help reduce financial dollarization in developing countries? Economic Modeling 66: 146–155.

Balima, Wenéyam Hippolyte & Combes, Jean-Louis & Minea, Alexandru, 2017. "Sovereign debt risk in emerging market economies: Does inflation targeting adoption make any difference?," Journal of International Money and Finance, Elsevier, vol. 70(C), pages 360-377.

Barro, Robert J. & Lee, Jong-Wha, 2005. "IMF programs: Who is chosen and what are the effects?," Journal of Monetary Economics, Elsevier, vol. 52(7), pages 1245-1269, October.

Beers, D. and J. Mavalwalla. 2017. Database of sovereign defaults. Bank of Canada Technical Report 101: 1–35

Bird, Graham, 2001. "IMF Programs: Do They Work? Can They be Made to Work Better?," World Development, Elsevier, vol. 29(11), pages 1849-1865, November.

Bird, G. and Rowlands, D. (2002). Do IMF programs have a catalytic effect on other international capital flows? Oxford Development Studies, 30, 229–249.

Borensztein, Eduardo, and Ugo Panizza. "The Costs of Sovereign Default." *IMF Staff Papers*, vol. 56, no. 4, [Palgrave Macmillan Journals, International Monetary Fund], 2009, pp. 683–741.

Boz, Emine, 2011. "Sovereign default, private sector creditors, and the IFIs," Journal of International Economics, Elsevier, vol. 83(1), pages 70-82, January.

Caliendo, M. and Kopeinig, S. 2008. Some Practical Guidance for the Implementation of Propensity Score Matching. Journal of Economic Surveys, 22 (1): 31-72.

Chinn, Menzie D. & Ito, Hiro, 2006. "What matters for financial development? Capital controls,

institutions, and interactions," Journal of Development Economics, Elsevier, vol. 81(1), pages 163-192, October.

Conway, Patrick, and Stanley Fischer. "The International Monetary Fund in a Time of Crisis: A Review of Stanley Fischer's "IMF Essays from a Time of Crisis: The International Financial System, Stabilization, and Development." *Journal of Economic Literature*, vol. 44, no. 1, American Economic Association, 2006, pp. 115–44.

The effect of exchange rate volatility on the level of Foreign Direct Investments.

A case study of Albania

PhD (cand) Enida Zhugri
Faculty of Business "Aleksandër Moisiu" University, Durrës
enidaistrefi@uamd.edu.al

PhD Ada Aliaj
Faculty of Business "Aleksandër Moisiu" University, Durrës
adaaliaj@uamd.edu.al

Abstract

The main objective of this research is to look into the relationship between Foreign Direct Investment (FDI) and exchange rate volatility. The set of FDI determinants can be pretty significant, but the most important is the exchange rate. Nonetheless, exchange rates have become highly volatile due to their vulnerability to domestic and international financial market changes. The main variables in this study are time-series data for Albania's foreign direct investment inflows, All/euro exchange rate, trade openness, and inflation from 2000 to 2020. The study's findings show that FDI is positively associated with ALL depreciation and that exchange rate volatility discourages FDI. The secondary data are obtained from officials' web pages such as the World Bank and Bank of Albania.

Keywords: Exchange rate volatility, trade openness, Foreign Direct Investments, Inflation.

1. Introduction

Foreign Direct Investment (FDI) is a metaphorical form of investment that has been reshaping the world of finance with a vengeance over the last two decades. Attracting FDI is one of the most important goals of policymakers, particularly in developing countries. As a result of globalization, highly mobile capital strengthens the role of the most novel form of investment, namely FDI. Developing countries are part of a vicious circle of poverty, and it appears impossible for them to break free. In this context, FDI is critical because it supplements domestic capital to achieve the critical minimum investment required to break the cycle of poverty. Because developing economies are short on capital, they compete to attract more and more FDI. Foreign capital is essential in infrastructure development, technological advancement, and productivity enhancement in many emerging economies. Developing countries can also use these funds to stimulate positive growth externalities. Furthermore, FDI to developing countries benefits both developed and developing countries because capital's marginal productivity in developing

countries is high due to scarcity, and investors from developed countries seek high profits. This double coincidence of desires amplifies the benefits of the international capital movement.

The relationship between FDI and economic growth is two holds: FDI stimulates economic growth, but it also reacts to economic growth and transformational progress. FDI generates growth through imported investment, new technologies and capabilities transferred by foreign multinationals, and international networking. On the other hand, foreign investors respond positively to the consolidation of market-economy rules and the resumption of economic growth (Gabor Hunya, 2000).

As the European Union (EU) expands to the east and south, promising new opportunities for FDI to emerge and gain traction. Many current and prospective investors believe that the Western Balkans, including Albania, Bosnia, Herzegovina (BiH), Bulgaria, Croatia, Macedonia, Romania, Serbia, Montenegro, and Kosovo, offer opportunities as Europe's following high-growth business location.

2. Literature review

As previously stated, macroeconomic variables are highly volatile, particularly in developing countries. The excess volatility of these variables impacts both international trade and domestic investment and FDI. Some recent studies have attempted to identify the theoretical connections and channels through which uncertainty affects investment (Caballero, 1991; Abel and Eberly, 1994). These studies, on the whole, are inconclusive. Uncertainty affects investment in various ways depending on the assumptions used. Furthermore, the magnitude of the effect is affected by several other factors. As a result, from a theoretical standpoint, the precise relationship between uncertainty and investment remains unknown.

Many economists have been drawn to the rapidly changing economic environment of new markets in Central and Eastern European transition countries, and several studies have attempted to investigate FDI determinants in these countries. Previous research has shown that market-seeking investors predominate, and factor-cost considerations appear less critical for most investments (Lankes and Venables 1996, Lankes and Stern 1998). The EBRD conducted a survey that found the same thing, a predominance of market-seeking investments in these countries. According to the survey's authors, the type and amount of FDI inflows are influenced by the host country's economic transition progress.

Many researchers have studied the relationship between fundamental exchange rate uncertainty and the level of aggregate investment in the economy in recent years. Goldberg (1993), for example, investigates the impact of the exchange rate and its uncertainty on industry-level investment in the United States and discovers that in the 1980s, real dollar depreciation (appreciation) was likely associated with investment contraction (expansion). Darby et al. (1999) investigated real exchange rate uncertainty and aggregate investment in five OECD countries and found mixed results regarding whether rising volatility would increase or decrease investment.

Serven (2003) and Pradhan et al. (2003) conducted more recent studies on the effect of uncertainty on the level of private investment. Serven's research is based on cross-country time-

series data for 61 countries from 1970 to 1995, and it finds that real exchange rate uncertainty has a strong negative effect on private investment. He finds the effect to be especially strong in relatively open economies. Several studies have investigated the relationship between exchange rate uncertainty and FDI. For example, Cushman (1985, 1988) finds a negative relationship between FDI flows from the United States and exchange rate risk in his studies of exchange rate risk (due to exchange rate volatility).

However, Goldberg and Kolstad (1995) contend that when actual demand and exchange rate shocks are assumed, exchange rate volatility increases FDI share even when production costs are identical. They show that exchange rate volatility and the share of FDI in total investment positively relate in their empirical work using quarterly US bilateral FDI flows to four countries from 1978 to 1991. This finding lends credence to their theoretical prediction that investors are risk-averse.

According to Furceri and Borelli (2008), the effect of exchange rate volatility on FDI is dependent on the country's degree of openness. Exchange rate volatility positively or negatively affects FDI in relatively closed economies but negatively in highly open economies. Bouoiyour and Rey (2005) demonstrate, using annual data from 1960 to 2000, that volatility captured by standard deviation and misalignments of the real effective exchange rate does not affect FDI to Morocco. Tokunbo and Lloyd (2009) empirically examined the impact of exchange rate volatility on Nigerian inward FDI. They confirmed a positive relationship between recipient currency depreciation and FDI inflows using cointegration and error correction techniques, whereas exchange rate volatility has no deterministic effect, as measured by the standard deviation of the exchange rate. Jie Qin (2000) discovered a positive relationship between exchange rate volatility and two-way FDI in a one-sector, two-country economy. This paper examines exchange rate risk as a motivator for realizing two-way FDI for risk diversification.

General policy frameworks, specific policies and policies encouraging business, and various economic factors significantly impact FDI generation in a country. The first and most important factor is the policy framework. FDI requires good macroeconomic and legal stability, currency convertibility, fair privatization strategies and visible progress, domestic company readiness to cooperate, appropriate opportunities for infrastructure and large companies, and bilateral agreements to protect investments from political risk and avoid double taxation. The second set of factors refers to factors that influence business performance, such as subjective proximity, accurate and timely information about a country, general political environment, country image, administrative procedures in doing business, and financial and market privileges.

Finally, there are various factors, mainly of an economic nature, such as labor cost, labor skills, integration prospects, market size and growth, access to neighboring and regional markets, natural resources, management skills, infrastructure quality and cost, and so on. Unforeseen expenditures related to corruption, administrative efficiency, good reputation and influence of foreign investors, and a favorable climate for foreign investors are all factors that can have a decisive impact on investment decisions.

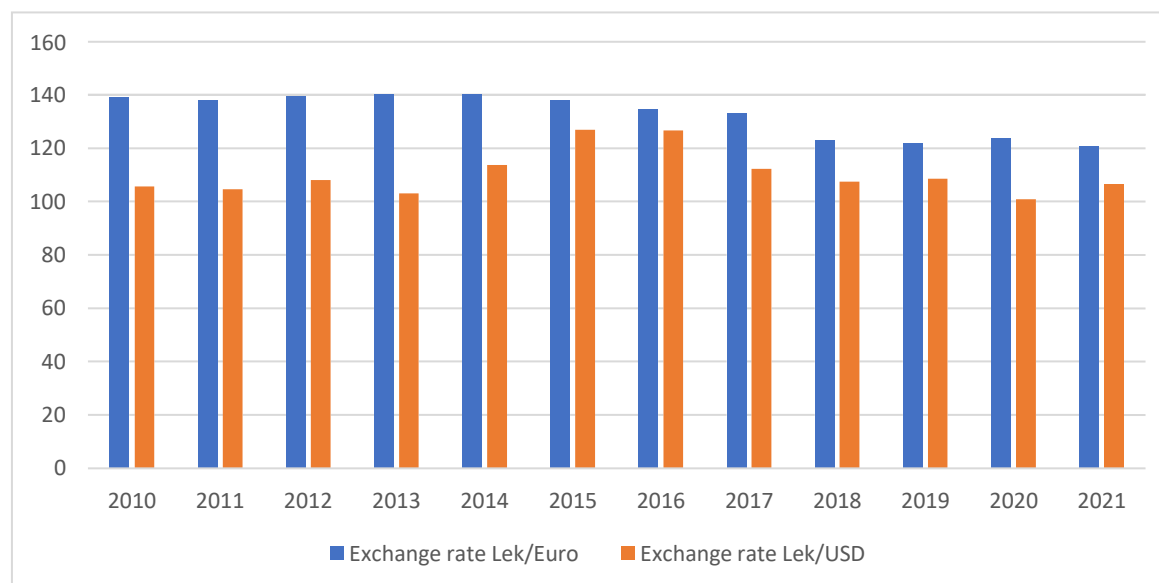### 3. The relationship between the exchange rate and FDI in Albania

Since the beginning of the transition, Albania has adopted the flexible exchange rate regime, not only simply from its limited international reserves but also to avoid costly corrections of exchange rate deviations from "equilibrium" levels as observed in fixed regimes. Albania is a small country whose product prices are generally determined by the international market. In this way, the exchange rate directly impacts the prices of imported goods purchased by domestic consumers. On the other hand, exchange rate fluctuations can impact the prices of domestically produced goods. The main reason for this is that the nominal exchange rate does not accurately reflect the purchasing power of the domestic currency for foreign goods and services due to different levels of inflation. If the value of the exchange rate set in the market is not consistent with the implied exchange rate from an economic model, economists will anticipate some adjustments in the market. A real balanced exchange rate helps create a stable macroeconomic environment, thus helping to absorb foreign capital, which is very important in economic development, especially for small countries like Albania. Exchange rates in developing countries can affect aggregate demand and investment expansion, while an overvalued currency negatively affects employment.

On the other hand, the high level of external debt makes the debt itself sensitive to RER movements. A constant overestimated real exchange rate is an early indicator of a possible currency crisis. a free exchange rate regime means that the price of foreign currencies, i.e., the euro against the Albanian Lek, is determined by the foreign exchange market conditions. During the period 2010-2021, the exchange rate fluctuated significantly.

In the early 1990s, many economies thought that developing and transition countries should adopt fixed exchange rate regimes as a reliable means of stabilization. According to Calvo (1999), and Calvo and Reinhart (2002), fear of the volatile regime provides a strong argument favoring these regimes. However, many of the success stories of the 1990s led to currency crises later in the decade or early 2000s, adding to the inflation problems and showing that such stabilization could only be short-lived. As a result, in an increasing number of cases, economies have tried to address the issue of stabilization by adopting inflation targeting as the remaining solution. They have even equated such a regime with the floating exchange rate regime. This new regime raises important policy questions regarding exchange rate research. Inflation targeting as a final target does not differ much from other monetary policy regimes that seek to stabilize the economy, focusing on price stability, as all price stability regimes have the ultimate goal of their policy. The essential change lies in the choice of the intermediate target, as it changes from the lek exchange rate to money and later to the inflation expectations, respectively in the exchange rate, the monetary target, and the inflation targeting. While expected inflation is placed at the center of monetary policy, the central bank relinquishes control over money, choosing the interest rate as the operational instrument of monetary policy, while inflation targeting requires free exchange rate fluctuations (Mishkin and Savastano 2001).

On the other hand, the high level of external debt makes the debt itself sensitive to RER movements. A constant overestimated real exchange rate is an early indicator of a possible currency crisis. a free exchange rate regime means that the price of foreign currencies, i.e., the

euro against the Albanian Lek, is determined by the foreign exchange market conditions. During the period 2010-2021, the exchange rate fluctuated significantly.

Graph 1. All / Eur Exchange Rate in Albania

Source: Bank of Albania 2021

From January 2005 to 2007, the Albanian Lek had strengthened at higher rates than the regional currencies. However, even during the 2008 crisis, the exchange rate of the Lek with the main currencies declined. From 2008 to 2014, the Serbian and Macedonian dinars were higher. Even in 2011, the Lek performed much worse than the currencies of Eastern European countries. The strengthening of the Lek took a turn in May 2014, and its value increased rapidly, surpassing all currencies in the region. In January 2019, the value of the Lek in the foreign exchange market exceeded the rates of the Serbian dinar, which had the best performance in foreign exchange in the region. On the other hand, at the end of 2018, Albania had the highest current account deficit in the region after Montenegro and Kosovo.

The Albanian Lek strengthened further in 2017, and the national currency continued to strengthen against the currencies of the country's major trading partners. Lek's rising trend reflects the acceleration of real economic growth, the reduction of the current account deficit, and the large inflows of foreign currency from foreign direct investments. The appreciation accelerated in 2017 due to the market's abundant supply of foreign currency and the rapid increase in exports and higher foreign direct investment flows. In June 2018, the local currency reached all-time highs, with the exchange rate hovering around 124.18 to the euro. During 2018-2021, the Lek strengthened against the euro and the US dollar, exchanging 122.7 euros and 104.7 USD on average.

The euro's strengthening trend is similar to that seen at the end of March 2020. In that case, the pandemic prompted the devaluation of the local currency, whereas in this case, the impetus has been the war in Ukraine and the severe consequences it has had on raw material markets. The rise in oil, energy, and food prices is also being felt in Albania, translating into higher import prices and a rush to build reserves, given the volatile state of markets and pessimistic expectations for the future. Experts believe that the foreign exchange market is already in a state of panic, driving up demand for euros due to the rapid strengthening of the European currency. Rapid euro appreciation is an additional risk factor for the economy's rising inflation.

Given that Albania imports the majority of its consumer goods and that the euro is the primary currency in which these goods are purchased, a depreciation of the Lek against it will have a further inflationary impact on the economy. Until two weeks ago, the Bank of Albania maintained its fundamental forecast for transient inflation, which would begin to decline in the second half of this year. The war in Eastern Europe has significantly increased inflationary risk and future uncertainty. Because the Albanian economy has an external deficit in goods and services, currency depreciation negatively increases the current account deficit. Importers face higher costs when purchasing goods and services from abroad, whereas beneficiaries are exporters of goods and services who sell in euros but incur most of their costs in Lek. However, the benefit is marginal for entities with income in euros due to the additional inflationary effect of the European currency's rapid appreciation.

Rapid strengthening of the euro, on the other hand, can be a source of risk for the financial sector, where a large portion of the credit is exposed to exchange rate risk. According to the Bank of Albania, approximately half of the economy's loan portfolio is in foreign currency, with 37% of foreign currency loans (less than 20% of total loans) exposed to exchange rate risk. Borrowers in euros with income in Lek are the ones who suffer the most from the euro's strengthening, while individuals and entities with euros in savings appear to benefit the most. However, even this benefit may be relative because, in addition to the inflationary effect of exchange rate depreciation, most assets with high value in foreign currency are depreciating.

Graph 2. FDI inflow in Balkan post-communist countries 2010-2020（million USD）
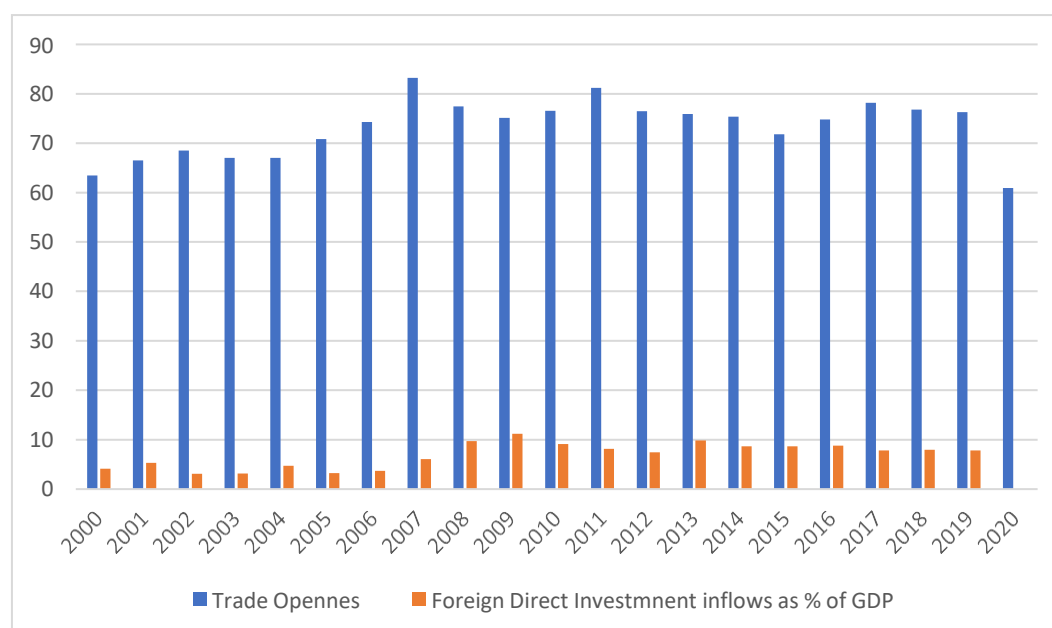
Source: Bank of Albania, 2021

The rapid growth of FDI after the 1990s should be interpreted with caution because foreign investors are expected to continue to invest in the future. Given the scarcity of evidence, estimates of expected investment based solely on the level of current values may understate investors' sentiments, which are based on their expectations of future progress. Political instability has been a common factor affecting the Balkan region, among its countries and many. The disintegration of the Republic of Yugoslavia and the continued separation of what remained of Yugoslavia is the most visible manifestation of political instability in the Balkans. Macedonia has also suffered

from the ethnic war, a Greek embargo, and the enforcement of the embargo against Serbia. There have also been many domestic instabilities, some caused by inter-ethnic tensions and political assassinations, others by regime change failures, and others by weak or ineffective governments unable to deal with domestic unrest and violence (Albanian civil unrest 1997, caused by the collapse of pyramid schemes).

Foreign Direct Investments in the first quarter of 2019 amounted to 229 million euros. According to the Balance of Payments published by the Bank of Albania, Foreign Investments decreased slightly by 3 million euros, or about 1.3%, compared to the same period last year. This value is the lowest level of Foreign Direct Investment for the first quarter of 2017. In this period, the interest of foreign investors, especially in some strategic sectors such as banks or telecommunications, remains low. At the end of May, the last Greek banking group, Alpha Bank, announced the decision to put its bank up for sale in Albania. However, in parallel, another banking group in the region, Nova Ljubjanska Banka from Slovenia, has expressed interest in entering the Albanian market. Statistics show that approximately half of Foreign Direct Investment for the first quarter of 2020 were profits reinvested by existing enterprises. In recent years, reinvested earnings have increased their weight in the structure of foreign direct investment, offsetting part of the decline in new foreign investment flows. Last year, reinvested earnings accounted for about 44% of Foreign Direct Investment. Profit reinvestment is characteristic, especially in branches where significant periodic investments are required, both in the extractive industry and in some service sectors, especially in the financial one, where the growth of banks requires support with sufficient capital to cover financial assets with risk.

Usually, banks capitalize on at least a portion of their profits to maintain the required regulatory parameters. With the completion of important energy investment projects, it will not be accessible in the short term for Foreign Direct Investment to return to the levels of 2018-2019, when it exceeded the limit of 1 billion euros each year. The pandemic affected the expected decline of their cycle, which certainly did not create favorable conditions for new investment projects.

While investment data by sectors is not yet available for the first quarter of 2021, their structure was still dominated by energy until the end of last year. Although they experienced an annual decline of 22%, investments in this sector still accounted for the largest share of investments, with 28% of the total. The crisis substantially impacted the extractive industry sector, where investment was almost halved while investment in the financial sector increased.

4. Conclusions and recommendations

Albania is a developing country in desperate need of foreign investment to stimulate the domestic economy, seek new technology, and modern managerial skills, and create jobs for the country's ever-growing population. Foreign Direct Investment in this regard can play a decisive role in managing difficult economic conditions and promoting competition in the economy, which brings efficiency leading to the beauty of capitalism; innovation.

Our policy recommendation is to minimize the exchange rate volatility and keep exchange rates in a compatible mode. Any such movement in the exchange rates that leads to the loss of

competitiveness should be avoided by proper planning and well regulated foreign exchange market. Economic liberalization with a stable exchange rate should be promoted to bring fresh FDI by revising the exchange controls and developing modern financial markets.

• Albania follows a flexible exchange rate regime because it is impossible to follow a fixed exchange rate regime since the Albanian economy is a developing economy.

• During 2002-2011, the nominal exchange rate was highly volatile. While after 2011, the exchange rate has been more stable, with fluctuations around 139-140 Lek / Euro.

• We can say that the exchange rate policy in the country has been effective in general, although there have been fluctuations; their impact has been positive for most of the period under review.

• In the flexible exchange rate regime, fluctuations can significantly affect the price level through aggregate demand AD and aggregate supply AS.

• The impact of the ALL / EUR exchange rate of the current year and the previous year, and the previous year's inflation explain about 74% of the inflation variation of the current year. We can say that the ALL / EUR exchange rate affects inflation, which was also expected based on the literature review.

References

Gabor Hunya 2002, "FDI in South-Eastern Europe in the early 2000s", the Vienna Institute for International Economic Studies（WIIW）, A Study commissioned by the Austrian Ministry of Economy and Labor

Gabor Hunya 2000, "Recent FDI trends, policies and challenges in SEE countries in comparison with other regions in transition," The Vienna Institute for International Economic Studies WII, paper to be presented at the Conference on "Foreign Direct Investment in Southeast Europe: Implementing Best Policy Practices," Vienna, Austria, 8-9 November 2000

Goldberg, L.S.; Kolstad, C.D. Foreign Direct Investment, Exchange Rate Variability, and Demand Uncertainty. *Int. Econ. Rev.* **1995**, *36*, 855–873.

Abel, A. and J. Eberly. 1994. ―A Unified Model of Investment Under Uncertainty,‖ *American Economic Review*, vol. 84, pp. 1369-1384

Goldberg, L. 1993. ―Exchange Rates and Investment in the United States Industry,‖ *Review of Economics and Statistics*, vol. 75, pp. 575-588 n the Sign of Investment-Uncertainty Relationship,‖ *American Economic Review*,Vol. 81, pp. 279-288

Pradhan, G., Z. Schuster, and K. Upadhyaya. 2004. ―Exchange Rate Uncertainty and the Level of Investment in Selected South-East Asian Countries, *Applied Economics*, vol. 36, pp. 2161-2165.

Serven, L. 2003. ―Real-Exchange Rate Uncertainty and Private Investment in LDCs, *Review of Economics and Statistics,* vol. 85, pp. 212-218.

Cushman, D.O. (1985). Real exchange rate risk, expectations, and the level of direct investment. *Review of Economics and Statistics, 67(2),* 297-308.

Cushman, D.O. (1988). Exchange rate uncertainty and foreign direct investment in the United States. *Weltwirtschatliches Archiv, 124:*322-336.

Furceri, D., and Borelli, S. (2008). Foreign direct investment and exchange rate volatility in the EMU neighborhood countries. *Journal of International and Economic Studies, 1(1),* 42-59.

Cushman, D.O.,1985. Real Exchange Rate Risk Expectation and Level of Direct Investment, Review of Economics and Statistics 67, p. 297-308

Bouoiyour, J. and Serge Rey (2005), *Exchange Rate Regime, Real Exchange Rate, Trade Flows, and Foreign Direct Investments*: *The Case of Morocco*. African Development Bank.

Qin, J. (2000), Exchange rate risk and two-way foreign direct investment. *International Journal of Finance and Economics*, Volume 5(3), pp. 221- 231. http://dx.doi.org/10.1002/1099 1158(200007)5:3<221::AIDIJFE126>3.0.CO;2-J

Impact on small business of raising the VAT threshold in the fiscal package of 2021

Edlira Vogli
Msc. Student, University "Aleksandër Moisiu" Durrës, Albania
vogliedlira7@gmail.com

Dr. Shqipe Xhaferri
Lecturer and Researcher, University "Aleksandër Moisiu" Durrës, Albania
shqipexhaferri@uamd.edu.al

Abstract

Starting from January 1st, 2021 came into force some tax changes that mainly affect the category of small business in Albania, when for the first time a new fiscal package was not approved due to the pandemic situation in the country. However, among the changes that this package contains are related to the minimum and maximum salary, the application of the simplified profit tax rate for businesses with a turnover of up to 14 million ALL (approximately EUR 113 thousand), the increase of the VAT threshold for businesses with an annual turnover of 10 million ALL (approximately EUR 80 thousand), etc. VAT as one of the taxes that have the largest effect in the tax revenues of the State Budget directly affected this item and of course small businesses, which were included in the VAT tax liability in the previous year in case of realization of a turnover higher than 2 million ALL per year.

The purpose of choosing this topic is to analyze the impact that the undertaking of these legal changes had on small business in the country and to provide a more detailed overview of the revenues generated from the collection of this tax in the budget. At the same time when the IMF reports indicate a wrong step taken in the framework of intervention in the tax system to reduce VAT. This paper will be based on the design of questionnaires and face-to-face interviews

of business leaders affected by the changes in this fiscal package. The main research question

that arises is: "Should the VAT threshold have been increased?"

Keywords: *Small business, fiscal package, pandemic, VAT threshold, budget.*

1. Introduction

In this research study we aim to present a clearer picture of the impact of fiscal changes undertaken in 2021, namely the increase of the VAT threshold, analyzing a number of businesses affected by these changes. The objectives of this paper aim to present the impact that the change of the law on the VAT threshold brought to the state budget and at the same time the position of the businesses directly affected by this fiscal package. Analyzing the tax policies, respectively those of 2021 regarding VAT, the main purpose of this paper is to assess the impact and effects of periodically changed fiscal policies, taking into account the long-term goal of achieving sustainability and economic growth.

Consequently, a specific objective in this paper will be to look at the relationship between the impact of VAT and economic stability by analyzing the weight of revenues generated from the collection of this tax and on the other hand the position of international organizations (IMF) regarding this law undertaken by the Albanian government, comparing the fiscal burden of small business in terms of value added tax. This paper aims to provide an overview of the implementation of the law on raising the VAT threshold, given the situation of 2020, accompanied by the impact of Covid-19.

2. Literature Review

The General Directorate of Taxes informs taxpayers that from January 1, 2021, enters into force the Decision of the Council of Ministers no. 576 dated 22.7.2020, which changes the band of taxpayers, who are obliged to declare and pay VAT.

Based on this Decision:

All existing taxpayers, who for 2020 have realized a larger annual turnover or equal to 10 million ALL, have the obligation to declare and pay VAT. Regardless of whether the taxpayer is registered for Profit Tax (TF) or Simplified Profit Tax (TTHF):

VAT declaration and payment will be on a monthly basis and must be completed within the 14th day of the month following the reporting period.

The declaration of the books of Sale and Purchase will be monthly, with a deadline within the 10th of the respective following month.

For taxpayers, who have realized a turnover of less than ALL 10 million for the full calendar year 2020, the automatic deregistration of VAT tax liability will be performed, with a validity date of 31.12.2020.

Deregistration will not be performed automatically for the following categories:

Taxpayers, who during 2020 have carried out at least one import.

These taxpayers will continue to be part of the VAT scheme and if they have previously made a declaration and payment of 3 months of VAT, from January 2021, will continue on a monthly

basis, within the 14th of the following month, the submission of declarations, books of sale and purchase as well as the payment of VAT. Taxpayers as of 31.12.2020 result in Passive status. For this category of taxpayers, deregistration from VAT liability or its updating will be performed with defined procedures when the taxpayer is activated.

Taxpayers, who during 2020 have realized an annual turnover of 5 to 10 million ALL and have not performed any import. For this category of taxpayers will apply the right to register VAT liability, according to their voluntary declaration:

The taxpayer through a pop-up notice in e-filing will be invited to declare his decision regarding the implementation of the right to be or not to be part of the VAT scheme.

VAT is a general tax on the consumption of goods and services, in proportion to their price, which is charged at each stage of the production and distribution process.

This tax becomes claimable to be paid after deducting VAT, which directly burdens the cost elements of goods and services, the final consumer.

Value added tax is subject to:

a. all supplies of goods and services, made against payment, within the territory of the Republic of Albania, by a taxable person acting as such,

b. all imports of goods in the territory of Albania.

VAT as a general tax on consumption, which does not take into account economic, personal and social relations and as one of the taxes with the main weight in the State Budget, an analysis of tax policies affecting this tax would help us understand really its weight. and contribution.

Indirect taxes are those taxes that are not paid by the person who receives the proceeds from the sale of goods or services, but they are paid by other persons, those who buy the goods or services. Indirect taxes shift the fiscal burden to other taxpayers through the purchase of services and goods with final destination the consumer.

A typical example of this is VAT, excise / customs duties. As consumers, we pay VAT included in the price of the goods or services we buy. One sixth of the VAT price we pay contains value added.

To understand the essence of consumption taxes we must consider the concept of income. We say that income is a measure of the resources gained by an individual over a given period. An individual has two alternatives in relation to his realized income. He can either consume them or save them. This means that income includes consumption and savings. So, VAT as an indirect tax, on consumption, we say that it directly affects individual income.

The concept of added value refers to the value added to each of the products at different stages of processing until the final product is released to the market. In each of the different links the product is added value in different forms such as: labor, energy, technology, know-how, change of shape, etc.). Value added is considered the difference in the value of the product from the initial state purchased by the manufacturer (input) to the final state put on the market (output

product). This way of sharing the concept of value added helps the tax administration to tax each entity, only for the part of value added on the product without imposing excessive fiscal burden, also this tax offers ease of collection by being 'masked' within the price of a good or service, a price to be borne by the final consumer.

Features of VAT

Below I will list and clarify some of the main features of this tax:

1. VAT is an indirect tax, the burden of VAT payability is borne by the consumer, but this tax is collected and paid to tax institutions by the taxpayer. A direct collection of VAT liability by each consumer would be impossible and consequently ineffective.

2. VAT is a general tax on the consumption of goods and services, this tax as an indirect tax, does not burden the business, as the real payers are consumers. This means that, at each stage of production and distribution, VAT is calculated, but it is only in the final stage that it is paid, without the right to credit for this surplus value.

3. VAT is a tax proportional to the price of goods and services, as a tax levied on every link of production and distribution, is the percentage determined by law on the taxable value or the price without VAT.

4. VAT is a tax neutral, this feature has to do with the accounting side of calculating and paying the tax. Taxpayers 'sell' this tax to consumers, ie 'Customers', known as collectible VAT, and 'buy' this VAT from Suppliers, known as deductible VAT. The difference between the VAT collected and the deductible, depending on the case, is a right or an obligation to be paid. So we say that the assets side equals the liabilities side and the rights and obligations are to the same extent.

5. VAT is a self-declared tax. Every taxpayer subject to VAT, must declare for each tax period all supplies / purchases made, of their own free will.

6. VAT is a 'horizontal' tax, meaning that this tax is not affected by the income or economic level of everyone, but 'weighs' uniformly every consumer incurred before a uniformly set price for all consumers in the market.

7. VAT is transparent Any transaction required to be accompanied by a minimum tax coupon, helps to easily verify the self-assessment and self-declaration of VAT.

Goods and services exempt from VAT

This list of exceptions includes:

Real estate Transactions, which are exempt from the calculation of value added tax include land, land, buildings. Leasing or supplying land or plot of land is considered an excluded supply.

Insurance services Includes the provision of insurance and reinsurance mediation services by insurance agents and brokers.

Financial services These exceptions are made in order to avoid complex management problems, in those cases when it is difficult to identify the added value of a transaction. Any commission or payment for a financial service must be taxable.

Health service Supply of medicines and medical and pre-medical health services, supply of active implantable medical equipment and implantable medical equipment.

Bank of Albania Supply of gold by the Bank of Albania and commercial banks, as well as ATMs and coins by the Bank of Albania.

Postal Services The supply of postage stamps for the use of postal services, the supply of fiscal stamps and all other similar stamps are exempt from VAT.

Supplies from NGOs Many of the social supplies are not taxed for VAT because they are not performed as part of the business purpose and are not accompanied by payments.

Gambling In the category of excluded supplies, the activity of gambling, casinos and betting is also included.

Education The private and public education sectors are part of the supplies exempt from the VAT law.

Diplomats Supplies made for diplomatic missions and their personnel on the basis of international agreements are exempt from VAT. These exceptions include the importation of goods for diplomatic missions and their personnel.

International Organizations (NATO) The exclusion of international organizations is under the terms of international conventions for the establishment of these organizations.

Increasing the VAT threshold, leads to tax exemptions to 5.4% of GDP.

Tax exemptions such as the differentiation of excise VAT and Profit Tax for some sectors bring the value of missing taxes in the budget to ALL 1.7 billion or as much as 5.4% of GDP, according to forecasts in the draft budget 2021.

This change is expected to bring a negative effect on the state budget of 3-4 billion ALL.

Tax exemptions, or "tax expenditures" are considered losses from fiscal revenues provided in the fiscal legislation in force, as a result of fiscal incentives or preferential rates set for certain categories of taxpayers or activities.

Most of the tax exemptions belong to Value Added Tax.

For 2021, VAT exemptions amount to ALL 91 billion or 5.3% of GDP.

Tax exemptions, along with Public Private Partnership (PPP) concession contracts, are considered one of the biggest fiscal risks threatening fiscal stability. The International Monetary Fund has requested the abolition of tax exemptions in the post-program review with Albania. Tax exemptions among other things create new grounds for tax evasion, so the revenue losses after

each exemption are even greater. Albania still has a fragile fiscal administration capable of controlling and preventing abuses with tax exemptions. Therefore, the International Monetary Fund recommends that Albania apply a simple tax system without thresholds and exceptions, a scheme which would ease the burden on both businesses and fiscal administration.

After the presentation of the panorama of VAT exemptions, to have an address to the problem where it is thought that it needs to be addressed by politics is a segment of small taxpayers. The old problem with this category is that it hides those individuals and businesses that do not deserve this status, but steal it by not declaring and hiding their income. A large proportion of them prefer not to enforce fiscal legislation and hide in informality becoming the discharge channel for smugglers and evaders becoming the basis for over two decades of informal economy.

This group, licensed to conduct retail sales, constitutes the "defective" part and interrupts the cycle of goods or services charged with VAT, which they have bought from businesses registered in VAT and sell to consumers without VAT. They consume this VAT burden for themselves, as they do not keep any records of purchases, thus hiding the traces of the origin of the goods / services they buy to sell to the consumer. Exemption from VAT on retail sales impairs VAT neutrality as the profit margin at this stage of circulation depends not only on the quality of the goods / services but also on the seller.

Advantages and disadvantages of VAT

Advantages of VAT

Some of the advantages of applying VAT are:

1. Increase of budget revenues

Due to the breadth of the VAT taxable base, this type of tax has been termed a "money-making engine". This setting has come about because the taxable base is broad and the levels of revenue generated by them are one of the items with the most weight in budget revenues.

2. Minimize tax evasion

In the VAT system, the phenomenon of tax evasion will be reduced due to the lower tax rate. For example, if a seller tries to cheat, it means that the other firm he is selling to will lose because they both have to report transactions and in this case they have conflicting interests, based on VAT neutrality. of.

3. Improving and updating the tax system

As the structure of the economy becomes more and more complicated, the need to keep accounts increases in direct proportion to it. Therefore, in the VAT system because the business needs to maintain accurate and complete accounts, it is considered necessary computer systems for storing and processing data to produce information in a timely manner. The modernization and development of the tax and accounting system results in the modernization of the traditional system and the minimization of the time of administration of this tax system.

4. Ease of audit and control

Because in the VAT system sales invoices are the basis for calculating the tax liability, the audit and control system is simple and effective.

Disadvantages of VAT

Some of the shortcomings are:

1. Regressive effects of VAT

While VAT in practice is a tax on consumption and is calculated at a certain rate on the value of taxable goods, therefore the tax burden on low-income individuals is greater than on other individuals.

2. Effects of VAT on increasing the price level.

Often the most mentioned point as a critique of VAT, is the overall increase in the price level, as a value that is constantly added to every link in the chain, for those entities included in the VAT scheme.

Criteria for a fiscal system to be optimal

- to be efficient, which means that taxes have as little impact as possible on the increase of prices of goods and services;

- be equal for all, which means that taxes should be distributed equally to all strata of society, without burdening any taxpayer;

- be productive, which means that taxes should be collected in the most optimal way to serve for a better distribution for taxpayers;

- be simple to understand and implement, which means that the more understandable for the taxpayer what he has to pay, the easier and less costly is the process and cost of collecting them, as for fiscal administration and for the taxpayer;

 - be stable, which means that the fiscal system should not change too often, because taxpayers also need stable laws in time to make long-term decisions about their activities.

Review of published domestic and foreign reports

According to data from Taxes and processed by 'Monitor', in total in 2019, businesses affected by these two changes have paid 4.3 billion ALL in taxes and VAT (78% of this amount belongs to VAT paid), or 34 million euros. This amount represents 1.4% of the total tax and customs revenues that were collected in 2019, according to data from the Ministry of Finance.

The increase of the VAT threshold excludes 46 thousand businesses from the scheme. While the beneficiaries of zero profit tax for all small businesses are few in number, and the effect on the budget is low, the effect of raising the VAT threshold is expected to be higher. According to tax data, the number of businesses that have declared VAT with a turnover of less than 10 million ALL is 46.1 thousand. VAT paid from this band in 2019 is ALL 3.4 billion.

This amount is about 2.6% of the VAT paid in the country. VAT is the main item that brings revenues to the budget and in 2019, from this item were collected 132 billion ALL, or 43% of total revenues from taxes and customs. Currently for VAT, the entry threshold is 2 million ALL. This threshold was reduced two years ago, from 5 to 2 million ALL. This decision was openly opposed at the time by the Small Business Associations, which worried about the effects that the increased tax burden and other administrative costs would have on businesses, experts and the International Monetary Fund (IMF). The latter stressed several times that the inclusion of these businesses in the scheme will create more burden on the administration and distract it, instead of focusing on large enterprises. The government is already raising the threshold to ALL 10 million.

Based on the annual report for the year 2020, published by the General Directorate of Taxes, the income realized by VAT resulted in the amount of ALL 29.7 billion, while reimbursements for this tax were in the amount of ALL 16.5 billion. To make a comparison with the revenues in the state budget contributed by the collection of VAT, in 2021 they had a value of ALL 30.4 billion, tax refunds in the amount of ALL 24.1 billion.

VAT continues to occupy the largest share in public revenues with about 32.7% of tax revenues and with 32.3% referring to 2020 and 2021 respectively. To make an analysis of the values reflected in the published reports cited above, we can say that in 2020 the contribution of VAT to the state budget was 0.4 percentage points higher compared to 2021. This difference appears that has come from the increase in value to reimburse this tax in 2021, which is a value significantly higher than that of 2020, almost 46% higher. This increase has come as a result of tax changes, so the increase of the VAT threshold has brought a significant difference in the reimbursable value for this tax, with about 46.1 thousand businesses already excluded from this tax liability. At the same time, the pandemic caused by Covid-19 had a direct impact on the value of VAT revenues, as the geographical borders were closed, following a "freezing" of the economy as a whole.

In addition to looking at the contribution to the State Budget and the impact on small businesses exempt from this tax, which we have addressed through questionnaires, it is worth mentioning the position of the IMF regarding the frequent tax changes in our country.

According to IMF reports, frequent changes in fiscal policies do not bring the expected effectiveness, especially in an economic environment with characteristics like that of our country.

In 2019, after a similar fiscal change, the IMF stated that VAT exemptions bring low intensity of the effectiveness of the collection of this indirect tax, while this "gap" deepened further with these changes in 2021. Exemptions and poor VAT collection has reduced the effectiveness of this tax collection, making Albania one of the last countries in the region for the effectiveness of one of the most important taxes that supply the public revenue budget.

The IMF demanded the unification of tax thresholds

The IMF in a recent report on fiscal strategy has advised the government not to have different exception thresholds, but to unify them. "We have followed with concern a recent proposal to remove by 2029 the profit tax for all businesses with an annual turnover of up to 14 million ALL and VAT for all businesses with an annual turnover of up to 10 million ALL. Support

for people and businesses affected by these crises is legitimate, but it must be temporary, well-oriented, transparent, and integrated into a credible and prudent medium-term budget program.

The thresholds for registration in the tax liability for profit tax and VAT should be unified to a level which should be carefully defined, in line with the objectives of the medium-term revenue strategy. "Setting the threshold at a very high level for a very long period, would erode the tax base and would affect the fulfillment of obligations by tax entities," said the IMF in a recent statement.

3. Methodology or Materials and Methods

On the other hand, through a questionnaire and interviews addressed to businesses directly affected by this fiscal policy, we aim to bring a clearer picture of the situation from the perspective of business and "personal interest". The questionnaire was addressed to a significant number of small businesses and from the answers received resulted in 70% completed. This questionnaire consisted of questions that aimed to give us an overview of the business approach to the 2021 fiscal package.

When we asked businesses if they rated this package as a mitigation measure taken against their business, 54% answered YES, while the rest did not consider it as a mitigation measure. The part that assessed this measure stated that already the fact that their business did not have the tax liability for VAT led to a reduction of operating expenses of the unit, in contrast to the other part which stated that VAT is paid directly by the individual and this brought no direct impact.

March 2020, as it is already known, marked the launch of a global pandemic and when asked about the added difficulties alongside the pandemic, businesses in 95% of them considered the fact that the undertaking of this facilitation package should have been done in this year, taking into account the impact of the earthquake that occurred in November 2019, as they already had an increase in the level of operating costs, daily expenses when the survival of the business became very difficult, according to the leaders of these businesses.

Regarding the level of monthly expenses, the leaders of these businesses said that the service provided by external accountants has already followed a reduction of the fee by 55% of businesses as a result of the change of business category, now small business without VAT, while the rest stated that there had been no change in the service fee. To find out more about the costs or liabilities that businesses had to pay, when we asked them if they had often resulted in VAT credit surpluses, they said that the cases when they had resulted in VAT debt arrears were few and did not contribute much in cases where they had the obligation to pay, representing 68% of responses.

Finally, in relation to what we have said above, namely the approach to the narrower, personal perspective of these changes, business executives considered the changes undertaken to help the business as alleviating the "burden" that falls on small business, but on the other hand

adapting and updating with these changes presents difficulties for them. Some of them also paradoxically said that as long as tax changes help their business, they should be undertaken more often even though this would face the aforementioned difficulties.

4. Results and Discussions

In this section we will present and comment on the results starting from the impact in the budget's contribution and the impact in the daily businesses' "life". As we said above, the reports published by the Albanian government showed the large share of contributed to public revenues from Value Added Tax. The importance of this tax appears not only in its weight, but also in the impact it has on local business and individuals directly.

This tax as an indirect tax, makes us understand that the changes brought by the fiscal package would not have a direct impact on small business, at the same time even the business approach reflected through the questionnaire shows an indirect impact on the direction of daily life of business.

Frequent changes in tax policies are a feature of an unsustainable economy. The domestic economy as a still developing economy, but based on the recommendations of the IMF, is not considered a good decision, in favor of strengthening the economy, but highlights shortcomings such as weakening the effectiveness of collection of this tax by the tax authorities, this as a result of exemptions or reduced VAT rates.

When a business makes sales exempt from VAT, (sales without VAT) it happens that in fact the purchases it makes are with VAT. This, in some cases becomes one of the major problems for the performance of their business. This VAT does not follow the path to the state budget, but ends the way in the multitude of tens of thousands of small businesses in Albania, which of course for the large number they constitute are difficult to control by the tax administration. Exemption of businesses from VAT does not permanently exempt the consumer from VAT. Exemptions only reduce the amount of tax to be paid relatively.

5. Conclusions and Recommendations

In Albania, VAT is a tax on the circulation of goods and services (consumption), collected by persons who according to the law in force are registered for this type of tax through the sale of services and the performance of various supplies that make the consumer first, in the circulation of goods or services from the source of supply to the final consumer is added an added value which is collected by the seller on behalf of the state budget. VAT is applied as a percentage tax on the price of goods and services and becomes payable, after deducting VAT that directly burdens the cost elements of goods and services.

The final customer is the one who performs the final round with the quantities of value added supply he has purchased at each step of the supply, which directly affects his family budget, as the value added in itself is the sum of all payments. The taxable person must present proof of the effective amount of expenses and cannot make a deduction of VAT that may have been calculated on them.

The level of VAT promotes tax evasion in business, which can declare the sale of products with a lower level of VAT, reducing the declared value for products with its statutory rate, increases the cost of tax administration. for the administration of this type of tax, may distort

competition, and create new opportunities for evasion and abuse, may be associated with reduced tax revenues and increased costs for VAT refunds paid by different categories of the population.

So, on the one hand, the exemption of businesses from VAT should be based on quantitative and qualitative criteria, which should not carry arbitrariness on other sectors and on the economy as a whole. Nowadays VAT remains the most favorable form of general circulation of goods and services. To be such, VAT must have a broad base of taxpayers, with a stable income. It in the revenue structure is a simple mechanism of valuation and revenue collection.

The functionality of fundamental reforms in tax legislation will further increase market efficiency by creating a better business environment, legal certainty, more foreign investment in the long run, changes in business culture and reduction of market inequalities.

References

Eduart Gjokutaj (2020). TVSH-ja dhe biznesi i vogël. (1-3).

Trebicka, Brunela (2015). Does fiscal policy matters for economic growth? Empirical study of Albanian situation. Interdisciplinary Journal of Research and Development.

Eduart Gjokutaj (2019). Who really pays VAT in Albania.

Alla, M (2014), "Characteristics of VAT in Albania", European Journal of Social Sciences Education and Research, Vol.1, No.1.

Cikalleshi, A. (2013) TVSH, suksesi i administrimit të saj dhe ndikimi në të ardhurat publike.

Leksione fiskaliteti të përditësuara deri në Shtator 2019, Prof. As. Dr. Shkëlqim Fortuzi

Drejtoria e Përgjithshme e Tatimeve (2020). Raporti vjetor

Drejtoria e Përgjithshme e Tatimeve (2021). Raporti vjetor

Eduart Gjokutaj (2020-2021). Pushteti tatimor Volumi 2

International Monetary Fund (2021), Albania – Fiscal Transparency Evaluation, IMF Country Report No. 21/259.

Albanian tax Directorate – TAX legislation https://www.tatime.gov.al/c/6/legjislacioni

https://www.tatime.gov.al/eng/c/6/71/value-added-tax

Shahini, L., & Malaj, A (2015), "How can We Measure VAT Fraud and Evasion? Case of Albania", European Journal Economics of Business Studies.

Demi, A., & Mosho, A (2012) Financial System and the European Integration, Albania.

Ministry of Finance, Republic of Albania (2014), Economic and Fiscal Program 2014-2016, Tirane, Albania.

EY, (2015), Indirect tax in 2015: A review of global indirect tax developments and issues.

B.Hoxha (2020), Revista MONITOR.

Demi, A., Xhaferri Sh., Uku S., Shahini Sh., Lushaj A. (2021) "The impact of fiscal policies on Albanian economic growth: the case of value added tax"

Demi A. Xhaferri, Sh. Domi F. (2021), "Impact of VAT on the Albanian economy"

Xhaferri Sh., Shahini Sh., Domi F., (2021) The effect of VAT change on the income of the tourism sector"

An analysis of factors that motivate consumer price index changes in Albania

Ermira H. Kalaj
University of Shkodra, Albania
ermira.kalaj@unishk.edu.al

Flora Merko
University of Durrës, Albania
floramerko@uamd.edu.al

Alma Zisi
University of Durrës, Albania
almazisi@uamd.edu.al

Abstract

In this paper we use time series for the period 1992 to 2020 for Albania to investigate on the factors affecting the changes in Consumer Price Index (CPI) during the same period. According to the theory there supply side factors and demand side factors influencing the trend of CPI during time. Supply side analyses is strictly related with the higher production costs and the consequential behavior of enterprises, causing a rise in general level of prices. The so-called "cost-push approach" is related to the scarcity of raw materials in the world market and the exposure of different countries to the external economic shocks such as commodity price volatility, and the exchange rate depreciation.

On the other hand, the demand side factors rely on the Keynesian school of thought where inflation is a consequence of higher aggregate demand due to increased government expenses. Moreover, we include the changes in the money supply to capture the Monetarist effect on inflation.

In our study we will use two different autoregressive distributed lag (ARDL) models for both supply and demand analyses, where the dependent variable in both cases is the Log of CPI. While, for the supply side model, the independent variables are exchange rate, world wheat price, world oil price. For the demand side model, the independent variables are Log of GDP, remittances, government expenditure, broad money.

Keywords: CPI, GDP, ARDL models

JEL classification: E31, E01, C32

1. Introduction

Inflation has become an important topic during this period of global shocks. According to the theory there are supply side factors and demand side factors influencing the trend of CPI during time (Barro, 1997). Supply side analyses is strictly related with the higher production costs and the consequential behavior of enterprises, causing a rise in general level of prices. The so-called "cost-push approach" is related to the scarcity of raw materials in the world market and the exposure of different countries to the external economic shocks such as commodity price volatility, and the exchange rate depreciation.

The demand side factors rely on the Keynesian school of thought where inflation is a consequence of higher aggregate demand due to increased government expenses (Totonchi, 2011). Moreover, we include the changes in the money supply to capture the Monetarist effect on inflation (Mertens, 2016). The variable of broad money is included in the analyses. There is a broad literature that focus on the relationship between inflation and money supply. In contrast, in developing countries inflation is not always a "monetary policy" consequence. This is the case of Albania that have adopted inflation targeting structure, controlled money supply and practiced pegged exchange rate regime for the purpose of minimizing the price volatility.

2. Literature review

Inflation and factors affecting it are among the most important macroeconomic debates in economics. On one side we find the economic principle of quantity theory of money meaning that the changes in prices are primarily determined by changes in the money supply (Friedman & Schwartz, 1963; P. Beckerman, 1992). On the other side the increase in aggregate demand is recognized as the source of demand-pull inflation (Keynes, 1936). Solutions that lead to inflation reduction in the demand-pull theory are mainly related to the fiscal policy adjustments. Besides the classical inflation theories, it is important to rely in alternative concepts of cost-push inflation caused by wage increase and rational expectation theory (Lucas, 1972; McCallum, 1980). Still, in our study we will follow a more empirical approach.

An empirical analysis has been conducted by Gemayel et al., (2011) to identify benefits of inflation targeting (IT) in low income countries including Albania. In their paper they compare macroeconomic outcomes in countries that have adopted IT with those not having adopted yet. Findings show that inflation targeting is related with lower inflation and inflation volatility. Moreover, they do not find evidence of any adverse effect on output.

Among classical factors impacting inflation Narayan et al., (2011) included remittances received from abroad. They use a panel of 54 developing countries covering the period from 1995 to 2004. In the study they estimated the Blundell and Bond system generalized method of moments to identify the positive relationship between inflation and remittances. Empirical results show that the positive effect of remittances on inflation is more evident in the long run if compared to the short run.

Gjika et al., (2018) examined the economic factors influencing Consumer Price Index (CPI) in Albania. Their results emphasize two main variables such as the exchange rate and the number of people traveling abroad. Forecast analyses is combined with multiple regression of time series model. The forecasts obtained from the SARIMA models were satisfactory for a short-term prediction compared to the multiple regression model forecast.

Using time series for the period 1970 to 2014 Lacheheb & Sirag, (2019) investigate on the relationship between oil price changes and inflation rate. In their study they adopt a nonlinear ARDL model for the analysis to capture both long-run and short-run asymmetric relations between CPI and oil prices. Empirical results confirm that in the long-run, oil price increase tends to increase inflation rate. Though, oil price decrease seems to be unrelated to inflation level.

Bahmani-Oskooee et al., (2020) examine the case for asymmetric effects of exchange rate fluctuations on money demand through a nonlinear adjustment mechanism within an ARDL model. In their study they use data for 1996 to 2016 from Albania. The nonlinear model reveals an asymmetric effect of exchange rates on money demand, with depreciations reducing money demand, along with other macroeconomic factors inflation is determinant in the model.

3. Background and CPI trends

According to INSTAT (2022) Consumer Price Index in April 2022 arrived 109.7 compared to December 2020. The annual rate of consumer price index in April 2022 is 6.2 %, the tendency is represented in Figure 1.

**Figure 1. Annual rate of consumer price index (CPI)**
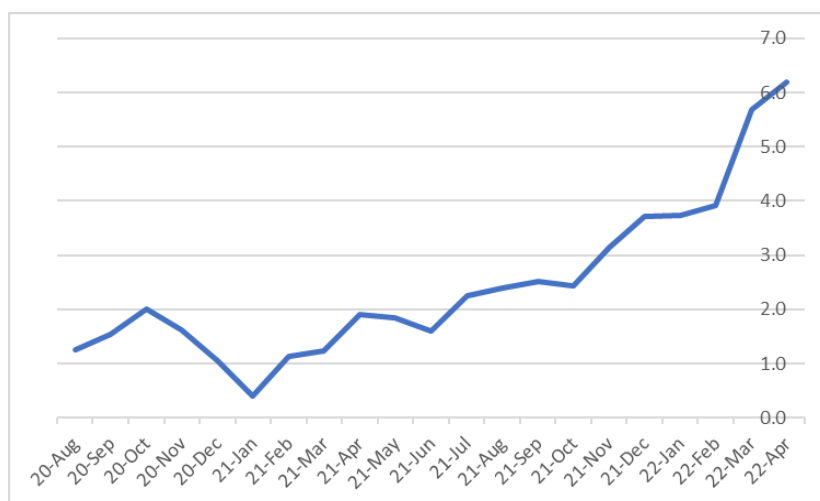
Source: INSTAT, 2022

Referring to Figure 2, prices increased by 22.5 percent in the group "Transport" followed by "Food and non-alcoholic beverage" by 9.9 percent, "Hotels, coffee-house and restaurants" by 4.9 percent, "Alcoholic beverages and tobacco" by 4.3 percent, "Recreation and culture" by 4.1

percent, "Furniture household goods and maintenance" by 2.7 percent, "Housing, water, electricity and other fuel" by 2.6 percent, "Clothing and footwear" by 1.2 percent, "Miscellaneous goods and services" by 1.0 percent, "Communication" by 0.8 percent, "Health" and "Education service" by 0.6 percent respectively.

Within the food group prices increased due to the subgroups of "oil and fats"; "milk, cheese and eggs", "bread and cereals", "sugar, jam honey, syrup, chocolates and sweets", "meat", "vegetables included potatoes", etc.

Figure 2. Contribution of main groups in annual rate of CPI
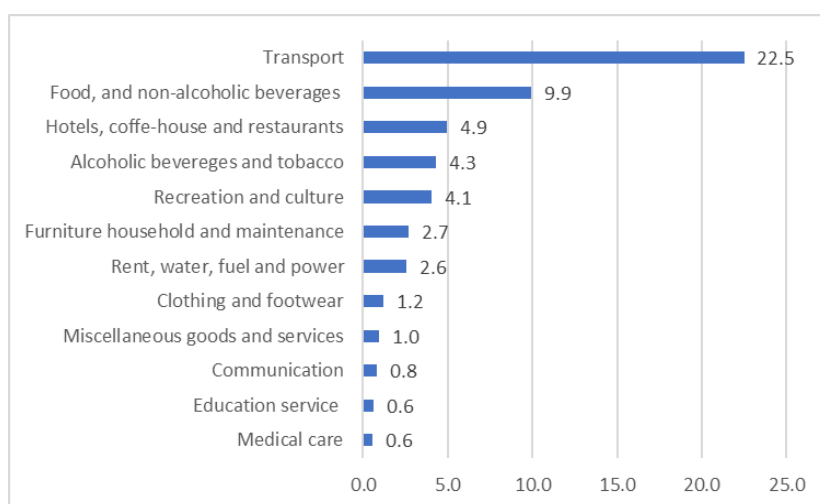
Source: INSTAT, 2022

Since 2015 INSTAT is calculating the harmonized indices of consumer prices (HICPs). This index includes all products and services purchased in monetary transactions by households within the territory of a country; those by both resident and nonresident households. HICPs cover the prices paid for goods and services in monetary transactions. HICP is the bases for comparative measurement of inflation in European countries and as official inflation of European Central Bank with aim of stability of price in Monetary and Economic Union. However, in our study we rely in the factors affecting CPI.

4. Data and methodology

In this study we use time series for the period 1992 to 2020 for Albania to investigate on the factors affecting the changes in Consumer Price Index (CPI) during the same period. Some of the trends for the variables are represented in Figure 3 and Figure 4.

Figure 3. Annual trends of CPI and GDP growth rate
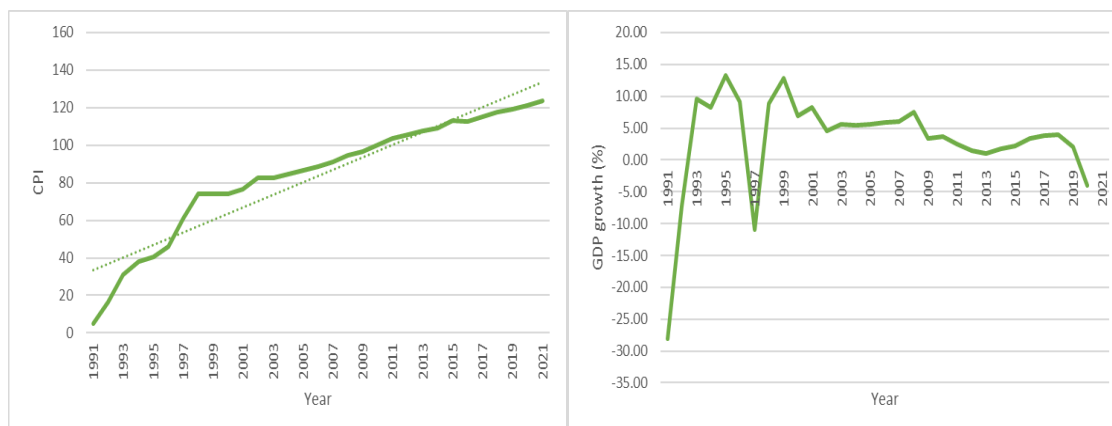
Source: Authors' calculation

We use two different autoregressive distributed lags (ARDL) (the dependent variable is the CPI).

- For the supply side model, the independent variables are exchange rate, world wheat price, world oil price.
- For the demand side model, the independent variables are Log of GDP, remittances, government expenditure, broad money.

Figure 4. Annual trends of Remittances and Exchange rate
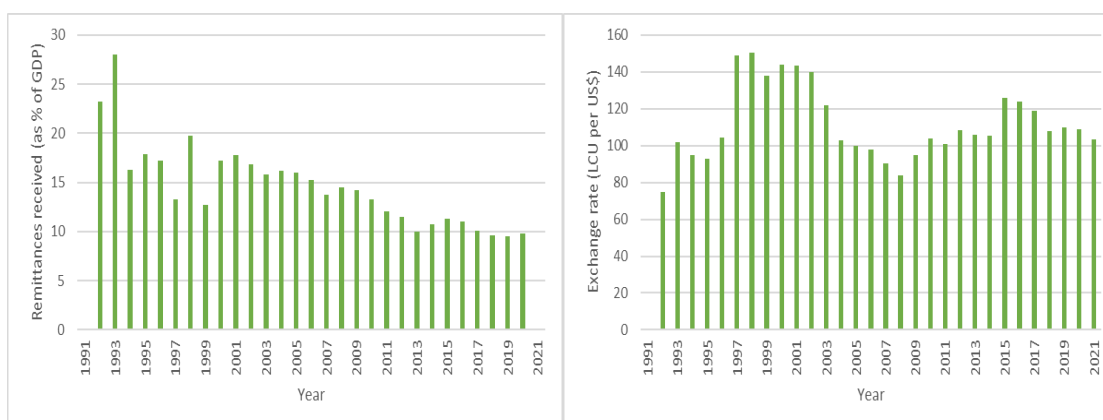
Source: Authors' calculation

To evaluate the short-run and long-run effect of the factors that impact CPI, we use the following Autoregressive Distributed Lag (ARDL) model.

We perform the following steps:

1. Check for the optimal lag order by running Vector Auto Regressive Specification Order Criterion.

2. Check the stationarity of the variables by running the Augmented Dickey Fuller (ADF) test.
3. Proceed with the ARDL model.
4. Include error correction regression and bounds test to check the long-run relationship.

Figure 4. Trends of Brent spot price and Average wheat price
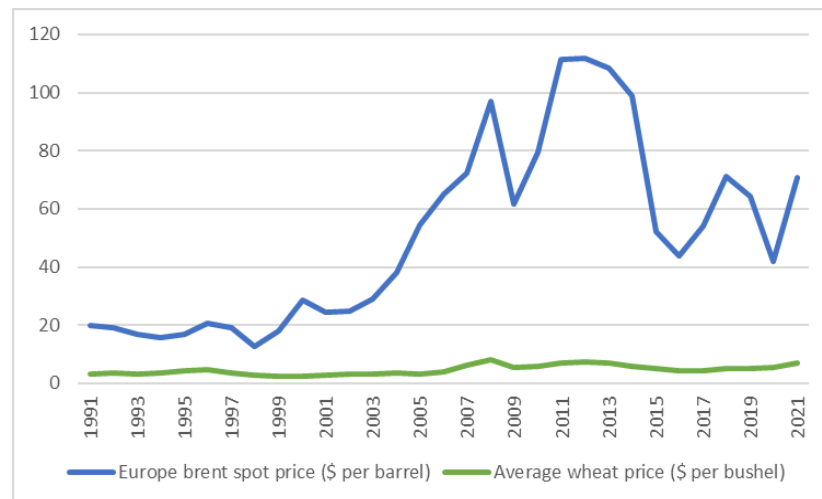
Source: Macrotrends, 2022

Following the ARDL procedure we obtain estimations in Table 1. As we can notice from R squared around 88 percent of variation in CPI is explained by the list of explanatory variables included in this study.

Table 1. ARDL Regression estimations

ARDL(1,1,0,0,0,0,0) regression

Sample: 1992 -   2020

Log likelihood = -51.036818

				Number of obs	=	29
				R-squared	=	0.8826
				Adj R-squared	=	0.8356
				Root MSE	=	1.6934

D.cpi	Coef.	Std.Err.	t	P>t	[95%Conf.	Interval]
ADJ						
cpi						
L1.	-0.546	0.102	-5.340	0.000	-0.759	-0.332
LR						
GDP Growth	-0.698	0.201	-3.470	0.002	-1.118	-0.279
Remittances	1.696	3.766	0.450	0.657	-6.160	9.551
Exchange rate	0.529	0.039	13.640	0.000	0.448	0.610
Government Sp.	32.532	3.737	8.710	0.000	24.737	40.327
Oil Brent price	0.016	0.048	-0.320	0.751	-0.116	0.085
Av. Wheat price	0.667	0.981	0.680	0.504	-1.379	2.713
SR						
GDP Growth						
D1.	0.235	0.053	4.430	0.000	0.124	0.346
_cons	-364.977	82.064	-4.450	0.000	-536.159	-193.795

note: estat btest has been superseded by estat ectest
      as the prime procedure to test for a levels relationship.

Pesaran/Shin/Smith (2001) ARDL Bounds Test
H0: no levels relationship   F = 19.252
                                        t = -5.336

In the short run the outcome is straightforward because a positive and statistically significant relationship between CPI and GDP growth is confirmed. While in the long run almost all variables are positively affecting the trends of CPI. Still, only exchange rate and government spending coefficients are statistically significant. According to the theory and empirical studies between exchange rate and CPI there is a bidirectional relationship (Kalaj & Golemi, 2019).

5. Conclusions

In our paper we used time series to frame the influence of factors driving CPI in Albania. Empirical results show that CPI in short run is statistically influenced by GDP growth. According to the estimations there is cointegration of the variables. In the long-run CPI is positively related to the log of remittances, exchange rate, log of government spending, and the variables about the global markets trend. However, in the long run the only statistically significant coefficients are those related to exchange rates and government spending. Despite the positive short-run effect of GDP growth, in the long-run this effect is negative in the CPI meaning that from the demand side prospective there is a long-run adjustment.

World oil brent price and wheat price have a positive sign but are not statistically significant in the model we estimate. This outcome maybe related with the fact that our country is a small open market. We dropped the variable of broad money since the ARDL model was not cointegrated when we included this variable. As we mentioned earlier in the text Albania adopt inflation targeting structure.

Our estimation results have policy implications since we noticed that government spending have an evident effect on CPI, in this way by reducing government expenditure in the long run we may obtain reduction in CPI. However further investigation is needed to evaluate if there are other variables effecting CPI.

References

Bahmani-Oskooee, M., Miteza, I., & Tanku, A. (2020). Exchange rate changes and money demand in Albania: a nonlinear ARDL analysis. *Economic Change and Restructuring, 4*(53), 619-633.

Barro, R. (1997). *Macroeconomics. .* New York: The MIT Press.

Beckerman, P. (1992). *The Economics of High Inflation.* New York: St. Martin's Press.

Friedman, M., & Schwartz, A. (1963). *A Monetary History of the United States, 1867-1960.* Princeton: The Princeton University Press.

Gemayel, M. E., Jahan, M. S., & Born, M. A. (2011). What can low-income countries expect from adopting inflation targeting? *IFM Working Paper*, No. 11/276.

Gjika, E., Puka, L., & Zaçaj, O. (2018). Forecasting consumer price index (CPI) using time series models and multi regression models (Albania case study). *Financial Engineering*, 466-472.

INSTAT. (2022). *Consumer Price Index.* Tirana, Republika e Shqipërisë: Instituti i Statistikave.

Kalaj, E., & Golemi, E. (2019). Macro Determinants of Real Exchange Rates: Albanian Case. (Springer, Ed.) *Institute of Scientific Communications Conference*, 608-614.

Keynes, J. M. (1936). *The General Theory of Employment, Interest, and Money.* London: Macmillan Publication.

Lacheheb, M., & Sirag, A. (2019). Oil price and inflation in Algeria: A nonlinear ARDL approach. *The Quarterly Review of Economics and Finance*(73), 217-222.

Lucas, R. E. (1972). Expectations and the Neutrality of Money. *Journal of Econ Theory*, 103-124.

McCallum, B. T. (1980). Rational Expectations and Macroeconomic Stabilization Policy: An Overview. *Journal of Money, Credit and Banking*, 716-746.

Mertens, E. (2016). Measuring the level and uncertainty of trend inflation. *Review of Economics and Statistics, 5*(98), 950-967.

Narayan, P. K., Narayan, S., & Mishra, S. (2011). Do remittances induce inflation? Fresh evidence from developing countries. *Southern Economic Journal, 4*(77), 914-933.

Totonchi, J. (2011). Macroeconomic theories of inflation. *International Conference on Economics and Finance research, 4*(1), 459-462.

How the governance quality affects the performance of the public sector (The Albania Case)

Olta Nexhipi
University"Aleksander Moisiu" Durrës, Albania
olta.nexhipi@gmail.com

Erisa Musabelli
University"*Aleksander Moisiu" Durrës, Albania*
erisamusabelliu@hotmail.it

Valbona Mehmeti
University"Aleksander Moisiu" Durrës, Albania
mehmeti.valbona@yahoo.com

Abstract

A very big focus in recent years has been the importance of efficient use of public resources and high quality fiscal policies with an impact on economic growth, stability and individual well-being. Meanwhile new management and budgeting techniques have been developed and there is more spaces for goods and services through markets.
Transparency of government practices across the globe has increased, increasing public pressure to use resources more efficiently. Adequate measurement of public sector efficiency is one difficult empirical issue and the literature on it especially when it comes to aggregate and international data is quite scarce.
The aim of this paper is to show how the quality of government affects the performance of the public sector. The quality of governance is measured through several indicators which reflect the macroeconomic view of the quality of public enterprises. In the analysis of these indicators, a regression equation set by the World Bank was used and according to this analysis, the two indicators that continue to have a negative impact are the Control and Corruption Index (CC) and the Law Enforcement Indicator (RL)

Key words: performance, governance quality, public sector.

1. Introduction

It is a general realization in Galbraith's[18] conclusions that rich societies must find a social balance between the production of private goods and the provision of public satisfaction. The link between public spending and public enterprises is very important. One of the attitudes of developing countries, including Albania, is to reduce the fiscal deficit through the sale of public

---

[18] Galbraith, "The Affluent Society" 1968

enterprises, which is very harmful in the long term[19]. The assumption that the State has no role in economic activity and markets will not fail has been proven to be incorrect for both. According to Rondineli, in many developing countries, serious questions arise as to whether companies that are not owned by the state are important instruments for the economic and social development of the state. State-owned companies are often perceived as ineffective instruments for economic development for several reasons: ¬ because the state has not given them defined missions, ¬ because the state uses them not for specified reasons of economic and social development ¬ or because they face limits that affect their ineffectiveness.

According to Rondineli[20] in many developing countries, serious questions as to whether companies that are not owned by the state, are important instruments for the economic and social development of the state. State-owned companies are often perceived as ineffective instruments for economic development for several reasons: ¬ because the state has not given them defined missions, ¬ because the state uses them not for specified reasons of economic and social development ¬ or because they face limits that affect their ineffectiveness.

2. Methodology

This is a research paper in which secondary and non-primary data were used, which together with all other data were used to reach a conclusion related to the main purpose of the paper, the impact of the quality of governance in public enterprises in Albania. The study was conducted over a 7-year period, where the data were further analyzed in exploratory explanations.

3. Results and Discussion

Starting from the final results that the quality of governance absolutely affects the performance of public enterprises, in these results we will see the indicators of the quality of governance which are expressed in a) Opinion and responsibility (VA), b) Political stability and non-violence (PV,) c) Governance Effectiveness (GE), d) Regulatory quality (RQ), e) Law Enforcement (RL), f) Corruption Control (CC). In the analysis of these indicators, the most negative indicator is the Control and Corruption Index (CC).

3.1 Governance Quality Indicators

The quality of governance is measured by these indicators[21], which reflect the macroeconomic view of the quality of institutions. These indicators are:

a. Opinion and Responsibility (VA) – which considers the quality of political processes by measuring the degree of citizen participation in the election of the government.

---

[19] P.Basu,"Reinventing Public Enterprises and Their Management as the Engine of Development and Growth", Publication based on the Expert Group Meeting on Re-inventing Public Enterprise and their Management 27-28 October 2005

[20] D.Rondinelli. "Can Public Enterprises Contribute to Development" 2005

[21] *Kaufmann Daniel, Kraay Aart (2007) Governance Indicators: Where Are We, Where Should We Be Going? World Bank Policy Research Working paper, WPS4370*

b. Political Stability and Absence of Violence (PV) – which aims to measure the potential for economic destabilization, including politically motivated violence and terrorism. It also aims to measure the impact of changes in governance systems on the economy.

c. Effectiveness of governance (GE) – where the main purpose of this indicator is to measure the quality of public services and the independence of public administration from governance.

d. Regulatory Quality (RQ) – which indicates the government's ability to design and implement rules aimed at macroeconomic stability

e. Law Enforcement (RL) – which measures the government's ability to enforce its own rules, mainly the functioning of the judicial system, and the people's enforcement of these rules set by the government, mainly in the case of crime and violence.

p. Corruption Control (CC) – which measures the use of public power for personal gain.

❖ Quality of governance indicators (Albania Case)

By analyzing the indicators described above, the World Bank has established a regression equation considering their effect[22]. In the table below, this assessment is given for several countries, including Albania, for a period of 7 years.

Table 1. Evaluation of governance indicators for Albania (2010 – 2017)

Indicators	2010	2011	2012	2013	2014	2015	2016	2017
VA	0.12	0.06	0.02	0.05	0.14	0.16	0.17	0.2
PV	-0.19	-0.28	-0.14	0.09	0.49	0.35	0.34	0.4
GE	-0.28	-0.21	-0.27	-0.32	-0.1	0.01	0.01	0.08
RQ	0.23	0.23	0.2	0.21	0.22	0.19	0.19	0.22
RL	-0.41	-0.46	-0.52	-0.52	-0.3	-0.33	-0.33	-0.4
CC	-0.53	-0.68	-0.73	-0.7	-0.6	-0.48	-0.41	-0.42

Source: World Bank

By analyzing the table, we notice an improvement in the contribution of each indicator to the quality of governance, also, over the years, the estimation of the regression coefficients has improved, because the values of the standard deviations have been decreasing[23] and the number of observations has increased.

The first indicator is VA, *Opinion and Responsibility*, in the period 2010 - 2012, it is not that it had a negative impact on the quality of governance, compared to previous years, but it was at low levels, which means that there were no levels proper democratic processes. Then, in

---

[22] *Milova .O, "Performance e sektorit publik dhe ndikimi i tij në rritjen ekonomike"*
[23] Although the values of the standard deviations are not set here, the methodology used and all the limitations that the model has are in the original publication.

the following years, this indicator has improved, especially in 2017, where an increase in the value of 1% of this indicator would increase the quality of governance by 20%

The second indicator, SV, Political Stability and Lack of Violence, has negatively affected the quality of governance for the period 2010 - 2012. During 2010, a 1% increase in this indicator contributed approximately to a decrease in the quality of governance by 19%. In 2013 there is an improvement in this indicator where an increase of 1% of this indicator would contribute to the increase in the quality of governance by 9% to go further in 2015 where for the same increase we would have a contribution of 35% and in 2017 with 40%.

The third indicator, GE, Government Effectiveness, starting from 2015 has been increasing, where for a 1 percent increase in this indicator, the quality of governance increases by 1 percent, which shows the improvements made in terms of services and public goods provided by the state. While in 2010, every 1 percent increase in this indicator decreased the quality of the government by 28 percent, a value which is quite significant. In 2017 for the first increase, the quality of the investment increases by 8 percent.

The fourth indicator, RQ of Regulatory Quality, has positively influenced the quality of governance since 2010 and onwards. In 2017, it is noted that an increase of 1 percent of this indicator would increase the quality of governance by 22 percent, this indicator is quite good. One of the reasons for this positive effect is the alignment of many legislations of Albania with those of the EU.

The indicator, RL, of the Implementation of Laws, seems to be an indicator with many problems, since until 2017 it continues to be in negative values. The regression coefficient for the year 2010 has a value of -0.41, which means that it reduces the quality of governance by 41 percent for each increase and it continues with almost the same value in 2017 with -0.4

Even the last CC indicator, Corruption Control, has a negative impact on the quality of governance. Although its values seem to have a tendency to improve, they continue to remain in negative values until 2017. In 2010, corruption, for every 1 percent increase in it, caused a 53 percent decrease in the government quality indicator. This shows that Albania is classified in an unfavorable situation in this part.

The two indicators that have a very high negative impact on the quality of governance, based on the above results, are: *the index of control and corruption, law enforcement,* which shows us that there is still a lot of work to be done in this direction.

3.2 Indicators of the quality of governance in the countries of the region

Below we have a comparison of the countries of the region and Albania in terms of quality indicators and their problems.

*Graph 2.1 **Evaluation of governance quality indicators for Albania and other countries region for 2017***
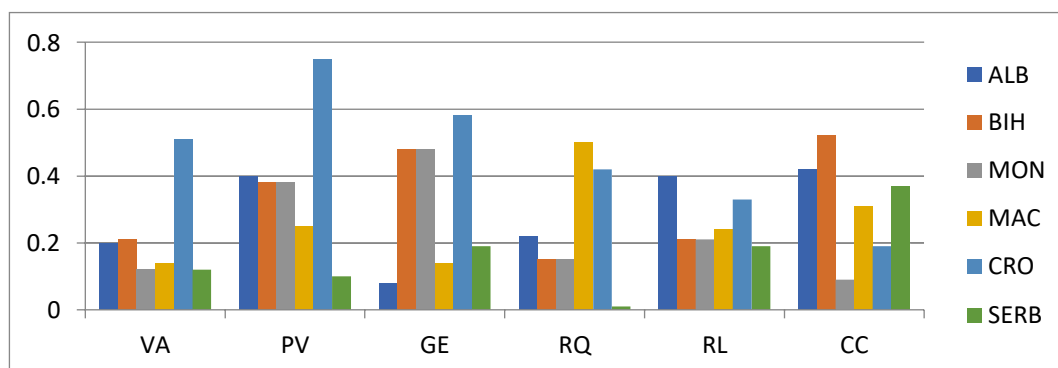
Source: World Bank

The indicator with the highest performance for Albania is the indicator of political stability and the absence of violence, approaching Croatia with a value of 0.75, as one of the countries in the region with the highest indicators in all indicators of the quality of governance. The values of the indicator of Croatia they range from 50 to 60, which means they are above average. Regarding the quality of public services, Bosnia is classified last, having a difference from other countries such as Albania, Macedonia, Serbia and Montenegro, which have similar values, but are located relatively far from the levels of Croatia.

4. Conclusions

Basic problems such as governance problems have not been solved and the new public created enterprises have the same problems as before, especially in terms of lack of management and corruption. The Corruption Control Indicator continues to be in negative values. People are not corrupt because they work in the public sector, although the perception is the opposite. Corruption occurs because of the socio-economic and political context of a country, where people have no incentives and are forced to become part of corruption. In the studies conducted, 80% of the performance of NPs depends on the management system and only 20% on people. The indicator with the highest performance for Albania is the indicator of political stability and the absence of violence, approaching Croatia with a value of 0.75, as one of the countries in the region with the highest indicators in all indicators of the quality of governance. This analysis shows that Albania has a lot of work to do in the direction of the Corruption Control (CC) indicators so that at least these values are not negative values even though they are at low levels.

What is observed from this paper is the fact that the quality of governance has a very large impact on the performance of public enterprises. What we notice from this paper is the fact that the quality of government has a big impact on the performance of the public sector.

References

Afonso. A & Kazemi. M (2016), *'Assessing Public Spending Efficiency in 20 OECD Countries',* Working Paper, WP12/2016/DE/UECE

Afonso.A, Ludger, Schuknecht and Vito Tanzi. 2006. *"Public Sector Efficiency: Evidence for New EU Member States and Emerging Markets,"* European Central Bank, Working Paper n.581, ISEG-UTL, Working Paper 01/2006/DE/UECE.

Afonso.A, Ludger, Schuknecht, and Tanzi, V. (2005). "*Public Sector Efficiency: An International Comparison."* Public Choice 123(3-4): 321–47.

Anderson, James H., and Cheryl W. Gray. 2006. *"Anticorruption in Transition. Who is Succeeding and Why?"* World Bank, Washington, DC.

Banka Botërore (2015) "Ristrukturimi i shpenzimeve Publike për të Mbështetur Rritjen Ekonomike, Një rishikim i Shpenzimeve Publike dhe Kuadrit Institucional

D. Rondinelli. "Can Public Enterprises Contribute to Development" 2005

Kaufmann Daniel, Kraay Aart (2007) Governance Indicators: Where Are We, Where Should We Be Going? World Bank Policy Research Working paper, WPS4370

Kaufmann. D, Aart. K "Governance Indicators: Where Are We, Where Should We Be Going?" World Bank Policy Research Working paper, WPS4370, (2007)

Rondinelli, Dandelot, Basu, Kuzya, Reulas and Trivedi,(2005), "Public Enterprises, Unresolved Challenges and   New Opportunities", Publication, 27-28 October 2005

Milova.O, (2009), "*Performanca e sektorit publik dhe ndikimi i tij në rritjen ekonomike"* Phd Dissertacion, Universiteti Tiranës, Shqipëri. 2009

Musabelli.E, (2019) "Ndwrmarrjet publike, problemet e pazgjidhura dhe sfidat" (Rasti i Shqipwrisw), Disertacion, Univesiteti Bujqwsor i Tiranws.2019

P. Basu,"Reinventing Public Enterprises and Their Management as the Engine of Development and Growth", Publication based on the Expert Group Meeting on Re-inventing Public Enterprise and their Management 27-28 October 2005

Ristrukturimi i Shpenzimeve Publike për të Mbështetur Rritjen Një Rishikim i Shpenzimeve Publike dhe i Kuadrit Institucional", Raport Nr. 36453 – AL,vol II, 2006

Rondinelli, Dandelot, Basu, Kuzya, Reulas and Trivedi, (2005), "*Public Enterprises, Unresolved Challenges and New Opportunities",* Publication, 27-28 October 2005

Tanzi.V (1997), *"The changing role of the public sector in the economy: A historical perspective,* IMF Working Paper, WP/97/114, September

Tanzi.V. 2005. *"The Economic Role of the State in the 21st Century."*

Globalization in Covid-19

Dr. Enis Uruci

enisuruci@gmail.com

Abstract

COVID-19 pandemic is not only affecting global citizen's health but also global economic health. Globalization has been a surge from the last couple of decades, which has both positive and negative effects on our society. Because of globalization, many countries enjoyed less scarcity of essential goods and services.

Notably, India and China achieved higher economic growth and a higher standard of liv ing due to the last couple of decades. COVID-19 will affect human societies in many ways. This paper investigates the effect of COVID-19 pandemic on the globalization. It is challenging measuring the effect because of the uncertainty of this natural phenomenon, and the reaction of human behavior. However, the author tried to make the best use of available resources to investigate. This paper uses variables like economic growth, unemployment, and trade and global level. Analysis suggests that slowing down economic activities and dependency on other countries for necessary goods like medication and PPE equipment can encourage economies to be more self-sufficient. After this pandemic end, it can encourage economies towards deglobalization.

1. Introduction

Globalization is the interaction among people, companies, and governments across the world. It is not a new phenomenon that people are interacting with each other at the global level for thousands of years. The silk road connected Asia from Europe during the middle ages. Today this process is driven by trade, tourism, technology, govt. Policies and economic growth. Globalization has facilitated our societies in many ways human life span has been increased because people can get the medication on time, reduced mortality rate, reduced poverty, and a higher standard of living across the globe. People are never connected in the history ofhumankind in the way we are today. However, it has also created problems like climate change and cultural issues. Since countries are trading, they are producing more, which creates negative externalities like pollution.

As people are traveling more either for business or for entertainment, they are having more exposer to other countries. Some scholars worried that it could diminish the old heritage culture of

some countries. COVID-19(coronavirus disease 2019), originated in Wuhan, China, on December 31st, 2019, has been devastating not only to the health of humans but also to the economic health of the countries. The World Health Organization has declared COVID-19 a pandemic on March 11th, 2020, more than two months after the first reported case. Since then, it is increasing in many parts of the world, and economic activity has been reduced significantly. As of May 15ᵗʰ more than 1.4 million people are affected, with more than 86 thousand deaths worldwide.

2. Purpose of the Study

The goal of this paper is to investigate the impact of COVID-19 on globalization. Will this pandemic reverse the globalization? Will this natural phenomenon lead the countries toward de globalization? To find the answer to these questions, this study will analyze the economic impact of COVID-19 through looking at economic growth, unemployment rate, and trade data of the countries. There are already some research and studies dealing with the effect of COVID-19 pandemic on globalization. There is no doubt that economic activity has slowed down across the world because of lockdown. According to Baldwin and Tomiura (2020), as of March 2nd, 2020, the nations with the most reported cases include (in order) China, Korea, Italy, Japan, U.S., and Germany with the cases proliferating especially in the U.S., Italy, and Germany. These six hard-hit nations account for: about 55% of world supply and demand(GDP), about 60% of world manufacturing, and 50% of world manufacturing exports. When these economies are on completely lockdown, it is an economic loss that will be felt across the globe. COVID-19 pandemic has a more significant effect on the global supply chain, according to Luo and Tsang (2020). Based on our most conservative estimate, China suffers about a 4% loss of output from labor loss, and global output drops by

1% per period due to the economic contraction in China. About 40% of the impact is indirect, coming fromspillovers through the supply chain inside and outside China. The economic slowdown has also affected the global stock exchange, according to Ramelli & Wagner(2020)This seems a fairly obvious observation resulting from the growing number of infections in most countries, closing schools, and promoting social distancing measures well as sharp declines on global stock exchanges. Companies react by cutting investment expenditure, which negatively increases productivity and can, in turn, lead to a recession. It is complicated to find the answers to the questions discussed above because of the author is aware of the limitation of this research because this is an unprecedented event, and human behaviour is uncertain to predict. According to Sforza and Steininger (2020), globalization allows firms to source intermediate inputs and sell final goods in many different countries.

Experts Seric and Winkler predict that as a result of coronavirus, the world will see a surge in automation while seeing globalization diminish. Understanding the effects of a global production disruption induced by a pandemic is complex. The first part of this paper is the introduction, and the second part will analyze the effect of COVID-19 on economic growth, unemployment, and trade, and the third part is the conclusion and recommendations of the research.This paper is based on the analysis of available research, secondary data, reports, and literature from the international monetary fund, BLS, OECD. The author is aware of the lack of research on this topic because of the uncertainty around the world. The main limitation of this

paper is the relatively limited availability of the literature and data on this subject. For developed countries like The United States, data is very readily available but not in other parts of the world, especially for developing and emerging economies.

3.Methodology or Materials and Methods

Economic Growth

Long term sustainable economic growth is one of the most desired goal for any country. The COVID-19 pandemic made countries lockdown and stayed in isolation, which reduced economic activity levels significantly. There is no doubt about the slower growth and recession in the coming months across the globe. There is extreme uncertainty about the economic growth forecast around the world. According to the World economic outlook, April 2020, the global economy is projected to contract sharply by 3 percent in2020, much worse than during the 2008-2009 financial crisis. The economic fallout will be uneven among the countries it depends on factors that interact in ways that are hard to predict, including the pathway of the pandemic, the extent of supply disruptions, the repercussions of the dramatic tightening in gl obal financialmarket conditions, shifts in spending patterns, behavioral changes, change in market structure, consumer confidence effects, and volatile commodity prices. Below is the graph that shows the quarterly world GDP, divided into advanced and emerging markets and developing economies Trade was already slowing in 2019 because before the virus struck, weighed down by trade tensions and slowing economic growth. As a result of the COVID-19 pandemic, many countries have banned or impose restrictions on interpersonal interactions, social, cultural, and international trade exchange. According to WTO2020 press releases world merchandise trade has registered a slight decline in the year of -0.1% in volume term sand after rising by 2.9% compared to the previous year. The dollar value of world merchandise exports in 2019fell by 3% to US$ 18.89 trillion.

Approximately all regions will suffer double-digit declines in trade volumes in 2020 with exports from North America and Asia hit hardest. According to Luo and Tsang (2020).Firms are interconnected through trade within and across sectors with specialized productions. The production linkages among firms serve to propagate shocks along the supply chain and ultimately affect the aggregate economy. According to WTO, World merchandise trade is set to plummet by between 13 and 32%.

4. Conclusions and Recommendations

This study concludes that the COVID-19 pandemic will affect globalization negatively, at least for the short term. The analysis represents the unprecedented disruption to the global economy and world trade, as production, consumption, trade, supply chain is scaled back across the globe. The inevitable decline in trade and output and increasing unemployment will harm households and businesses painfully, on top of the human suffering caused by the disease itself. This paper suggests the immediate goal is to bring the COVID19 pandemic under control, find the vaccine, and mitigate the economic damage to peop le, companies, and countries. Policy makers must start planning for the aftermath of the COVID-19 pandemic because the estimates of the expected recovery in 2021 around the globe are equally

uncertain. It will depend largely on the duration of the outbreak and the effectiveness of the policy responses.

References

Baldwin, R., & Tomiura, E. (2020). Thinking ahead about the trade impact of COVID-19.

Economics in the Time of COVID-1959 Eichengreen, B., & Irwin, D. A. (2010). The slide to protectionism in the Great Depression:

The Journal of Economic History, 70(4), 871-897.Fornaro, L., & Wolf, M. (2020). Covid-19 coronavirus and macroeconomic policy.International Labour Organization.

https://www.ilo.org/wcmsp5/groups/public/---dg
reports/dcomm/ publ/documents/publication/wcms_741421.pdfLuo, S., & Tsang, K. P. (2020). How Much of China and World GDP Has The Coronavirus Reduced.

Available at SSRN 3543760 Ramelli, S., & Wagner, A. F. (2020). Feverish Stock Price Reactions to covid-19.Ruiz Estrada, M. A., & Khan, A. (2020). Globalization and Pandemics: The Case of COVID-19.

 Available at SSRN 3560681 Seric, A., Winkler, D., Department of Policy Research and Statistics, & Unido. (n.d.). COVID-19 could spura utomation and reverse globalization to some extent. Retrieved fromhttps://www.weforum.org/agenda/2020/05/covid-19-automation-globalisation-coronavirus-world pandemic
change/?utm_source=sfmc&utm_medium=email&utm_campaign=2719193.

A qualitative study of Marketing Management challenges through the process of internationalization of the small and medium-sized businesses.

Ilindena Sotirofski

"Aleksandër Moisiu" University of Durrës

ilindena@hotmail.com

Abstract

The main aim of this study is to delve into the challenges that small and medium-size businesses face with marketing management through their internationalization process. The most important current trend in global marketing in today's businesses is that global marketing is getting tougher. The achievement of the business's global marketing goals is more reliant on international relations and international politics. Considering these were conducted three face-to-face interviews with the owners of technological machine and equipment businesses in the Tirana and Durres areas. This study first emphasizes the importance of assessing marketing and brand management objectives and plans at the national level, afterward making international marketing mix choices that are compatible with these approaches. These growth-oriented local businesses will be able to reach new and more profitable markets by opening to global markets, besides gaining ideas about new products and being aware of innovations in production practices and technologies.

Innovation and technology are essential worldwide and have an important impact on the economy. Therefore, within the framework of this study, the international markets and brand management strategies of the companies were examined in personal interviews with three managing directors working in the Tirana and Durres regions in the technological machine and equipment industry and their problems and needs that they encountered through the internationalization process were identified. The research results show that the motivation of the enterprises to operate in foreign markets is high, but they need support in various fields, especially in marketing, to reach their goals.

Keywords: *Marketing management, internationalization, technological machines, economy, global market*

JEL Classification: *M31, M10, M16*

1. Introduction

The influence of competition brings companies face to face with many competitors at the national and international levels. Businesses can remain competitive and survive by adopting a dynamic structure. Therefore, they try to show more propensity for international activities according to their characteristics. The globalization of national markets and development in transport and communication technologies have prompted local businesses, specifically small and medium-sized enterprises, to seize opportunities in international markets. (Knight, 2000). Economic changes in the world have had a significant impact on businesses in both the short and

long term. The world has become a globalized place where activities have transcended traditional boundaries. The development of technology, communications, transportation systems, and all other sectors caused by globalization has led to the dissolution of borders between countries and the global market for goods, services, and capital, and the integration of companies into international markets. Companies are often more willing to internationalize in order to increase their revenues. Planning and preparation phases are among the most important factors influencing the success of companies in the internationalization process. (Knight, 2000). Businesses carry out preparatory activities such as foreign market research, planning of business resources such as manpower and finance to support international initiatives, and differentiation of existing products to meet the needs of target foreign markets during this process.

The link between internationalization and business performance has been explored in many studies, some of which find that planning and preparation phases are among the most important factors influencing business success (Lee, Chan, Yeh, & Chan, 2010). As the internationalization of businesses increases, so does the diversity of activities. Global marketing decisions and strategies directly affect the performance of these businesses in foreign markets (Aydin, 2009). International marketing is a marketing field whose importance is increasing daily in terms of the economic development of countries and, at the same time, the individual success of companies. To withstand intensifying competition and seize market opportunities businesses need to use international marketing strategies more effectively (Tektas, 2010). Brand goals and plans created at the international level are important marketing tools for companies in the process of globalization (Douglas, Craig, & Nijssen, 2001). That is the reason why the importance of international marketing management is increasing day by day.

Firstly, a literature review was conducted that examines the factors that lead businesses to international markets, the problems encountered in the internationalization process and the role of marketing in this process. Then, it is given information about the method, scope, and sample of the research. Further, the findings of the research are grouped under three main headings: current marketing management approaches, brand strategies and problems they face in internationalization.

2. Internationalization process and the importance of marketing

Welch and Luostarinen (1988) acknowledged that internationalization is the process of participation of enterprises in international activities (Welch & Loustarinen, 1988). Johanson and Vahlne (1990) defined internationalization as a unifying process in which the network model establishes, develops, maintains, and eventually terminates ongoing relationships to achieve the goals of the enterprise (Johanson & Vahlne, 1990).

The internationalization process includes the external operations of all businesses, from a single firm to a large group, and is the process of increasing participation in international operations. Reaching new customer groups with a desire for growth, access to valuable natural resources, exploiting economies of scale, reducing domestic market risk, and increasing competitiveness are considered as some factors that push companies to open to foreign markets (Inal, 2009).

Many reasons push businesses to go international. They may be internal factors such as turnover, growth, opportunities in foreign markets, reputation and brand equity, or external factors such as competitive pressure in the national markets. The most famous and easiest way to enter international markets is the step-by-step way, starting with export and leveling to direct investment, which is more complex and resource-intensive, with the knowledge and experience

gained from the market, but it is also possible to enter international markets without going through these phases. The fact that there is more than one model for entering the global market may also be due to the different structures and characteristics of companies opening up to international markets. One of the significant success factors in foreign trade is the preparation of companies for the internationalization process (Knight, 2000). One of the requirements of this preparatory process is market research and differentiation of existing products following the requirements of foreign markets.

Globalization has prompted companies to rethink their approaches and strategies related to all business functions, especially marketing. The intensification of global trade and the increasing number of foreign companies in local markets have caused the current competition to become challenging. Companies entering the international market should develop new products or modify existing ones to meet ever-changing customer needs. In turn, gaining market acceptance of an internationally launched product through communication strategies maximizes the chances of profitability. (Avlonitis & Papastathopoulou, 2000), (Di Benedetto, 1999).

Businesses will be able to perform more successfully in international markets with a carefully planned marketing strategy (Cavusgil & Zou, 1994). The marketing dynamics that have changed with globalization show their effects most intensively in the branding field. Challenging competitive conditions force companies to create powerful brands or manage their existing brands in the best possible way. Properly planned international branding strategies play an active role by providing companies with healthy identities and competitive advantages in new markets. (Altuna, 2007).

Companies in the process of internationalization should review their existing branding strategies and establish the necessary core principles, to effectively manage their brands in global markets. Determining the problems that companies face in the internationalization process and analyzing their needs allows companies to compete on the international stage. A correct and well-thought-out marketing strategy permits companies to acquire the necessary technology to develop new products, improve existing products or adapt to foreign markets. Business characteristics such as marketing qualifications and the degree of internationalization can influence the choice of an international marketing strategy (Chen, 2011).

3. Methodology of the study

The focus of the research consists of enterprises operating in Tirana and Durres areas in the sector of technological machines and equipment. The fact that the capital structure of most of the companies subject to this research is not strong and they are small and medium-sized structures that have financed their investments mainly with debt, on the one hand, force these enterprises to internationalize, and on the other hand, they face the problems that arise in this process. Considering the lack of research in the sector of technological machines and equipment of small and medium sized businesses in Durres and Tirana area, it was thought that it would be an appropriate field for the purpose of this study.

Among the companies registered at the National Business Center, which operate in the field of technological machines and equipment in the areas of Durres and Tirana, 3 companies have been contacted and have consented to be part of this study. Interviews were conducted between January and February 2022. The questions created for in-depth interviews consists of two parts. In the first part, the companies participating in the study were asked questions containing general information about the company, such as their establishment dates, capital, production capacities,

and the number of employed managers/workers. The second part of the questions consists of open-ended questions to determine the current marketing and brand management approaches of businesses and the problems they face in opening up to foreign markets. The names of the businesses interviewed in the study were kept confidential at the request of the participants, although general information about the relevant businesses and participants is given in Table 1.

	Participant's Duty	Year of Foundation	Area	Investments in Eur	Number of Managers/Employees	Exported Products
Business Nr. 1	Administrator	2017	Durres	170.000	1/6	All
Business Nr. 2	Administrator	2019	Durres	35.000	1/10	All
Business Nr. 3	Owner	2014	Tirana	50.000	5/40	Some of the products

Table 1: General information related to participating businesses

4. Findings

In this section, the findings of the research are gathered under three main headings: marketing and brand management approaches and strategies of enterprises, and the problems they face in opening to foreign markets.

4.1. Marketing Management Approaches and Strategies of Studied Businesses

It has been observed that only one of the companies participating in the study has a marketing strategy (Participant 3) and the targets stated by the others within the scope of marketing strategies are sales-oriented targets. Parallel to this, it was noticed that none of the three enterprises have a marketing and sales unit, and that foreign market decisions are taken by the administrator or the owner of the business. This showed that businesses generally carry out their business activities far from a holistic marketing approach. One of participating businesses stated that they modified their existing products based on customer requests and needs in foreign markets (Participant 2). It has been observed that foreign market opportunities are not systematically examined by any of the participating businesses, but rather based on observation by the senior management/business owner.

It was determined that the domestic market competition analysis was made superficially and based on observation in all participating enterprises. In this context, businesses have stated that they try to learn the sales amount of their competitors from their own suppliers or acquaintances and to obtain as much information as possible about competing products.

However, it turns out that they do not reliably and systematically examine their competitors' main strategies, strengths and weaknesses, and relative competitive positions. The information they have gained about their competitors and the systematic analysis they have made can push the businesses to become more competitive.

4.2. Brand Management Approaches and Strategies of Businesses

None of the participating enterprises have a registered trademark in the country. These businesses stated that they were not aware of the need to register their brands in important markets abroad, and therefore they did not take any action. One of the companies that was interviewed within the scope of the study (2nd participant) repeated the marketing strategies they stated before as brand strategies. The other two companies defined their brand strategies as the international recognition of their existing brands or the increase in their existing awareness. For this reason, companies that want to take advantage of foreign market opportunities should first determine their brand strategies, goals, and the ways to reach these goals, and make their marketing decisions accordingly.

All the interviewed business representatives have stated that they haven't done any market research for their brands. They indicated the main reasons for this as the lack of competent and sufficient personnel to work on this subject and the high cost of outsourcing market research. Market research is particularly important in determining both marketing and brand management policies. It is beneficial for businesses that want to be successful in the global market to conduct market research for the actual situation and their brands' development.

4.3. Problems Encountered by Studied Enterprises in Opening to Foreign Markets

It has been observed that the main factor that direct the companies participating in the study to foreign markets is the desire for growth. That is why it is observed that all the companies consider foreign markets as a growth opportunity. All three participating enterprises stated that they only apply the direct export method when entering foreign markets. It has been observed that enterprises have established an export unit or appointed an export sales officer in direct proportion to their export experience and wishes. It has been indicated that the examination of foreign markets and the identification of potential customers in these markets are carried out based on individual observation and effort of the administrator rather than a systematic approach.

It has been observed that the promotion and sale of products to foreign customers is mainly carried out through participation in foreign fairs and catalog distribution (1ˢᵗ participant) and through personal acquaintances for the other two participants.

Therefore, the most basic problems faced by enterprises in opening foreign marketing can be summarized as determining the target market, analyzing the markets to be entered, determining the method of entry into these markets, and establishing communication with potential customers in these markets. Businesses also underlined that they want to receive support from the state, and chambers of commerce and industry in terms of finding markets in foreign trade and communicating with customers.

In the face-to-face discussions it has been observed that these enterprises have problems in finding professional personnel to take part in production, and this negatively affects their competitiveness in foreign markets, especially in terms of product superiority.

It has been stated that since the participants are in the category of small and medium-sized companies and most of them do not have a separate finance department, the decisions on financing are taken by the business owners/managers. In this case, they stated that as people who are not experts in finance but make financial decisions or supervise these decisions, they face serious problems in evaluating foreign market opportunities financially and taking the necessary actions. It was noticed that only one of the companies interviewed in the study had a website. However, it

was stated that the website only provides general information and that its infrastructure is not suitable for e-commerce transactions.

Therefore, electronic trading applications, which are one of the most effective and fastest ways to open up to global markets, can be considered as an important obstacle in evaluating the current and potential foreign market opportunities of the three enterprises.

5. Conclusion and Limitations

Referring to the findings of the research, businesses that want to open up to foreign markets should first review their current marketing strategies in line with the requirements of modern marketing and global market dynamics. While creating their international marketing plans, they must analyze potential foreign markets systematically and reliably.

Today, even if companies would carry out their activities solely at the national level, they compete internationally with foreign companies in their domestic markets (Marangoz, 2013). It becomes evident the importance of identifying potential marketing problems that SMEs may encounter in the internationalization process. It is essential to have information about international markets that differ from local market features (Koçak, 2019).

The research results show that the motivation of companies to enter foreign markets is high, but they need support in various areas, especially marketing, to achieve their goals. In addition, once again, it becomes clear how important it is for companies to first review their national marketing and brand management goals and strategies and then make international marketing management decisions.

Among the limitations of this study, are the fact that the research focused only on the companies operating in the technological machines and equipment in the Durres and Tirana area and registered with the National Business Center, the number of samples and the inability to generalize the research findings in terms of being a qualitative analysis can be listed.

However, this study should be accepted as a preliminary study, and the marketing-brand management understandings and deficiencies of enterprises in different sectors with more participants, and the problems they face in opening up to foreign markets should be re-examined. Thus, it is expected that the role of marketing in the internationalization of local businesses under the influence of globalization will become clear and most importantly, its contribution will increase.

References

Altuna, O. K. (2007). Uluslararasi Marka Strateji Formülasyonu: Standardizasyon Ve Uyarlama Yak Laşimlari. *İstanbul Üniversitesi Siyasal Bilgiler Fakültesi Dergisi*, 159-171.

Avlonitis, G. J., & Papastathopoulou,, P. G. (2000). MArketing Communications and Product Performance: Innovative vs. non-innovative new retail financial products. *The International Journal of Bank Marketing*, 27-41.

Aydin, K. (2009). *Environmental Factors Affecting Global Marketing.* Ankara.

Cavusgil, S. T., & Zou, S. (1994). Marketing strategy-performance relationship: an investigation of the empirical link in export market ventures. *Journal of Marketing*, 1-21.

Chen, C.-W. (2011). Integrated Marketing Communications and New Product. *Journal of Global Marketing*, 397-416.

Di Benedetto, A. C. (1999). Identifying the key success factors in new product launch. . *Journal of Product Innovation Management*, 530-544.

Douglas, S. P., Craig, C. S., & Nijssen, E. J. (2001). Integrating Branding Strategy across Markets: Building. *Journal of International Marketing*, 97-114.

Inal, M. E. (2009). Küresel Pazarlarda Rekabet Avantajları ve Stratejileri. In *Stratejik Küresel Pazarlama* (p. 174-209). Ankara: Necdet Timur, Alparslan Özmen.

Johanson, J., & Vahlne, J.-E. (1990). The Mechanism of Internationalism. *International Markteing Review, 9*(4), 11-24.

Knight, G. (2000). Entrepreneurship and Marketing Strategy: The SME under Globalization. *Journal of International Marketing, Vol 8*(2), 12-32. doi:https://doi.org/10.1509/jimk.8.2.12.19620

Koçak, M. (2019). İşletmelerin Uluslararasılaşmasına Yönelik Kavramsal bir çerçeve. *Sinop Üniversitesi Sosyal Bilimler Dergisi*, 169-190.

Lee, T., Chan, K. C., Yeh, J.-H., & Chan, H.-Y. (2010). The Impact of Internationalization on Firm. *International Review of Accounting, Banking and FInance, 2*(4), 39-59.

Marangoz, M. (2013). Küresel Pazar Seçme Kararları ve Giriş Stratejileri. In *Stratejik Küresel Pazarlama* (p. 214-251). Ankara: Necdet Timur, Alparslan Özmen.

Tektas, Ö. Ö. (2010). Categorical evaluation of research in the field of international marketing: literature review between 1995-2010. *H.Ü. Iktisadi ve Idari Bilimler Fakültesi Dergisi*, 151-174.

Welch, L., & Loustarinen, R. (1988). Internationalization: Evolution of a Concept. *Journal of General Management*, 155-171.

Internal Audit and Effectiveness of Covid-19 Situation Management During the Pandemic Period In Albania In Public Sector

Jonida Bekteshi

jonidabekteshi@gmail.com

Abstract

The Covid-19 pandemic had a worldwide spread with a global impact on entities and auditors who faced numerous challenges that had to be addressed in this unexpected situation. The pandemic situation was something new for both entities and auditors where the entities being audited had to adapt to a new environment related to the entity, their operations, the financial reporting process, and disclosures in the financial statements and the ability to maintain operations in the near future. Auditors had to adapt the way they had to provide the audit evidence on which the audit opinion would be based among the many challenges such as: changing the planned audit procedures, access to employees and information, review of identification , the assessment of certain risks of material anomaly and the change of planned audit procedures, the implementation of additional or alternative procedures on the audit, etc.

This paper aims to analyze the practical challenges faced by auditors in auditing financial statements during the COVID-19 pandemic period. The audit aims to assess the effectiveness of policies in managing the situation during the pandemic period as a public good and to provide a clear and accurate picture of integrity, reliability and transparency. The focus of the audit, in addition to reviewing the overall implementation of government policies related to the effectiveness of covid-19 pandemic situation management, has been particularly in the measures taken in the health framework, economic framework and protocols followed by the responsible institutions.

Keywords: Covid-19, Audit, Consequences, Auditors, Effectiveness.

JEL Classification: H12, H83, M42, M48.

1. Introduction

Covid-19[24] has posed a threat not only to human health but also to institutions and measures imposed by the government have had a significant impact on both reporting entities and auditors. Restrictions on in-country and out-of-country movements imposed as a result of the Covid-19 pandemic have posed major challenges for auditors. In order for auditors to respond to such challenges and meet the expectations of investors and stakeholders, they need to be more agile and creative in performing their audit task in accordance with standard procedures. While auditing

---

[24] Firstly it was identified in Wuhan, the capital of China's Hubei province, after people began to develop pneumonia for no apparent reason and for which existing vaccines or treatments were not effective.

standard procedures describe the performance requirement for obtaining reasonable audit evidence and the assurance of financial statements being free from material misstatement, the auditing standard did not set specific requirements on how to ensure the process at this critical time that auditors are expected to rely on technology in performing audit procedures (Illuzzi et al., 2020). Auditors should perform their work in accordance with ISA[25]. Auditors may need to make modifications to their audit approaches, depending on how much the entities have been affected by covid-19, setting the planned audit procedures no longer valid. The Covid-19 pandemic crisis has affected the entire world's economy, is an indication that investors and stakeholders are seeking higher quality audit and financial information processes than ever before (Gould & Arnold, 2020). Along with market skepticism, the economic turbulences can affect investor's confidence in companies' financial performance and can lead to various financial concerns (KPMG, 2020d).

They should be assured of the adequacy of the resources and time required to carry out the audit engagements affected by the pandemic Covid-19. The work performance by the auditors should vary depending on the financial period covered by the audit due to the stages of the audit. Audit of a reporting entity affected by the spread of the Covid-19 pandemic will, inter alia, involve auditing the accounting treatment and disclosures in the financial statements based on the applicable financial reporting framework, including whether the spread of Covid-19 is a regulatory or non-regulatory event.

2. Literature Review

Auditing is a very important activity for any entity which must be carried out in accordance with the standards. Auditing activity is about checking the accuracy of the data in an entity. It is important that the auditor reviews not only the data and financial statements of an entity but also the policies, procedures and compliance with relevant regulations. COVID-19 was officially reported by the WHO[26] on 31 December 2019.

- The spread of COVID-19 was declared a global pandemic by the WHO on January 30, 2020.
- March 11, 2020 was declared a global pandemic.

3. Materials and Methods

The paper contains analysis of historical, scientific, contemporary literature related to auditing, internal auditors, and the covid-19 pandemic period in general. The search for materials on the Internet has focused on information that has been published by legally recognized authorities thus providing reliable and valuable material related to the data used. The paper is also based on various literatures by local and foreign authors, treated from a theoretical point of view and does not require any advanced empirical methodology. The methodology is based in the

---

[25] International Standards of Auditing.
[26] World Health Organization

following elements: Collection and selection of materials; Analyzing and structuring the collected material and processing the material with real data.

4. Covid-19 and Internal Audit, Aspects requiring further consideration

In the past two decades corona-virus outbreaks have caused global concern. Everyone around the world is familiar with the current ongoing situation regarding the Covid-19 pandemic which has a major impact on people's daily activities (Albitar et al. 2020). The pandemic creates major negative consequences in most industries and has already had significant economic and financial affects worldwide (Goodell, 2020). Moreover, Goodell (2020) says that Covid-19 will have a devastating global economic impact.

The COVID-19 pandemic has resulted in dramatic human losses worldwide and poses an unprecedented challenge to public health, employment and the economy. COVID-19 has affected the way financial statements are prepared, audit engagements, collection and reporting of information. The economic and social unrest caused by the pandemic is devastating: tens of millions of people are at risk of extreme poverty and millions of businesses are facing bankruptcy threat. Employees in the informal economy are particularly vulnerable to lack of social protection and access to quality health care. In the COVID-19 crisis, food security on both physical and economic access to sufficient food to meet dietary needs for a productive and healthy life, public health and employment are key challenges.

Regarding to the challenges mentioned above, pandemic consequences have directly affected SAI in Albania and the most important domain of the Internal Audit. Entities during the pandemic period have faced difficulties in meeting their reporting deadlines due to barriers posed by covid-19. Other audit challenges encountered by the auditors during the performance of the audit activity have emerged from the impossibility of performing the audit procedures independently and reporting them on time. Humphrey et al. (2009) argue that the perception of the audit profession depends on the response to the challenges arising from the crisis. However, despite the challenges, auditors are required to evaluate them and undertake normal audit functions (Suffied, 2020). Auditors should be willing to reassess the level of threats and review their actions to maintain the auditor's independence, (IESBA, 2020). According to the SIA (2020b), auditors are required to meet international standards during the pandemic time, considering alternative audit procedures to gather adequate and effective audit evidence. Equivocal times emphasize the need of reliable information and transparency to regain trust provided through financial reporting. (Deloitte, 2020a; EY, 2020). Therefore, it is important to recognize and identify all the challenges faced by audit committees and auditors at this point (EY, 2020). The most important aspects may require further consideration regarding the provision of subsequent evidence through the design and performance of audit procedures and reporting accordingly presented in the table below:

Table 1: Key aspects that may require further consideration regarding the provision of subsequent evidence on the design and performance of audit procedures and reporting as appropriate.

IAS	SPECIFIC EVENTS TAKEN INTO CONSIDERATION
IAS 315 Revised Identification and assessment of material anomaly risks	1. Impact on the planned audit method related to risk (revised) as covid-19 result 2. Review of risk assessments made. 3. Impact on the change of knowledge and understanding that the auditor has in relation to the internal control system, including the control environment and changes in the planned support in controls for responding to the risk of material misstatement.
IAS 330 Auditors' responses to assessed risks**.**	1. Changes that may be necessary in relation to planned responses arising from the impact of environmental developments, such as the ability to provide sufficient and appropriate audit evidence. 2. Greater focus should be given to issues related to the process of closing financial statements; the auditor's assessment of the overall presentation of the financial statements taking into account whether appropriate information is included in the notes.
IAS 540 Revised Audit of accounting estimates	In this standard, the greatest focus should be given to issues related to: 1.Changes in regulatory factors that may affect the accounting valuation 2. Whether the hypotheses are appropriate to the circumstances and in the context of the applicable financial reporting framework. 3. If the data which for the hand from the entity are appropriate and valuable 4. Effects of changing spontaneous risk factors in particular uncertainty.
IAS 560 The auditor's responsibilities in relation to subsequent events	1. Taking into account that the postponement of the reporting period increases the period and the risks for the events that occur between the date of the financial statements and the date of the auditor's report. 2. Identification of any subsequent material events related to the pandemic. Whether events are properly addressed and explained in the financial statements in accordance with the financial reporting framework.
IAS 570 Auditors´ responsibilities regarding continuity	1. This standard includes whether covid-19 has influenced or is expected to have a material impact on the auditor's assessment of the management's assessment of continuity. 2. Review of the appropriateness of using the follow-up basis for the preparation of statements or modification of the report according to the needs of the auditor.

IAS 600 Group Audits	Consideration of audit group opinion based related to the procedures and the impact of the adequacy and the adequacy of the audit evidence.
IAS 700 and 701 Revised Forming an opinion on the financial statements including key audit issues	Focuses on those issues where a conclusion is reached as to whether or not key aspects of the audit have been properly addressed, for example: Equivoques created as a result of the pandemic; the impact of new or amended laws or regulations on the financial statements; areas which may require management to provide further evidence due to the rapidly changing nature of the issue. Other issues which go to the level that requires considerable attention from the auditor due to the impact of covid-19.
IAS 720 Revised Additional Information	Any discrepancy between the information provided by the entity in its annual report and the financial statements regarding the impact of developments as a result of covid-19.

Source: Author

Reflection of subsequent events in the financial statements

In many areas of auditing, both the uncertainties and the challenges posed by the Covid-19 pandemic have had an impact on:

- The possibility of unplanned events happening at any time,
- The equivoque of timeframe of this current environment.
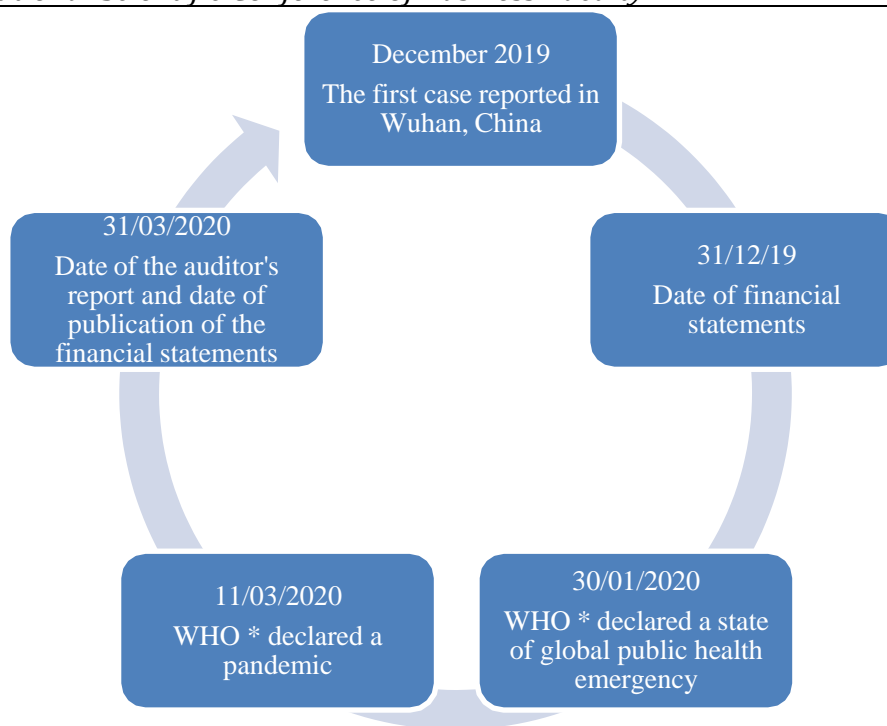- Changes in timeframes.

Figure 1: Pandemic cycle of Covid-19

Source: Authors

Auditors are required to focus more on events that occur between the date of the financial statements and the date of the auditor's report (i.e., subsequent events). The standard requires the auditor to determine whether events occurred between the date of the financial statements and the auditor's reporting date were properly reflected. Regarding the impact of the spread of Covid-19, auditors may ask management or government leaders including discussions about the entity's viability, cash position or unused facilities. There are generally two categories of subsequent events:

➕ Events that provide evidence of the conditions that existed at the date of the financial statements are events that require adjustment in the financial statements, here the amounts recognized in the financial statements are corrected / adjusted.

➕ Events that provide evidence of circumstances that have arisen after the date of the financial statements in which information is provided in the explanatory notes to the nature of the event from an assessment of its financial effect or a statement that such an assessment cannot be made.

The following are examples of events or conditions that may be affected by, or exist as a result of, the COVID-19 pandemic. The auditor should obtain adequate and appropriate evidence regarding subsequent events which require adjustment or the provision of additional information on the financial statements.

The following conditions may be relevant to the auditor in determining whether subsequent events have occurred and, if applicable, have been properly reflected in the financial statements:

➕ Important events for asset recovery.
➕ Commitments, loans and guarantees arisen from Covid -19.

- Development which is related to conditional events.
- Events that raise doubts about the appropriateness of accounting policies used in the financial statements.
- Modification of existing contractual agreements, etc.

To ensure adequate evidence, auditors should carry out procedures to ensure that the information and events presented in the financial statements are consistent with the financial reporting framework. The auditors, taking into account the risk associated with these events, given the impact of the COVID-19 pandemic, consider providing explanatory guidance including the deadlines used. It must assess whether the impact of the pandemic spread affects the previously identified risks or causes other risks of material anomalies. According to the standard the auditor should assess whether the assessments regarding the risks of material misstatement remain at an appropriate level.

It is important for audit evidence taken in accordance with subsequent events covers the entire period up to the date of the auditor's report. The Covid-19 pandemic period is challenging and complex for different areas. Communication between auditors and those in charge of governance can help the auditor's knowledge of the entity regarding:

- Alterations made to respond to the developing environment.
- Auditors' assistance evaluating each procedure they need to follow to gather adequate and sufficient evidence.

The auditor may make changes before or after the date of publication in the financial statements only when there are significant facts known at the reporting date, would have resulted in a change in the report on his part. The auditor based on the audit procedures determines whether they have material misstatement or not.

5. Conclusion and Recommendations

Covid-19 crisis despite health implications for individual equivoques and challenges associated with COVID-19, given the entity's facts and circumstances, are more likely to result in significant management judgments requiring significant audit judgments, which requires the auditor to exercise professional skepticism in performing work for subsequent events. Applying professional skepticism in this regard means questioning and considering the adequacy and appropriateness of the audit evidence that all subsequent material events (eg, those requiring adjustment or disclosure in the financial statements) have been identified and are presented appropriately in the financial statements depending on the circumstances. These are extraordinary periods that require extraordinary leadership and professionalism. This is a great opportunity to strengthen the role and function of Internal Audit, to add value to organizations in order to protect and continuously improve them to result in:

- Healthy business environments.
- Businesses with new control and risk frameworks.
- Flexible and effective businesses.

References

Gould, S. & Arnold, C., 2020. The financial reporting implications of covid-19, issues and insights.

Supporting International Standard, April, Retrievedfrom https://www.ifac.org/knowledge-gateway/supporting-international-standard/discussion/financial. Reporting. Accessed August,6, 2020.

Suffield, M., 2020. Covid-19 having significant impact on the world auditors.Professional insight, ACCA. Retrieved from https://www.accaglobal.com. Accessed August 2, 2020.

Illuzzi, K., Landes, C., Durak, R., & Groskopt, T., 2020. Consequences of covid-19 potential auditing challenges. Center for Plain EnglishAccounting. AICPA'S NationalA&A Resource Center, Special Report.

Humphrey, C., Loft, A. and Woods, M., 2009. The global audit profession and the international financial architecture: Understanding regulatory relationships at a time of financial crisis. Accounting, Organizations and Society, 34(6-7), pp.810-825.

Albitar, K., Gerged, A., M., Kikhia, H., and Hussainey K. 2020. Auditing in times of social distancing: The effect of COVID-19 on auditing quality. International Journal of Accounting and Information Management.

Goodell W. J. 2020. "COVID-19 and finance: Agendas for future research". Finance Research Letters.

IESBA, 2020. Covid-19: Ethics and independence considerations. Available at: [Accessed 25 May 2021]

KPMG (d). 2020. Hot Topic: Coronavirus SEC provides coronavirus-related disclosure guidance. Available at: [Accessed 2 February 2021

EY, 2020. Leo van der Tas. Five financial reporting issues to consider as a consequence of COVID-19. Available at: [Accessed 11 January 2021].

Deloitte, (a) 2020. Answering the call for change in the audit and financial reporting landscape. [Accessed 13 January 2021].

Deloitte, (b) 2020. Internal Controls: COVID-19 Considerations For Auditors. [Accessed 5 January 2021].

Deloitte, (c) 2020. What is the impact of COVID-19 on your going concern assessment?. [Accessed 25 May 2021].

Duff, A., 2009. Measuring audit quality in an era of change. Managerial Auditing Journal, 24(5),

pp.400-422.

Carcello, J. and Neal, T., 2003. Audit Committee Characteristics and Auditor Dismissals following "New" Going-Concern Reports. The Accounting Review, 78(1), pp.95-117.

Bazerman, M,. Morgan K.P, Loewenstein G.F. 1997 The impossibility of auditor independence, Sloan Management Review, Summer, pp. 89–94.

SNA 705 (irishikuar), Modifikimet e OpinionitnëRaportin e AudituesittëPavarur, paragrafi 6.

SNA 701 Komunikimi i Çështjeve Kryesore tëAuditimitnëRaportin e AudituesittëPavarur, paragrafi 9-10 8SNA 706 (irishikuar), Paragrafët që Theksojnë Çështjen dhe Paragrafët për Çështje të tjera në Raportin e Audituesit tëPavarur, paragrafi 8-11.

SNA 560, paragrafi 5 (a)-(d).

SNA 700 (irishikuar), Formimi i një opinioni dhe raportimi mbi Pasqyrat Financiare, paragrafi A66.

Strategic management: Its impact on the performance of small and medium enterprises in Albania

Ph.D Juliana Osmani
University "Aleksandër Moisiu", Durrës, Albania
juli_osmani@yahoo.it

Ph.D Silvana Gashi
University "Aleksandër Moisiu", Durrës, Albania
silvanagashi@uamd.edu.al

Abstract

Strategic management determines the organization performance in the long run. Organizations may have a good performance in the short term, but is difficult to maintain it in the future. Empirical data have shown that organizations that engage in strategic management are better positioned than those that do not pay attention to it or ignore it. The benefits of strategic management are many, but they can be summarized in four main areas. So, strategic management provides a clearer understanding of the organization's vision, helps the organization to understand what is strategically important, improves the understanding of a rapidly changing environment and orients the efforts of everyone within the organization in one direction.

The main goal of the current research is to understand if small and medium enterprises give the right importance to the strategic management process. From the data to our knowledge, it appears that these companies in Albania consider this process very expensive and are more oriented towards short-term planning, leaving out the perspective planning. A total of 267 managers have participated in the current investigation. From the results obtained it can be concluded that strategic management is not being carried out as it should and that the resources allocated for it are limited, as are the managerial skills regarding the use of techniques and tools for strategic analysis.

Keywords: strategic management, SME, organization performance, strategic analysis, perspective

JEL classification: L25, M10

1. Introduction

Given that most research on strategic management has focused on large organizations, many researchers have recently noticed that there is a need to apply these concepts in the context of small and medium enterprises (Gibson and Cassar, 2005). From all the activities that managers do, nothing affects the success of an organization or its failure more than how well its management team determines the long-term direction, develops effective competitive strategic moves and implements objectives, designed strategies and business methods. Indeed, the design of good strategies and their good execution are the most reliable signs of good management. Managers cannot be considered successful just because they have developed potentially good strategies, because they can fail in the implementation phase.

Strategy is the constant search for opportunities to do new things or to take ordinary actions in a new way. The more dynamic the environment is, the more critical it becomes for managers to be good both in planning strategies and in making strategy adjustments or changes when required. It is the duty and responsibility of managers to anticipate and identify in the right time the events that occur in the external environment which give signals for opportunities or threats. Among the reasons for changing the organization strategy and its constant review we mention industry conditions changing, customers' needs changing, various initiatives of rival businesses to increase market share, the emergence of new opportunities and threats, technological innovations and other important business events.

According to Norman and Thomas (2003), without a clearly defined strategy, a business does not have a solid basis to create and maintain competitive advantages in the market. This view is supported by various empirical studies showing a correlation between strategic management and strong success. Therefore, strategic management is a very important research topic for organizational success. Studies have shown that the high failure rate among small and medium enterprises, especially among start-ups, can be attributed to a lack of strategic management (Castrogiovanni, 1996).

The present paper tries to provide information about strategic management in small and medium enterprises in Albania and its impact on organization performance.

2. Literature Review

In the contemporary management, strategic management has an important place. If we try to define strategic management, this would not be easy at all. Different researchers of the field give different meanings to it. Strategic management is a systems approach to identifying and making the necessary changes and measuring the organizations performance as it moves towards its vision. According to Gluck, Kaufman and Walleck (1982), strategic management is the system that links strategic planning and decision making with the day-to-day business of operational management. Strategy formation is judgmental designing, intuitive visioning, and emergent learning; it is about transformation as well as perpetuation; it must involve individual cognition and social interaction, cooperative as well as conflictive; it has to include analyzing before and programming after as well as negotiating during: and all this must be in response to what may be a demanding environment (Mintzberg and Lampel, 1999). Strategy involves looking into the future, not simply focusing on the present or extrapolating what has happened in the past. It involves intent, which both establishes a future direction or destination, and the importance of

time because that intent cannot be realized immediately. Strategy tries to achieve a balance between flexibility and stability and so avoid either the straitjacket of excessive rigidity or the anarchy of repeated and random changes of direction (White, 2004).

Strategic management has not always existed as we find it today. Over the years, it has evolved, enriched with new concepts, analyzes and techniques. All this has happened because the conditions of doing business have changed significantly. Thus, if we take a look at the periods of strategic management development, which would make us understand it better, we would distinguish:

- *Period 1945-1960.* In this time interval, the external environment in which the organizations operated was stable or relatively stable. Many industries had to recover after the war, making demand far greater than supply. During this period long-run planning was still accepted as at the heart of any strategy, since economic priorities were clear. Strategy consisted of budgets and programs put together in one overall plan.

- *Period 1960-1970.* In this period the changes were more frequent, but still predictable. Companies began to become aware of the dynamism of the environment and to plan in the long run. However, their planning was based on the assumption that the future will be a continuum of the past.

- *Period 1970-1980.* Now the changes were more frequent and unpredictable. In this period the organizations turned their attention to strategic planning. Their focus was on creating competitive advantages and the strategy was done on several levels: corporate level, business level and functional level.

- *Period 1980 and following.* This is the period of strategic management. The changes that accompanied the external and internal environment required a careful study of opportunities and threats, strengths and weaknesses. Strategic planning alone was not enough, but the implementation of the strategy and its control was needed.

Strategic management is a set of managerial decisions and actions that determines the long-run performance of a corporation. Research reveals that organizations that engage in strategic management generally outperform those that do not. According to Wheelen and Hunger (2012), the three most important benefits of strategic management are:

- clearer understanding of strategic vision of the organization;
- big focus on what is strategically important;
- improved understanding of a rapidly changing environment.

The strategy, as a planning decision on the basic principles of achieving business goals, is oriented to the choice of business areas and the allocation of factors of production in order to create and maintain a competitive advantage in the environment (Rudd et al., 2008). Strategic management is not a single phase or activity, but a very important process which includes four main phases: environmental analysis, strategy formulation, strategy implementation, strategy evaluation (Ivancic et al., 2021).

According to Buble (2005):

- strategic management is a consistent process, which means that it lasts continuously;
- management engagement comes in a series of stages that begin with environmental analysis, setting organizational direction, formulating and implementing strategies, and finally with control and evaluation;
- managers make many decisions, which means taking a number of actions with the help of which they strive to achieve the set goals;

- strategic management must ensure that possible rapid action is taken in response to sudden phenomena from a dynamic and complex environment;

- strategic management is a cyclical process after the last stage continues further again with the first stage.

Small and medium enterprises play a key role in the economy, given not only the fact that they constitute the largest share of active enterprises, but especially from the opportunities they offer for the employment of the largest part of the labor force, the more equal distribution of incomes, inclusive development between the regions, as well as a smoother transition from the less productive sectors to the more productive ones (Breznik and Hisrich, 2014). For 2020, SMEs accounted for 99% of the total active enterprises in Albania, with 80% of all employees. But as important as they are, they are just as vulnerable. Small and medium enterprises require careful management and do not tolerate mistakes or bad decisions. They have a high bankruptcy rate and this fact makes them more in need of strategic management. In fact, strategic management is important for all types of organizations, large, medium or small, in the public or private sector, but studies show that it is especially important for SMEs. This is where the paradox lies. Most studies on the relationship between strategic management practices and organizational growth or performance have concentrated on large companies. The reasons for lack of strategic management practices in many SMEs vary from lack of enough time to prepare the plans, unfamiliarity with strategic planning, lack of skills and lack of trust and openness on the part of owners (Lawal et al., 2012).

3. Research Methodology

3.1 Methods and tools

For the current study was adopted the quantitative research and for the data collection was used the questionnaire, which was designed to investigate the presence of strategic management within SMEs and its impact on organization performance. In doing this, it should be said that we do not refer to a specific model, but the statements have been elaborated on the basis of the literature review and conclusions of previous investigations. In consistency with the hypotheses of the research, the questionnaire was built and developed on the basis of eleven statements to be evaluated on the Likert scale 1-5. It represents a simple technique that records the intensity of the agreement of each interviewee at each proposed statement, instead of simply approving or refusing them.

The formulation of the questions is very important and in this regard it has been tried to be clear in the content and to choose the most suitable form. Thus, the questions made were closed questions, which facilitates a quantitative evaluation.

3.2 Participants

The target population refers to the managers of small and medium enterprises operating in Albania in the private sector. For the current research is chosen the non-probability sampling technique, mainly in the form of purposive sampling. So, the units of analysis are chosen for participating to strategic management process or for having the necessary knowledge and information about it. In some cases, was also used the information provided from important or privileged subjects in order to identify other participants, anyway trying to meet certain criteria

established previously. So, in addition to purposive sampling it was also used the snowball technique.

The sample was also determined based on the geographical criteria. Thus, the current research was focused on the small and medium enterprises dislocated in Tirana and Durrës as the two main cities of Albania. It was considered more convenient to interview managers because they can provide more precise and detailed information about strategic management process. The managers selected for the survey belong to strategic and departmental level. A total of 360 questionnaires were distributed and 267 collected, with a response rate of 74.17%.

Table 1: The distribution of participants by hierarchical level and city

City / Position	Tirana	Durrës	Total	%
Strategic level	96	63	159	60%
Department level	83	25	108	40%
Total	179	88	267	
%	67%	33%		100%

4. Results and Discussions

As noted earlier, the relationship strategic management-organization performance is complex. Starting from the results of empirical evidences we cannot formulate definitive conclusions. However, most of findings induce to think about a positive correlation between the two variables. Through the distribution of the questionnaires, we have tried to collect information about the strategic management impact on organization success for the SMEs. A total of 360 questionnaires were distributed and 267 collected, for a response rate of 74.17%. Following, through tables and charts are summarized the data collected for each statement included in the questionnaire.

1. Strategic management is very important for the performance of small and medium enterprises.

Table 2: Number of responses for each scale (Statement 1)

Strongly disagree	Disagree	Neutral	Agree	Strongly agree
2	4	0	108	153

Figure 1: Percentage of responses for each scale (Statement 1)
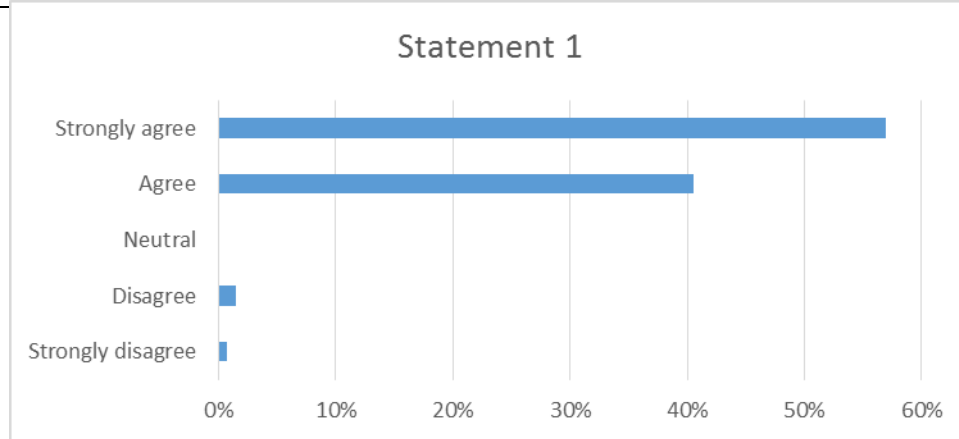
2. Small and medium enterprises need to plan carefully their future.

Table 3: Number of responses for each scale (Statement 2)

Strongly disagree	Disagree	Neutral	Agree	Strongly agree
7	16	8	128	108

Figure 2: Percentage of responses for each scale (Statement 2)
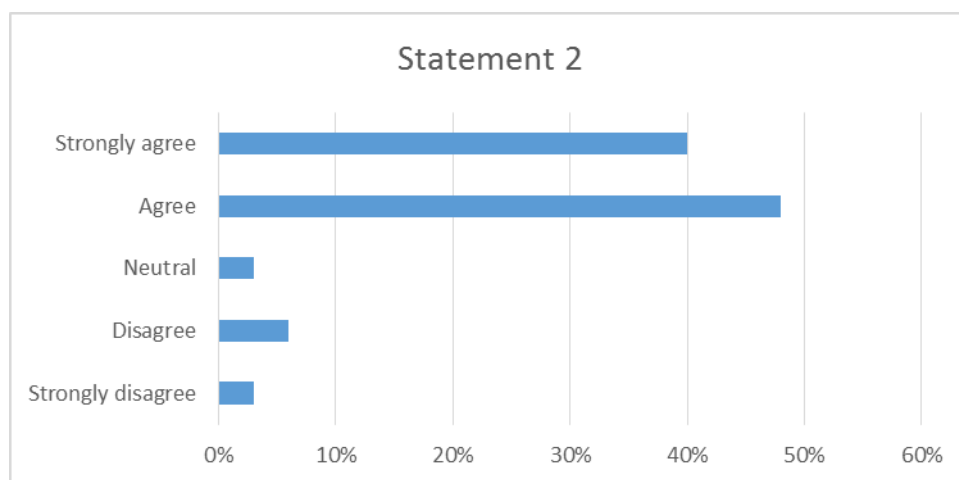
3. Strategic management process is carried out properly in the organization where I work.

Table 4: Number of responses for each scale (Statement 3)

Strongly disagree	Disagree	Neutral	Agree	Strongly agree
42	82	6	62	75

Figure 3: Percentage of responses for each scale (Statement 3)
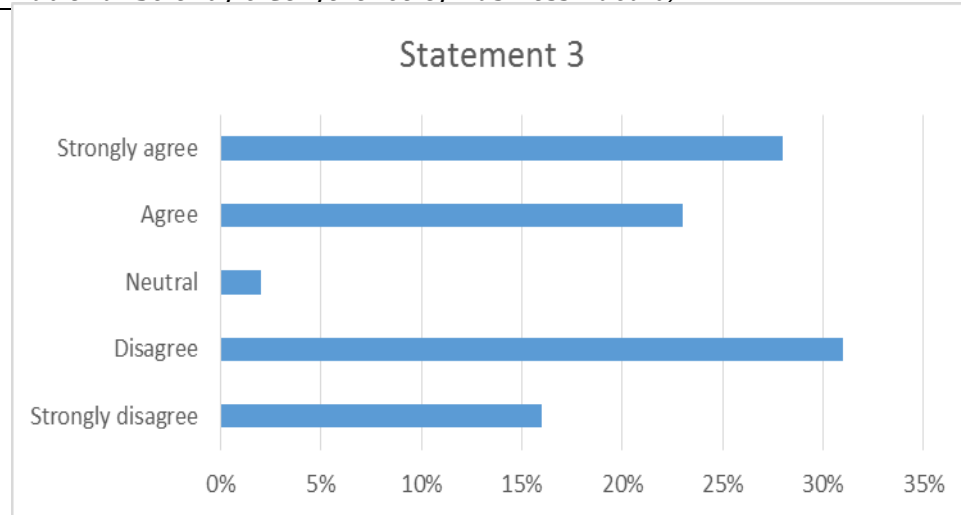
4. Our organization has a clear vision and mission.

Table 5: Number of responses for each scale (Statement 4)

Strongly disagree	Disagree	Neutral	Agree	Strongly agree
37	84	34	45	67

Figure 4: Percentage of responses for each scale (Statement 4)
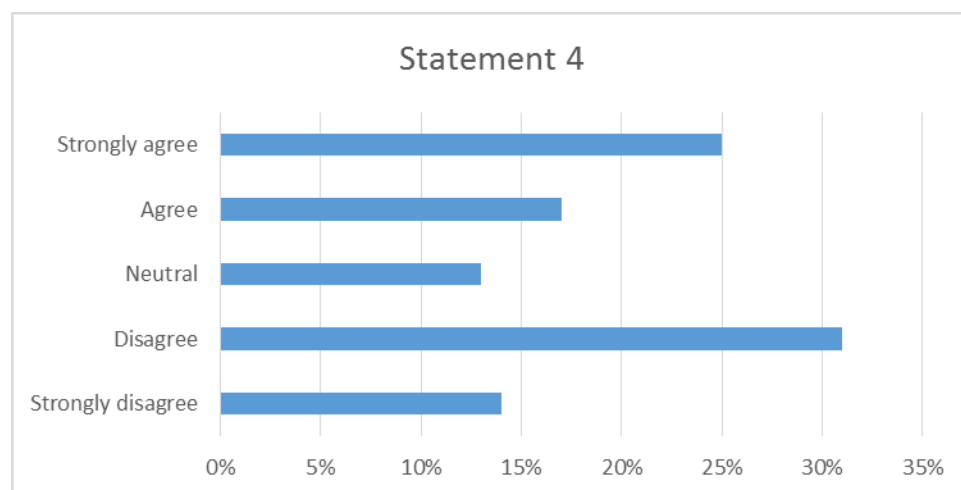
5. Our organization has well-formulated and appropriate objectives.

Table 6: Number of responses for each scale (Statement 5)

Strongly disagree	Disagree	Neutral	Agree	Strongly agree
66	144	0	49	8

Figure 5: Percentage of responses for each scale (Statement 5)
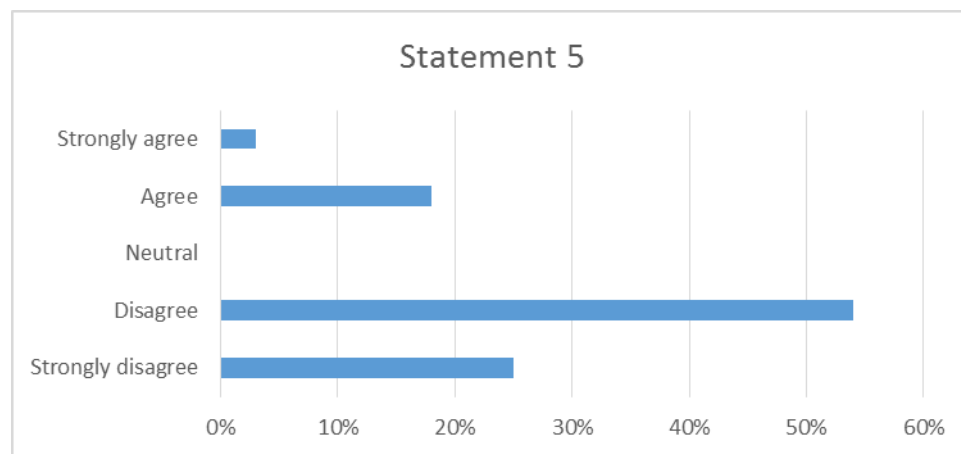
6. Our organization has a clear strategy to achieve the objectives.

Table 7: Number of responses for each scale (Statement 6)

Strongly disagree	Disagree	Neutral	Agree	Strongly agree
23	62	7	102	73

Figure 6: Percentage of responses for each scale (Statement 6)
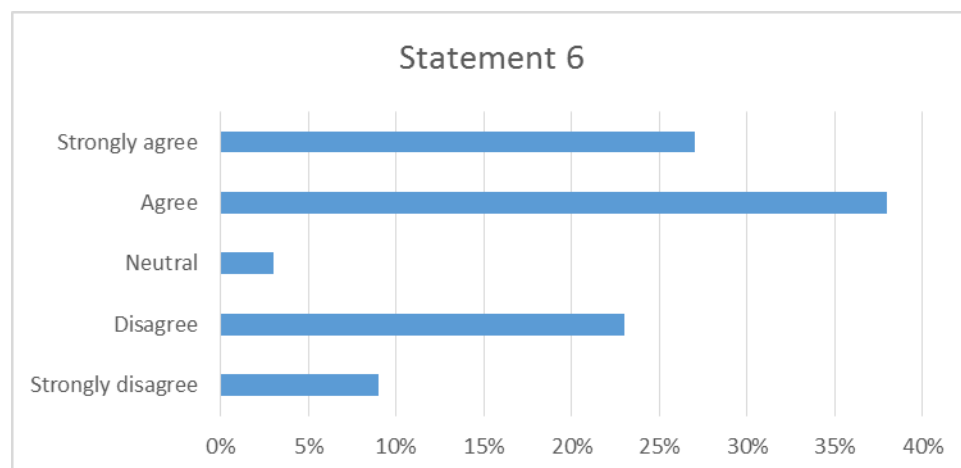
7. In the past we have made mistakes in choosing the strategy.

Table 8: Number of responses for each scale (Statement 7)

Strongly disagree	Disagree	Neutral	Agree	Strongly agree
14	29	13	154	57

Figure 7: Percentage of responses for each scale (Statement 7)
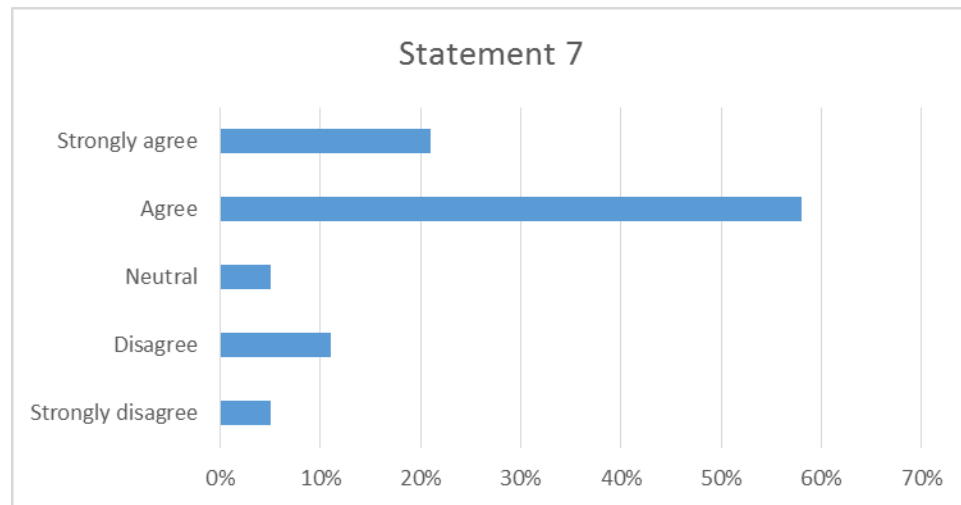
8. In the past we have made mistakes in implementing the strategy.

Table 9: Number of responses for each scale (Statement 8)

Strongly disagree	Disagree	Neutral	Agree	Strongly agree
48	87	19	36	77

Figure 8: Percentage of responses for each scale (Statement 8)
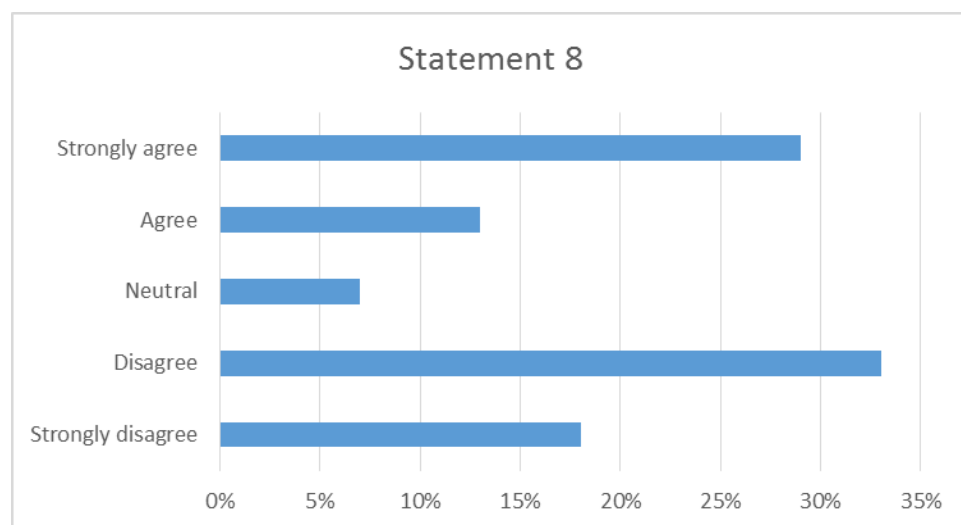
9. The training of managers regarding strategic management would be very valuable.

Table 10: Number of responses for each scale (Statement 9)

Strongly disagree	Disagree	Neutral	Agree	Strongly agree
15	38	18	162	34

Figure 9: Percentage of responses for each scale (Statement 9)
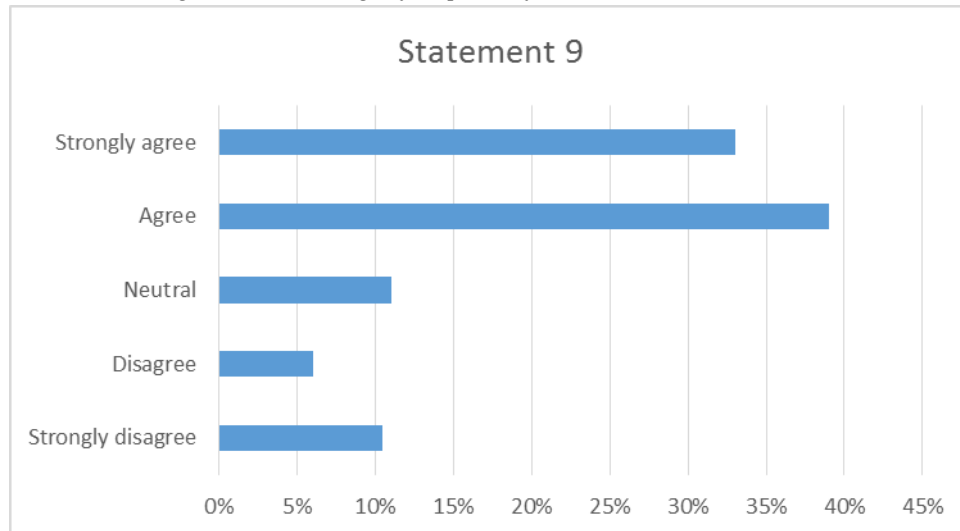
10. Strategic changes are preceded by analysis of the external and internal environment of the organization.

Table 11: Number of responses for each scale (Statement 10)

Strongly disagree	Disagree	Neutral	Agree	Strongly agree
42	89	25	92	19

Figure 10: Percentage of responses for each scale (Statement 10)
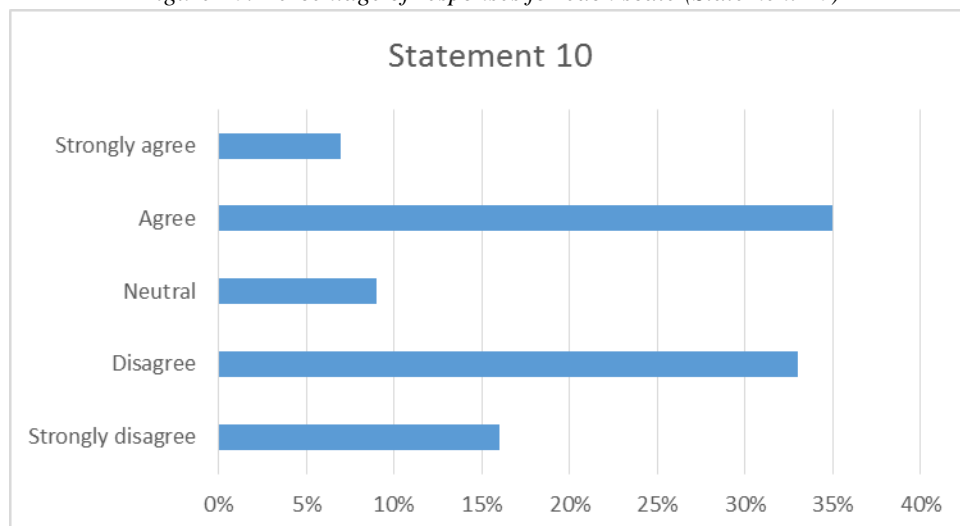
11. Our organization feels prepared to face difficulties / crises in the future.

Table 12: Number of responses for each scale (Statement 11)

Strongly disagree	Disagree	Neutral	Agree	Strongly agree
28	17	29	105	88

Figure 11: Percentage of responses for each scale (Statement 11)
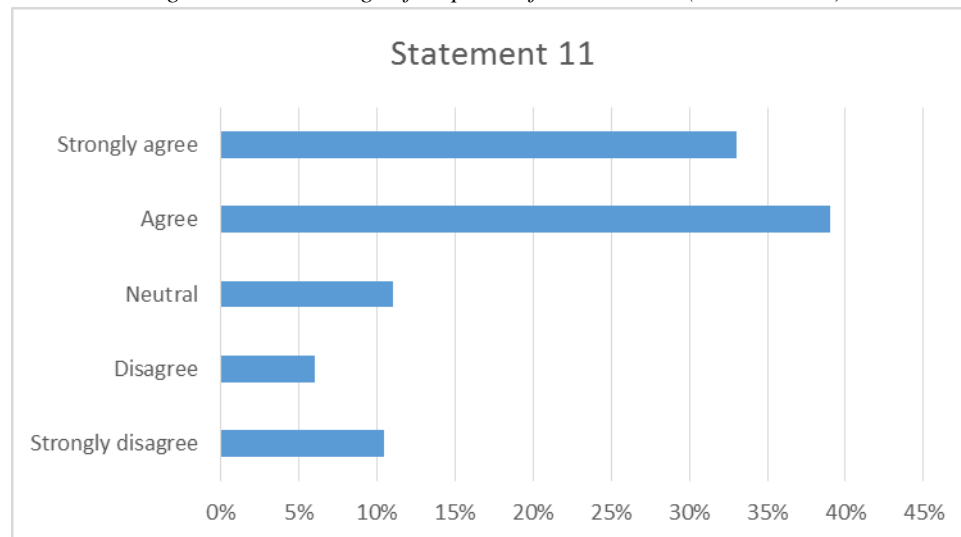
5. Conclusions

Strategic management helps the organization to find the best way to move from the current situation to the desired situation. The current study tries to understand and formulate some conclusions regarding the impact of strategic management on the performance of SMEs. The main reason for choosing this topic is the influence of strategic management on organization success or failure.

The main goal of the current research was to understand if strategic management is considered by SMEs managers an important tool to achieve the desired performance and how its process take place within such companies. The intention is to identify variables and elements and to discover possible relationships between them, so as to be able to define some general reflections about the strategic management impact on organizational success.

So, 98% of the participants believe that strategic management is very important for the performance of small and medium enterprises and 88% of them agree that SMEs need to plan carefully their future. 51% of participants are convinced that strategic management process is carried out properly in their organization. 42% of managers declare that the company has a clear vision and mission, but 21% of them accept that the objectives are not well-formulated and appropriate. However, 65% of participants agree that their organizations have a clear strategy to achieve the objectives. Interesting is the fact that 79% of the managers accept that in the past mistakes have been made in choosing the strategy, and 42% of them agree that mistakes have been made in implementing the strategy. 73% of the participants are convinced that the training of managers regarding strategic management would be very valuable. 42% of the managers admit that strategic changes are preceded by analysis of the external and internal environment of the organization. 72% of managers believe that their companies are prepared to face difficulties or crises in the future.

References

Buble M. (2005), *Strategic management*, Zagreb: Sinergija

Castrogiovanni G.J (1996), *Pre-startup planning and the survival of small businesses: theoretical linkages,* Journal of Management, Vol. 22 (6), pp. 801-822

Gibson B., Cassar G. (2005), *Longitudinal analysis of relationships between planning and performance in small firms*, Small Business Economics, Vol. 25, pp. 207-222

Gluck F., Kaufman S. Walleck A.S. (1982), *The four phases of strategic management*, Journal of Business Strategy, Vol. 2(3), pp. 9-21

Breznik L., Hisrich R.D. (2014), *Dynamic capabilities vs. innovation capability: Are they related*? Journal of Small Business and Enterprise Development, Vol. 21 (3), pp. 368-384

Lawal, F., Omone, E., Oludayo, O., (2012), *The effect of strategic issue management on organizational performance*, Transnational Journal of Science and Technology, Vol. 2, pp. 122-146

Ivancic V., Jelenc L., Mencer I. (2021), *The strategy implementation process as perceived by different hierarchical levels: the experience of large Croatian enterprises*, Journal of Entrepreneurship, Management and Innovation, Vol. 17(2), pp. 99-124

Mintzberg H., Lampel J. (1999), *Reflecting on the Strategy Process*, Sloan Management Review, 40, 21-30

Norman, M. S., & Thomas, W. Z. (2003), *Effective Small Business Management: An Entrepreneurial Approach*, New Jersey

Rudd, J. M., Greenley, G. E., Beatson, A. T., & Lings, I. N. (2008). *Strategic planning and performance: Extending the debate*, Journal of Business Research, 61(2), 99–108

Wheelen T.L., Hunger J.D. (2012), *Strategic management and business policy: toward global sustainability,* 13th edition, Pearson Education Inc., Prentice Hall

White C. (2004), *Strategic management*, Macmillan International Higher Education

Competition as a driving market force toward a sustainable sound market economy – The case of Albanian Competition Authority in regard to Airlines regulations

Leida Matja, PhD
Deputy Chair, Albanian Competition Authority
leida.matja@caa.gov.al

Elfrida Taraku, Msc
Lecturer, University "Aleksander Moisiu", Faculty of Business
itaraku@yahoo.com

Abstract

Sound competition is very important for the well-functioning of Albania's economy. When companies compete, it leads to lower costs, higher quality products and services, innovations and a wide array of choices.

In the situation of a scarce competition, the companies can benefit of their power in the market to set higher prices, offer lower quality products and potentially block competitors from entering a specific market, thus businesses cannot participate with the same level market rules and no new ideas can be translated in better products or services. Different studies connect inequalities to market power. One economy or sector of economy without proper competition is the one where prices and benefits to companies rise whereas the salaries of simple workers decrease. The pandemic has put as secondary the dangers of one economy which depends heavily just on a small number of companies, witnessed by problems in the supply chains faced when corporations cause bottlenecks for an important product.

Air transport has radically changed in the last decades. Liberalizations, deregulations and economies of scale imposed the entry into market of new companies which are having a positive impact on innovation and competition. Still large companies trying to preserve their market share apply often anti-competitive measures that result in customer dissatisfaction and lack of loyalty. The article offers a case from Albanian Competition Authority which is solved through proper remedies that put the airlines under a healthy competition situation.

Keywords: *Competition, Airline, Markets, Regulation, Anti-competitive measures, Competition Authority*

JEL Classification: *L42; L49; L51*

1. Introduction

Airline Industry is almost liberalized. Liberalization of any sector including airlines implies positive impacts in terms of increased competition and the structure rationalization providing room to a fast pace growth and innovation. The airline markets are increasing and the competition for destinations is becoming more obvious lately. But still there are airlines that operate as single airlines for specific destinations considering the direct flight mode. The direct flights from the country of origin to the country of destination not only are the more desirable in terms of time but they should be the most desirable for passengers in terms of financial convenience.

Now the typology of the flights has a bit changed. From full-service flights, now even the most established airlines offer formula with light treatment for passengers especially on short haul flights. This is a sign that the low-cost airlines with their reduced prices have imposed internal regulations even for other airlines in order they compete successfully in the market with these kinds of airlines.

There are at least two factors that attract customers the most, the price and airline safety. Once provided the safety of the airlines, especially in short haul distances the price is the determinant of consumer choices.

Considering problems that might be applied in the airline sector is wide and complex. The problem starts with the issue of the definition of the target market. The more products and competitors you put in the market the more diverse is the competition issues and the solutions may radically change if the definition is not accurate. Then, the airlines through different alliances might provide a certain destination with one or two transit stops. For example, Vienna can be reached by Austrian Airlines and Wizz Air through direct flights, but can also be reached from ITA with a transit stop in Rome. Now the question that is imposed in the paper is: Should we consider as competitors those airlines that fly Tirana-Vienna directly or only the market should be widened and we should include even the airlines that might provide Vienna as a destination but with one stop.

This is the complex issue that has been treated even from US or from the European Commission since problems related to delays, overbooking, etc., are problems that have been a concern of consumers in any countries.

A very important issue the relation of the problem with the Competition Law and more Concretely with the Law 9191 "On the Protection of Competition" in the Republic of Albania. This Law treats specifically cases that can be treated and regulated by the Competition Authority. Thus the Competition Authority has the right to intervene in case of prohibited agreements that might come in forms of cartels, collusions, bid rigging etc., or abuse of dominant position that might appear in the behavior of companies in terms of maintaining market share, putting unreasonably high prices, or fixing prices, vertical concentration etc.

The case treated falls in the regulation competencies of the Competition Authority in relation to abuse of dominant position because as we will treat before, sorted out that the Airline that is part of this Case Study had a dominant position when the case was treated. The case dated in years

2017-2018, but it is brought in this paper to make relevance for other issues and cases that potentially might arise and have the same consequences.

2. Relevant Market definition in the Airline Industry

The analysis dealing with competition issues usually start with the definition of the relevant market. The relevant market definition might be very critical in most of the cases because the anti-competitive behaviors are related precisely to the relevant market. If wrongly stated the definition of a relevant market it will bring to outcomes that would be different compare to the outcomes with another definition of the relevant market. For example, if we study the behavior of the airlines considering the cargo transport in Albania might be totally different comparing with the cargo transport of goods in Adriatic region countries since the involvement of many destinations and end use consumers make the issue more complex.

The relevant market definition has two specific dimensions, geography and product. When we deal with the transport, the transport product itself involves the geographical features since the transport itself is done in certain geographical areas. And therefore, even as OECD recommends in the airline[27] sector the definition of the relevant market has to start with the definition of the point of origin (O) and should end with the point of destination (D). This is called the O&D approach.

This O&D approach usually reflects the perspective of the side of demand assuming that passengers who are travelling from the given point O to the given Destination point D consider all alternatives. reflects the demand-side perspective whereby passengers consider all alternative means of travelling from a given O to a given D. Airlines, might also emphasize that carriers might compete on the coverage and size of their networks. Code-sharing agreements and destinations that are covered by airlines who have agreements with another airline might be factors that should be considered as well in the supply side. Even though the European Commission acknowledge primarily the weight of supply-side substitution, they find demand-side substitution to play the most important role.

Under the O&D approach, relevant air transport markets are usually defined as airport pairs or city pairs. The airport pair approach is developed when a city has more than one airport. But this approach sometimes might be misleading because the picture of the competitive landscape might be uncompleted. Therefore, a city pair approach is more likely to provide a better view in terms of airline competition. Where such constraint exists, a city-pair approach is considered to be more appropriate.

The question of whether indirect flights that might cover a certain O&D can substitute direct flights with the same effectivity, depends on many factors and is case by case evaluated. As stated in by OECD the European Commission acknowledged indeed that when the length of the journey is over six hours, one-stop flights may constitute a competitive alternative with respect to direct

---

[27] OECD; Background paper of the discussion on Airline Competition; 2014

flights. That was the case when the transit (one stop) flights with the methodology of O&D pair are marketed as connecting flights in the computer reservation system.[28]

Considering the customer segments many similar authorities have proved that business and leisure passengers belong to different markets. Despite different authors emphasize that such differentiation may not capture the customer segmentation spectrum.

2.1. Cartels and horizontal restrictions

Airlines have been free to set their own fares and schedules, as well as design their own business strategy, since the liberalization of air transportation markets. Following decades of bankruptcy, mergers, and alliances, most air transportation markets are now extremely consolidated (oligopolistic). Cartel law and enforcements against, for example, airlines' collusion on competition parameters such as fares, schedules, output, capacity, or other sensitive information, as well as allocating markets or customers among them, unless airlines are subject to antitrust immunity or authorization in respect of certain collusive activities.

When it comes to rates, timetables, and capacity coordination, as well as revenue and profit sharing, airline alliances might be considered restrictive agreements. Unless antitrust protection or immunity is provided, such coalitions are doomed.

3. A review of the Law 9121 – On the Competition protection[29]

The case that we will analyze before have been treated in line with Article 3&8 and of the Law.

The Article of the Law 9121 – On the Protection of Competition covers all the definitions used when the Competition Authority treats cases. With our regard the Definition of Dominant position is: Dominant position is that economic power held by one or more undertakings which enables them to impede effective competition in the market by enabling them to act, in terms of supply or demand, in independently of other market participants, such as competitors, customers or consumers.

The Article 8 treats cases when the Company has a dominant position on the relevant market.

The dominant position of one or more enterprises is assessed, taking into account, in particular:

a) the relevant market share of the undertaking or undertakings under consideration and of other competitors;
b) barriers to entry in the relevant market;

---

[28] European Commission decisions Lufthansa/Austrian Airline (2009), United/US Airways (2001) and SAS/Spanair (2002)

[29] Law No. 9121 " On the Competition Protection" in the Republic of Albania, dt. 28.07.2003; pg. 2-6

c) potential competition;

d) economic and financial power of enterprises;

e) economic dependence of suppliers and buyers;

f) the countervailing power of the buyers;

g) development of the distribution network of enterprises and opportunities for the use of product resources;

h) economic relations with other enterprises;

i) other characteristics of the relevant market such as: homogeneity of products, market transparency, uniformity of cost and size of enterprises, stability of demand or free production capacity.

Must be emphasized that some of the regulations belong even to the Air Code of the Relublic of Albania assuming that the Competition Authority might refer even to other jurisdictions in power related to the purpose of investigation meaning the abuse with the dominant position in the relevant market.

4. Albanian Case (2018)

The issues started after two complaints pf passengers travelling with Austrian Airline from Tirana to Vienna. At that precise year Austrian Airline was the only airline that had the direct flight from Tirana to Vienna. Other Airlines might provide Vienna as destination but with one or more transits. The passengers travelling from Tirana to Vienna complained because at the flight day they were told that even though the tickets were full paid the seats were not provided and the rule over the seats was "first come first served". The complainers stated that there were about 18 persons remained without a seat and this was a real threat for their affairs and sometimes health. Since Austrian Airline was the only one operating in that market the Secretariat of the Competition Authority asked the Competition Commission to allow for further investigations. The investigation period lasted from January1, 2017 until December 31, 2017.

4.1. Relevant Market

To determine the market of passenger air transport service, the approach of point of origin / destination point (O&D) is used. According to this assessment, any combination of point of origin and point of destination, seen from the point of view of consumer substitutability, is considered as a separate market.

To assess when an O&D forms a relevant product market, not only direct flights between the two airports are considered, but also other alternatives that are seen as close replacements to these lines.

The level of substitutability of indirect flights with direct flights depends mainly by the duration of the flight. As a general rule, the longer the flight, the higher the probability that indirect flights constitute a competitive alternative to direct flights.

With regard to short-haul routes, the European Commission has taken into account that indirect flights do not usually constitute a competitive alternative to direct flights, as consumers actually prefer direct flights. The relevant product market includes passenger air transport service in direct line Tirana-Vienna and vice versa. Taking into account direct and indirect flights we can

say that for short distances, although there are different alternatives to realize their flights from the country of origin (Tirana) to the destination (Vienna), there is no substitutability on the part of demand.

Regarding supply-side substitutability, airlines have defined flight routes, so the airspace is divided between different operating lines, so in this sense we can say that we have no supply-side substitutability.

The geographical area of the air transport service for the purpose of this investigation is the territory of the Republic of Albania.

4.2. Market Structure

On the direct flight Tirana - Vienna (TIA-VIE), Vienna - Tirana (VIE-TIA) according to the definition of the respective market, Austrian Airlines operated alone.

From the evaluation of the factors that affected the entry of new actors in this market, it resulted that the entry in this market required specific conditions, which were the same as the conditions of the airlines of the countries of the European Union. Based on the Air Code, each operator must be provided with an operating license issued by the Civil Aviation Authority (CAA). To obtain this license, the airline operator must meet certain criteria. Therefore, the respective market has certain entry barriers.

Taking into account: market share, barriers to market entry, buyers' countervailing power and other relevant market characteristics, it resulted that pursuant to Article 3, Article 8 of Law no. 9121/2003, the company Austrian Airlines AG had a dominant position on the direct line Tirana - Vienna and vice versa.

4.3. Austrian Airlines Behavior Analysis / Behavior in relation to the price set

The analysis of the behavior of the enterprise in relation to the selling price of tickets is intended to evaluate whether the enterprise directly or indirectly sets unfair purchase, sale or other unfair trading conditions. For this reason, average prices and ticket prices have been estimated according to the flight class and taxes, but the company does not have a figure that corresponds to the term average cost, respectively for tickets Tirana - Vienna and vice versa.

The price structure consists of net tariffs and taxes (Tax + YQ) where taxes are taxes imposed in Albania as airport insurance taxes in both countries, passenger service, which vary depending on the country, and taxes covering fuel and security costs for the airline, which varies depending on the booking class.

Taxes represent up to 25% of the total ticket price. The average ticket price tariff Tirana - Vienna and vice versa for 2016 was 156 Euros, while for 2017 this tariff was 161 Euros. The slight increase in the average ticket price from 2016 to 2017 according to Austrian Airlines come from the increase in in-flight demand for this line.

By comparing the price of plane tickets with the countries of the region for travel round trip around 4 to 11 June to the same destination, Vienna with the same airline Austrian Airlines, for departure from Tirana is 190 Euros, respectively 7.7% higher than the average of the countries in

the region (excluding Albania). Prishtina turned out to be the country with the highest ticket price in the region with 198 Euros, or 12.3% higher than the average. The cheapest ticket price to Vienna is Skopje (160 Euros), or 9.3% cheaper than the regional average. While Montenegro had the price almost as high as the regional average. It should also be noted that Albania and Kosovo have only one airport, Macedonia and Montenegro have two airports each, while Croatia has eight airports.

Austrian Airlines offered direct travel to Vienna (non-stop), while other airlines that offered this opportunity were indirect (one-way) flights and in our case are irreplaceable. So direct travel with Austrian Airlines remained the best option for customers as it is a direct line and there is no waste of time for them. It should also be borne in mind that in the formation of the price should be taken into account and airport taxes and the price of jet fuel that are different in different countries.

Pursuant to Article 11 of the Air Code, it is clearly defined that air transport prices are set by the market and air carriers inform the public of all air fares for passengers, mail and cargo. This article also sets out the obligation for the CAA to take all necessary measures to prevent discriminatory tariffs and practices, abusively high prices as a result of a dominant position and abusively very low prices.

In order to enforce the control of very low or very high tariffs applied by air carriers with a dominant position in the market to passengers, pursuant to this article of the Air Code, the Minister must adopt regulations for the establishment of detailed rules.

Thus, to prevent discriminatory tariffs and practices, abusively high prices as a result of a dominant position and abusively very low prices, the CAA should conduct a price analysis applied by the dominant air carrier in the market, as the case of Austrian Airlines. After conducting the price analysis applied by the dominant enterprise, the CAA must assess whether this enterprise applies very high or very low prices in the market. As mentioned above, CAA does not have a methodology to perform this assessment.

4.4. Conclusions of the establishment of unfavorable conditions of competition

The fact that the undertaking has a dominant position is not barred from the point of view of the European Commission's practice and the judgment of the courts. Although the dominant position is not forbidden, an entrepreneur occupying such a position has a special responsibility for his conduct.

Based on the information lodged by Austrian Airlines, it appears that this company has sold tickets several times over the capacity of the aircraft, resulting in the cancellation of travel for persons over capacity. This behavior of Austrian Airlines has also been encountered in passenger complaints filed with the Competition Authority. By selling tickets above the capacity of the aircraft, the Austrian Airlines company at the moment of arrival of passengers at its counters at the airport to perform the check, without prior notice communicates that they can't travel according to the tickets and the relevant airline, thus committing discrimination between passengers.

Austrian Airlines, due to its dominant position in the market, should be as transparent as possible with its passengers and inform them (in advance when possible) about flight cancellations, timetables, etc. Also, Austrian Airlines, as the only air carrier for the direct line Tirana - Vienna and vice versa, should minimize as much as possible the sale of tickets above the capacity of the aircraft, especially during the high season, to avoid any possible anti-competitive behavior in the market, which puts passengers in unfavorable competition conditions.

Austrian Airlines must ensure that passengers have a legible and clear notice of their rights at the check-in desk and at the boarding gate. which must be displayed separately for passengers.

Given that Austrian Airlines has a dominant position in the relevant market, operating only on the direct line, the countervailing power of passengers is small to consider and the potential for a new entry into the market as shown from the size of the relevant market and the size of the barriers to entry is low, the enterprise has a special obligation for its behavior towards passengers in order not to put them in an unfavorable competitive position, therefore it is necessary to constantly monitor the behavior of the enterprise to analyze market conditions for the development of free and effective competition.

The Competition Commission approved the fact that Austrian Airlines was a company with a dominant position in the relevant market, which a special obligation to bring to destination its passengers, not to put them in unfavorable conditions. Pursuant to the Air Code and Instruction No.1, dated 26.02.2013 "On compensation and assistance to passengers in case of non-acceptance on board the aircraft and cancellation or delay during flights", the Competition Commission decided that the airline should have ensured that at the check-in desk and at the boarding gate there is a legible and clear notice, which must be displayed separately for passengers, containing the text: *" If you are denied boarding or if your flight is canceled or delayed for at least two hours, ask at the ticket office for a regulation expressing your rights, in particular compensation and assistance rights ";*

The Competition Commission also decided that the airline should provide to every passenger that has lost the flight due to airline overbooking or other airline related reasons injured by the refusal a written notification where the right to compensation and assistance is announced, according to the provisions of Instruction no. 1, dated 26.02.2013. Also, any passenger delayed by the airline of at least 2 hours, should submit a similar notice where the right to compensation is evidenced and the complaint form is made available to him;

The Airline also should minimize as much as possible ticket sales above aircraft capacity, to avoid any possible anti-competitive behavior in the market and especially during the high season.

The Competition Commission provided that in case of non-fulfillment of the obligations above mentioned Austrian Airlines shall be fined up to 10% of the annual turnover for serious competition violation.

The monitoring of the decision of the Competition Authority Commission was done for more six months and from that period and on during the remaining period of time there was not seen any other issues in relation to the breach of competition in airline services. But, anyway, the case was brought to evidence the real problems existing with the airlines nowadays and how they can

be addresses by a regulatory entity which has an overarching market supervision such as the Competition Authority.

When travel markets cannot regulate themselves, the Competition authority through establishment of competitive practices and behaviors might help market well-functioning assisting also the enhancement of consumer wellbeing.

References

Albanian Competition Authority. 2003. Law No. 9121 " On the Competition Protection" in the Republic of Albania";
http://caa.gov.al/uploads/laws/Ligji_Per_mbrojtjen_e_konkurrences_i_Perditesuar.pdf

OECD. 2014. OECD; Background paper of the discussion on Airline Competition; 2014
https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP(2014)14&docLanguage=En

European Commission decisions Lufthansa/Austrian Airline (2009), United/US Airways (2001) and SAS/Spanair (2002) Albanian Competition Authority, 2018, Decision No 525
www.caa.gov.al

Matha, Shreayas Gadgin; Goldstein, Patricio; Lu, Jessie. 2020. "Air Transportation and Regional Economic Development: A case study for the New Airport in South Albania"

Balassa, Bela. 1965. "Trade Liberalization and 'Revealed' Comparative Advantage." *The Manchester School*. https://doi.org/10.1111/j.1467-9957.1965.tb00050.x

Internazionale: Il Caso Di Ragusa (The Impact of a New Airport on International Tourism: The Case of Ragusa (Sicily))." *Bank of Italy Occasional Paper*, no. 412.
https://doi.org/10.2139/ssrn.3120489

Dimitriou, D. J. 2018. "Comparative Evaluation of Airports Productivity towards Tourism Development." *Cogent Business & Management* 5 (1): 1464378.
https://doi.org/10.1080/23311975.2018.146437

EBRD. 2018. "Albania: Infrastructure and Tourism Enabling Programme."
https://www.ebrd.com/documents/procurement/81334-tors.pdf?blobnocache=true

Enright, Michael J., and James Newton. 2004. "Tourism Destination Competitiveness: A Quantitative Approach." *Tourism Management* 25
https://doi.org/10.1016/j.tourman.2004.06.008

E-Health in Albania: Evaluation of care pathways for chronic patients

Najada Firza
University of Bari "Aldo Moro"
Catholic University Our Lady of Good Counsel Italy/Albania
najada.firza@uniba.it
n.firza@unizkm.al

Anisa Saraci
Catholic University Our Lady of Good Counsel, Albania
a.saraci7855@stud.unizkm.al

Ana Aleksi
Catholic University Our Lady of Good Counsel, Albania
a.aleksi7851@stud.unizkm.al

Abstract

Various international researches have shown that raising the standard levels of quality and efficiency associated with the provision of health services through intelligent technologies can have major repercussions at the socio-economic level, leading to more efficient spending and better care for the patient. The work proposed firstly collected and analyzed INSTAT data to get the picture of health in Albania in recent years. Building a system for measuring and evaluating the state of health of chronic patients through the collection, storage and sharing of data can generate guidelines to improve the quality of life of the patient. For the sustainability of healthcare today, the patient/citizen must regain their central role and worldwide efforts are focused on a Value Based Health Care model, in order to improve the patient's health conditions optimizing resources and eliminating waste and downtime. Having a clear picture of the dynamics by age, type of disease, two fundamental objectives are achieved: Achieve a degree of effectiveness with respect to the service provided thanks to the improvement of the quality of life of the chronic patient and reach new frontiers of efficiency from the point of view of reducing costs incurred for the health service by investing only in therapies that serve to increase the level of quality of life. In our work we used appropriate self-assessment questionnaires(SF-36 and SF-12) of mental and physical health status administered to chronic patients, to implement standard indicators of patient well-being and guidelines for remote assistance.

Keywords: *E-health, Performance indicators, SF-36.*

JEL Classification: *C18, I1, I18.*

1. Introduction

The efficiency of the level of health service delivery is an important goal for a nation's health system. To this end, the strengthening and modernization of health information systems should be considered a priority of the institutions involved in the provision of health care.
What is the current situation of the Albanian health system?

Can we talk about efficiency for Albanian healthcare? To consider this topic we must contextualize efficiency with respect to the aspect of fundamental importance: the economic resources allocated to the Albanian health system.

The Albanian public health system has never enjoyed many resources and as can also be seenfrom the graph below, public health expenditure in the period 2000-2018 on average is around 5% of GDP, which is much below the average of European countries.
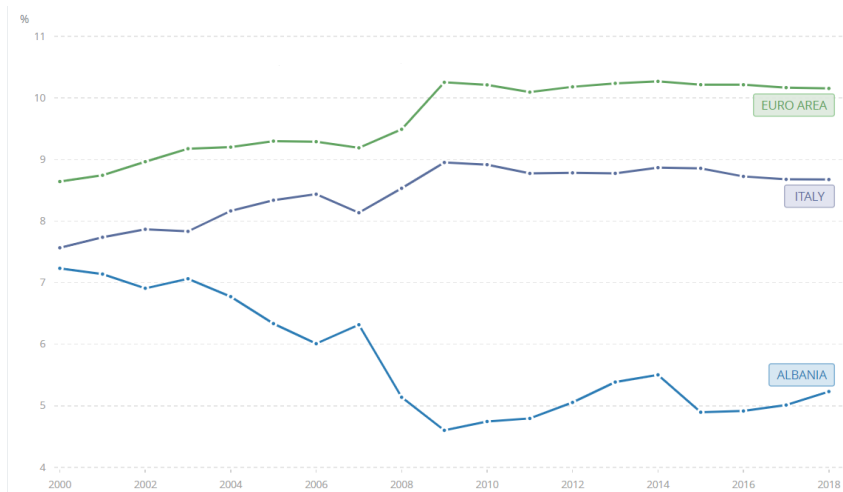
Fig.1. Current health expenditure (% of GDP) - Albania, Euro area, Italy

Source: The World Bank 2018

The hospitals that provide public and private health services are funded by the only body: FSDKSH. The loan is divided according to the total budget assigned on a historical basis, capital share or by performance. Hospitals that provide services in the public sector are mainly financed with a method based on the historical budget broken down by expenditure items.

Fig.2. Financing system and cost structure in Albanian Healthcare.
Source: FSDKSH REPORT 2018
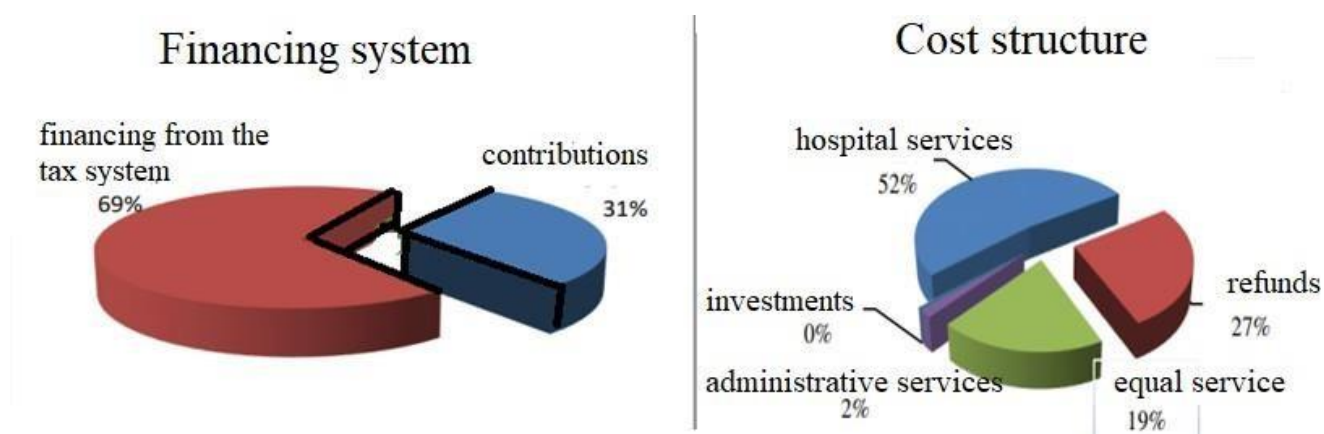
How many public and private health facilities actually operate efficiently to guarantee all the services a hospital should offer? How are these health facilities distributed in the Albanian territory?

To explain this topic, we should analyze concrete data and graphs.

  • Albania counts a total of 57 hospital structures in 2020;

  • Tirana is the prefecture with the largest number of health facilities (19) due to a much higher population density than the rest of the Albanian territory (766 inhabitants / km2) [1];

  • Shkoder is the prefecture with the lowest number of health facilities (2).

The information is shown through a cartogram, that includes all the Albanian prefectures with the belonging number of hospitals [2].

Prefecture	N. of public and private hospital structures
Berat	4
Diber	3
Durres	3
Elbasan	6
Fier	3
Gjirokaster	3
Korce	4
Kukes	3
Lezhe	3
Shkoder	2
Tiran	19
Vlore	4
Total	**57**

Source: Our elaboration with INSTAT data 2020.

Activity indicators	Public Hospitals								
	2012	2013	2014	2015	2016	2017	2018	2019	2020
Number of hospital institutions	44	44	42	42	42	42	42	42	42
Number of beds in total	8.410	8.283	8.295	8.224	8.172	8.169	8.185	8.189	8.334
Hospitalized persons	247.220	260.727	257.047	276.901	275.165	273.046	279.018	282.962	201.449
Persons discharget	247.331	260.780	255.802	275.412	275.678	261.373	277.245	281.546	207.462
- less than 1 year	12.383	14.454	14.302	13.150	22.773	21.242	20.283	21.361	11.583
- 60 years old	47.211	54.133	53.380	54.345	62.128	62.936	66.642	75.129	59.179
Days in bed realized	1.508.714	1.442.417	1.497.809	1.549.208	1.470.515	1.444.336	1.528.499	1.491.930	1.032.922
Bed occupancy in days	179,4	174,1	180,6	188,4	179,9	176,8	186,7	182,2	123,9
- in percentage	49,1	47,7	49,5	51,6	49,3	48,4	51,2	49,9	33,9
Average duration of hospitalization period	6,1	5,5	5,8	5,6	5,3	5,3	5,5	5,3	5,1
Bed turn	29,4	31,5	31,0	33,7	33,7	33,4	34,1	34,6	24,2
Number of persons operated on	50.802	55.038	62.393	51.470	52.248	57.475	64.929	63.669	46.369

Table1. Activity of institution with beds 2012-2020
Source: INSTAT data 2020.

The coverage of the hospital service is in the ratio of 2 hospitals for every 100 thousandinhabitants and the number of beds is in the ratio of 3.2 beds per 1,000 inhabitants.

The table shows the indicators of activity in public hospital service institutions:
- Number of hospital facilities;
- Total number of beds;
- Average days of permanence;
- Turnover of beds [2]

2. Materials and Methods

To make the service provided more efficient to improve healthcare and patient health by optimizing the resources used and eliminating waste and downtime, the patient/citizen must regain his or her central role in the healthcare system. To this end, in our work we have introduced the use of self-assessment questionnaires (SF-36 and SF-12) of the state of mental and physical health administered to chronic patients, to implement standard indicators of patient well-being and guidelines for the remote assistance. These questionnaires are widely used and consolidated in the literature. In this way we will have a clearer picture of the

dynamics by age, sex and type of disease and we will achieve two fundamental objectives: To implement a degree of effectiveness with respect to the service provided thanks to the improvement of the quality of life of the chronically ill patient and to reach new frontiers of efficiency in the " optics to reduce the costs incurred for the health service by investing only in therapies that serve to increase the level of quality of life.

The "SF-36" questionnaire is a survey on the patient's state of health and is characterized by shortness (on average the subject takes no more than 10 minutes to complete it) and precision (the instrument is valid and reproducible) [3].

This type of questionnaire was developed since the 1980s in the United States of America as a generic and multi-dimensional questionnaire.

3. Results and Discussions

The SF-36 self-assessment questionnaire is divided into 36 questions that allow you to assemble 8 different scales and 2 indices that summarize the overall assessments with respectto Physical (IPH) and Mental (IMH) health.

The higher the score, the better the perceived level of health.

The first three values reflect her physical health:

- PA: Physical Activity;
- PR: limitations of the specific activities of his Role due to Physical problems;
- PP: Physical Pain).

Intermediate values reflect health in general:

- HG: Health in General;
- VT: Vitality.

The last 3 values measure aspects of psychological-emotional health:

- AS: limitations in social activities;
- PE: limitations of the specific activities of the role due to emotional problems;
- MH: Mental Health.

It is also possible to calculate the values of the two synthetic indices, one relating to Physical Health (IPH), the second to Mental Health (IMH). The indices listed are obtained from the 8 scales and allow the results of all scales to be summarized in just two numbers. Again, the higher the score, the better the perceived level of health [4]. The SF-36 questionnaire can be self-filled but can also be the subject of both a telephone and face-to-face interview. All SF- 36 questions, except one, refer to a period of four weeks prior to filling out the questionnaire. The validity of the 8 SF-36 scales has been extensively studied in known patient groups. The validation studies have also shown that the SF-36 has the ability to discriminate against populations with psychiatric or physical problems and to discriminate between groups of populations with severe medical conditions from groups of moderately ill or healthy populations. A rich bibliography is available. In Italy, the questionnaire was translated and culturally adapted in the mid 90's as part of the IQOLA project. The development of the Italian questionnaire was divided into different stages during which the questionnaire was administered to more than 10,000 subjects. Currently there is a user manual, an extensive reference bibliography and a reference database with regulatory data on a sample of 2031 representative subjects of the Italian population dated 1995.

In this work, the construction of the composite final score indicator for the SF-36 self-assessment questionnaire was defined [5]. Let's start with the definition of the composite indicator and indicate our indicator as:

$$SF\_36_{\text{Index}} = \frac{\sum_{i=1}^{N} x_i w_i}{\sum_{i=1}^{N} w_i}$$

The summary of the scores allows the construction of two indices of the state of health, one concerning the physical state (Physical component summary - Pcs), the other the psychological one (Mental component summary - Mcs). The values of the synthetic indices vary, on the observed sample, from 10.5 to 69.7 for the PCS and from 7.4 to 72.1 for the MCS index, indicating better psychophysical health conditions as they grow. At very low levels (roughly below 20 points) of Pcs corresponds a condition of "substantial limitations in self-care and physical, social and personal activity; severe physical pain; frequent fatigue; health is judged to be poor ". A low index of psychological health, on the other hand, highlights" frequent psychological distress; significant social and personal disability due to emotional problems; health is judged to be poor ".

4. Conclusions and Recommendations

This work related the current situation of the healthcare sector in Albania, highlighting the sources of funding over the years. Furthermore, a summary of the macro-indicators for public hospitals was made over a period of time from 2012 to 2020. To underline the importance of the patient within a competitive and inefficient healthcare, we have focused our focus on the SF-36 questionnaire. The work highlighted the construction of a composite indicator f or the use of self-assessment questionnaires on the quality of patient health and consequently the efficiency of the health service provided to them. In the next work, the SF36 questionnaire will be proposed to a group of patients and its results will be tested to concretize the SF -36questionnaire from a practical point of view in order to continuously improve the efficiencyof performance in the provision of services in the field. health care.

References

https://opendata.tirana.al/?q=popullsia-e-tiran%C3%ABs-2020

Vjetari Statistikor 2020, http://www.instat.gov.al/al/publikime/librat/2021/vjetari-ra jonal-statist ikor- 2020/

Ware JJ., (1993). "SF-36 Health Survey. Manual and Interpretation Guide". The Health Institute, New England Medical Center. Boston, MA

Ware JE, Gandek B, and the IQOLA Project Group, (1994). "The SF-36 Health Survey: Developmentand use in mental health research and the IQOLA Project.". Int J Ment Health. Pages 23: 49–73.

K Kroenke, F Baye, SG Lourens, (2019), "Comparative validity and responsiveness of PHQ-ADS and other compositeanxiety-depression measures", Journal of affective disorders- Elsevier.

Sustainable Tourism in Albania: Economic Value and Destination Management

Najada Firza
University of Bari "Aldo Moro"
Catholic University Our Lady of Good Counsel, Italy/Albania,
najada.firza@uniba.it , n.firza@unizkm.al

Sara Shaba
Catholic University Our Lady of Good Counsel, Albania,
s.shaba7840@stud.unizkm.al

Mauro Gianfranco Bisceglia
University of Bari "Aldo Moro", Italy,
maurogianfranco.bisceglia@uniba.it

Abstract

Tourism is one of the driving sectors for the economy in Albania. In order to continue to be an important sector and compete in the future, it is necessary to follow the stages of sustainable tourism in an increasingly green and sustainable context towards the habitat that surrounds us. The proposed work highlights the efforts both in terms of policies implemented by the government for sustainable tourism and in terms of responses that have been given by the same structures in the sector in order to interact with tourism increasingly based on good practices regarding enhancement of the territory. In the previous work, we started talking about the sustainability indicators that the European Union has made available to tourist destinations as a guideline. A European guideline must be adapted to the Albanian territory under study. A territory must be attractive for tourism from many points of view and above all it must be able to convey hospitality, its traditions, culinary culture, etc. to visitors. In short, its strengths that we will calculate through socio-economic data of its residents. In doing so, each territorial district will have a placement of "tourist attractiveness": The starting point for building the System of European Indicators for Tourism. The starting data are processed using mathematical-statistical methods for the construction of two important indicators within the European ETIS system: Destination management and the economic value that the sustainable tourism sector can implement.

Keywords: *Sustainable tourism, Performance indicators, ETIS.*

JEL classification: *C18, Z3, Z32.*

1.Introduction

The tourism sector of Albania is an important sector for the Albanian economy. in fact, the tourism sector has generated opportunities for economic, work and self-help development. it has favored the hospitality and catering services sector including restaurants, other gastronomic establishments and accommodation facilities such as hotels, pensions, hostels, etc. Tourism represented 7.7% of total national employment in 2016 with 85,500 jobs. [1] The accommodation services sector accounts for approximately 15% of the entire service sector and 11% of all economic activities in Albania. [2] Europe is the main source of tourists visiting Albania, occupying a volume of approximately 92.4% of all tourists. [3]

Tourism has become more diversified in recent years and is now seen as comprising three main product areas: coastal tourism; cultural tourism and naturalistic-rural-ecotourist tourism: - Coastal tourism develops "beach and sun" tourism as its main product. The main coastal destinations are Velipoja, Shengjini, Durres (Adriatic), Vlora, Himara, Saranda, Ksamili (Ionian). - Cultural tourism offers three World Heritage sites: the Butrinti Archaeological Park, the UNESCO areas of Berat and Gjirokaster, followed by a number of historical and cultural attractions and monuments.
- Nature tourism offers natural and rural areas of the Land of Eagles which offer opportunities for the development of rural tourism, ecotourism and natural activities such as rafting, paragliding etc. What is the trend in the arrivals of foreign tourists over the years in Albania?
The table illustrates the arrivals of foreign citizens by country of origin. Until the year 2019 there is a constant increase in all tourists, we note that the citizens of each country have increased over the years.

Table1. Arrivals of foreign citizens according to regions, 2014-2021

Description	2014	2015	2016	2017	2018	2019	2020	2021
I. Africa	859	2,973	2,409	2,756	3,321	24,203	1,636	3,147
II. America	90,084	96,763	105,032	125,339	148,846	156,726	30,020	115,833
III. East Asia and the Pacific	30,874	33,032	36,551	54,343	68,152	78,050	4,993	7,968
IV Middle East	2,607	3,604	4,797	5,588	7,174	11,707	1,813	36,959
V. South Asia	1,274	1,636	1,807	2,344	3,084	3,550	801	20,998
VI. Europe	3,423,665	3,759,423	4,490,614	4,694,268	5,331,616	5,796,063	2,616,908	5,172,845
- Central / Eastern Evropa	163,006	151,457	187,527	276,563	362,083	393,368	92,326	363,483
- Northern Europe	137,308	125513	149,992	204,099	212,248	234,956	65,173	127,767
- Southern Europe	2,821,920	3169174	3,855,779	3,810,464	4,301,996	4,636,197	2,335,914	4,331,888
- Western Europe	237,760	246,811	221,566	316,264	357,411	417,163	95,211	293,054
- Eastern Europe / Mediterranean	63,671	66,468	75,750	86,878	97,878	114,379	28,284	56,653
VII. Unspecified Regions (Others)	123,228	233,811	94,301	233,062	364,610	335,739	1,647	330,899
Total	**3,672,591**	**4,131,242**	**4,735,511**	**5,117,700**	**5,926,803**	**6,406,038**	**2,657,818**	**5,688,649**

Source:Instat data 2021

In 2020 there is a standstill due to the pandemic. In 2021 there is a recovery, albeit a slow one, of the increase in arrivals. European citizens are those who have a higher incidence than other arrivals.

Fig.1. Change in the years 2014-2021 of arrivals of foreign citizens,

Year	Total foreign citizens	Change to 2014 (%)
2014	3.672.591	0
2015	4.131.242	12,49
2016	4.735.511	28,94
2017	5.117.700	39,35
2018	5.926.803	61,38
2019	6.406.038	74,43
2020	2.657.818	-27,63
2021	5.688.649	54,89
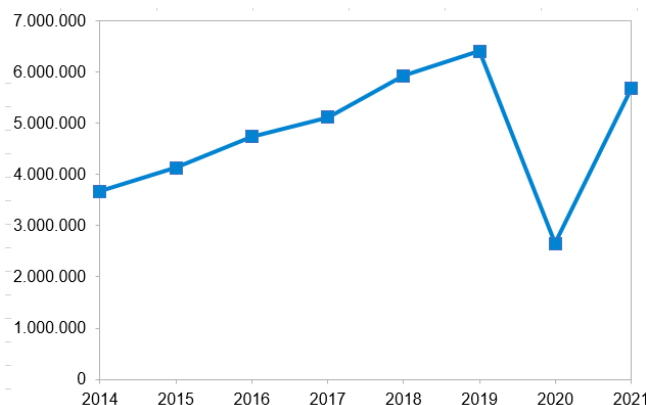
Source: Our elaboration with Instat data 2021

In particular, tourists from Southern Europe excel as they are more facilitated by the geographical position which also allows them to have greater proximity and therefore a shorter journey than the destination Albania.

The total number of foreign visitors has increased significantly in recent years, recording a 75% increase in 2019 compared to 2014 (total 6.4 million visitors in 2019 from 3.67 million visitors in 2014). In 2021 there was a 55% increase in arrivals of foreign tourists in Albania compared to 2014. [4]

2. Methodology and Materials and Methods

In this part of the work, we want to highlight a possible starting point for an assessment of the level of sustainability that the tourism sector is facing or confronting, within a given country. In particular, it is proposed to apply a model that allows to obtain a good and optimal quantification of the problem beyond a simple management of the same. Therefore, it is considered necessary first of all to focus on some basic elements necessary for the evaluation of the variables linked to sustainability in the tourism sector, contextualized in specific territorial areas, which contribute to the growth and development of the territory; as well as improving the quality of life. Evaluations that can provide useful elements for consideration and reflection on socio-political and government decisions by those responsible for these powers. So it was decided to start from what was studied and suggested by the European Commission through the introduction of the European Tourism Indicator System (ETIS), in order to make tourism more and more sustainable. It is noted that in the work of the Commission a number of categories have been identified to keep under control, therefore we aim to provide an assessment of the sustainability within each of these, which of course can also vary in number, and then go back up to the geographical areas and finally to the country. These categories are contextualized in specific territorial areas, defined precisely as destinations, or more specifically in Geographical Areas, each with its own specificity for tourism purposes. The categories that are observed have an influence on:
1. Management of the Geographic Area;

2. Social and cultural impact;

3. Economic value;

4. Environmental impact

Categories that we can consider as basic elements of the study, and within each of them a series of suggestions are provided in order to be able to determine indices that provide a measure of the level of intrinsic sustainability in these elements.

3. Results and Discussions

The index of the level of sustainability that these elements have achieved in their various aspects, and which we denote with *Is*; therefore we will have different sustainability indices depending on the element or category that is considered, so with $Is_q, q \in \{1,2,...,\pi\}$ and with $\pi \in N$ we will denote the q-th sustainability index of the basic element [5].

The creation of the single index of the basic element will be the result of an articulated evaluation of limited subsets. A first subset consists of variables or so-called indicators (within the ETIS) that influence the sustainability of the individual basic elements and will be appropriately considered based on the weight they provide in the single element. Variables that we will denote with V, therefore with $V_d, d \in \{1,2,...,\omega\}$ and with $\omega \in N$ we will denote the d-th variable.

For illustrative purposes only, at least in this first general part, an example of a variable is the number of hikers per month, daily expenditure per host tourist, percentage of seasonal jobs in tourism, etc. Hence, the function:

$$f_0 : \forall (d,q) \in \{1,2,...,\omega\} \times \{1,2,...,\pi\} \to f_0(d,q) = V_{d,q} \tag{1}$$

bijective on $f_0(\{1,2,...,\omega\} \times \{1,2,...,\pi\})$ it will denote the array of variables, and with $V_{d,q}$ we will denote the d-th variable, relative to the q-th base element [6].

Taking into account that not all the basic elements can have the same number of variables, ω it will be such that, if $\exists q \in \{1,2,...,\pi\}, V_{\omega,q} \in Is_q$

Furthermore, the framework of the variables taken into consideration according to the levels of sustainability to be maintained or achieved, based on the basic elements considered; it may have influence and impact within a series of alternatives or criteria as defined within the ETIS, specifically studied within the specific categories and / or territorial contexts. Therefore it is necessary to consider such alternatives which we will denote with A; so $A_r, r \in \{1,2,...,\mu\}$ and with $\mu \in N$ it will denote the r-th alternative.

Also for the latter, for illustrative purposes only, we can consider as alternatives, customer satisfaction, the tourist flow (value and volume) in the destination, the quantity and quality of employment, etc.

a. It is noted that these alternatives have been thought to contextualize them in certain areas, such as to. the primary type of hospitality service (hotel and agritourism accommodation, hostels, landlords, hotel houses, etc.),

b. The accessory hospitality service (catering, museums, parks, shows, entertainment, etc.)

c. The complementary hospitality service (airlines, railways, etc.). Areas that could vary depending on the basic elements to be observed, and the objective of the work.

We indicate these areas as observation sectors, which we will denote by *S*; therefore $S_i, i \in \{1,2,...,m\}$ and with, will denote the i-th sector.

At this point it is advisable, always for a better description and reading of the problem being studied; contextualize the scenario of the sectors in territorial areas that present a certain homogeneity for the purposes of assessing the level of sustainability that the tourism sector can enjoy. Therefore, the individual geographic areas or destinations as defined in the ETIS, present in the territory under observation, we will denote with *G*; so $G_j, j \in \{1,2,...,n\}$, and with $n \in N$, il will denote the j-th geographical area present in the country under study [7].

We can at this point consider a second function:

$$g : \forall (i,j) \in \{1,2,...,m\} \times \{1,2,...,n\} \rightarrow g(i,j) = S_{i,j} \tag{2}$$

bijective on $g(\{1,2,...,m\} \times \{1,2,...,n\})$: which represents the matrix of the sectors, and the generic sector $S_{i,j}$ will denote the i-th sector, relating to the j-th geographical area [8].

It should be noted that even in this case not all geographical areas may have the same number of sectors, *m* will be such that, if $\exists j \in \{1,2,...,n\}, S_{m,j} \in G_j$, therefore some elements of the values of the function g may be empty.

1. Conclusions and Recommendations

As can be seen, the function, even if it could theoretically provide an immediate vision of the problem; it becomes very articulated and complex, with obviously its pros, but also its cons, especially in the application phase; Therefore, in the rest of the work, we will use it wisely. The goal remains to be able to carry out an assessment of the basic elements, (categories as defined by the ETIS), within a scenario such as Albania. At this stage, having considered the partition of the country given by all the geographical areas on the basis of their homogeneity from a tourism point of view.

References

INSTAT,2018.''Turizmi ne shifra,Shqiperi'',2018,Tirana,www.instat.gov.al,18

INSTAT,2017.''Turizmi ne Shqiperi'',2017.Tirana,www.instat.gov.al,22

Ministria e Turizmit dhe Mjedisit,2018. ''Strategjite kombetare te turizmit'', Tirana. https://turizmi.gov.al

INSTAT,2021.''Turizmi ne Shqiperi'',2021.Tirana,www.instat.gov.al,8

Bisceglia, Mauro, (2020). ''Fattori di rischio economico-finanziario nel settore del turismo'', 2nd UNICART, Interdisciplinary International Conference on Management, tourism and Development of Territory; Proceedings book pp. 15-26. ISBN 978-2- 931089-02-6

Albano, L., a cura di Mauro Bisceglia, (2015). ''L'Arte del Contare'', Bari, Cacucci, pp. 11-205, ISBN 978-88-6611-425-3. Bari

Bisceglia, Mauro, (2018). ''Su qualche equazione alle differenze'', Metodi e analisi statistiche, pp. 179-207. Università degli Studi di Bari Aldo Moro, ISBN 978-88-6629-048-3

Bisceglia, Mauro Gianfranco, (2020). ''La stabilità nelle equazioni differenziali lineari'', Metodi e analisi statistiche, pp. 343-367. Università degli Studi di Bari Aldo Moro, ISBN 978-88-6629-023-0.

Sustainable tourism development in Karaburun-Sazan marine protected area

Ph.D. Rezarta Brokaj
Department of Business
University of "Ismail Qemali" Vlore, Albania
rezartab@gmail.com

Ph.D. Zamira Sinaj
Department of Business
University of "Ismail Qemali" Vlore, Albania
sinaj.zamira@yahoo.it

Prof. Assoc. Fioralba Vela
Head of Business Department
Faculty of Economy, University of "Ismail Qemali" Vlore, Albania
fioralba.vela@univlora.edu.al

Abstract

Backed by UNDP, the Government of Albania took the decision on April 28, 2010 to establish Karaburun-Sazan as the first National Marine Protected Areas of Albania. In this area, tourism is considered as one of the priorities for the local and regional economic development, reflected by the positive indicators of the increase in the number of tourists. The part that has grown the most in this sector is that related to tourism activities taking place in the water. The growth of these activities also increases the need for more effective management in order to support the implementation of Sustainable Development Goal 14 of the 2030 Agenda: conserve and sustainably use the oceans, seas and marine resources for sustainable development.

The results provide insight into the current situation of the tourism sector needs, particularly the sustainable development of water activities in Vlora Bay with specific focus on MPA Karaburun-Sazan and prospects for the future to promote a more integrated and sustainable use of marine and coastal resources, focused on intensification of management activities for Karaburun-Sazan Marine Protected Areas.

This papers reports some findings examining the relationship between the activities of tourism operators providing in the area of Vlora Bay, types of tourists and problems related to the market of these services and the need for more effective management in order to reduce the negative impacts they have on the area, as well as their development following the best European and international practices.

Keywords: *sustainable tourism development, Karaburun-Sazan protected areas, stakeholders.*

1. Introduction

The Karaburun-Sazan Protected Area is the first and only National Marine Park in Albania[30]. This Marine Protected Area (MPA) is situated at the border between Adriatic and Ionian Sea, in Orikum Administrative Unit, Vlora County.

Karaburuni Peninsula is situated in the middle of Albania, in front of the city of Vlora, sharing the waters of Adriatic and Ionian Seas. Karaburuni Peninsula was declared as a "Natural Managed Reserve" of Fourth Category in 1986. It includes Natural Recreational Zones, two Natural Monument Zones and the presence of exceptional coralligenous, a Buffer Zone and two Natural Recreational/touristic Zones. The National Park of Llogara and the Çika Mountain are included in this unit. The rocky coast with important calcareous limestone cliffs covered by typical Mediterranean vegetation and locally along the coast, pocket beaches of pebbles and sand represents exceptional scenic quality especially by boat when visiting caves, canyons and small bays. The underwater landscape is also of exceptional quality with cliffs, submarine caves and associated fauna and flora, and in some places archaeological remains. This area is certainly the best and most impressive part of Albanian coast for the development of nautical activities. The island of Sazan is a Natural Recreational/Touristic Zone. Sazani island is also a military zone managed by Albanian Naval Force, with their 24/7 presence on the island. On summer 2015 it was opened to the public by the National Coastline Agency and it is open to general public and tourists from May to September, due to an agreement signed every year by Ministry of Tourism and Environment and Ministry of Defense. The Karaburun-Sazan Marine Protected Area is under the administration of Vlora Regional Administration of Protected Areas (RAPA), which is the local representative of the National Agency of Protected Areas.

2. The MPA management and administration

In order to have effective management the Karaburun-Sazan MPA has an active Management plan for Karaburun-Sazan MCPA developed in 2014 and a Business plan for Karaburun-Sazan MCPA developed in 2015. To follow the implementation of all management plans, a Management Committee of Marine Park Karaburun - Sazan was established in March 2019 as an inter-sectorial body, based on the law on Protected Areas. The management team from National Agency for Protected Areas and the Regional Administration of Protected Areas Vlorë (RAPA) had started to implement activities in cooperation with different authorities, including municipalities of Vlora and Orikum.

Since 2017, with the support of the Italian Government through AICS (Italian Agency for Cooperation and Development), the UNDP has been closely collaborating with the Ministry of Tourism and Environment and the National Agency for Protected Areas to effectively manage the Marine Park.

---

[30] The Karaburun-Sazan Marine Protected Area was announced in 2010 (DCM No. 289, dated 28.04.2010). The Marine Park is 16 kilometers long, covering 12,428 ha of surface in total.

The Park's Management Plan is the main tool for biodiversity conservation, for raising awareness and improving education, for cultural heritage and landscape maintenance, for support towards local communities and for sustainable use of natural resources. Local NGOs have also participated in a range of actions and activities aiming to highlight the park's vitality in the bigger picture of Albania's complex biodiversity.

The management plan takes into account the importance to support the local development of tourism. The collaboration between the Management Administration and local community is also a prerequisite for good management. Maintaining healthy, productive and resilient ecosystems which allow Albania's marine biodiversity to recover, while also providing communities with required services, is essential for the Park's effective management. Activities related to this include meetings with local stakeholders, establishing and supporting cooperation with different authorities, including police, inspections, military, local and regional authorities, etc.

Through the years, the first National Marine Protected Area in Albania has attracted international attention. In 2015, the Park was proclaimed as a Specially Protected Areas of Mediterranean Importance by the Barcelona Convention. It is now part of the Network of Marine Protected Areas managers in the Mediterranean (MedPAN). AdrIonPAN aims to become a structure for coordinating, guiding and promoting the system of Protected Marine and Coastal Areas in the Adriatic and Ionian seas, following the positive experiences of AdriaPAN and MedPAN[31].

With funding from the Global Environmental Facility (GEF) and the Italian Government, through the Italian Agency for Development Cooperation (AICS Tirana), the UNDP in partnership with the Ministry of Tourism and Environment joined hands to implement the project "Improvement, coverage and effective management of Marine and Coastal Protected Areas," designed to secure the long-term protection of Albania's unique coastal and marine biodiversity, through a number of sustainable interventions.

Since then, UNDP continued to mobilize national and international partners and expertise to strengthen the Park's management and develop a vision for the attraction and the services it provides aiming to become a major eco-tourism and development hub.

Park administration supported by UNDP junior experts and in close collaboration with local authorities and local communities is conducting a data collection of number of tourists visiting main attractions of the park. The goal of these specific data collection is related with immediate need to intervene to avoid over population of these areas that in terms of conservation have the same importance as per tourism. The data collection two important things emerge:

- Sazani island and Haxhi Alia Cave are must destinations offered by all the tour boat operators;
- 85 % of tour boats are visiting both destinations using the same time interval, from 11.00-13.00;
- Top 3 attractions of the marine park are Sazani island, Haxhi Alia cave and Grama bay

---

[31] Round table "National parks in the Adriatic Ionian region as a driver of sustainable development".

3. Of the MPA

Tourism is one of the highest priority sectors in the Vlora region, because of the natural and cultural resources that this area offers. The relationship between tourism and local natural and cultural heritage is of particular importance. Tourism can play a key role in generating awareness and support, directly or indirectly, for the preservation of these resources. Moreover, the quality of the natural and cultural heritage in many areas is essential for generating economic prosperity through tourism thus improving the quality of life of local communities.
The Karaburun-Sazan MPA has an ecosystem rich in environmental, natural, cultural, historical and archaeological values. MPA contains outstanding wilderness and natural values that are essential for promoting a sustainable tourism development model. On the other hand, ecotourism

can be integrated into the sustainable development, thus offering the chance for tourist activities that don't have a negative impact on the environment.

It includes numerous landmarks and beautiful sites like Shën Vasili Bay, Shën Jani Bay, Grama Bay and Haxhi Alia Cave and the virgin beaches of Grama and Dafina. In the meantime, there is a thriving marine life underwater to explore; deep cobalt color of the pristine coastline, ruins of sunken Greek, Roman and World War II ships, rich fauna with marine algae, sponges, mollusks, crustaceans, red coral, reptiles, steep cliffs, breathtaking underwater landscape, unconventional caves and canyons and Posidonia meadows.

Meanwhile, hikers and trekkers can walk the network of hiking routes in the peninsula. Several routes and trails have been marked[32], helping people connect with places evoking the area's millennial history, starting from antiquity, until the more recent 20th century history.

The area of Karaburun–Sazan is well known for the natural and cultural resources. All the materials, guides and studies in the tourism field mention the variety of resources, from the ancient ruins and ancient Illyrian settlements, to the biodiversity and the beautiful beaches and natural resources. A tourist guide on Karaburun-Sazan MPA and Vlora City promotes the diversified attractions of the area. The "National Marine Park Karaburun Sazan" newsletter prepared by UNDP Project on Marine and Coastal Protected Areas provides periodic information on the various activities, news, scientific information and entertainment, etc related to the area. The Visitor Center[33] is uniquely positioned to achieve the objectives of conservation and development of the Park. It offers a community focal point for all stakeholders for the preservation of the Park and the utilization of its unique assets in a sustainable way. The Center is established by UNDP in the framework of the project "Improving coverage and management effectiveness of Marine and Coastal Protected Areas" in Albania funded by the GEF and implemented in partnership with the Ministry of Tourism and Environment. The Information Center has also benefitted from a partnership with World Wild Fauna and Natura 2000 project funded by the European Union.

---

[32] AKZM, UNDP ALBANIA, Apr 28, 2020.
[33] www.karaburunsazanimpa.com

Constant efforts are made to integrate all key actors in conservation, management processes and area development.

The collection of statistical data on the number of tourists/visitors that have visited the MPA was enabled by three sources:
- Vlora Port Harbormaster and Authority
- Tour Boat operators
- Site surveys by RAPA staff, consultant and support of UNDP Junior Experts.

There is an increasing trend in the number of visitors, with the "peak" being reached in August. Indeed the number of visitors during August has been 6 and 3 times higher compared to the preceding summer months, July and June, respectively. This fact demonstrates that there is an exponentially higher demand during August, and indeed this has to be managed either through good planning, or through diversification of the offer.

As regards the nationality of MPA visitors, it is noticed that there is almost the same number of both groups (Albanians and Foreigners) with just a slight difference in favor of Albanian Visitors. This proves that the area continues to be a very attractive tourist destination for Albanian citizens. The total number of visitors for 2019 spending at least one day in national marine park Karaburun - Sazan is 75283 including month of October, 38554 are Albanians and 36729 are foreigners mostly from Balkan countries and EU countries.

The main purpose of this study is to identify and evaluate sustainable tourism and nature-based activities in Karaburun-Sazan MPA and approaches to nature based initiatives.

As with all forms of tourism, the planning and management of nature-based tourism is increasingly mediated by the paradigm of sustainability. Given the size, growth rate, ubiquity, diversity and variable impacts cited above, it can be argued that the goal of sustainability is especially imperative in the nature based tourism sector. Indeed, the attempt to operate in a sustainable manner is universally acknowledged as one of the core criteria of tourism types which have nature based activities as inputs.

In this context, INCA, Institute for Nature Conservation in Albania initiated an assessment of tourism activities and businesses in the bay of Vlora under the SEA-Med Project (Sustainable Economic Activities in Mediterranean Marine Protected Areas) in Albania (Karaburun-Sazan Marine Protected Area) with the support of CEPF (Critical Ecosystem Partnership Fund) and in collaboration with WWF Mediterranean.

The assessment was carried out based on interviewing stakeholders providing tourism services. The main objective of this assessment was to make an inventory of all tourism or recreation related businesses operating in the bay of Vlora with a special focus on nature-based activities.

4. Methodology

A first research phase is undertaken to collect secondary data, based on other studies by different non-government and government organizations present in the area of Vlora bay, about the operators located in the area, with a special interest on those operators which base their activity on Nature Based Activities.

The next phase of the research is gathering the primary data through a survey of tourism operators in the area. The survey is aimed at mainly making semi-structured qualitative interviews with the stakeholders of Vlora Bay, which base their activity on tourism services in this area. During interviewing process, more information was gathered about identifying other NBAs in the area, or services including NBAs in the main TO business. The gathering data tool is the survey questionnaire and the method of administration is the face to face interview with the subjects. The questionnaire was also adapted with the data entry requirements, which was later used for data analyses.

Questions that require answers in the first part of the research are related to:
- Types of businesses, initiatives and Nature Based Activities (NBAs) in the area
- Types of services offered by different tourism businesses and initiatives
- The opportunities that lie behind the involvement of some operators in NBAs
- Problems related to the desirable quantity of NBAs to be offered in the area

The number of interviews was defined according to the geographical distribution of operators, NBA and not, which are known as the most important by the point of view of tourism development.

This research targeted the region of Vlora Bay. The survey gathered data including TO not only in the MPA of Karaburun-Sazan, but also in all Vlora Bay, because of the impact that these tourism businesses have also in the MPA. To manage better the process of collecting data the study area was divided in three subareas: Uji i Ftohtë, Jonufër- Rradhimë and Orikum. The main reason for selecting these regions is related with the considerable role of these areas in tourism development as the main tourist destinations of Vlora region, part of which is also Karaburun-Sazan National Marine Park, related to different forms of tourism development, with a special focus on the nature-based activities forms of tourism. This is also the area that accommodates the tourists from which the demand for NBAs is supposed to be coming from.

The selection of the sample size and composition for this research was defined by desk research and field research: In total there have been made 73 interviews from which, 12 were tourism operators which focus was: diving, hiking, fishing, aeronautics, etc, and 61 commercial tourism operators, which collaborate with the above mentioned for offering a full package to the tourists.

Interviewing has been one of the most important processes of the study. Therefore, detailed information about the study and the interviews has been provided to the interviewees to ensure a low percentage of wrong answers.

The greatest part of the operators interviewed, is composed by profit local operators, but still there are some non-profit organizations. The main activity of profit local operators is based on accommodation, but there are also a number of NBA operators, which base their activity, only on sport and leisure tourism activities.

Two types of operators in the area are actually offering NBAs, those which main business is related to accommodation and those which offer basically the services related to nature based tourism activities. The following services and activities in the nature based category are identified:

> ➢ Diving - three activities identified, offering services for tourists, such as training as amateur divers, or divers for different underwater services, as well as guided diving in different areas of the coast.
> ➢ Hiking - offered by some of the accommodation businesses, as well as a local guide.
> ➢ Parachuting or skydiving - offered by two operators. Their main activity is parachute jump, but they offer also tracking and climbing.
> ➢ Fishing - offered by 5 operators, offering it as a sport for tourists, along with other activities such as diving and guided boating tours.
> ➢ Tour boats - the statistical data clearly shows that the tendency for tourist boats has been increased dramatically during 2018 and doubled in 2019 comparing with previous year. This trend is primarily related to the diversification of tourist services and since there has been a huge gap in this aspect, it may be seen as a lucrative way[34] (two boats in 2013 and 17 tour boats operating in Vlora.
> ➢ Sporting activities - offered as multidisciplinary center for various disciplines, such as: snorkelling, diving, canoe, kayak, jet boating, fishing, a wide range of water sports, including surfing, wind surfing, kite surfing, sailing skateboard, parasailing, etc.

5. Main nature-based activities

The graph 1 shows the trend for the types of NBAs being offered actually by TO in the area. 26% of the tourism operators whose basic activity is accommodation (bar, restaurant, hotel) offer also nature-based activities related to the MPA, and this trend is going to be higher, because other 54% of those who do not offer these activities are planning for the future to develop them, especially in Karaburun-Sazan area.

---

[34] Administrata e Zonave të Mbrojtura, Vlorë
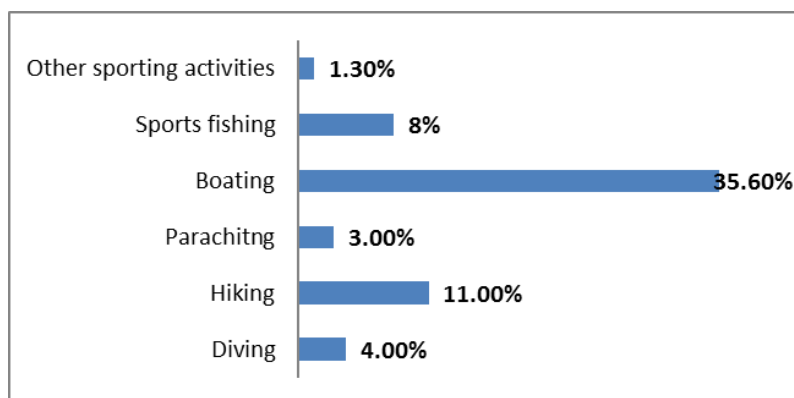
Graph 1: Types of NBAs offered by TO

32% of the interviewed operators develop nature based activities at the area of Karaburun-Sazan Park, and see this kind of activities very important for the future development of this area, especially for the following reasons: economic, tourist satisfaction, international tourists attraction, competitive advantage, sustainable tourism development and educative and intercultural exchange.

All the interviewees have expressed their interest about the NBAs in different manners. In fact when asked if they are interested to offer more of these activities in the Karaburun-Sazan Area, 65% want to offer more NBAs, while 35% are not willing to offer more of these activities (graph 2).
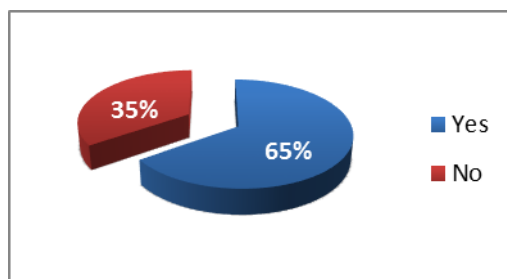
Graph 2: Interest for offering more NBAs

The tendency that some of the interviewees have for the future of these activities is also interesting. In fact, if we see, on one hand the actual status and, on the other hand their willingness to offer these activities, there is a positive trend. Although 27 tourism businesses and initiatives, or 37%, are not offering actually NBAs, 8 of them, or 11% of all the cases are planning to offer more nature based activities in the Karaburun-Sazan area in the near future. This is shown in graph 3.
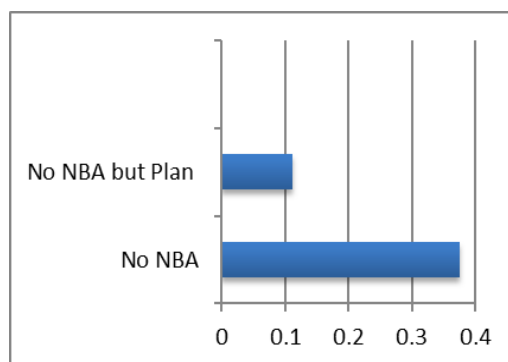
Graph 3: Actual and Planned NBAs

There is a difference also between their planning and their willingness of offering the NBAs. This is shown if analysing questions 8 and 9 in the same time, we can see that there are less than one third, or 21% of all cases in which businesses or initiatives are not planning to offer NBAs, for the reasons mentioned in the section above, but still they are interested to offer these activities.
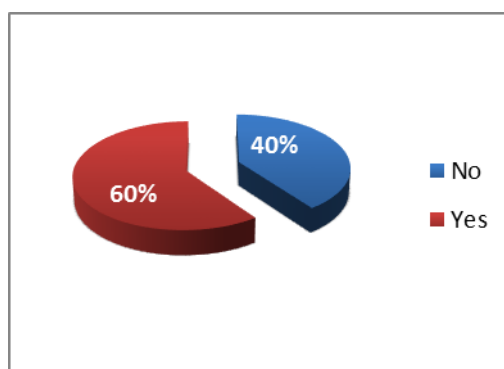
Graph 4: Interest among operators non offering NBAs

Let us take a look on the reasons why 35% of interviewees are not interested in offering NBAs. They focus more on the lack of capabilities as well as the impossibilities of financial resources, lack of experience and human capacities for management of these kinds of activities.

This seems to be also the reasons why there is the difference that was previously mentioned about planning of these activities and actual interest of operators. In fact, all the operators that do not plan to offer NBAs say that the most important reasons ranked first, second and third are as follow: financial aspects of the business, requirements for professionals in the field, such as divers, guides etc., and third the problems with management of these activities.

Taking a deeper look in the individual interviewees that have expressed these problems, we can see first of all that these are mostly tourism operators offering basic services, such as accommodation and restaurant services. Secondly, it is understood that the perception of these operators about ways of offering NBAs is that of including them in the list of their services. So, basically they answer to the question if they want to offer more NBAs, while they do not base their

service on the NBAs. While they may not be contrary of more NBAs included in the total tourist offer, not necessarily offered by them, but by other operators, which may be specialized in the NBAs. More information given about the existence of these operators, their services, as well as the cooperation between different kinds of operators in the market, should be incited in these cases.

But there are also comments and perceptions that there is lack of demand for NBAs, lack of professionals that must be part of the offer for NBAs. In some cases they are not seen as an opportunity for growth.

Stating these reasons in a quantitative manner, we can say that only in 4 cases there is the perception for the lack of demand, in 3 cases they say that tourists care about activities by themselves, while all the other cases are dealing with different kind of impossibilities, from financial and human resources, to managerial skills and experience.

For those interviewees who have accepted the more offering of NBAs, the most desirable or appropriate activities are listed in the table 3 and shown in graph 5. The figures show in how many cases and what percentage the activities are mentioned as desirable/appropriate. It is to be said that in most of the cases, two or more of alternatives are mentioned as responses. The most desirable ones result to be: diving and cave exploration, because of many beauties that the nature of the Karaburun area offers for the tourists. But also guides for the wild life are one of the activities of interest to be included in the operators' activities. Guided tours and cycling are not so mentioned as expected, may be because of the spread that the walk already has.

Alternatives	Number	Percentage
Diving	20	28%
Snorkelling	23	32%
Exploring wracks and caves	18	25%
Guided wildlife tours	21	29%
Guided tours and tracking	16	22%
Hiking and cycling	4	6%
Other (boat tours, canoe or other water sports, etc.)	5	6%

Table 3: Most appropriate/desirable NBAs
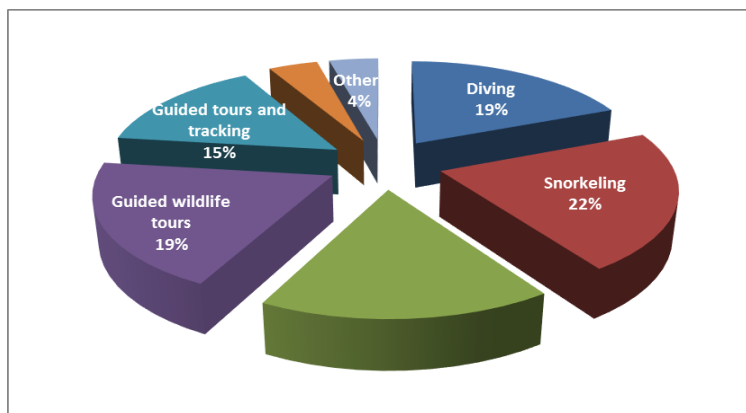
Graph 5: Type of most desirable/appropriate NBAs

There are also some new activities identified in the field study, such as parachute jumping, free fall, water sports, rafting, canoe tour. But how do the operators think that adding these activities to their existing business would impact in the value aspect? After explaining some alternatives such as the increase in number of tourists, or in more revenues, as well as getting more knowledge in the market and merely for expanding their business. All those aspects could possibly impact positively in the value of the business or initiative. The most mentioned positive aspects are the increase in number of tourists and the revenue increase of the businesses.

Support for environment protection in the area

The environment is important in attracting tourism flows with their attendant economic effects. Conservation of valued environmental features can help to maintain tourism visitation and tourism's contribution to the economy. Also, preservation and management of natural resources is a key challenge for the sustainable development strategy.

The support that local operators give in regard of management and protection of the environment is seen as an important aspect. But their perception about this question is limited to mainly keeping clean the area around the structure. Also the maintenance of the beach, which in fact is offered as a service for profit, is considered as a support for the environment. In 45 cases, we face responses such as: "we protect the environment by cleaning, keeping clean, individually, our area or territory, around our structure" These are the keywords of the interviewees for considering their support for the protection of the environment. Although in five cases we can identify their sensitivity to sewage system and the prohibition of their discharge in the sea, also the care for the inert materials. In two cases is mentioned the collaboration with DSHSH, directorate of health, for the disinfections. While in 6-7 cases it is mentioned the care through the initiatives for tree planting and decorating the environment with flowers and plants, along with the use of wood in their structures as a more environmental friendly material in 2-3 cases. The percentages are shown in the graph 6.
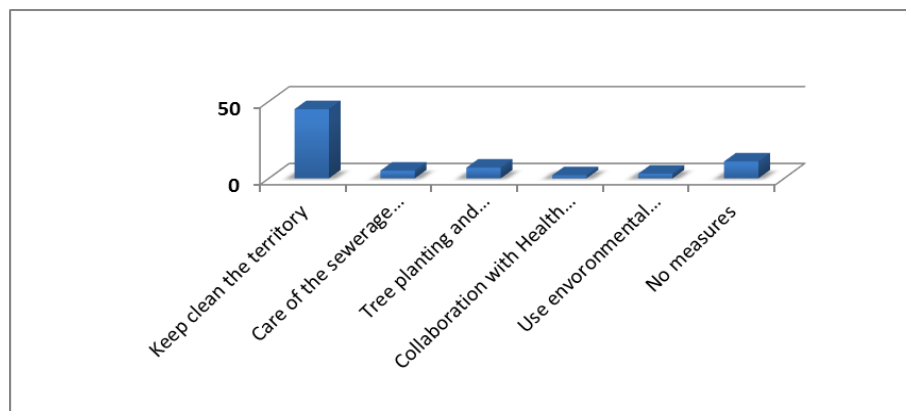
Graph 6: Ways of environment protection by operators

But there are also such responses and initiatives that contribute in environment protection through sight watching and giving information to the local authorities about the problems such as fires or unclean areas. More active in this regard are the non-profit actors that are interviewed, but also some profit tourism operators, such as the diving centres or tourist, sports- complex mention their care to the underwater flora and fauna and the biodiversity in the area.

At the conceptual level, revenue enhancement should not be seen as contradictory to the objective of conservation. Instead it should be seen as an effective tool for conservation. The majority of the operators included in the study consider additional the cost on conservation or environmental quality.

Cooperation between operators and stakeholders

In 33 cases, or 46% of the cases, there is no cooperation between the operator and other institutions or operators. It is relatively high percentage that shows a lack of institutional collaboration, but also a lack of cooperation between operators, which in many cases is very important in the tourism sector, because of the nature of this sector.
Anyway, there are other cases which claim the collaboration with the municipality of Vlora and Orikum, specifically in 12 cases or 17% of the cases. There is also the collaboration with other operators, either nearby or in other touristic areas, in 9 cases with the same level of the value chain. While collaboration with Tourism agencies is mentioned in 10 cases. Data are shown in graph 7 below.
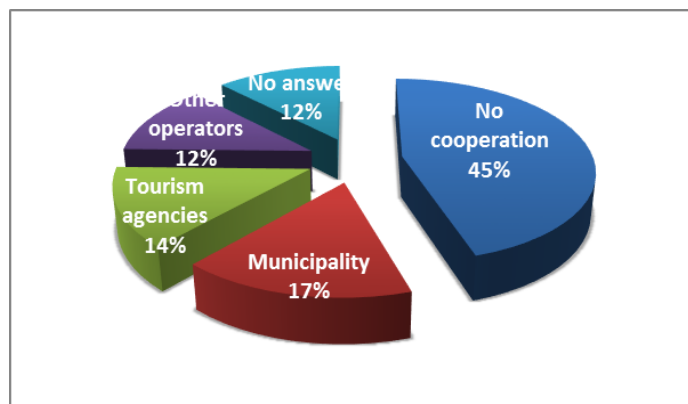
Graph 7: Cooperation of operators

Collaboration with other actors in the value chain, such as collaboration between hotels and guides or hotels, restaurants and NBAs such as boats and diving operators are present, but also in the individual bases and through individual knowledge and first empirical steps in marketing the NBAs from individuals that offer these services. In fact when asked more specifically local guides or diving professionals say that they give their contacts to different operators which have expressed some requests from foreign tourists for NBAs, while they have no offices or private companies, because of restrictions such as permissions or certificates and costs. On the other hand, operators that offer accommodation services collaborate with NBAs operators to suggest their services to the clients.

Tour Boats are an important service for tourists. The total tour boats capacity is 1646 passengers. The analysis shows that the passengers' carrying capacity for the tour boats follows the same trend as the number of boats that operate in Vlora; that is, the new boats that started operation in 2018 and 2019 have clearly higher carrying capacity compared to the previously operating tour boats in the area.

The data show that the majority of the boats depart from Vlora Port, except one boat that departs from Radhima. Moreover, eight boats, out of eleven, follow the route that includes Sazani Island, making this island an important destination and asset, along with the amenities of Karaburuni Peninsula. All the tour boats trip are daily and the routes are similar.

Other types of collaboration with associations of biologists, association of Albanian Animators, IATA, are mentioned in 5 cases.

The collaboration with the state or public sector organisation will be helpful in meeting the objective of conservation. Organisations that carry out the task of preserving environmental quality with minimum cost to the society and firms that maximises revenue from tourists in an environment friendly manner should be functioning in a broad state – private partnership structure, given the externality and public good nature, of conserving natural assets such as Karaburun – Sazan marine protected area.

Within this framework it is important the impact of the tour guide. It is true that tourists can explore the destination by themselves but they will have a better experience while exploring the MPA if they hire a tour guide. The qualified and certified tourist guides are an important hall of the tourist value chain and they play an important role and impact in information delivery, interpretation and as conduits for natural and cultural resource management agencies and organizations[35].

The answers of question 13 show if the tourist operators are aware of all the resources that this area contains. According to these answers we can say that the knowledge is mainly general about the resources, but there is lack of knowledge about specific monuments of nature and culture in the Area. Five interviewees mention Karaburun as an important resource. In 18 cases it is mentioned the see or the marine tourism as a resource, while in 11 cases the mountain tourism is mentioned. These are in fact answers that denote inadequate knowledge of these operators about specific attractions in the area. So they are not able to orientate tourists to these attractions and the nature based activities.

6. Conclusions

The Karaburun-Sazan MPA has only recently become known as a touristic destination. It was not easily accessible for years; only seven years ago the sailing boats obtained the permission to enter the area again, making the visits of the site possible. The interest of the public in the area is significant and it continues to be a highly preferred touristic destination for Albanian and foreign visitors. This is also demonstrated by the increasing number of tourists, as well as the number of tour boats that provide this service.

After a thorough examination of Tourism Operators in the area of Vlora Bay with a special focus on the activities and services that this operator's offer in relation with Karaburun-Sazan MPA, the conclusions are presented in three related areas. These areas represent also the main questions raised at the beginning of the study and the need for more quality information especially focussed on NBAs. First of all, the activities of TOs in general and then especially NBAs are described. Secondly, types of tourists and problems related to the market of these services are identified. The third area relates to need for planning and sustainable tourism activities in the MPA.

➢ As the Karaburun-Sazan MPA is still in the early phase of developing sustainable tourism, it offers a unique opportunity for sustainable nature-based tourism in the region, with investments in infrastructure in the area, establishing nature based sustainable tourism practices and ensuring good management of natural resources in the Karaburun-Sazan MPA.

---

[35] National Association of Tourist Guides of Albania – NATGA.

➢ Tourism activities, which are focused on the natural environment, exert a number of pressures on the resources on which they rely. They create risks for ecosystems and the services provided. At the same time, the on-going protection of MPA Karaburun–Sazanand its natural resources depend on the well-being of the tourism industry that also threatens it.

➢ Nature Based Tourism is one of the most rapidly advancing segments of the tourism industry and the growth of marine tourism is particularly reflected in an increased demand for activities such as sport fishing, boating, scuba diving, sailing, motor cruising and guided walking.

➢ Vlora bay is well known in the country as a very attractive destination offering the perfect environment for a selection of NBA able to satisfy both locals and visitors alike. Soar over Adriatic and Ionian seas, vast forests, alpine ranges and much more, create a great opportunity for all potential tourists to experience a scenic flight in Vlora region.

➢ The number of NBA provided in the geographic area covered is limited. There is a lack of activities and entertainment for all age groups, for example: aquariums, sightseeing tours, farm activities, natural wildlife experience, theme parks, leisure parks, see endangered species in their natural habitats. In the area, there is also lack of other support activities, such as festivals, fairs, etc. But the development of the NBAs is seen from some operators as the only activities that bring people for other reasons other than the sea and sand tourism.

➢ This study does not aim to identify the market for NBAs, but some information is gathered because the interviewing process and the survey method let qualitative interviews with open questions take place. So, important information is about types of clients that require NBAs, in TOs in Vlora Bay. Some operators state that the area has great potential for attracting foreign tourists, which may be very well the market for NBAs.

➢ Some of them are adventurous tourists, or family ones coming with their own facilities, campers, camping tents, parachutes, etc.

➢ The NBAs may very well be an opportunity to reduce seasonality and extend the tourist season, because foreign tourists are coming more in the period May-June and September, because the type of weather conditions needed for NBAs.

➢ The majority of tourists that require information about types of NBAs are foreign tourists, especially for hiking and guided tours. While national tourist require information for activities such as diving and sporting activities. But further studies are needed about the kind of services required by the market, differences between national and international demand, what these kinds of tourists are lacking etc., in order to attract more incoming tourists in the area.

➢ There is insufficient marketing activity by the part of operators that provide NBAs. The only way they offer their services, especially those offering local guides of diving and boating tours is on the bases of informal word of mouth communication. There is also lack of marketing practices between operators in the value chain of the tourism market.

➢ The majority of TO don`t cooperate with other local stakeholders from the tourism business, nature conservation or cultural sites; meanwhile there have been efforts to

increase the level of cooperation with travel agencies, tour operators and other intermediate enterprises for commercial purposes, especially entering in new markets.

➢ The tourism industry is expected to take more responsibility for sustainable development. This often involves assuming a degree of financial responsibility for the long-term maintenance of the resources they profit from. Involvement may also mean accepting practices that limit the negative impacts of tourism.

➢ Tour guides should be seen as one opportunity to reduce negative impacts on the natural marine environment, having the potential to contribute to the protection of natural areas in which they operate by educating their customers through interpretation and modelling environmentally appropriate behaviours related to marine conservation.

➢ Human resources management as part of the sustainable Tourism Plan for the NBAs should consider especially the training for different activities. There is lack of continuous training and a moderate role of certified guides.

➢ The military area in the Karaburun-Sazan should be considered from both viewpoints in the planning process. There is negative impact because tourists usually have problems with the access of the Karaburun from the land, because of the legal permissions are very difficult to get. But there is also the positive effect in the nature conservation, which otherwise would have been compromised in the conditions of lack of control over the territory by other authorities. Military base must be part of the planning process.

➢ The need for higher conservation cost by TO in order to maintain the environment quality. They should not focus only on the area in which they exert their activity, but should consider it as an integral part of their business area.

References

Albania and Marine Protected Areas, RAC/SPA and IUCN-Med – 2014;

Assessment of nature-based tourism business and tourist demand in Vlora bay and Karaburun-Sazan national marine park, Albania – 2016;

Abazi, H, **The actual geohistorical and geotouristic treatment of the natural space of Vlora's Bay - 2004;**

Characteristics of the commercial Nature-Based Tourism Industry in British Columbia, Tourism British Columbia Research Services, Wilderness Tourism Association – 2005;

Economic Value of the Commercial Nature–Based Tourism Industry in British Columbia, Tourism British Columbia Canada Research Services – 2004;

Ecotourism, principles and practices, Ralf Buckley – 2009;

Management Plan for National Marine Park Karaburun-Sazan - December 2014;

Nature-Based tourism enterprises – Guidelines for success, Storm Thurmond Institute – 2000;

Parku Kombëtar Detar Karaburun-Sazan, Buletini informativ;

Randone M., MedTrends Project : Blue growth trends in the Adriatic sea : the challenge of environmental protection. WWF Mediterranean – 2016;

http://medmpanet.rac-spa.org
https://www.karaburunsazanmpa.com
http://www.akzm.gov.al
http://allevents.in/org/teuta-boat-tours/7746850
http://hotelregina.al/guide
http://www.petitfute.com/v53888-vlora/c1173-visites-pointsd-interet/c974-site-naturel/1566684-ile-de-sazan-ishulli-i-sazanit.html
http://www.illyricumtours.com/tour-info.php?lang=1&id=23
http://www.instat.gov.al/en/themes/prices.aspx
www.eurofish.dk/index.php?option=com_content&view=article&id=110%3A

albania&catid=37&Itemid=68I4CE,2015:http://www.developpement-durable.gouv.fr/IMG/Carte(1).jpg

Special Economic Zones *(SEZs)* from a global and local system perspective

Rosalina Grumo

Prof. of Geography, Dirium (Department of Humanistic Research and Innovation)
University of Bari Aldo Moro, Italy,
rosalina.grumo@uniba.it

Leonardo Ciaccia

Doctor in Specialized Translation, University of Bari Aldo Moro, Italy
l.ciaccia2@studenti.uniba.it

Abstract

Special Economic Zones (SEZs) at global level represent an opportunity in that they offer businesses investing in them tax incentives and bureaucratic simplifications. Thus, SEZs intervene in an organic manner on the factors most often cited as critical for companies, laying the foundations for relaunching the entrepreneurial network of whole territories. However, they also represent a challenge because the opportunities they provide can only be fully seized if all the participants, both private and public, prove that they have extensive skills and adequate planning capacity. The first SEZs were established in China as part of a national policy to create an open and market-driven economy. When they were implemented in 1979, the creation of these "islands" of capitalism within communist China represented a profound change in China's economic functioning. Regarding Italy, the attention paid to instruments aimed at supporting the growth and revitalisation of peripheral areas was an essential objective.

The creation of SEZs near the main port areas in southern Italy, for example, can be welcomed as extremely positive news. Southern entrepreneurs helped in recent years to the positive reception of the idea by local and national institutions. Indeed, we are not talking about a "entrepôt" or simply "tax-free" areas, but about an instrument whose priority aim is to give a real boost to the development of Southern Italy and, consequently, the entire country. The aim is to improve all those aspects that have historically represented the greatest criticality for those wishing to invest in southern Italy. Businesses located there will be able to benefit from tax cuts, simplified bureaucratic procedures and access to superior infrastructure.

The strategy is to provide the industrial apparatus with essential advantages to enable it to approach international markets, overcoming the 'competitiveness gap' that has been suffered in these years of great transformation. The benefits that the SEZs will offer to businesses that decide to invest in them, therefore, will not be limited to a sum of incentives, but will aim to create a system favourable to industrial development in Southern Italy. Specifically, in Apulia, with a view to the system and the port areas, two SEZs were activated: the Puglia-Molise Adriatic Interregional SEZ and the Puglia-Basilicata Ionian Interregional SEZ, paving the foundations for their development to be a condition for an overall relaunch of the existing productive fabric.

By attracting new and, it is hoped, substantial investment, the aim is to establish new production and reverse the trend of recent years, marked by a downward swing in the number of companies and jobs.

To understand the scope that the establishment of SEZs in Apulia may have from this point of view, it is sufficient to look at similar experiences, not only at a great distance from Italy but developed in recent years in other countries of the Mediterranean basin. Lastly, Puglia, which is involved in the project, is expected to generate significant employment and a considerable increase in exports, but a great deal of planning effort and managerial skills will be required.

Keywords: SEZ, exports, development, systems, global, local.

JEL classification: R11, R12, O21.

1. Introduction

In the paradigm of the new industrial economy, logistics plays a decisive role in efficient access to markets and in increasing total factor productivity. The relationship between the attraction of productive investment and adequate logistics is one of the keystones for the effectiveness of industrial policies and the recovery of territories' competitivenesṣ. The investments made in this sector have a double potential: on one hand, they can have positive effects, even in the short to medium term, as an effective counter-cyclical boost, stimulating the growth of domestic product and employment; on the other hand, it should be added that the creation of Special Economic Zones can represent an advantageous opportunitỳ to relocate for companies, which after years of delocalization of production activities to emerging economies, in search of lower labour costs, tend to relocate to their original markets, bringing production processes back within national borders.

But what does a Special Economic Zone mean? It consists of a delimited geographical area, within which, in order to attract foreign investment with customs and tax incentives and with financing for activities, there is a different economic legislation from the country in which it belongs. In the first part of the paper, tracing the origins where the first SEZs emerged, it will be analysed where they developed in Shenzen, China, in 1979 and how other global hubs of economic-territorial interest, such as Dubai, have embraced the competitive advantages (*Mora, 2019*). Nowadays, there are more than 4,500 Special Economic Zones established in more than 135 countries, contributing to the maintenance of some 70 million jobs. SEZs have established themselves globally as laboratories for attracting investment and as innovation incubators, which also promote productive development. In the European Union alone there are 91 operational SEZs, of which just 14 are in Poland. An example of success at European level is Madeira in Portugal, where the island's peripheral location and special socio-economic conditions have allowed it to

gradually achieve a level of development comparable to that of regions in continental Europe (*Berlinguer, 2018*).

In the second part, vice versa, the analysis of SEZs will focus on the new leading role of the Italian Mezzogiorno in a perspective of national recovery, which can only be defined as fully achieved through a renewed interest, on the part of Europe and Italy itself, in the Mediterranean frontier, thus overturning the logic followed until now of strategic advantages and competitive advantages.

In the Italian Mezzogiorno scenario, the greater openness of the markets for southern productions and the possibility of the territory to offer logistic services with high added value for the production and consumption markets of the Mediterranean area, represent a concrete reality to be exploited, to capture and retain value within the regional economic system, for a virtuous process of endogenous development, in the sphere of the blue economy (*Scialpi, 2019*). In this scenario, eight Special Economic Zones have been set up, two of which have the Apulia Region as their beating heart: the Puglia-Molise Adriatic Interregional SEZ and the Puglia-Basilicata Ionian Interregional SEZ. In the last part, attention will be focused on the SEZ on the Adriatic side, deepening the issue of logistics, the role of enormous importance in the Adriatic SEZ Strategic Development Plan, and the predisposition to be able to seize the competitive advantages in the renewed Mediterranean centrality of commercial traffic; starting from the regeneration of the port and back-port areas of the main strategic areas of the areas involved.

2. Special Economic Zones and their economic-territorial effects: some examples

According to the latest estimates, there are now more than 4,500 SEZs in the world, established by more than 135 countries, with a particular concentration in Asia, the Pacific region and the Americas; the companies established in these zones directly employ at least 40 million people and their exports are worth around 200 billion US dollars. (*Jeong, at all, 2016*).
In the global scenario, although SEZs are largely widespread, most fall within a small group of countries. China alone, for example, accounts for more than half of all special economic zones around the world. Specifically, the Asia-Pacific region accounts for 43% of the world's SEZs, within which India and the Philippines also have a very high number. This is followed by the American continent with 24% and Central and Eastern Europe with 19%. On the fringes, however, there are the Middle East and North Africa with 9%, and Sub-Saharan Africa with 5%. (Fig. 1). Even at the level of the SEZs themselves, a strong tendency towards concentration can be observed: a few large SEZs attract the bulk of investments and generate a large share of a country's exports, while many other, often smaller, SEZs remain inactive (*UNCTAD, 2021*).

Fig. 1 Percentage distribution of SEZs at global level

 Source: *Portale Regione Calabria, 2019*

The most emblematic (and most studied) case is certainly that of China. According to the latest available data, SEZs alone account for 22% of China's GDP, 46% of the foreign direct investment arriving in the country each year and 60% of the Asian giant's exports (*Zeng, 2015*). In China's Free Trade Zone (FTZ), a term coherent with SEZ, there are mostly special policies and flexible measures for managing the economic system. China's SEZs are separately dealt with in national planning and financial planning, while economic administration is the responsibility of the provincial authority. Moreover, in order to attract investment, the Chinese government has reduced restrictions on foreigners seeking visas or residence permits, particularly within these areas (*Yuan, 2019*). The most frequently cited experience is that of Shenzhen, the city where China's first SEZ was opened in 1979 and where mainly manufacturing companies have settled. While Shenzen used to be a simple fishing village, it is now a metropolis of 12 million inhabitants, with a GDP of over 338 billion dollars (more than that of countries such as Singapore and Hong Kong) (*Del Barba, 2020*).

Moving westwards, in particular to the Middle East, another major hub emerges in terms of economic flows. This is a major hub located in Dubai, which is considered a veritable tax haven. In 1969, *the Dubai tax income decree* established almost no form of taxation on residents, personal tax or financial income, VAT, withholding tax, and corporate income tax. The only forms of taxation are levied on large international oil and banking companies (*Magnani, 2013*). The Dubai SEZ in the United Arab Emirates comprises a port area connected to the *Ten-T* network. The United Arab Emirates, with its strategic geographical position at the centre of the main east-west routes and its abundant reserves of fossil fuels, which have driven its economic growth, have become in less than 50 years a highly developed area, with a high standard of living, where the GDP per capita is among the highest in the world. The economy is open and dynamic, boosted by diversification policies that have reduced the share of oil revenues in GDP from 60% in 1980 to 30% today. (*Regione Lazio, 2020*).

In Europe, Poland is the country where this phenomenon has developed: the first Polish SEZ was established in 1995 in Mielec and, to date, with an area of around 17,000 hectares, there are 14 in the country, capable in 2017 alone of attracting investments of 5 billion euros and creating 16,000 new jobs (*Błachuciak, 2016*). Poland benefits from its demographic size, which puts it in sixth place among EU countries, and from a geographical-strategic position that places it at the centre of European trade routes and as a gateway to neighboring markets (*Umiński & Nazarczuk, 2019*). This attracts the interest of European and non-European companies operating in high-tech sectors (IT services, telecommunications, software centres, including Google), thanks also to the fiscal and administrative incentives offered by the SEZs, the availability of a young and qualified workforce, and the considerable financial resources deriving from the EU structural funds (*Grzegorczyk, 2018*).

Another successful example at European level is the *Madeira Free Trade Zone*, established in 1980 in Portugal. In this zone, the tax regime allowed the incorporation of new entities within the legal framework of the International Business Centre of Madeira (IBC), until the end of 2021, granting a reduced corporate tax rate of 5%, applicable on taxable income, until the end of 2027. A special condition for companies wishing to locate within the Portuguese SEZ is to create at least five jobs during the first six months of activity and to make a minimum investment in fixed assets (plant, machinery, etc.) of €75,000 for the first two years of activity (*Diritto e diritti dal 1996, 2017*).

3. The experience of SEZs in Italy

In Italy, the focus on Special Economic Zones developed in the years following the 2008 economic crisis, in the context of the search for new tools to revitalise the Italian Mezzogiorno[36]. This reflection took shape in 2017, when the Government prepared the possibility of setting up Special Economic Zones in the vicinity of port and back-port areas in southern Italy, establishing that companies located in these zones would be granted benefits, in terms of tax credit and administrative simplification. The same possibility has not been extended, at least not in the same form, to all Italian ports for two different but equally important reasons (*PwC, 2018*):

1. Firstly, European legislation on State aid states that the tax benefits offered by the ZES cannot be applied indiscriminately to the entire Italian territory, but only to certain areas clearly identified on the basis of measurable parameters and characterised by a difficult economic situation;
2. Secondly, the main international studies conclude that it is advisable to use SEZs only to intervene in areas with structural competitiveness problems that cannot be overcome with traditional instruments (*Berlinguer, 2018*).

---

[36] Mezzogiorno is another synonymous term that identifies geographically with the Italian south.

The proposal for Italian SEZs was therefore created as an extraordinary measure, by virtue of both its scope and its temporary duration, to increase the attractiveness of port and industrial areas in the Mezzogiorno. The objective entrusted to them is to help the regions involved to set in motion a virtuous path that will revitalize the local industrial landscape and help these territories to exploit the opportunities offered by the outlet on the Mediterranean, through which 20% of global maritime trade crosses every year (*ISPI, 2018*). Special Economic Zones were introduced into the Italian legal system by Decree-Law No. 91 of 20 June 2017 on urgent provisions for economic growth in the Mezzogiorno (better known, simply, as the *"Decreto Mezzogiorno"*).

The decree first of all regulated « *the procedures, conditions and modalities for the establishment of a Special Economic Zone*» (Article 4). Although the details are left to a subsequent decree of the President of the Council of Ministers, the text immediately sets out the requirements that the areas identified to host a SEZ must fulfil. They must be located in one of the less developed regions and regions in transition, as identified by European legislation[37]. The first category now includes Campania, Puglia, Basilicata, Calabria, Sicily and Sardinia; the second includes Abruzzo and Molise. According to the current legislation, SEZs can therefore only be established in these eight regions of southern Italy, chosen on the basis of geographical criteria and economic parameters set at European level. Another important aspect is that it must be a geographically delimited and clearly identified area located within the borders of the state. However, non-adjacent territories can also be part of the same SEZ, if they present a *«functional economic nexus»*.

The Decree then clarifies that *«The SEZ is normally made up of territories such as ports, retro-port areas, including productive areas and airports, as defined by the regulations in force, logistics platforms and freight villages, and cannot include residential areas»*. Finally, the SEZs must include a Port Area included in the trans-European transport networks. Regions that do not have a Port Area with the above-mentioned characteristics (i.e. Abruzzo, Basilicata and Molise) are however granted the possibility to set up an Interregional SEZ, jointly with another Region. The same article also states that each region may establish a maximum of two Special Economic Zones within its territory (*Berlinguer, 2018*).

At present, therefore, only in the regions of the Mezzogiorno, companies can benefit from a tax credit for *«financing forming part of an initial investment project, relating to the purchase, including through leasing contracts, of machinery, plant and various equipment intended for production structures already existing or being set up in the territory»*. It follows from the following article that the investments must concern the purchase of goods that are instrumental to the activity carried out, of durable use, suitable for use as a production tool in the production process established within the SEZ.

From the point of view of the incentives, they are aimed at all business income earners, with the exception of companies in financial difficulties or operating in certain sectors, such as the steel industry, the coal industry, shipbuilding, etc. (*Scialpi, 2019*). The intensity of the tax credit is

---

[37] Less developed regions are regions whose GDP per capita is less than 75% of the European average; transition regions are regions whose GDP per capita is between 75% and 90% of the European average.

related to the size of the investment, with differences depending on the region where it is made and the size of the company. In Campania, Calabria, Apulia, Basilicata, Sicily and Sardinia, namely the territories that fall under the category of 'less developed regions', the intensity of the tax credit differs according to whether the company is small, medium or large.

3.1 Puglia's SEZs: activities and dynamics

The Regione Puglia, with its two core ports of Bari and Taranto, together with Basilicata and Molise, is an integral part of this process and has decided to seize the opportunity of SEZs, promoting the creation of two different interregional Special Economic Zones: the first has its centre of gravity in the Port of Taranto (Ionian Interregional SEZ Puglia-Basilicata) and the second insists on the port system of the Adriatic Sea (Adriatic Interregional SEZ Puglia-Molise). As set out in the 2017 decree-law, the duration of the two SEZs is 7 years, extendable by a further seven years. As far as the interregional ZES Puglia-Molise is concerned, the Sviluppo Strategico ZES Interregionale Adriatica[38] is inserted as a tool to facilitate the attraction of direct investments, especially foreign ones, and to strengthen the productive fabric through stimuli to industrial growth and innovation, referring also to, to the premises of the Piano Strategico Nazionale della Portualità e della Logistica[39], which identifies the Sistema Pugliese Lucano as one of the five different Aree Logistiche Integrate (ALI)[40], on which to focus the investments aimed at the realization of port infrastructures, backpacks and interports, logistic platforms, with the related connections to the multimodal corridors of the European Transport Network.

Despite the broad territorial distribution of enterprise systems, some of the main regional production "poles" characterised by a certain degree of sectoral specialisation have consolidated in the Adriatic area of Apulia. In particular, this is the case of Bari, with its engineering and automotive industries; Brindisi, with its chemical, energy and aeronautical sectors; Foggia, with its agri-food industry interconnected with the corresponding port areas (Fig. 2).
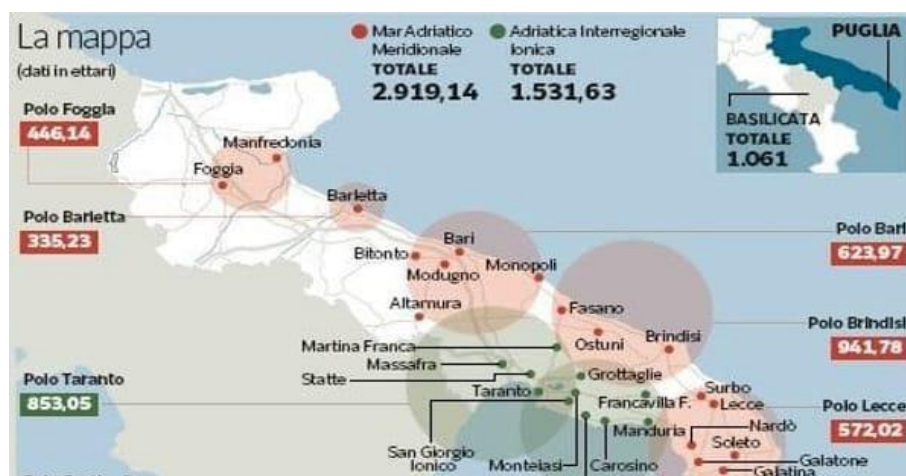
---

[38] Strategic Development Plan ZES Interregional Adriatic
[39] National Strategic Plan of the Port and Logistics
[40] Integrated Logistic Areas

Fig. 2 Distribution by "poles" in the regional territories

Source: *Rai news TGR Puglia*

It is not immediate to propose a net sectoral specialization by geographical area for Molise, but it is possible to outline a general segmentation that traditionally sees a productive vocation linked to the automotive, agro-food and tourism sectors for the coastal area.

Moreover, it has been necessary to foresee, for the Southern Adriatic Sea SEZ, an architecture of "poles" distributed on the regional territories, precisely because each of them is centred on one or more port systems, which act as attractors for the logistic flows of incoming and outgoing goods. This strategy is, among other things, consistent with the architecture of the Apulian-Lucanian integrated logistics system, which in fact constitutes the interconnection infrastructure of the two Apulian SEZs. The Apulian coastline has 34 berthing terminals for cruise ships and passenger ferries, only 9 of which have yards for storing goods. (*Ministero delle Infrastrutture e dei Trasporti, 2018*). Of these ports, only Brindisi, Bari, Taranto and Monopoli appear to be the best equipped with equipment for loading and unloading non-containerised cargo, while equipment for handling containers is essentially concentrated in Taranto (84 pieces of equipment), Brindisi (21) and Manfredonia (17). The volume of berths and/or equipment in Apulian ports has in fact been reduced, especially following the abandonment of Evergreen, which has led to a reduction in goods handled.

Equally important is the effort made by Apulia and Molise to carry out "last mile" interventions in access to ports that are important for the development of combined transport, starting with those aimed at resolving specific criticalities, either current or forecast, relating to safety and road traffic congestion.

In particular, the actions that have been mostly outlined concern the rationalisation of the road connection to the port of Bari, the rail-road connection serving the inter-modality at the port of Brindisi and the railway connection serving the port of Taranto. This shows that there is a

particular focus on a number of road corridors on which to implement forms of prioritising and facilitating the running of Local Public Transport (LPT). These corridors were selected, and taken as a reference, on the basis of two fundamental criteria: the levels of supply and relative frequency of LPT services and, as a secondary criterion, in order to recognise a priority for intervention, accessibility to areas that are more disadvantaged because, for example, they are not served by rail.

In the face of such a burden, it must be specified that a much larger area than the one allocated by the Government to interregional SEZs has been configured. In this scenario, a punctual analytical assessment of the individual areas was developed, in relation to the following factors (*Regione Puglia e Molise, 2019*):

- **functional nexus** with the port systems of Manfredonia, Barletta, Bari, Molfetta, Monopoli and Brindisi;
- **connectivity** to the interregional logistical infrastructure;
- **relevance,** in terms of size and percentage of free areas available for new settlements in the total candidate area;
- **feasibility,** in relation to the absence of barriers that could prevent or slow down the activation of new productive investments (lack of congruent land use, absence or lack of infrastructural facilities, legal or regulatory constraints, landscape or archaeological);
- **impact,** in terms of the benefits that can be produced on the territory, especially in terms of new employment.

4. Conclusion

In this context, it has been possible to outline the strategy in the global, or even just European, competitive panorama of the many SEZs that have been operating for years, with very significant results so far in terms of settlements and new jobs created. With regard to the SEZs in southern Italy, it is clear that they were set up much later, and could operate in a competitive framework at a disadvantage, because they are not fully aligned with the more advanced SEZs in terms of the intensity of the incentives offered, the simplification of rules and settlement procedures.

In addition, the analysis of the SEZs of Southern Italy, and in particular of the Adriatic interregional SEZ, has shown that the economic-productive fabric of Apulia and Molise is characterised, like a large part of Southern Italy, by the preponderant presence of small and very small enterprises, which are not very capable of adapting to the technological and structural changes required by the global market context, a limited presence of large international and multinational industrial groups, often subject to restructuring processes (which sometimes jeopardize their viability) and, lastly, a small number of medium-sized companies, more capable than others of innovating and promoting the growth of the local production apparatus.

In addition to this, there is a picture of overall inadequacy of the region's logistics and transport infrastructures, especially in relation to the insufficient quality of interconnections between the port system and other transport networks (rail and road) and the unbalancing of the motorway and railway network towards the Adriatic backbone, which ends up penalizing the more peripheral business systems, without contributing to relaunching the role of the ports.

The overall picture that emerges is that, in spite of the fact that the Area has such structural limits, for the solution of which, however, substantial public investments have been made, the economy and logistics of Apulia and Molise have been showing, in recent years, slow, but, at the same time, interesting signs of progress and a dynamism that bodes well for the possibility of a "quality leap" in the years to come, which should not only go in the direction of purely quantitative growth of the economic performance indicators of businesses and regional economies as a whole, but should take shape in a scenario of intelligent and inclusive growth that will impact on the whole of regional societies.

This contribution also points out that the Puglia and Molise regions, in particular, have already paid heavy tributes in the past to a model of industrialisation that has taken little account of the cost of the environmental and social externalities of top-down production models, with impacts that are still painfully evident in local systems and development.

Finally, the Special Economic Zone should not be seen as a 'free zone' in which not to adopt prescriptions, obligations and controls and to make possible investments with a high environmental impact that would not be possible elsewhere. On the contrary, it should be seen as a laboratory in which to promote and test new production models that are more closely linked to the territories and their vocations, based on the paradigm of the circular economy and on the principles of making the most of natural resources and unexpressed potential, which could be fundamental for fair and sustainable development.

References

Berlinguer A., (2018). *"Porti, Retroporti e Zone Economiche Speciali"*, G. Giappichelli Editore, Torino;

Błachuciak M., (2016). "The DEA method in the evaluation of the effectiveness of the Special Economic Zones in Poland in 2014". *Jagiellonian Journal of Management* vol. 2, no. 4, doi:10.4467/2450114XJJM.16.021.6090;

Del Barba M., (2020). *"Zone economiche speciali, dall'Irlanda alla Cina: ecco dove hanno funzionato"* [Online]. Available: webpage: https://brescia.corriere.it;

Diritto e diritti dal 1996, (2017). *Zone economiche speciali (ZES): d.l. 91/2017, c.d. "decreto sud"* [Online]. Available: webpage: www.diritto.it/zone-economiche-speciali-zes-d-l-912017-c-d-decreto-sud;

Grzegorczyk M., (2018). "Overhaul of the special economic zones in Poland", *Central European Financial Observer*, pp. 25-27;

ISPI, (2018). "*5 Reasons Why We Should Care About The Mediterranean Region"*, Roma;

Jeong H.G., Zeng Z., (2016). *"Promoting Dynamic & Innovative Growth in Asia: The Cases of Special Economic Zones and Business Hubs"*, KIEP Research Paper Policy Analysis-16-01, New York;

Magnani A., (2013). Investire a Dubai, *Il Sole 24 ore* [Online]. Available: webpage: www.ilsole24ore.com;

Ministero delle Infrastrutture e dei Trasporti, (2018). *"Le infrastrutture portuali in Puglia"*, IPRES*;

Mora F., (2019). *"Dalle ZES alla simbiosi industriale. L'evoluzione dell'economia circolare in Cina"*, Aracne, Roma;

Portale Regione Calabria, (2018). *"Cap. 3 – Stato dell'arte Zone Economiche Speciali"* [Online]. Available: webpage: https://portale.regione.calabria.it;

PwC, (2018). *"Zone Economiche Speciali - Guida per iniziative di sviluppo nel Mezzogiorno"* [Online]. Available: webpage: www.pwc.com;

Regione Lazio, (2020). "*Italian Industry & Commerce Office in the UAE*" [Online]. Available: webpage: https://confcommercioroma.it;

Regione Puglia e Molise, (2019). "*Piano di sviluppo strategico ZES interregionale Adriatica*", Bollettino Ufficiale della Regione Puglia - n. 53 del 20-5-2019;

Scialpi F., (2019). *"La dimensione turistica e fiscale delle ZES. Integrazione tra porti, retroporti e aeroporti. il caso Puglia"*, Libellula Edizioni, Roma;

SDM, (2021). *"Tax Benefit Statute"*. Available: webpage: www.ibc-madeira.com

TGR Puglia, (2019). *"Sì definitivo del governo alla ZES Adriatica"* [Online]. Available: webpage: https://www.rainews.it/tgr/puglia;

Umiński J. M., Nazarczuk S., (2019). *"Foreign Trade in Special Economic Zones in Poland"*, Wydawnictwo Universytetu, Olsztym;

UNCTAD, (2021). *"Handbook on Special Economic Zones in Africa. Towards Economic Diversification across the Continent",* Geneva: UNCTAD;

Yuan Y., (2019). *"Studies on China's Special Economic Zones, Vol. 3"*, Springer, Shenzen University, China

Zeng D. Z., (2015). *"Global Experiences with Special Economic Zones. With a Focus on China and Africa"*, The World Bank, Trade and Competitiveness Global Practice, [Online]. Available: webpage: https://openknowledge.worldbank.org/;

Zeng D. Z., (2016). "*Special Economic Zones: Lessons from the Global Experience"*, PEDL Synthesis Paper Series, No. 1. New York.

Although the contribution is shared, the Introduction, paragraph 2 and Conclusions are attributed to R. Grumo and paragraphs 3 and 3.1 to L. Ciaccia.

Income inequality and financial crisis influence on its deepening

Ph.D. Rovena Vangjel
Finance and Accounting Department
University "Aleksander Moisiu", Durres
rovenatroplini@uamd.edu.al

Ph.D.(c). Ejona Duçi
Finance and Accounting Department, University "Aleksander Moisiu" Durres
jonaduci@uamd.edu.al

MSc. Brisilda Cenaj
Department of Finance and Accounting, University" Aleksandër Moisiu," Durrës
cenajbrisilda931@gmail.com

Abstract

__The paper aims__ to study income inequality and how financial crises have influenced over the years to deepen this inequality.

__In this paper, we will address the mechanisms that affect__ this inequality and how financial crises have deeply affected them. The consequences of crises go hand to hand affecting every component of the market. Also, economic inequality has been increasing in most large economies and in some of them, the growth has been significant. Unfortunately, this increase is also related to the wealth disparity gap of strata across the globe, and this gap seems to be growing every year.

As in the rest of the world, financial inequality has always been present in Albania. Different economic mechanisms have caused an increasing effect on the gap between riches and the poor.

__The paper is a literature review__ on the global financial crises and those that have also affected Albania. __The methodology used__ is descriptive, comparative, and analytical. In the following paper, we will give a description of the economic situation and crises that have characterized economies over the years. We will make a comparison of inequality between different countries of the world and Albania and then we will analyze the economic data collected from secondary sources on the income of individuals in Albania and on the influence that the phenomena of crises of recent years have had.

__The paper concludes__ that the deepening of inequality in recent years has come because of natural events that occurred such as the November 2019 Earthquake in the city of Durres, Covid - 19 that affected all the world in 2020, and the Ukraine war finally bringing the presence of the inflation phenomenon that has brought with it some specific products, but which are an indispensable part of the GDP basket.

Key words*: finance, financial crisis, inequality, income, inflation, covid-19.*

1. Introduction

This article explores the locations of regional inequality in Albania's economic and social development and expands its publications on regional inequality. Despite the economic and social development of Albania over the last few decades, the situation in Albania is that per capita GDP is very low, with qualitative and quantitative access to services and infrastructure. It is far from many indicators, such as inadequate, high proportions away from other European countries, and high employment. Agriculture, reduced urbanization, high unemployment, significant migration, low participation in secondary education, etc. Is it possible for low-income countries to spread more balanced development across the region, or does economic growth increase inequality in those countries?

Some statistical indicators that measure inequality, such as the Gini coefficient, the coefficient of variation, and the explanatory coefficients of the relationships between variables, are the same in different regions of different countries, even if the standards in these countries differ significantly. A significant portion of the population in some areas does not meet the minimum standard of living, as in Albania. The interaction of inequality and growth and the direction of causality in this relationship is a controversial topic with several questions, but the theoretical and empirical literature does not have a clear answer (Tafenau, Paas 2011). Regional policy has been one of the most dynamic policies in the transitional countries of Central and Eastern Europe (CEE) for the past 20 years (Miljanović, Miletić, Đorđević, 2010). Empirical analysis shows that economic growth in Western European countries is negatively linked to regional inequality. In Eastern European countries, regional inequality is widening in an era of rapid economic growth. (Tafenau, Paas 2011).

Many empirical studies have analyzed the convergence of the Italian region, but there is no evidence of the cause of the differences in productivity levels. According to neoclassical theory, income in poor regions converges towards income in rich regions in the long run, so that regional growth rates are inversely correlated with initial per capita income (Solow,). Quoted from Aiello, Scoppa 2000). This process of complete convergence occurs when regions share the same stable level: poor and rich regions have equal preferences for exogenous variables, technology, and demographic development.

The endogenous growth theory (cited after Roemer, Aiello, Scopa 2000) states that regional inequalities may increase during the development process as higher growth rates can be achieved by aggregating regional factors of production. Strategies to promote the development of poor countries must first focus on achieving sustainable country development, not reducing regional inequalities (Tafenau, Paas 2011). If society and population live in low and very low standard of living, is sustainable national development enough? Alternatively, changing conditions require not

only the progress of national development, but also the distribution of this progress to regions and regions, particularly highly differentiated regions, communities, and local governments.

2. Literature

There are wide varieties of economic inequality, most notably income inequality measured using the income distribution (the amount people pay) and the wealth distribution (the amount of money people has). Key economic indicators focus on wealth, income, and consumption. There are many ways to measure economic inequality, but the most widely used is the Gini coefficient (Trapeznikova, Ija 2019). Another type of measurement is the Inequality Adjusted Human Development Index, which is a composite statistical index that considers inequality. Key concepts of equality equality, outcome equity, and equal opportunity.

Research suggests that greater inequality hinders economic growth, and that inequality in land and human resources reduces growth rather than income inequality (Neves et. al., 2016). The important concepts of equality are equality, equality of outcome and equal opportunity.

Studies show that greater inequality hinders economic growth *(MacCulloch, Robert 2005)*, and inequality in land and human capital slows growth compared to inequality in income (Cederman et. al, 2013).

World income inequality peaked around the 1970s, and world income was biologically distributed between "rich" and "poor" countries, with little overlap. Since then, inequality has decreased sharply, and this trend appears to be accelerating. Currently, the income distribution is monomodal and most people live in middle-income countries.[41]

2.1. Equality Trust's Focus on Economic Inequality

The economic disparity is most evident within the economic distribution of income, wages, and wealth among the various situations of the people. However, an individual's financial status also depends on other characteristics, like disability, ethnicity, male or female. The Equality Trust recognizes the importance of those measures, but our work focuses specifically on the gap between the rich and therefore the poor in the distribution of the total. There are three main sorts of economic inequality:

1. Income inequality
Income inequality is that the degree to which income is unequally distributed among a group of people. Income isn't only money received from payments, but all money received from employment (salaries, wages, bonuses, etc.), investments, like interest on savings accounts and

---

[1] "Parametric estimations of the world distribution of income" (2010)

dividends from stock shares, savings, state benefits, pensions (state, personal), company) and rent. Income measurements are often done on an individual or family basis based on the income of all those who share a particular family. Family income before tax, which incorporates money received from the Social Security system, is understood as gross income.

Family income, including all taxes and allowances, is recognized as net income.

2.   Pay Disparity Pay

People are break away from income. Payments pertain only to payments from employment. This will be done on an hourly, monthly, or yearly basis, is typically paid on a weekly or monthly basis, and should include bonuses. Therefore, wage inequality represents a difference in people's wages.

3.   Wealth Inequality

Wealth refers to the entire wealth of an individual or family. This   includes   financial assets like bonds and stocks, property rights and private annuity rights. Therefore, wealth inequality refers to the unequal distribution of wealth among groups of individuals

2.2. How is economic inequality measured?

There are different ways to measure economic inequality. However, changes in inequality over time within individual countries may look different if different measures are used[42].

Commonly used measures of economic inequality:

1. Gini coefficient

The Gini coefficient measures social inequality and is not just a comparison of different income groups. If all income is generated by one person (maximum inequality) and everyone else receives nothing, then the Gini coefficient is 1. If the income is distributed equally and everyone receives it equally, then the Gini will be zero. The lower the value of Guinea, the more equal the society. The more unequal society, the United Kingdom, gets 0.35, and the more unequal society, the United States gets 0.38. In contrast, the more equal society, Denmark, scored 0.25 points. The Gini coefficient can measure inequality before and after taxes and before and after housing costs. Guinea depends on what you measure.

---

[42] The Equality Trust 2011

2. Reporting Measures

- Relative measures compare the number of people at one level of the income distribution to another. For example, a 20:20 ratio compares that the top 20% of people are compared to the bottom 20%. Common example:
- The 50/10 ratio represents the disparity between the middle and end of the income distribution.
- 90/10 explains the disparity between up and down
- 90/50 represents the parallax between the vertex and the center
- 99/90 explains the disparity between vertex and vertex

4. Palma Report

The Palma ratio is the revenue sharing ratio between the top 10% and bottom 40%. In a more equal society, this ratio is less than or equal to one. In other words, the top 10% do not receive a larger percentage of national income than the bottom 40%. The UK Palma Ratio is 1.40. The Parma Report is widely used in international development discourse. For example, the ratio for Brazil is 2.23 (Cobham and Sumner 2013)[43].

2.3. What is poverty and how is it different from inequality?

People living in poverty tend to be people who are particularly vulnerable compared to the bulk of the population. It can be an absolute term that refers to a level of deprivation that does not change over time, or a relative term whose definition changes as the overall standard of living changes. Poverty is defined as family income (adjusted for family size) that is less than 60% of the median income. It is one of the adopted international measures that applies to the whole of the European Union. Inequality is a relative term. It refers to the difference in standard of living and income. In all commercial sales. In fact, poverty and inequality often go up and down together, but not necessarily so. Inequality may be greater in societies where poverty rates are not high, as there is a large gap between the top and middle of the income spectrum.

3. Economic Inequality (USA, Europe)

The development of inequality in Europe and the United States has received a great deal of attention in recent academic and policy debates, but the basic question about the distribution of growth in both regions is It remains unresolved. How do Europe and the United States pay for distribution results? What is the role of input tax revenue inequality and redistribution in explaining the differences between the two regions? Comparative studies of growth distribution, taxes and transfers can provide important insights into such discussions. However, due to the lack of conceptual and empirical consistency, it was difficult to interpret existing estimates of revenue

---

[43] Income refers to 'final income', including the effects of indirect subsidies and indirect taxes. Latin American data are for 2008 and 2009, UK data for 2010-11.

distribution and compare them country-wide. These shortcomings have led to many misunderstandings about inequality defenders in rich countries.

The standard source for comparing national economic growth is national accounts, and the standard source for measuring inequality and redistribution is household surveys. It is well known that the survey represents the main income does not contribute to the total macroeconomic income. This leads to potential contradictions when considering growth, inequality, and redistribution. In Europe, the lack of revenue sharing estimates that integrate census data, taxes and national accounts is not the result of the lack of data itself. In fact, sufficient data has been available since at least the 1980s.

The problem is that this data is distributed from different sources, takes different formats, and uses different concepts and methods. As a result, researchers and policy makers are not always comparable, faced with a variety of different indicators that are difficult to aggregate, provide non-uniform coverage, and tell potentially contradictory stories.

Most importantly, our series is fully comparable to recent national distribution accounts in the United States, allowing a detailed comparison of the dynamics of inequality and redistribution in both regions. Analysis of the new database reveals two main conclusions. First, it shows that inequality has increased both before and after tax in almost all European countries and across Europe over the last 40 years, but much less than in the United States. Between 1980 and 2017, the proportion of the wealthiest 1% pre-tax income for Europeans increased from 8% before tax and transfer to 11.0%. In the United States, most of the pre-tax revenue increased from 11% to 21% and most of the pre-tax revenue increased from 9% to 16% over the same period. Inequality increased in Europe between 1980 and 1990, but then slowed as US growth continued.

Throughout Europe, the level of inequality is primarily explained by domestic inequality, not by the average income gaps of the countries of Western Europe, Northern Europe, and Eastern Europe[44]. The average income gap between the two countries also gives little explanation for past European inequality trends. Observed 40 years.

However, regional dynamics are different. Inequality is the largest increase in Eastern Europe, but the trend is mild in Western Europe. Inequality has increased significantly in Northern Europe as well but remains the most equal region before and after redistribution. Second, the main reason for Europe's relative resistance to increasing inequality has little to do with the direct impact of taxes and transfers.

Western and Northern European countries redistribute most of their production more than the United States (35% in the United States, while about 47% of national income is taxed and redistributed in Europe), Tax and relocation distribution is Europe. And the degree of post-tax

---

[44] https://voxeu.org/article/income-inequality-eu-trends-and-policy-implications

inequality in the United States. On the contrary, after calculating all taxes and transfers, the United States seems to have redistributed much of its national income to countries that are 50% poorer than any other European country. In other words, Europe has been far more successful than the US in ensuring that its low-income groups benefit from relatively well-paid jobs. We show that the differences between our findings and those of the OECD are driven by several factors, including the greater underrepresentation of key revenue in U.S. surveys, the fact that we calculate indirect taxes and in kind transfers, which are more progressive in the US than in Europe in general, and the inclusion of pensions in the definition of pretax income.

Graph1: **Inequality in market, gross and disposable income in the EU and the US. Gini coefficient (top) and Gini reduction (bottom, in %).**
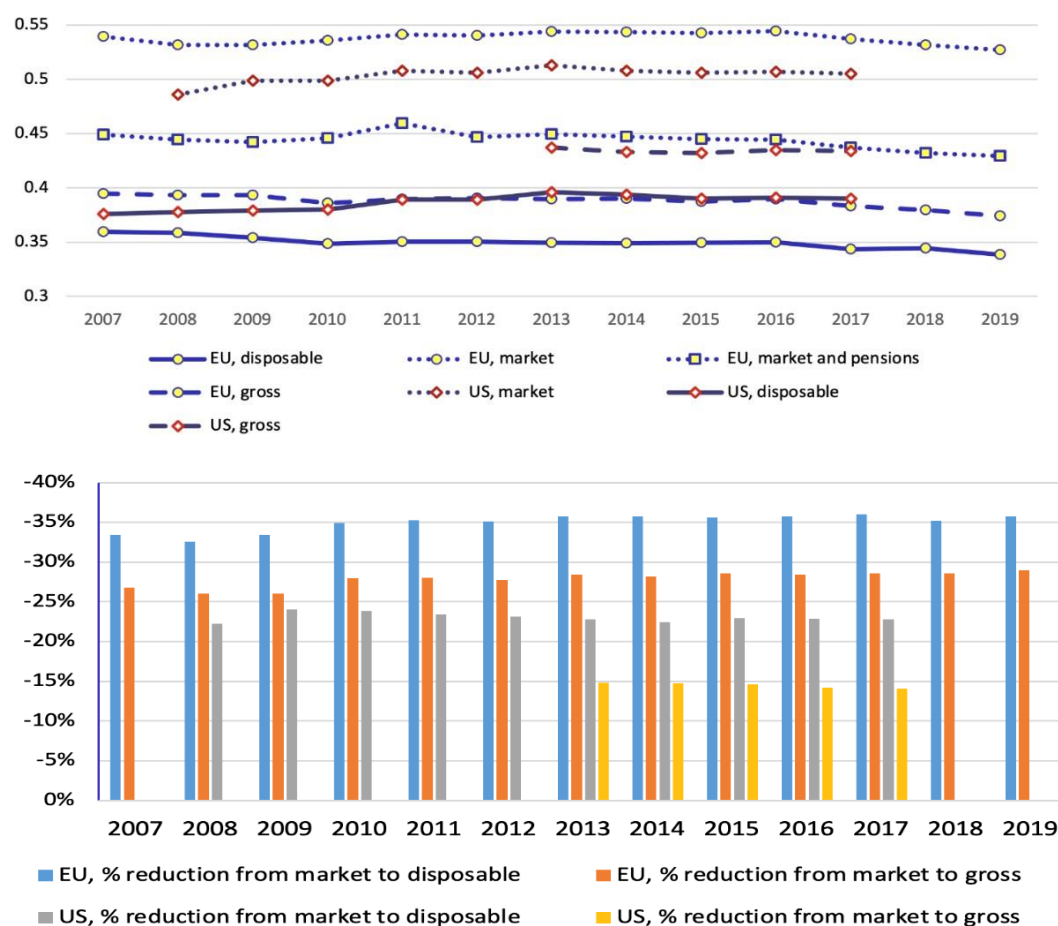
Source: EU-SILC

Notes: Year refers to incomes of the previous year. Incomes corrected for purchasing power parities. Data unavailable for Croatia (2007, 2008), Malta (2007), Italy (2019) and Ireland (2019). OECD data for the USA.

4. Inequality of wealth (USA, Europe)

Since 1980, income inequality has erupted in the United States, while it has remained much less extreme in Europe. However, each side of the Atlantic can learn from the other in tackling the problem, which has to do with both redistribution and redistribution policies.

Europe`s political forces are divided between those who see the European Union as promoters of neoliberal unjust, inefficient economic policies, and those who see the bloc as key to maintaining a relatively just and inclusive "European social model." However, the recent European Parliament elections sparked little debate about this model and generated little idea of what policymakers need to do to tackle income inequality across the continent. This is unfortunate. Comparisons of income growth and inequality in Europe and the United States over the past four decades have provided important new insights into why incomes are distributed much more evenly in Europe than in America, and what each can learn. From the other side of the Atlantic Ocean. Overall, US revenues have grown faster than Europe in the last 40 years. Between 1980 and 2017, the median adult income in the United States increased by 65% compared to 51% in Europe.

This difference largely reflects (although not perfect) the EU's failure to adjust for the continent-wide economic recovery following the 2007-08 financial crisis. Compared to Western Europe, which suffered from the lost decade (2007-2017), median adult income increased by less than 5%, while the United States grew five times faster. Did. However, while these compound annual growth rates hide the extent to which income inequality has occurred in the United States over the last 40 years, they are not so extreme in Europe. The average pre-tax profit of 50% of America's largest winners has doubled since 1980, but that of the lower half has risen by only 3%. In Europe, on the other hand, pre-tax income in the lower half of the population increased by 40% over the same period, more than 10 times faster than in the United States (although income growth across Europe is still below average). The differences between US and European tax systems and transfers do not change the big picture. Taking these factors into account, US revenues, which are 50% lower, have increased by only 14% since 1980, but are still well below overall growth and up by 40% in Europe.

Economists often attribute the growing inequality to technological changes or the growth of international trade. However, this does not explain the difference in trends in inequality between the United States and Europe over the last 40 years. Both experienced similar technology shocks, and competition with developing countries intensified during this period. Instead, the contrast between Europe and the United States reflects different policy choices. Policy makers have two wide options to deal with income inequality. Redistribution aims to create more equitable income

distribution conditions in the future through investment in health and education, effective antitrust laws and labor market regulations, and a relatively strong workforce.

Lower inequality in Europe is not the result of more redistribution tax policies. Indeed, the highest federal income tax margin in the United States has dropped from an average of 80% in 1950 to 1980 to 37% today, and President Donald Trump has reduced the corporate tax rate from 35% to 21%. With that tax and labor reduction law. 2017. However, corporate tax rates in Europe have also fallen from an average of 50% in 1980 to 25% today, benefiting wealthy citizens who are increasingly dependent on the distribution of personal income. tire. In addition, the consumption tax, which weighs heavily in proportion to the poor, has increased significantly in Europe over the same period. As a result, both US and European tax systems have generally not made much progress over the last few decades. In any case, the US tax system is now a bit more advanced than in Europe, but US inequality is still much wider. How unequal is Europe at the World Inequality Report?

The report points out that fairer income distribution in Europe is primarily the result of pre-distribution policies such as national minimum wages, stronger worker protection, and free access to public education and health care. However, progressive taxation remains the key to reducing post-tax and pre-tax income inequality. For example, high marginal tax rates can help limit today's uneven capital accumulation, thereby making future income flows more equitable. As a rule, progressive taxation is essential for the political stability of a country's tax system. The protests of the "yellow vests" (gilets jaunes), which began in France last November and then resurfaced elsewhere in Europe, were initially fueled by a sense of financial injustice. Finally, progressive taxation also plays a pre-distribution role in Europe, supporting funding for universal public education and health programs.

These, in turn, promote greater equality of opportunity and, therefore, later more equitable income distribution. Therefore, the risk is that the general tendency towards a non-progressive tax system will make it more difficult for Europe and the United States to manage inequality in the future. But that is not inevitable. Perhaps US voters will be more enthusiastic about free public education and health care when they see how they helped, rather than hindering Europe's economic growth. And Europe can be inspired by how the US government ended tax competition between states by introducing state corporate and income taxes a century ago. If Europe and the United States can learn from each other in this way, the fundamental approach to tackling inequality on both sides of the Atlantic may seem more realistic and feasible. And the next 40 years may not be more uneven than the previous 40 years[45]. Between 1980 and 2017, the European top 1% pre-tax income share rose from 8% to 11% while it rose from 11% to 21% in the US. Europe's lower inequality levels are mainly explained by a more equal distribution of pretax incomes rather than by more equalize.

---

[45] https://wid.world/news-article/why-is-europe-more-equal-than-the-united-states/

Graph 2: **Inequality in United States and Europe**
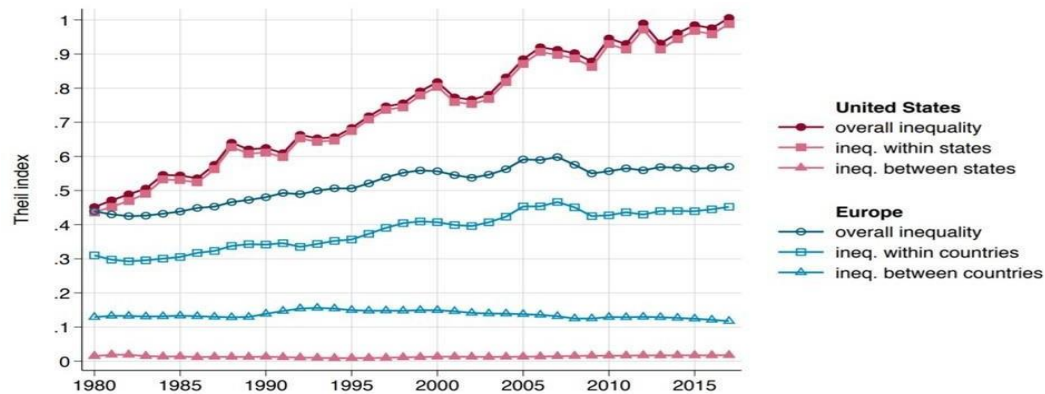
Source: Widworld (2020)

5. Financial Crisis and Key Mechanisms

Synonymous with the current financial crisis is the loss of stability of the global financial system from an institutional and commercial perspective. The outcome of a financial crisis in a holistic approach can be defined by considering three attributes of financial stability.

1. The ability of the financial system to effectively allocate capital,
2. Appropriate assessment of financial instruments and appropriate risk assessment,
3. The ability of financial institutions (mainly banks) to absorb the results of strikes without assistance. Easy access to bank credit and excessive risk aversion due to the central bank's simple ("quiet") monetary policy distorts capital allocation. The serious imbalances in financial markets were caused by the expansion of innovative and complex financial products under construction and the difficult-to-identify risk profiles. Excessive and uncontrolled dynamics in the stock exchange market are due to the strategy of shadow banking institutions, where opaque players offer opaque products.

Banks have lost the ability to absorb losses amid a "significant contraction of the money markets," a loss of confidence, and a plunge in stock prices. A common axis of these imbalance processes is the phenomenon of financial market information functions. Analysis of financial transmission mechanisms shows that much of the responsibility for this phenomenon can be attributed to central bank mistakes. One of the hallmarks of the modern financial system is its structural complexity and such uncontrolled dynamics, which tends to result in objective loss of stability. The financial crisis has shown that today's financial system is "threatening by complexity" and that the financial world has reached a stage where "hidden structures" emerge (Lipshaw, 2009, p. 299).

6. The impact of the 2008 financial crisis on economic inequality

A few years ago, the world economy faced the worst financial crisis since the Great Depression of the last century. It began appearing in mid-2007 in the United States, due to subprime mortgage crises, and for a short time spread throughout the world. Although the impact of the crisis was not uniform in all countries, no region of the world remained untouched; all regions experienced a significant slowdown in GDP growth and many countries experienced recessions. There is no exact definition of "financial crisis", but a common view is that disruptions in financial markets increase to the level of a crisis when the flow of credit to individuals and businesses is limited and the real economy of goods and services is negatively affected.

- In the 19th and early 20th centuries, many financial crises were accompanied by banking panic, and many recessions coincided with these panics. Other situations, often referred to as the financial crisis, are stock market crashes, the bursting of other financial bubbles, the currency crisis, and sovereign defaults. The financial crisis directly leads to the loss of paper assets. Unless there is a recession, it will not directly lead to changes in the real economy.
- The 2008 financial crisis has been seen by many economists and the worst financial crisis since the Great Depression of the 1930s. Stock markets around the world have fallen, major financial institutions have collapsed or been acquired, and governments in all countries have had to put together bailouts to save the financial system. American financial institutions lent large sums of money to many home seekers with few paper loans. The people who sell the loan got a commission, and the investment bank secured the loan and sold it as soon as possible and got a commission. When the borrower failed to repay, the bank sold the home, and the prices of the home and securities fell, the financial institution that bought those securities suffered huge losses. The effects of the crisis were also felt inevitably in Albania, primarily in the form of reduced remittances and foreign direct investment, and reduced exports, which ultimately led to slower growth and tax revenues. Industry, especially construction, was hit hardest by the crisis. Since the beginning of 2009, both the raw materials and processing industries have recorded double-digit sales declines. Of course, Albania was not in the late 1996s and early 1997s when the "usury crisis" turned into a real economic crisis. This leads to a decrease. 7% of GDP, 42% of 1 increase in inflation, and worsening of other macroeconomic indicators. However, despite poor integration with the United States and the global economy in general, Albania is unaffected by the global crisis. More than 3/4 of foreign trade is with EU countries. Various data showed that the crisis first began to affect many causative indicators.

Global financial crises because of unbalanced financial activity have severely affected the entire world economy. World economists failed to predict the risk posed by lending. As a result, most economies of developed countries experienced recession. Less affected by the crisis were developing countries whose financial systems are not well integrated into global markets. Albania was one of the countries that, despite the global trend, continued to grow positively, being the country with the highest economic growth rate in Europe during the crisis period. The economic

growth rate of Albania was 7.5% in 2008 and 3.3% in 2009. When the global crisis began, Albania's financial system was largely intact for several reasons.

1- First, the Albanian economy is not integrated into the global financial markets.
2- Second, Albanian banks are well capitalized and have little or no exposure to the complex financial instruments underlying the global crisis.
3- Third, the government's fiscal and monetary policy response was instrumental in managing the crisis well.

But after 2009, the impact of the global crisis and the EU countries became visible to a large extent. The fact is that most Albanian expatriates work in European countries and since exports are mainly done with EU countries, a negative external shock to the Albanian economy is transmitted mainly through exports, remittances, and foreign capital flows.

6.1. Covid19 and earthquake crisis in Albania

Macroeconomic data: The economy is projected to shrink by about 7.5% in 2020 (2.2% in 2019), reflecting its reliance on tourism and remittances. In addition, the earthquake in November 2019 had an additional impact on economic activity, especially in the first quarter of 2020. By the end of 2020, the budget deficit should rise to around 7% of GDP and the public debt should only exceed 80%, Gross Domestic Product

- Albania recorded a 10.2% economic contraction in the second quarter of 2020, followed by a 3.5% year-on-year contraction in the third quarter. The slowdown was initially caused by a decline in investment, personal and public consumption, and a sharp 35% drop in exports. This decline can be explained by a large share (48%) of Albania's exports to Italy, which fell into an apparent slowdown of about 18% in the second quarter of 2020. However, because of recent post-earthquake construction projects, investment growth increased by 4.1% annually, slowing the recession.
- Trade, transport and hospitality, the key sectors of the Albanian economy, contributed significantly to the recession, with a decline of 27%. Tourism, which accounts for more than 20% of Albania's GDP, is one of the worst-hit sectors of the pandemic. The number of foreign tourists in July 2020 has decreased by 61.5% as compared to the previous year.
- The loss of 34,000 jobs and a 12.5 percent increase in the annual unemployment rate of 0.6 percentage points indicate a collapse in Albania's labor market. The company's position improved with a 12.1% improvement in the third quarter. Amid the crisis, the European Commission has decided to start accession talks with Albania.
- Financial and financial data: The Albanian currency, Lek, lost about 7% of its value at the start of the pandemic. However, since then, the currency has risen, reaching an average exchange rate of 123.7 Lek per euro in the fourth quarter of 2020, just 1.9 higher than the 2019 average

of the previous year. Lek's depreciation against the euro and rising food prices boosted the CPI. Inflation in Albania is expected to increase from 1.4% in 2019 to 1.9% in the second quarter of 2020, but then decrease to 1.1% in December 2020.

-

6.2. The impact of Ukraine war (Western Balkans case)[46]

The escalation of conflict between Russia and Ukraine is reflected to the Western Balkans companies through three channels. The first is energy and food prices (canvas and gas, wheat, sludge, beast feed), as these are input raw accoutrements in the product process. Russia and Ukraine are the main energy directors and suppliers (40% of gas consumption in the EU and 27% of canvas is from Russia). Increased canvas and gas prices could significantly reduce EU profitable growth, especially the countries that are the leading trade Western Balkans mates, which will affect all individual husbandry in the region. Russia is the world's largest exporter of wheat with 18% of world exports, and together with Ukraine it accounts for over 25.4% of world wheat exports. Ukraine and Russia produce rare essence used for processors (in automotive and computer diligence).

The negative impact of this channel has formerly been felt through rising food prices and the fact that there aren't enough accoutrements and introductory rudiments for product in the automotive assiduity.

The alternate channel is through reduced growth prospect for Western European countries, and therefore reduced demand, which will affect the import of all Western Balkan husbandry. The third channel of influence is direct and that's trade, i.e., exchange of goods with Russia and Ukraine.

The goods of this channel have formerly been felt especially for individual trading companies and may lead to the interruption of product and reduced profitability. The profitable impact of the extremity in Ukraine and the warrants to which the Russian Federation is exposed by the EU are negatively affecting the husbandry of the Western Balkans, and the negative goods were reflected in an important shorter time than during the 2007 Global Economic Crisis and epidemic caused by coronavirus. Piecemeal from the fact that cereals from these countries are imported to the Western Balkans, as well as energy from Russia, the extent to which the extremity will affect the frugality of the Western Balkans will depend on the duration of the extremity, import of energy and farther inflationary pressures.

---

[46] https://www.wb6cif.eu/2022/03/29/the-impact-of-the-ukrainian-crisis-on-the-economy-of-the-western-balkans/

Although the macroeconomic situation at the end of February 2022 was sustainable, all husbandries are facing great query regarding the farther operation of their husbandry, especially due to the diurnal rise of prices of leading stock products, interruptions in force chains and incapability to plan conditioning for the coming period. The main threat is a further increase of energy, natural gas, and canvas prices, to which all husbandries are exposed, and which affect the growth of affectation. High prices of diseases also affect the rise of prices of agrarian and food products. Affectation reduces the purchasing power of the population, which will be reflected in the reduction of consumption, which is the main element of the GDP of the Western Balkans. The increase in transport costs is a fresh threat for the business of companies in the region. Also, many foreign, transnational companies operate in the Western Balkans and conduct their business conditioning in Russia. These companies are forced to seek other business strategies that include chancing indispensable requests. Numerous companies are reducing product volume and operating with lower capacity application, introducing on-working days during the working week.

a. City of Durrës (case of Albania)

Survey conducted in the Municipality of Durres published by Institute of Statistics in 2020, there were 9627 active businesses which according to gender-owned, male-owned businesses were 6,816 and 30 percent of them 2,811 owned by women. In 2019 for the first time the enterprises operating in the units' administrative offices of Durrës were under 10 thousand, decrease by 570 active enterprises registered less than in 2018. In 2020, the number of active firms started to grow again to reach 9627 where an equal growth between businesses is emphasized owned by men and women. In total, Durres consists of 299989 inhabitants, where in the Municipal Council 25 are women and 26 men (total 51 members). Of all active businesses, 30% are owned by women and 70% by men. From the consequences of all socio-economic effects, the number of businesses in the years 2015-2022 has decreased by 4%[47.]

Graph 3: Businesses in the Municipality of Durres 2015-2020

---

[47][CLIP Bashkia Durrës Toolkit Shqip (1).pdf](#)
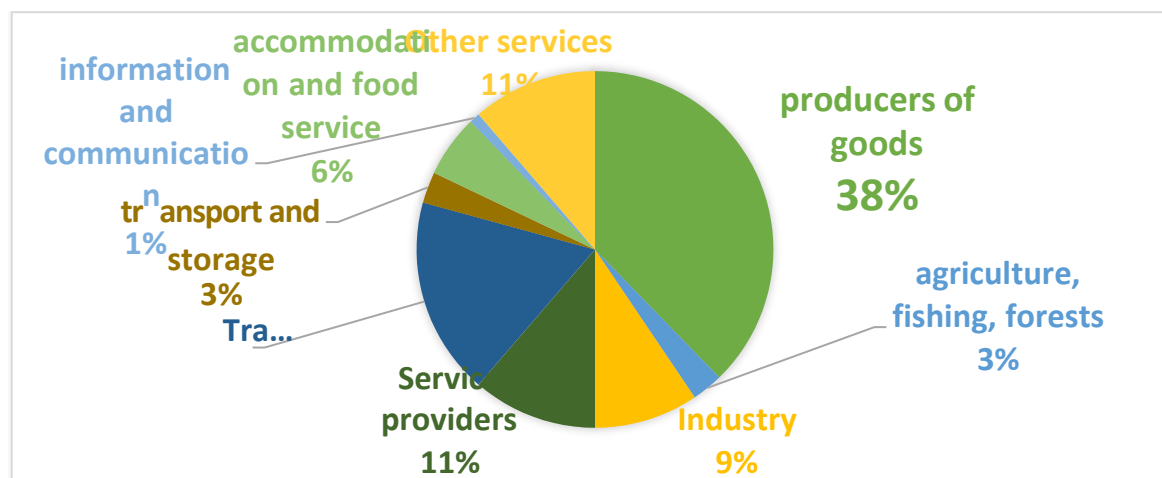
Source: Durres Municipality report

6. Conclusions

The author's reliance on various indicators makes it difficult to reach a common consensus on the link between the financial crisis and income inequality. In Albania as well, the 2008 financial crisis has had an impact by widening Albania's income inequality. The mechanisms by which the financial crisis affected Albania's income inequality were the labor market, the commodity market and public debt.

According to the Demographics and Health report, the Gini coefficient, which measures the inequality index, has decreased by over the last decade (2008-2009). Some counties exhibit twice as low developments compared to others that show higher scores. These differences include key indicators such as: GDP per capita, per capita consumer spending, inequalities in wealth distribution, education, internet use, primary care with doctors and nurses, education, and health. costs. The economic and social developments of the counties according to the integrated indicator in 2018 and 1998 show similar rankings and distances. More than half of the counties maintain the same ranking as in 1998. Despite development and improvement over time, the pace of development is slow, and it is similar in many countries. Throughout Europe, the level of inequality is primarily explained by domestic inequality, not by the average income gaps of the countries of Western Europe, Northern Europe, and Eastern Europe. Economists often attribute the growing inequality to technological changes or the growth of international trade. Other indicators of the impact on income inequality have also affected the crises of recent years, where we can mention Covid-19 and the war in Ukraine.

Recommendations

In terms of revenue distribution, the state can intervene in the application of the discriminatory monopoly institution in some markets such as: compulsory motor insurance

Increasing the salaries of employees would bring an increase in income. With the increase in income, we have an increase in consumption, savings, economic welfare, etc. Job creation increases welfare and reduces the level of economic inequality. The state must intervene in the financial market to create sufficient conditions for its normal functioning, as it cannot improve itself spontaneously. Large companies in Albania, foreign and domestic, should choose the stock exchange as the next alternative for their financing. This virtual market can be seen as an opportunity for companies to diversify the financial resources needed for new investments and acquisitions.

Albania needs to recognize systematic development much faster, spread progress everywhere, and reduce development gaps. A faster pace of development for all requires less domestic inequality, challenging and reformative policies, and ambitious changes in production and consumption patterns compared to European standards. Despite the burden of inherited levels, Albania is more efficient in economics, finance, and talent to accelerate progress and measure development with developed European countries, not just to compare with the past. Needs mobilization. Development factors should be prioritized in these regions. Specific programs and projects with a territorial approach and social orientation of education policy for poor families and orphans must be prioritized in development policy. In addition to educational institutions, parents, families, and societies need to be more involved in parenting ideology to stimulate and expand attendance at secondary school. Aiming for advanced Europe, a country with potential for development, and the growth of tourist destinations with a young population, Albania aims to provide more education, better education, innovation, innovation, and fulfillment to its surroundings. We should aim for expansion and improvement. technology.

References

Paas, T., & Tafenau, E. (2011). Interactions between Growth and Inequality: an Evergreen Question in Theory and Empirics. *The Economy and Economics After Crisis*, *4*, 153.

Miljanović, D., Miletić, R., & Đorđević, J. (2010). Regional inequality in Serbia as a development problem. *Acta geographica Slovenica*, *50*(2), 253-275.

Paas, T., & Tafenau, E. (2011). Interactions between Growth and Inequality: an Evergreen Question in Theory and Empirics. *The Economy and Economics After Crisis*, *4*, 153.

Aiello, F., & Scoppa, V. (2000). Uneven regional development in Italy: explaining differences in productivity levels. *Giornale degli economisti e annali di economia*, 270-298.

Kafousias, D. (2009). Spatial interactions and regional growth trajectory in Greece: Does space matter. *Archives of Economic History*, *21*(1), 103-134.

Paas, T., & Tafenau, E. (2011). Interactions between Growth and Inequality: an Evergreen Question in Theory and Empirics. *The Economy and Economics After Crisis*, *4*, 153.

Trapeznikova, I. (2019). Methoden zur messung von einkommensungleichheit. *IZA World of Labor*.

Neves, P. C., Afonso, Ó., & Silva, S. T. (2016). A meta-analytic reassessment of the effects of inequality on growth. *World Development*, *78*, 386-400.

MacCulloch, R. (2005). Income inequality and the taste for revolution. *The Journal of Law and Economics*, *48*(1), 93-123.

Cederman, L. E., Gleditsch, K. S., & Buhaug, H. (2013). *Inequality, grievances, and civil war*. Cambridge University Press.

Pinkovskiy, M., & Sala-i-Martin, X. (2009). *Parametric estimations of the world distribution of income* (No. w15433). National Bureau of Economic Research.

Trust, T. E. (2011). Income inequality: trends and measures. *Equality Trust Research Digest*, *2*, 1-8.

Cobham, A., & Sumner, A. (2013). Is it all about the tails? The Palma measure of income inequality. *Center for Global Development working paper*, (343).

Filauro, S., & Fischer, G. (2021). Income inequality in the EU: General trends and policy implications. *Availible at: https://voxeu. org/article/income-inequality-eu-trends-and-policy-implications (accessed 20 October 2021)*.

Lipshaw, J. M. (2009). The Epistemology of the Financial Crisis: complexity, causation, law, and judgment. *S. Cal. Interdisc. LJ*, *19*, 299.

https://wid.world/news-article/why-is-europe-more-equal-than-the-united-states/

The impact of the Ukrainian crisis on the economy of the Western Balkans - WB6 CIF

file:///C:/Users/I.C.T/Downloads/CLIP%20Bashkia%20Durr%D1%91s%20Toolkit%20Shqip%20(1).pdf

Management of the Human Resources in the Organization

Prof. As. Dr. Sanie Doda
sanijedoda@yahoo.com

MSc. Soniela Doda
sonieladoda@outlook.com

Abstract

This research shows the impact of HRM practices on organizational performance in the Public Administration. Research has created a positive correlation between HR practices and organizational performance. People are the main sources of the organization and organizational performance depends largely on the ones. Hence, if an appropriate range of HR policies and processes are developed and implemented effectively; human resources will have a crucial impact on organizational performance. The study's objectives are to examine HR practices, to evaluate employee perceptions of HR practices, and to determine the impact of human resource management on their performance.

Key words: Human resources, performance, employee ratings, bonuses

1.Introduction

The term "human resources" is defined as a workforce and is listed among the four major factors of production: land, labour, capital and cost. This treatment of employees as a source, just like financial or physical resources, has originated in employee policies during the industrial revolution. Human resource management came as a result of the fact that organizations were looking for employees to work and produce more than rewarded. Since the early 1900s, it is possible to identify an increasing interest in the field of Human Resource Management. The sustainability that human resources today play within organizations pushes companies to monitor more and more closely every activity related to personnel.

The contribution of our work consists in a field study conducted through a questionnaire that allowed us to obtain the essential data to determine the main models used by the administration for staff management.

Purpose of the study

Through this study we will try to get acquainted with the key concepts in human resource management. Through questionnaires we will try to understand the perception of public administration employees regarding their work and performance at work.

Methodology of study

For the realization of this study a methodology is used that consists of a combination of primary and secondary data. Secondary data has been collected from various sources made available by electronic libraries in foreign literature and the theoretical review based on literature in Albanian texts. Primary data are collected through questionnaires distributed to public administration employees.

2.Introduction to Human Resource Management

Recently, organizations are becoming aware that the creation of competitive advantage lies with people. Not long ago, the so-called HR functions were the retention of "Personnel", tasks that succumbed to recruitment and selection, evaluation, promotion and these superficial tasks could be carried out by any manager, so it was not necessary to hire a Human Resource Manager, or to think of the establishment of a Human Resources department. Little attention was paid to human resources, management issues and its impact on organizational performance.

In the world of competitive and rapidly changing business, organizations especially in Albania should ensure maximum utilization of their resources. Studies have shown that organizations can create and maintain a competitive position through the management of rare, valuable and inimitable resources (Barney, 1991). Human Resource Management practices have the ability to create organizations that are more intelligent, flexible and more competent than their

rivals by implementing policies and practices that focus on recruiting, selecting, training qualified staff and running them.

This can potentially consolidate the organization's performance and create competitive advantage as a result of the historical sensitivity of human resources and the social complexity of policies and practices that rivals may not be able to imitate or repeat their diversity and depth. Recently, organizations are focused on achieving superior performance through better use of talented human resources as a strategic asset. HRM policies or strategies should now be consistent with business strategies for organizational success. Armstrong (2009) defines HRM as a strategy and coherent approach to managing the most valuable assets of an organization, are people working individually and collectively and contributing to the achievement of organizational objectives. Management practices have the ability to positively influence the organization's performance, build strong relationships, or reduce performance.

3. The role of human resources in the company: the Ulrich model

Today's job market and the characteristics that differentiate it have led companies to interpret high turnover rates, such as lack of skills or lack of workforce as alarm bells helping to change attitudes towards human resources. The term Human Resources identifies the aspect of the value or equity (resources) the company possesses in terms of its (human) staff's professionalism and capabilities. Human resources include all the skills, assets, company characteristics, knowledge, which if appropriately associated with the company's strategy, make it possible to increase efficiency. Therefore, this capital should be preserved, cared for and developed just like other corporate sources, such as financial resources, equipment, technology, etc. But the human resources function should be considered multifunctional in which human resource professionals should at the same time ensure strategic and operational roles, be controllers and partners, take responsibility for quantitative and qualitative, short-term or long-term goals.

In this regard, Ulrich has identified four roles and has distributed them in two axes: the vertical one has to do with the strategic / operational focus and the short-term / long-term orientation, while the horizontal has to do with people and processes. The intersection of the two axes creates four different quadrants, each of which represents a role.
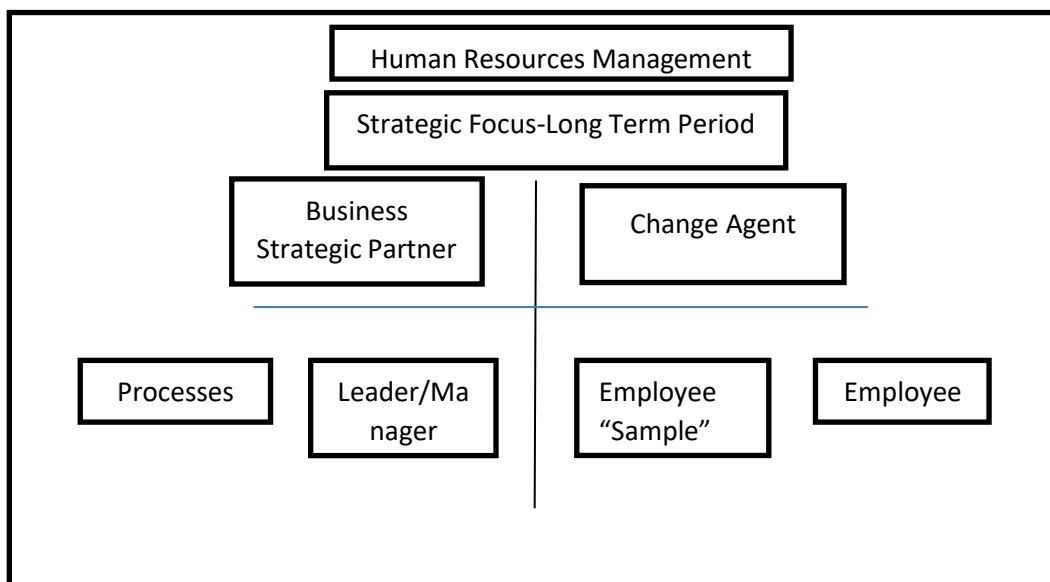
Operative Focus-Short Term Period

Costa G. Gianecchini M. 2013

Ulrich proposed the role of strategic business partner for the human resource manager (Ulrich, 1997). Human resource managers as strategic partners are required to work with other organization managers and develop a vision and human resources strategy to support the business strategy. This is a proactive role for the human resource manager, contrary to the normative and reactive role they have traditionally carried out. This change that has occurred in the model comes as a result of the business need to be responsive and flexible to the needs of consumers in a highly competitive environment. As a consequence, human resource functions need to be careful about environmental changes, respond to these changes quickly and efficiently, and always be focused on the customer (Ulrich and Brockbank, 2005).

Human resource managers should make sure that the organization's structure is flexible, tailor-made to changes and external needs. They should also ensure that the implementation of their policies is cost-effective and provide creative and innovative ideas regarding the formulation and practice of human resource policies (Ulrich and Brockbank, 2005). The strategic partner of the human resource manager puts it in a proactive and dynamic position where it can coordinate the operations of this department more directly with the needs of consumers.

Further, Ulrich asserted that the human resource manager served as a change agent when the organization was undergoing transformations. This role is both strategic and tactical because it involves imagining the desired state of things and carrying out the current process of change.

However, this does not mean that human resource managers no longer deal with their traditional administration duties. As management experts, human resource managers are required to provide leadership and knowledge to improve existing processes, as well as make it more efficient to process employee records.

The fact that they provide strategic support to the organization or the fact that working with senior executives does not mean that they are isolated from employees. On the contrary, human resources managers are required to support employee issues, work to improve their morale and motivation, and increase their skills and productivity (Ulrich and Brockbank, 2005). Human resource managers are therefore required to carry out all traditional human resources roles, but having a strategic approach to their work (Ulrich, 1997).

Hence, from the analysis of four roles that can cover human resources, it is clear that in particular, the last, the sample of employees turns out to be more complete, because within it includes not only its own skills but also the roles of previous. From this analysis it is also possible to derive the reflection that human resources management should establish its role and objectives in coherence with the company's mission, thus contributing to the competitive advantage of the

company towards other companies. Ulrich's model formed the basis for changing the role of human resource manager. This model provides guidelines and directions for restructuring the human resource function.

4. Analysis of Human Resource Management

The human resource management function is to provide employees with the ability to manage: health care, record keeping, promotion and advancement, benefits, compensation, etc. The function, in terms of employer benefit, is to create a management system to achieve long-term goals and plans.

Management allows companies to study, target and implement long-term employment goals. (Ostrom, 1989). The strategy and organizational planning of human resources has to do with ensuring that appropriate organizational structures together with human resource requirements are in place and are in line with the department's strategic plan. It is important to evaluate this area due to the quality of the organizational structures and its capacity in turn contributes to the provision of services. Human resources are designed to manage the following:

• Employee Benefits

• Health care of employees

• Compensation

• Annual, sick and personal leave

• Discipline

• Data (tax information, personnel files, etc.)

• Recruitment and retention strategies

5. Performance Evaluation

Performance evaluation- Making employees aware of what is required by them in order to improve their performance or change their behaviors helps them to stay focused. The feedback from time to time makes employees self-corrected continuously and gives them a sense of control over their performance results. The ability to make changes and improve their performance leads to employee motivation and helps them to renew their efforts. Human resources managers using objective and scientific performance gauges are better able to better motivate their workforce.

Performance-related salary - One of the greatest human resource practices that increases motivation is performance-dependent payment. This practice has been used since the time of Taylorism and is used successfully by organizations and nowadays. The task of modern human

resource management is to determine how much you will be the right salary for the respective performance. This means that the reward is attractive to employees and not just a monetary reward

The opportunity to participate / perform - The human resources practices that lead to the creation of an environment that guarantee the possibility of participation and performance are:

Keep Employees Always Informed - Employees should always be made aware of new job openings within the organization, work rotation, or group work, for the various decisions taken at the workplace.

Enabling group work - Human resource practices that promote teamwork or departmental work, add to their employees the sense of being part of the organization as a whole and also help them to acquire full skills.

Receiving feedback from employees - practices such as internal surveillance that enable employee suggestions and feedback to benefit helps the organization better structure human resource practices and motivate employees to provide feedback a better performance.

6. Relationships with Performance Rewards

Within a management process the link between employee performance and reward is self-substantiated and often necessary, but there is an argument to separate the formal evaluation process from the informal one. The argument for sharing is that the link to pay can affect the honesty of self-evaluation. The employee is less likely to be self-critical and expose the vulnerability and development needs if it will have an impact on setting monetary remuneration. Reward in a broad sense relates to employee salaries for the work done and other benefits they receive from the organizations they are employed in. In today's perspective, the reward includes both non-financial and motivational aspects applied in a contemporary human resource context. In a number of Western countries, including America and Britain in particular, making this distinction in the concept of reward compared to the past, the terms "old salary" and "new salary" are used. The old salary has been characterized by bureaucratic wage management, hierarchical organization, strict labor assessment and grading systems, as well as salary breakdowns from the strategic objectives of the organization.

6.1. Year of assessment

The assessment is done on the basis of performance for a period of 12 months starting from 1 November to 31 October of the following year. At the beginning of the assessment year all employees, both those who will be evaluated and those who will do the assessment, must know the objectives of the work on which the assessment will be conducted. Throughout the year, the Reporting Supervisor will monitor the employee's progress and should highlight any particular issues or problems as they arise, under the responsibility they have as reporting supervisors. The evaluation process ends on November 15, while the appeals process expires by the end of

November. The calendar year of the assessment is organized in this way to link the individual results to the pay component "Performance Additions" Evaluation Report. The annual performance evaluation is done by completing a standard form. The form consists of five parts;

i.   The employee's information
ii. Work related goals and objectives and job performance assessment based on achievement of objectives
iii. Performance assessment based on core skills
iv. General comments of the reporting officer and the counterfeiter officer
v.   Employee signature

6.2. Performance review methods

Method: "Up-Down" method According to this method, the employee's superior is the one who prepares the performance appraisal. Direct superior is the most suitable person to perform performance appraisal, as the direct relationship with the employee allows him to closely follow the performance of his subordinate duties during a working year. If the employee has questions about how is evaluated and how it can be improved, all responses can be provided by the direct supervisor, who has regularly followed his job. During performance assessment through this method, together with the supervisor may also be present a specialist of the unit human resources

Method: "Description / Ese" This assessment method takes time as the supervisor is required to provide complete information about the subordinate's performance, describing briefly in essay form: his / her strong and weak points, the field of expertise or aspects that need to be improved. The main advantage of this method is that it creates the possibility for an open-ended communication - quartile.

Method: "Objectives management" method According to this method of assessment, the employee's work objectives are determined in accordance with the work objectives of the entire organization. At each beginning of the year, the supervisor and the employee together define the different criteria on the basis of which performance evaluation will be carried out. The employee is periodically assessed regarding the way he is fulfilling the objectives of his / her work.

Method: "Self-assessment" According to this method, the employee is given a form where he values personal performance on the basis of several criteria. Performance is evaluated at the same time by the supervisor. During the final evaluation both the superior and the employee compare their assessments with each other. Ideally, the employee's assessment with that of the supervisor should be approximate, assuming that the employee's assessment of himself was honest. If the estimates are different, the employee should ask the supervisor what aspects he / she should try to improve performance.

Method: "360 °. This is the most popular method for assessing performance. According to the Human Resources Directory, it collects opinions about the Employee / employee performance at work from anyone who has been involved with it, starting with associates, superiors, subordinates.

Each of them evaluates the employee on the basis of impressions created during work with him. All together offer the possibility of realizing a fair assessment, as any impression remains unknown to others. At the end of the evaluation process, an employee from the Human Resources Department summarizes all estimates and discloses the final outcome of the performance appraisal.

Method: "Colleague for Colleague". This method is not very popular, but it is applied by institutions in certain circumstances. According to this method, colleagues evaluate each other's performance. The logic is that only peers who perform similar jobs can really and better understand the problems that arise during the performance of the work and may give a fairer estimate. On the other hand, if there is competition between colleagues, there is a risk that they will give a rough assessment to each other. This method can be applied by a superior who is newcomer to work and is not yet familiar with all the processes.

Method: "Graphic". This method is used in those institutions / organizations where measurable product is offered. Each employee is evaluated based on the amount of product offered by making a graphical presentation of the work. This method of assessment is very meticulous and objective.

Method: "Matrics". This type of assessment method works well in those institutions / organizations where there is more than one superior / manager who interact with a workgroup. Based on the matrix system, an employee is evaluated by some superiors based on the various criteria. Employees are given specific points for different categories, from different managers. On the basis of these points is built an average and given a final point for each category. This method is very appropriate when employees report to some of the superiors. Performance evaluation should be a positive process. The purpose of this process is to assist the employee in his job. Performance evaluation should never be used to damage the employee.

Questioner:

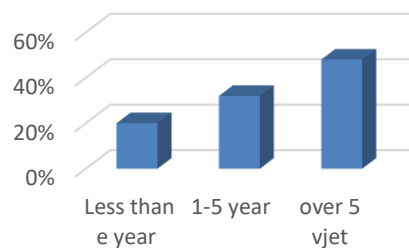| Male 6			Female 19		
22-29	30-45	46-56	22-29	30-45	46-56
2	3	1	8	8	3

1- How long have you been as Government Employee?

Length of Employment	For how long have you been employed as Government Employee?
Less than e year	20%

1-5 year	32%
over 5 years	48%

How long have you been as Government Employee?

2- *Where did you hear about the Job opening?*
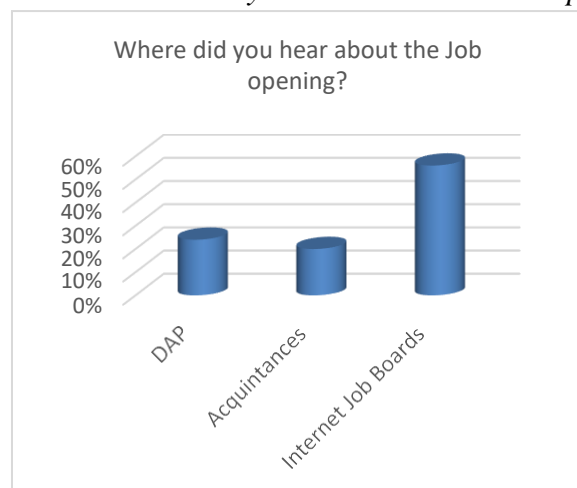
Sources Of Information	Where did you hear about the Job opening?
DAP	24%
From Acquaintances	20%
Internet Job Boards	56%

3- *Was it explained to you the job description on the moment of recruiting?*

Approval Rate	Wasit explained to you the job description on the moment of recruiting?

Was it explained to you the job description on the moment of recruiting?

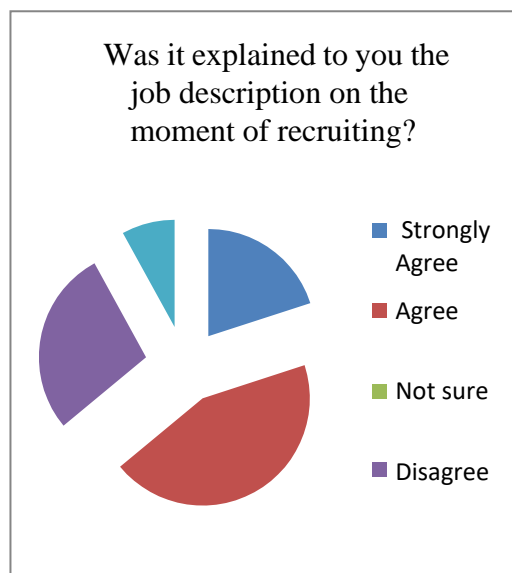| Strongly Agree	20%
Agree	44%
Not Sure	0%
Disagree	28%
Strongly Disagree	8%

4- *Do you thing that employees are recruited based on their merits & capabilities?*

Do you think that employees are recruited based on their merits?
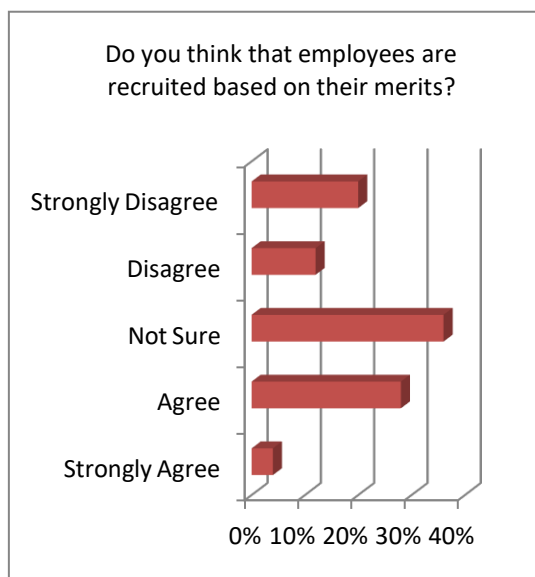
Approval Rate	Do you think that employees are recruited based on their merits?
Strongly Agree	4%
Agree	28%
Not Sure	36%
Disagree	12%
Strongly Disagree	20%

5- *Do you think that the right person is recruited for the right position?*

Approval Rate	Do you think that right person is employed on right position?
Strongly Agree	4%

Do you think that right person is employed on right position?
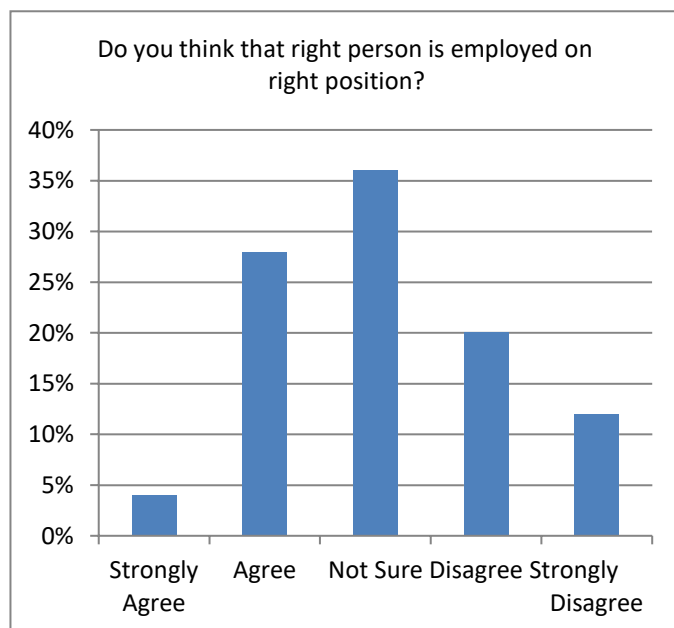
Agree	28%
Not Sure	36%
Disagree	20%
Strongly Disagree	12%

Based on these responses, we see that the majority of respondents believe that employees are not selected with merit and that the right person is not in the right position. This brings about problems with performance, workplace conflicts, disagreements, and a decrease in employee motivation.

6- How long it has been since last training?

How long it has been since your last training?
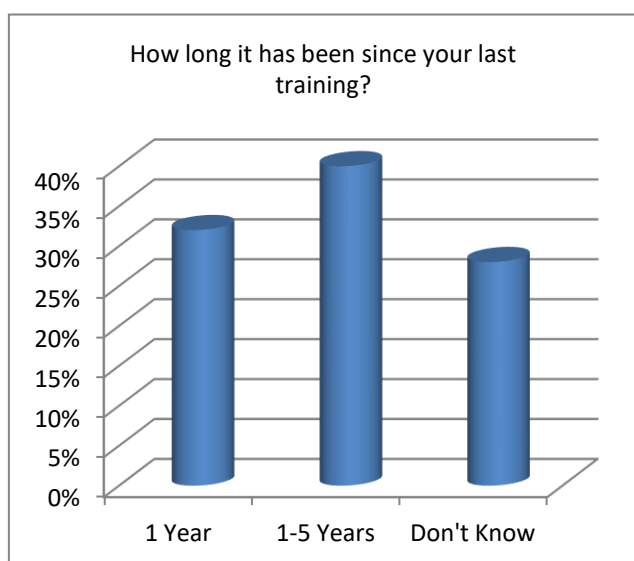
Length of Employment	How long it has been since your last training?
1 Year	32%
1-5 Year	40%
Don't know	28%

Most of the employees have a long period of time, mainly over 1 year without conducting training, which affects their performance. Employees lose the opportunity to get acquainted with the work, as well as with the problems of the organization / ministries. They, through the training,

are able to get acquainted with company goals, culture or work environment, strengths and weaknesses, and also have other employees.

7- Do you think that the pay is in accordance with job performed?
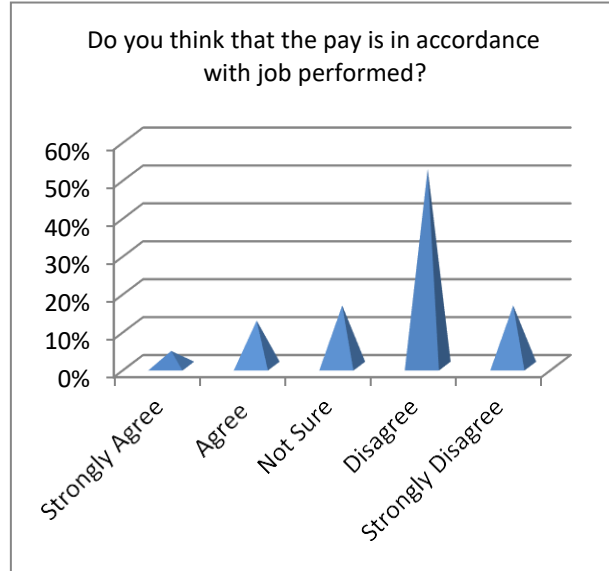
Approval Rate	Do you think that the pay is in accordance with job performed?
Strongly Agree	4%
Agree	12%
Not Sure	16%
Disagree	52%
Strongly Disagree	16%

From respondents' answers we learn that the salary is not in line with their work and contribution to the organization. When employees are unhappy with pay, this is reflected in their motivation and the quality of their work. Salary is one of the major motivators at work and when it is not in line with individual expectations, efficiency and effectiveness diminish. This is evident in the performance of individuals at work.

8- Does my manager encourage me to discuss/solve work related problems?
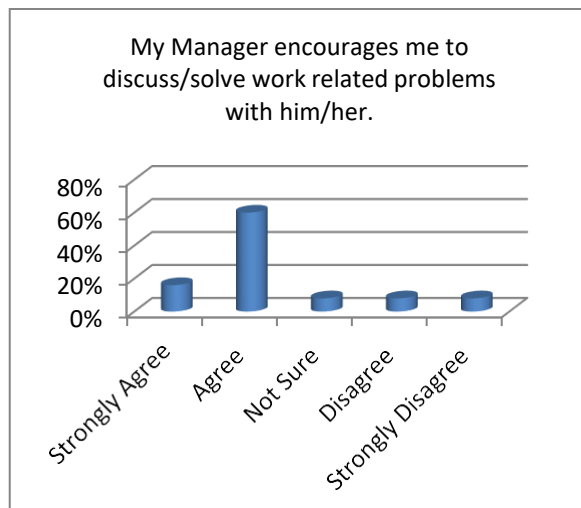
Approval Rate	My Manager encourages me to discuss/solve work related problems with him/her.
Strongly Agree	16%
Agree	60%
Not Sure	8%
Disagree	8%
Strongly Disagree	8%

From the answers to the questionnaires, we see that most employees are encouraged to discuss work issues. In this way, they feel more willing to be more open about the various problems that may appear and make better decisions.

9- Do you think that your work related requests are "ignored"?

Do you think that your work related request are "ignored"

- Strongly Agree
- Agree
- Not Sure
- Disagree
- Strongly Disagree
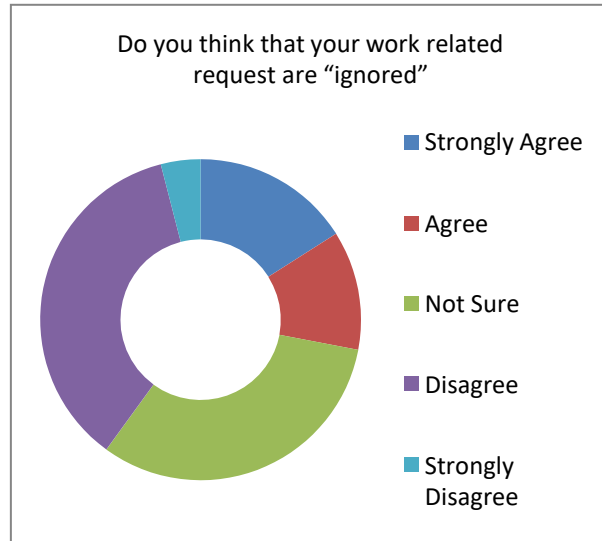
Approval Rate	Do you think that your work related request are "ignored"
Strongly Agree	16%
Agree	12%
Not Sure	32%
Disagree	36%
Strongly Disagree	4%

The vast majority of respondents believe that their demands are taken into account. Also others believe that their requirements are highly worthless and are not taken into consideration. If employees feel that their demands and needs are not taken into account, then the dissatisfaction that would arise in the workplace would be overwhelming. It is imperative that superiors consult with subordinates but also get acquainted with their requirements.

10- Do you blindly believe on the competences of your co-workers?

Do you strongly Believe in the Competency of your Co-workers?
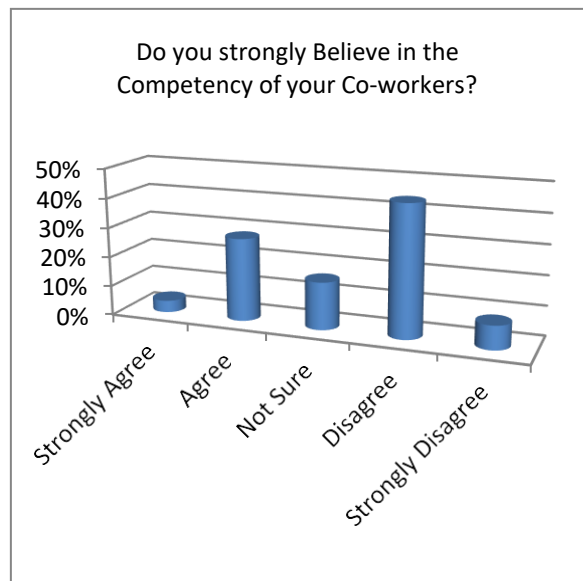
Approval Rate	Do you strongly Believe in the Competency of your Co-workers?
Strongly Agree	4%
Agree	28%
Not Sure	16%
Disagree	44%
Strongly Disagree	8%

From the answers we see that the majority does not believe in the skills of their co-workers. This comes as a result of various factors where we can mention the skills of cooperators, the ways they have gained that job, the trust that they reflect, and so on.

11- Do you think that you are going to be working on the same place in the next five years?

Do you think that you are going to be imployed in the same job in the next 5 years?

Approval Rate	Do you think you are going to be in the same job in the next five years?
Strongly Agree	4%
Agree	16%
Not Sure	68%
Disagree	4%
Strongly Disagree	8%

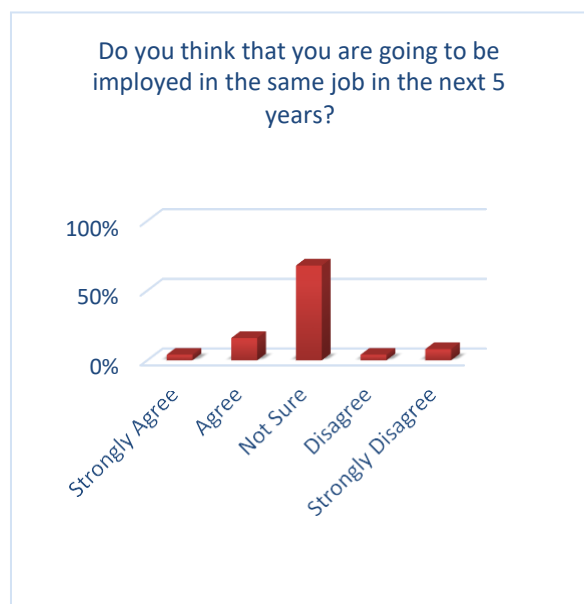From the answers to this question we see that a small part thinks it will be in the same job position. The rest of the individuals have no job security. These responses question the way individuals are selected to work in the state administration and how confident they feel in their work. According to Maslow's pyramid, the need for safety in the workplace is a key element for the individual's needs. They seek to feel protected and their place at work is safe.

7. Conclusions

In this task we tried to get acquainted with the concept of human resources. People are the chief source of the organization and organizational performance depends on them. Different factors affect the performance of employees in the work environment and their motivation. By means of some questionnaires distributed to the public administration we tried to get acquainted with the thoughts that employees had about their work environment, performance and other factors. Constant and fair assessment of employees is linked to their motivation and further performance at the workplace. Regular assessments should be carried out at specified intervals. Organizations can set these intervals according to their terms.

Recommendations

1. Public administration employees should have a safer working environment and have assurance of continuity in their work, as they would have a higher performance and feel more motivated.
2. Workplaces should be earned on merit because this way the employees would be more prepared and their work performance would be higher.
3. Trainings are extremely important as employees extend their knowledge and become more skilled at work. Managers need to organize different trainings for their employees.
4. Measures should be taken to ensure that performance appraisal is accompanied by material and monetary benefits, and this will increase employee engagement in the organization.

References

Armstrong, M .: Strategic Human Resource Management: A Guide to Action. 3rd ed. London. Kogan Page Publishers. 2006. ISBN 978-0749445119

Cooper, C.L. - ARGYRIS, C.: The concise blackwell encyclopaedia of management. Wiley-Blackwell. 1998. ISBN 978-0631209119

Drucker, P.F.: Management Challenges for the 21st Century. Amsterdam. Elsevier Science & Technology. 2007. ISBN 978-0750685092 Prof. Assoc. Dr S. Doda, Dr. B. Ahmetaj, Human resource management (cycle of lectures) 2017

The Economic and Financial Impact of the Capacity Development of Value Chain Actors in Agriculture Production: A Study Case for Fruit Production in the Region of Dibra and Berat

Prof. Asoc. Dr. Skënder Uku
Agriculture University of Tirana, Department of Finance and Accounting

Dr. Rovena Vangjel
"Aleksander Moisiu" University of Durres, Department of Finance and Accounting

Suela Halilaj
MSc. Candidate, Agriculture University of Tirana, Department of Finance and Accounting

Abstract

In this paper is used the value chain analysis for tackling factors that affect the low competitiveness of agriculture sector such as small-scale farming, outdated technology, low access to markets and financial sources. The paper examines the features of value chain (VC) actors for fruits production, in Dibra and Berat region, and assess the effects of capacities development of VC-actors. The 'metaplan technique' is used for this analysis. The main objective is the capacities development of VC-actors on fruit production and the assessment of their effects. The economic and financial impact is analyzed through a) the development of financial capacities; b) the development of human resources capacities; c) the development of institutional capacities; and d) the enhancement of business environment. The results show that the investments at the farm, income and production of the fruit producers' groups are increased. The human capacities of the producers' groups have increased considerably and many of farmers have increased knowledge about market possibilities, as well as are able to manage their farms, in accordance with market demands. The quality and relationships between VC-actors have significantly improved their capacities to create an appropriate business environment.

Key words: Micro Analyses of Firms, Value Chain Analysis, Meta Plan Method, Agriculture Market, cooperation between VC actors.

JEL Classification: Q12, O14, Q13.

1. Introduction

The agriculture is known as the backbone of the economic system and the main source of national income for most countries. Around 44 per cent of the total population lives in rural areas, and the value added of agriculture, forestry, and fishing, in the world was estimated at 4.3 per cent of GDP (World Bank, 2020). The agriculture contributes to generating national income, absorbs significant human resources, shapes foreign trade, provides food to the society and raw materials to industry, and performs critical environmental tasks (Arisoy, 2020).

Farmers are considered as the backbone of the agriculture system and if there are no instigators, there will be no established link with their buyers. This is considered a two-edged sword. The whole set of operations required to bring a product or service from conception to end-user, including all market channels available to all enterprises, is defined as value chain analysis. A 'value chain' in agriculture specifies the collection of actions that bring a fundamental agricultural product from field production to final consumption, where value is added to the product at each stage. A value chain is a vertical link or a network that connects multiple separate corporate entities and can include processing, packaging, storage, transport and distribution (Pietrobelli & Staritz, 2013).

Many articles have been written that analyze the elements that affect the competitiveness of the agriculture sector all over the world, taking into account aspects such as small-scale farming, obsolete technology, limited access to markets, and financial sources (Dlamini et al., 2014, Timpanaro et al., 2021, Latruffe, 2010).

In Albania, the implications of land use and ownership reforms resulted in a significant role for transformation of previous agricultural cooperatives into private farms. As a result, family farmers cultivate small plots of land, often less than 0.5 hectares. The average household has 4 to 5 persons with a household leader who has completed more than 9 years of education. Typically, just 7 per cent of all Albanian family farms are operated by women, implying that farming is a male-dominated industry, even when women contribute as labourers (FAO, 2018). Nonetheless, Albania has been characterized in recent years by weak formal institutions and inadequate law enforcement, which inhibits the use of contracts, providing both parties with the opportunity to trade without an agreement; a trait of transition countries.

Albania has a total land area of 28,750 square kilometres, of which 24 per cent is agricultural, 36 per cent forest, and 15 per cent pasture or other types of land. While agriculture no longer dominates the Albanian economy, it nevertheless contributed approximately 21 per cent of the national GDP in 2019. Imports of agricultural products were slightly more than $1 billion in 2020, almost the same as the previous year. Exports have risen steadily and are expected to reach $365 million in 2022, a 10 per cent increase over 2019. The government intends to enhance agricultural output by offering financial assistance to farmers and encouraging private investment in the agro-processing sector. Over the last few years, the government has allocated large funds to assist the

development of fruit and olive orchards, vineyards, greenhouses, and agricultural storage facilities, as well as projects in the agro-processing industry. Just in 2020, the government-funded over $55 million in drainage and irrigation infrastructure, direct support for agricultural and livestock output expansion, and food safety and consumer protection (International Trade Administration, 2021).

Despite a suitable climate, fertile terrain, and plentiful water supplies, the agriculture sector remains underdeveloped, owing primary to fragmented land, small plot size, and little automation. The reduced use of fertilizers and pesticides creates the potential for organic agriculture investments.

There are additional opportunities for the production and processing of high-value cash crops. It is one of the European countries with the most diverse biodiversity (Climate Change Post, 2022). The fruit and vegetable sector represents around of 20 per cent of Albanian agriculture and 36 per cent of its exports, with increasing trend. Albanian fruits and vegetables have been gaining ground in the Western Balkans and are well-positioned to make inroads into the EU-28 market as well. However, Albanian producers confront other restrictions in meeting the stringent and complex needs of the EU market, obstacles that an export strategy focused purely on product identification is difficult to change (World Bank & International Finance Corporation, 2018).

Fruit production is one of Albania's most important and fastest expanding agricultural subsectors. The fruit sector is one of Albania's most important agro-food sectors. Since 2020, the production of fruit trees was 274,749 tonnes, and there is an increasing tendency (INSTAT, 2020a, 2020b). Fruit trees is around 44 per cent of total fruit production, and apples production aroud 84 per cent fruit production. Dibra region is second in overall fruit trees in the country, with 43.7 per cent of total. Plums account for 47.55 per cent of the stone fruit category, followed by peaches with 23.25 per cent and cherries with 23.34 per cent. Berat is third in total fruit production in the country.

The notion of the agricultural value chain has been employed since the turn of the millennium, especially by people involved in agricultural development in poor nations. Although there is no commonly acknowledged definition, it usually refers to the entire spectrum of commodities and services required for an agricultural product to move from the farm to the final client or consumer. The term value chain was initially used in a book published in 1985 by Michael Porter (Porter, 1985) to demonstrate how corporations could gain a "competitive advantage" by creating value within their organization. Following that, the notion was adopted for agricultural development purposes (Kaplinsky et al., 2000) and it is now widely used by individuals working in this field, with an increasing number of bilateral and multilateral assistance organisations utilizing it to guide their development efforts. The idea of players or actors connecting along a chain creating and delivering items to customers through a sequence of activities is central to the agricultural value chain concept. This "vertical" chain, however, cannot function in isolation and an important component of the value chain approach is that it includes "horizontal" implications on the chain, such as input and financing provision, expansion assistance, and the general enabling environment. The method has been deemed valuable, particularly by funders, because it has resulted in an examination of all aspects influencing farmersì capacity to reach markets profitably, resulting in a

greater range of chain interventions. It is used for both updating existing chains and identifying market prospects for small farmers by funders (Stamm & Drachenfels, 2011).

The purpose of this study is to determine the economic and financial impact of capacity development of value chain actors in agricultural production by examining the fruits production sector in the region of Dibra and Berat. The paper is organised in the following sections: the methodology used and objectives of the study; identification of VC-actors in the area of study; impact of development of VC-actors; and the conclusions.

2. Methodology and objectives of the study

The scope of this paper is to analyse the economic and financial impact of the capacity development of VC actors in agriculture production for fruits production in the context of the region of Dibra and Berat. This paper aims the identifaction of VC-actors, and the evaluation impact of their development for the fruit production in the region of Berat and Diber. The results of this study aim to enrich the literature and offer additional evidences in this field.

The 'metaplan technique' is used for this analysis. All ideas and needs of producer groups of fruit tree are collected and analized. It examines the features of value chain (VC) actors for peach production in the Kozare-Perondi zone, Berat and apple and cherry value chain in the area of Melan, Greve, Dibër. Farmers from region of Berat dhe Diber (Melan, Greve, Trene, Bugjenec, and Tapi-Kozare), participated in the initiative "Creating three clusters/groups of cooperation as a model to be distributed also in other regions". The activities proposed, by the farmers of these regions which deals with the production, collection and trade of fruits, to increase their capacities will be analysed. The farmers analysed in this work own around 11 per cent of total agricultural land in regions, of which approximately 70 per cent is grown with fruit tree (apples, cherries, peach etc,)

The study aims at increasing the capacity and economic performance of farmers dealing with fruit trees, as well as improve knowledge of the market economy, through the recognition and implementation of new techniques in the entire value chain of production, collection, storage, processing and trading.

The overall goal to be achieved in this work is to develop the capacities of the VC-actors in the peach and apple production dhe to improve the access to the market through better cooperation and coordination between farmers and cold storage owners. Specific objectives include the improvement of technology for the production processes of peach, to produce qualitative products as well as to improve standards in the production processes, from planting till the harvest, the improvement of postharvest technology to reduce losses and ensure the preservation of production, the consolidation and formalization of the group to create the association of fruit producers: transition from a model based on small farmers, to technological changes to increase production and trade, inside or outside the country, toward the creation of the association, the improvement the horizontal and vertical cooperation, as well as the establishment of regular relations and

contacts between VC-actors: farmer-collector-trader-exporter, the improvement of marketing product and development a joint marketing concept to reduce the market risk.

3. Identification of the value chain (VC) actors in the study area

The study area is composed by the administrative units of Kozare and Perondi, Kuçove, and administrative units Melan and Greve, Diber. The administrative units of Kozare and Perondi are among the largest not only in the municipality of Kuçove but also in the Berat region. The Kozare-Perondi zone is economically and culturally significant in the region. Agriculture is the most important activity, with cereals, olives and fruits accounting for more than 80 per cent of the agriculture production. Farmers are using land that is governed by Law no.7501, dated.19.07.1999, titled 'For Land'. The peach crop is the most important crop of fruits, and its surface area has increased over the last ten years. The surface area of the peach in the research region is around 30 ha. The farmers' cooperative studied in this project owns a total of 13.2 ha, with around 65 per cent (8.6 ha) dedicated to peach cultivation, including the new plantation they cultivated in 2016. As a result, the goal of this project was to build capacity and boost competitiveness for approximately 30 per cent of the total surface planted with peaches in the Kozare-Perondi area.

Melan-Greve administrative unit is one of the most important units in the region of Dibra, due to its geographical location and proximity to the municipality's centre (Peshkopia), as well as the development of the fruit tree sector. Fruit tree activities are very significant to the farmers in this area. The apple tree is the main fruit tree for the Melan area, and as a result, the area farmed with apples has risen significantly in the last ten years. Farmers own the cultivated areas following Law No. 7501, dt.19.07.1991, "on Land". Melan's entire apple cultivation area is approximately 72.5 ha.

Dibra and Berat regions share some of the same problems faced by the farmers' group, such as lack of knowledge about pruning techniques; lack of knowledge about fertilization rates and timing; plant protection issues; a lack of knowledge about fruit thinning techniques; problems with fruit storage and packing; lack of water for irrigation; a lack of information about markets; and a lack of information about the new fruit varieties and market demands, a lack of agricultural machinery; lack of horizontal and vertical coordination across the value chain actors. The VC-actors identified in the area of study are as following:

The first VC actor is financial capacities. The group of farmers, in Dibër and Berat, use simple tools/equipment and the mechanisation level is too low, only tractors, which are almost amortised and without the set of aggregates. Through analysing to get to the market, they are disadvantaged related to the market, because there are almost no roads to link the main road with farmers' parcels, where the transport of products is done by animals in Dibër. Only 2 farmers in Berat possess transport mean ('furgon') to sell their products in the agricultural market of Lushnje, meanwhile, only 1 farmer has a van that can collect the products from the farms to houses and sell their products to the Peshkopi market. The farmers in Dibër can extend the size of their farms, but they do not have enough financial means which is followed by another serious problem such as lack of

property certificate, which prohibits the right to the farmers to put their land as a guarantee to the financial institutions. The situation is shown the same in Berat where farmers stress the difficulties to get the ownership certificate of land. They have no storage capacities for their products and to preserve the product, but they express interest in capital investments if they find necessary financial resources.

The European Fund for Southeast Europe (EFSE) has offered a EUR 3 million loan to the Albanian specialized agriculture lender FED Invest to provide much-needed liquidity to farmers in rural areas. The partners hope that by investing, they will be able to address the economic issues that small-scale agricultural businesses have faced as a result of the COVID-19 situation. The European Fund for Southeast Europe is a public-private partnership funded by various private investors and donor agencies such as the European governments and the European Union (EFSE, 2021).

The second VC actor is human resources capacities. The majority of the farmers in Berat and Dibër are aged 40-50 years old. Regarding the education level, 60 per cent of farmers in Dibër has primary education while in Berat the indicator is 80 per cent. The fact that a good part of the youth would like to continue to deal with agriculture activity, is related to the revenues that come from this sector. This fact shows a positive element to ensure the continuity and sustainability of activities, and it is an important factor for the development of human resources and manufacturing groups. The processes of production, labour, services, harvest and postharvest are based on the physical work of all family members, due to the low level of mechanization and the impossibility to invest in that. This means that in many cases the agronomic processes are not completed or are not done at the proper time, and therefore the quality of production and the yield are low. The farmers manage their activities and make decisions based on personal experience and knowledge of others in the area. They carry out the activities without a plan which is based on the elements of a business plan. Training or vocational education to increase the skills and capacities for decision making and management are not performed by public and private institutions. The farmers stress the difficulties related to access to information for funding sources (credit institutions, other support schemes), difficulties to fulfil the requirement of financial institutions, and in many cases, difficulties to understand requirements.

The third VC actor is access to sources of knowledge. One of the important aspects of the effective functioning of the value chain is access to knowledge and its improvement. There is a lack of knowledge about: seedlings for new varieties and their adaptation to local conditions, and the information for new varieties with high yields and income; tools and equipment for planting, harvesting and postharvest; farm management; organic products; market trends; funding possibilities. This situation is presented in both areas, Dibër and Berat.

The fourth VC actor is the legal and institutional framework. One of the limitations that constrain the production and competitiveness of apple and peach producers in the provision of the land certificates which would be a guarantee to financial institutions and to develop the land market. Besides the lack of a legal framework for land ownership, also the difficulties to obtain the building permits are considered technical limitations. Many farmers are interested to expand

their farms or capital investments, but they do not have the necessary financial means. Development of the land market will enable to increase in the size of the farm, but also will create the conditions to improve the level of farm mechanization.

The fifth VC actor is access to the market for production inputs. The level of mechanization of farms is low and the possibility to increase the size of the farm is limited due to the lack of soil. Due to this situation, the cost of production is high, and the fragmentation of the parcel is leading to a lack of scale economy. On the other hand, the local relief allows the increase of the mechanization of all the production processes in orchards, the concentration of parcels, which makes possible the increase of production and the quality as a result of scale economy. The lack of water due to the irrigation infrastructure is a big problem for farmers. There are difficulties with the primary channel and the irrigation system in the parcel. Farmers use wells and surface systems for irrigation. The change in the surface irrigation system is impossible because of the high cost. Another problem for these farmers is the quality of the soil. It was seen that farmers do not have the right information on the quality of their arable land. The planting material used by farmers, in most cases is uncertified. So, this is another problem related to the quality of seedlings and problems with information on new varieties.

As noted above, the sale of the product is carried out in local markets and is bought by small traders in the area. It can affirm that the added value at the farmer level is around 40-60 per cent, and is closely related to product prices which tend to vary in the domestic market and abroad (Kosovo). Added value at the collector level remains stable at around 30 per cent. Farmers are willing to plant varieties with high yields according to the local conditions that make possible the increase of income from sales and satisfy the needs of customers. Based on the statistics of the Ministry of Agriculture, the average price (35 All/kg), at which farmers sell peaches, is lower than the national average price (65-75 All/kg). Also, this price is lower than the national average price at the level farm during June-August (40-45 All/kg) and also is lower than the annual average price at the country level (49 All/kg). The average price for a retailer in the District of Berat is around 91 All/kg, and for the country is around 102 All/kg, and in the period June-August is 90 All. So, the retail price is almost 3 times higher than the average price at which farmers sell the products, and this presents the lower power of farmers for negotiation and the uncertainty they face in the market. The seasonal feature of the production, from May to August, generates an excess of supply in the market, and consequently, the prices tend to fall in these months. On the other hand, the demand for this product is for a long time, for 7-8 months. The average price of apples for wholesale is 40 All/kg, meanwhile, the average price for the retail sale is 60-65 All/kg, so the retail price is almost 2 times less than the retail price. As we have mentioned above, based on the big production of apples in the Dibra region, the market is over full especially in September to December period. In this context, it is very important to increase the storage capacities as well as keep in proper conditions will meet the needs of the market and at the same time will increase the incomes of the farmers. This request needs the increasing the cooperation between Apple and peaches producers and traders.

Farmers do not have precise information about the needs and the taste of certain groups of consumers to meet their satisfaction. There is no information on the quantity of production exported to the regional market. The current consumer is traditional one of the massive features. Although there is a lack of knowledge and orientation to the market, farmers considered it essential to improve the quality of products and standardization to meet the market needs and to increase farm competitiveness. The main is that production to be competitive in the foreign market and to export not only in Kosovo but also in other countries of the region, until to the Russian market.

As it is presented above, the production is traded in the local and national markets, and partially in the Kosovo market, as well as are not used written contracts in relations between farmers and traders. The relations between actors are not regular and are not for a long time. Standardization and packaging are weak. All these issues create difficulties in the integration of trade channels, producers-trader-consumer, and significant uncertainty between actors. It is observed that VC-actors in the selection of sales channels are based on high transport costs which effect significantly in the choice of the channel; on the price of products, defined by 'random way' which shows the lower negotiation power of the farmers; on the lack of regular relations between VC-actors; on the lack of horizontal cooperation between farmers in the sales process reducing negotiation power; on the lack of storage capacities. In these circumstances is considered essential the realization of market analysis and formulation of a clear marketing plan and a marketing strategy oriented toward relationships. eMarketing means advertising the product through the computer, which is considered a very good opportunity to inform potential customers, to make possible the targeting of customers, to ensure a better rate of return on investment in marketing, and to create a direct relationship and communication with customers.

4. Impact of development of VC-actors for fruit production

At this point are described the activities implemented to meet the goal and objectives related to the development of financial capacities; development of human resources; development of institutional capacities; and improvement of the relationship between VC-actors to create an appropriate business environment.

Development of the capacities of VC actors for the fruit producers groups (peach, apple, charry) in region of Berat and Diber will increase production and income by around 20-30 per cent, as well as improve relations between VC actors. It is expected the creation of a fruit producers groups and the increase the participation in this group. It will increase the professional skills of farmers and will encourage investment in the farm, developing the production capacities, the negotiation power, and the cooperation between VC actors. It will also increase investment by storage owners in the area. The relationship between actors will be based on written contracts. Market analysis and development of an integrated marketing plan will provide increased market access, increase competitiveness and reduction of risk in the market. The results achieved by the development of VC-actors will have an impact on other farmers in the area, encouraging investments and increasing cooperation between them.

Firstly, by getting to know the 'pomologjik collection' of peach, apple, cherry, evaluation-regionalization of varieties for the zone, *doing the soil analysis and organizing training through pruning* demonstration, implementing the integrated protection protocols for orchards, applying new diagnostic techniques for plant nutrition and preparing a full protocol for peach production affected in the increase of investments, for planting and production processes. The result is that 65 per cent of farmers increase production and revenue by about 20-30 per cent by the end of the second year and around 30 per cent of farmers apply for a grant in the first year. Related to training for precaution in harvesting and post-harvest treatment-storage-sorting grading, packaging, exchanging experience in the area and outside of the area resulted in the inn the increase of the investments for the harvest, treatment and post-harvest preservation at the farm. As mentioned above, an important part of farming is irrigation investments which are increased through training and information on new irrigation technologies, as well as on alternative sources of energy. Furthermore, through demonstration of tools and equipment increased investment in marketing at farm and quality control.

Secondly, by organizing general training for financing sources from financial institutions and grant schemes for agriculture, as well as on the different policies in the sector and training for farm management and design of 'business plan' for the development of the farm indicated in 35 per cent of farmers able to plan and manage in accordance of the market needs in the first year. This resulted in farmers trained in market orientation, an increase in the management capacity of farmers and an increase in information, which affects the development of human resources capacities.

Thirdly, through training on the benefits of horizontal and vertical cooperation, and group management, creating a round-table between farmer-supplier of inputs-storage owner-processors-extensions and different visits to processors in these areas, increased participation in the farmer group by 20-30 per cent. This increased the horizontal cooperation and collaboration between farmers, formalization of the peach and apple producers' group and the increased the vertical cooperation. These results affected the development of institutional capacities.

Lastly, an important part is the development of capacities to improve the business environment among VC actors. By promoting production in local and national fairs and preparation and distribution of promotional materials, it is observed an increase and formalization of contractual relations between actors and continuity information of consumers, where 30 per cent of farmers will work with farming contracts.

5. Conclusions

This research shows useful results regarding the economic and financial impact of the capacity development of VC-actors in agriculture production, fruit production, in the region of Dibra and Berat. Both areas have a good tradition in fruit production, respectively Dibra with apple production and Berat with peach production.

Identification and evaluation of VC-actors it is considered very important for assessment of the restrictions and the development capacities of agriculture sector. The five main VC-actors have

been identified for fruit production in the region of Diber and Berat: a) *the financial capacities; b) the human resources capacities; c) the access to sources of knowledge; d) the legal and institutional framework; e) the access to the market for production inputs*.

It has been analysed the development of the capacities of VC actors: the development of financial capacities; development of human resources; development of institutional capacities; and improvement of the relationship between VC-actors to create an appropriate business environment. The results show that development of the capacities of VC actors has been the following impact : a) has been increased the production and income by around 20-30 per cent; b) has been encouraged the creation of a fruit producers groups and the increase the participation in the farmer group by 15-20 per cent; c) has been increased the professional skills of farmers; d) has been encouraged the investment in the farm by 10 per cent, the developing the production capacities, the negotiation power, and the cooperation between VC actors. It has been also increased investment in storage capacities in by 10-15 per cent. The relationship between producers and traders has been based on written contracts. Market analysis and development of an integrated marketing plan will provide increased market access, increase competitiveness and reduction of risk in the market. Also, it is expected that results achieved by the development of VC-actors in these regions will have an impact on other farmers in the area, encouraging investments and increasing cooperation between them.

References

Arisoy, H. (2020). Impact of agricultural supports on competitiveness of agricultural products. *Agricultural Economics (Czech Republic)*, *66*(6), 286–295. https://doi.org/10.17221/416/2019-AGRICECON

Climate Change Post. (2022). *Biodiversity - Albania*. Climate Change Post. https://www.climatechangepost.com/albania/biodiversity/

Dlamini, B. P., Kirsten, J. F., & Masuku, M. B. (2014). Factors Affecting the Competitiveness of the Agribusiness Sector in Swaziland. *Journal of Agricultural Studies*, *2*(1), 61. https://doi.org/10.5296/jas.v2i1.4775

EFSE. (2021). *EFSE supports the financing of small-scale farmers in Albania*. WeBalkans. https://webalkans.eu/en/news/efse-supports-the-financing-of-small-scale-farmers-in-albania/

FAO. (2018). *Small family farms country factsheet*. www.fao.org/family-farming/data-sources/dataportrait/farm-size/en

INSTAT. (2020a). Agriculture Statistics. *INSTAT*, 7. http://www.instat.gov.al/

INSTAT. (2020b). *Gross Domestic Product*. https://doi.org/10.1787/g2d71aef-en

International Trade Administration. (2021). *Albania - Agricultural Sector (AGR)*. The International Trade Administration. https://www.trade.gov/country-commercial-guides/albania-agricultural-sector-agr

Kaplinsky, R., Morris, M., Barrientos, S., Smith, J., & Barnes, J. (2000). A handbook for value chain. *IDRC*, 113.

Latruffe, L. (2010). Competitiveness, productivity and efficiency in the agricultural and agri-food sectors. *OECD Food, Agriculture and Fisheries Working Papers*, *30*, 63. https://doi.org/10.1787/5km91nkdt6d6-en

Pietrobelli, C., & Staritz, C. (2013). Challenges for Global Value Chain Interventions in Latin America. In *Inter-American Development Bank (IDB) Competitiveness and Innovation Division Technical Note: Vol. IDB-TN-548* (Issue May).

Porter, M. E. (1985). Competitive Advantage, Creating and Sustaining Superior Peifonnance. *The Free Press*, 32. https://www.hbs.edu/faculty/Pages/item.aspx?num=193

SANREM. (2021). *Agriculture and Value Chains*. SanremAfrica.Org. https://sanremafrica.org/agriculture-and-value-chains/

Stamm, A., & Drachenfels, C. (2011). Value Chain Development. Approaches and activities by seven UN agencies and opportunities for interagency cooperation. *International Labour Organization*, 45. www.ilo.org/publns

Timpanaro, G., Nowak, A., & Ró˙ Zá Nska-Boczula, M. (2021). *The Competitiveness of Agriculture in EU Member States According to the Competitiveness Pyramid Model*. https://doi.org/10.3390/agriculture12010028

World Bank. (2020). *Agriculture, forestry, and fishing, value added (per cent of GDP) | Data*. The World Bank. https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS

World Bank, & International Finance Corporation. (2018). Competitive Fruit and Vegetable Products in Albania. *World Bank Group*, 11. https://doi.org/10.1596/31193

The Effect of Rhetorical Figures in Bulgarian Advertising Slogans - Methodology of the Research

Tsvetelina Vladimirova

PhD student, University of National and World Economy, Department "Marketing and Strategic Planning", Bulgaria

[lina_vladimirova@unwe.bg,](mailto:lina_vladimirova@unwe.bg)

Abstract

This paper is part of a PhD project which aims to explore to role of rhetorical figures in advertising slogans and the effect they have potential customers. The study's purpose is to present the methodology which will be used in the author's dissertation.

The main goal of the research is to measure the impact the use of rhetorical figures in Bulgarian advertisements has on customers' attitudes. For the purposes of achieving this, the first step was to collect a large sample of advertising slogans. They were found in various media. Slogans were gathered from both old and new media. Advertisements broadcasted in various Bulgarian television and radio programs, as well as ones found online, were used for the study.

The next step of the research was to analyze different aspects of the usage of slogans in Bulgarian advertisements. The length of the slogans, the product category they can be classified into as well as the specific type of rhetorical device they use were all taken into consideration. Conclusions were made about each product category. The frequency of the use of figurative language in every market sphere, the average length of the slogans in it and the type of rhetorical device most frequently employed were all researched.

The final and most important part of the project consists of analyzing customers' opinions of the ads. A sample of people will be presented with two groups of advertising slogans. The first group of slogans relies on the usage of rhetorical figures and the second makes use of words in their literal sense. Respondents will be asked to measure slogans according to various criterion. Participants will rank each slogan's originality, creativity, likability, persuasiveness, memorability and comprehensiveness on a seven-point differential scale.

The results of the study can be very beneficial for marketing specialists. They can help them decode the effect figurative language in ads has on potential customers. With this information, advertisers can decide whether or not to employ the tools of rhetoric when constructing their advertising messages.

Keywords: *Rhetorical figures, slogans, advertising effectiveness.*

JEL classification: M30, M31, M37.

1. Introduction

Nowadays we are witnessing unprecedented exposure to advertisements. Today companies can reach potential customers during any time of the day for a fraction of the price they would have paid as recently as a few decades ago. With the advancement of new technologies, this trend is likely to continue. In the future advertisers will likely have even more precise instruments with which they could target potential buyers.

However, this process poses certain risks. People are presented with such an extraordinary amount of information that they often fail to make sense of it all. As a result, they may reject or ignore it. "Some research results show that 90% of all advertising messages are not paid attention to by recipients, which seriously decreases advertising effectiveness." (Katrandjiev, 2016, p. 86).

What is more, ads can easily be avoided. In the past, households would switch TV channels during commercial breaks. Today, on most websites and mobile applications, ads can be bypassed with the help of apps that block them. On the most popular video-sharing site YouTube, ads need to be viewed for just five seconds before being skipped. This is the time frame advertisers must make use of to win the attention of potential consumers.

In view of all that has been said thus far, we can conclude that nowadays, more than ever before, such advertisements are needed that easily and expeditiously capture the minds of people and leave an imprint on them for as long as possible.

A quick, easy, and cost-effective way to achieve this hefty goal is to apply the tools of rhetoric to advertising slogans. Rhetoric has been known as the science of eloquence since ancient times. Aristotle is viewed as one of the first scholars to address the question of how speech can be made more attractive and convincing.

Rhetoric is a science in itself, but it is also part of every area of our lives, even if we are not aware of it. Elements of rhetoric are present in politics, literature, cinema, theater, debate, our daily conversations and, of course, marketing.

The main goal of rhetoric has remained the same throughout history - to find "how to discover the most effective way to express a thought in a given situation, and how to alter its expression to suit different situation" (McQuarrie and Mick, 1996, p. 424).

Rhetorical figures, also referred to as figures of speech, are elements of rhetoric. The most widely known definition of rhetorical figures is that they are clever deviations from the standard type of language which enhance communication between people (Corbett, 1990; McQuarrie and Mick, 1996).

During the second half of the twentieth century, the connection between advertising and rhetoric was firmly established. Some authors even argue that advertising is essentially rhetoric in

the service of selling products and services (Pracejus et al., 2006). However, even today, the tools of rhetoric are rarely the subject of in-depth analysis in marketing circles. According to McQuarrie and Mick, "rhetorical analysis per se has not yet found its place in the toolkit of consumer researchers" (McQuarrie and Mick, 1993, p. 309).

This paper is part of a PhD project which sets as its goal to explore the role of rhetorical figures in Bulgarian advertising and measure their effectiveness. The present study aims to present the methodology which will be used in the author's dissertation.

More than four-hundred slogans, gathered from various advertising mediums, were classified into eight distinct product categories. Their length, presence and type of rhetorical devices were analyzed. The next step will be to examine the attitudes potential customers have towards rhetoric in advertising with the help of a survey. Participants in the survey will be asked to assess advertising slogans with and without rhetorical figures. The final step of the process will be to analyze the responses and make conclusions about the use of rhetoric in advertising. Principal findings about the impact rhetorical devices have on consumers can be presented in another paper, while the current one will focus on outlining the methodology of the research.

2. Literature Review

First attempts to study the impact figures of speech have on the human mind can be traced all the way back to the hay days of Ancient Greece. In the Roman Empire rhetoric continued to be a prominent topic of discussion among scholars.

During the Middle Ages, however, the subject lost a considerable amount of its popularity, as did many other scientific spheres. Centuries later, classical rhetoric "resurrected" during the Renaissance and established itself as a field that excited a number of brilliant minds. Attempts were made to classify various rhetorical figures. The famous English poet and writer Henry Peacham categorized more than 180 rhetorical devices.

In the 17th century, rhetoric once again fell out of favor in the eyes of most scholars and disappeared almost entirely as a scientific discipline until the early twentieth century (McQuarrie and Mick, 1993).

In the second half of the previous century, humanity witnessed a resurgence of rhetoric. This phenomenon can be attributed to the popularization of radio and television with the help of which politicians, artists and companies could easily convey their messages to millions of people across the globe.

In modern times, the classifications of rhetorical figures prepared by Burke (1950) and Jakobson and Halle (1956) are considered fundamental. Dubois (1970) and Durand (1976) built

upon previous taxonomies of figurative language and developed their own complex and detailed taxonomies.

As scholars became increasingly interested in the way figurative language influences people, the link between rhetoric and advertising was established. It quickly became apparent that marketing specialists relied heavily on the use of figures of speech in their messages.

Stern (1988) examined the use of rhetoric in advertising and concluded that "The presence of imagery woven into figures of speech forms the basis for advertising language's connotative verbal richness." (Stern, 1988, p. 11).

Studies which examined the frequency of the usage of rhetorical devices in advertising found that the majority of advertising slogans rely on figurative language (McQuarrie and Mick (1993), Leigh (1994), Katrandzhiev et al (2016).

Previous research can be classified into two large groups. The first group deals with the usage of rhetorical figures in advertising. It explores subjects such as the frequency of figurative language in the advertising sphere, how often the different types of rhetorical devices are employed and the cross-cultural aspect of advertising rhetoric. The second group attempts to measure the effect figures of speech have on potential consumers.

An overview of the classification of past studies can be seen in Table 1.

Table1. Classification of Previous Studies

	Authors
Usage of Rhetorical Figures in Advertising	Stern (1988); Leigh (1994); McQuarrie and Mick (1992); McQuarrie & Mick (1993); Scott (1994); McQuarrie & Mick (1996); Philips & McQuarrie (2002); Smith (2006); Van Mulken & Kok (2005); Jalilifar (2010); Calzada (2011); A'zam Gharyan (2013), Cui & Zhao (2014), Katrandjiev (2016), Katrandjiev et al (2016), Lick (2016), Sopon & Réka (2018), Pawlak-Hejno (2019), Zhao & Lin (2019), Vasiloaia (2020)
	McQuarrie & Mick (1992), Tanaka (1992); Tom & Eves (1999); McQuarrie & Mick (1999), Toncar & Munch (2001); Lagerwerf (2002); Mothersbaugh et al. (2002); Ahluwalia & Burnkrant (2004); Van Mulken et al. (2005), Ang

The Effect of Rhetorical Figures in Advertising	& Lim (2006); Stella & Adam (2008); Van Enschot et al. (2008), McQuarrie & Mick (2009), Mzoughi & Abdelhak (2011), Chang & Yen (2013), Van Mulken et al. (2014), Theodorakis et al. (2015), Ortiz et al. (2017), Batool et al. (2020)

Source: Developed by the author

This report will focus on the previous studies that attempted to measure the impact figures of speech in advertising have on customers. The majority of past works used surveys as a way to evaluate the effect of rhetorical devices in ads. The way in which these surveys were conducted, however, varied.

Various authors (Tom & Eves (1999), Ang & Lim (2006),) conducted a survey in which they asked respondents to evaluate advertising slogans with and without rhetorical figures on a seven point differential scale. Criterion for assessment included creativity, likability, originality, memorability, etc. By comparing the way respondents evaluated slogans which employed figurative language and ones which did not, conclusions about the usage of rhetorical devices in advertising slogans were made.

3. Methodology or Materials and Methods

The methodology process can be divided into seven distinct stages.

The first stage consists of outlining nine hypotheses about the impact rhetorical devices in advertising slogans have on consumers.

Hypothesis 1 states that rhetorical figures are a tool which is frequently used by advertising specialists in creating slogans.

Hypothesis 2 predicts that the frequency of rhetorical figures in advertising varies varies across product categories.

Hypothesis 3 states that different types of rhetorical figures are used with different frequency in advertising.

Hypothesis 4 predicts that advertising slogans which include a rhetorical figure are perceived as more original.

Hypothesis 5 is that advertising slogans which include a rhetorical figure are perceived as more creative.

Hypothesis 6 states that advertising slogans which include a rhetorical figure are perceived as more persuasive.

Hypothesis 7 predicts that advertising slogans which include a rhetorical figure are perceived as less comprehensive.

Hypothesis 8 states that advertising slogans which include a rhetorical figure are perceived as more likeable.

Hypothesis 9 predicts that advertising slogans which include a rhetorical figure are evaluated as more memorable.

The second stage of the methodology process consists of gathering a large sample of advertising slogans in Bulgaria in order to test these hypotheses. To make accurate and realistic assessments about the advertising sphere, the number of slogans had to be substantial. In total more than 400 slogans were collected. The slogans were found in various mediums, including television, radio, newspapers and magazines, as well as ads from the Internet and ads seen on billboards across Bulgaria.

The slogans included ones in Bulgarian, as well as in English. The presence of slogans in English is evidence of the ongoing process of globalization. Slogans from Bulgarian firms, as well as foreign companies which sell on the local market were analyzed. Whether foreign firms chose to translate their messages or not for consumers poses an interesting question that can be explored in future research.

The third step of the methodology process consists of thoroughly analyzing the sample of slogans. Each slogan was sorted into a product category. Eight product categories were outlined: Foods and Drinks, Fashion, Pharmacy, Technology, Automobiles, Financial Services, Cosmetics and Other. In the "Other" category were sorted advertising slogans which could not be classified into any of the first seven categories. The slogans were divided into product categories in order to make evaluations about each market sphere.

Advertising slogans were classified into two large groups - ones which employed rhetorical figures and ones which did not.

The overall frequency of figurative language in the Bulgarian advertising sphere was established. The frequency with which rhetorical devices were used was calculated for each product category as well. By doing this, useful comparisons about the usage of figurative language in different market segments can be made.

The length of the slogans was evaluated for each product category, revealing which products and services relied on longer slogans.

The final assessment made was what type of rhetorical device was used in the slogans which included one. The most frequently employed figures of speech in advertising were revealed. The top rhetorical devices for each product category were outlined. Conclusions about whether or not marketing specialists have a preference when it comes to certain specific figures of speech were made.

The fourth step of the methodology process consists of developing a questionnaire for a survey.

Three different slogans were selected to be evaluated by respondents.

The first slogan was from the product category "Food and Drinks". The slogan read "water from the heart of the Rhodope mountain". A non-metaphoric version of the slogan was created: "Water from the Rhodope mountain". Respondents were asked to evaluate each of the two slogans.

The second slogan was from the product category "Automobiles." The slogan stated: "Real hybrid. Real SUV". Its literal equivalent was "Hybrid and SUV".

The third slogan was from the product category "Financial services". It read "Don't allow your money to be bored". Its non-metaphoric version was "Use your money".

Participants were asked to assess each of the six slogans on a seven point differential scale. The methodology of assessment is similar to the one developed by McQuarrie & Mick (1992), Tom & Eves (1999) and Ang & Lim (2006).

The slogans were evaluated according to six different criterion. The first criterion was "originality", followed by "creativity", "persuasion", "comprehension", "likability" and "memorability". One was the lowest grade a respondent could chose to measure the slogan with, while seven - the highest.

In Table 2, the seven-point differential scale with which respondents were asked to evaluate advertising slogans is presented:

Table 2: Scale for assessment

Originality	1	2	3	4	5	6	7
Creativity	1	2	3	4	5	6	7
Persuasion	1	2	3	4	5	6	7
Comprehension	1	2	3	4	5	6	7
Likability	1	2	3	4	5	6	7
Memorability	1	2	3	4	5	6	7

Source: Developed by the author

The fifth step of the methodology process consists of carrying out a survey.

The survey will be conducted among undergraduate and postgraduate students from the University of National and World Economy. They will be within the 19-30 age group.

The survey will be conducted online, with the help of the Google Forms platform.

The sixth step and final step of the methodology process is the evaluation of the responses given in the survey. The results will be compared and contrasted against the nine-hypothesis outlined in the first step.

4. Results and Discussions

The first finding of the research was that the majority of Bulgarian adverts do in fact employ one or more rhetorical figures. 78,66 % of the analyzed slogans register the presence of at least one rhetorical device. Thus, Hypothesis 1 which predicted that rhetorical figures are a tool which is frequently used by advertising specialists, was proven correct.

This result falls in line with previous research. In 1993, after inspecting 154 ads from three consecutive issues of the famous American magazine "People", McQuarrie & Mick discovered that 86 % of the ads relied on the tools of rhetoric.

A year later, in 1994, Leigh analyzed a large sample of 2,648 advertisements displayed on the pages of popular American magazines, such as Sports Illustrated, Fortune, Esquire, and others. Leigh found that 74% of the ads surveyed used figurative language.

The frequent emoloyment of rhetorical devices in advertising slogans isn't a phenomenon limited only to the Western world.

In Bulgaria Katrandzhiev et al. (2016) examined 973 advertising slogans and identified the presence of rhetorical figures in nearly 80 % of them. The use of rhetorical tools appears to be a preferred way to gain consumers not only for Western advertising professionals, but also for their Bulgarian colleagues.

In 2018, Sopon & Réka analyzed a substantial number of university slogans and found that the majority of them employed figures of speech. According to their research, the most commonly used rhetorical figures are hyperbole, metaphor, antithesis and personification (Sopon and Réka, 2018).

In 2019, Pawlak-Hejno researched the application of rhetoric tools in the field of digital marketing. She found that rhetorical devices are often used in advertisements found on the Internet. Pawlak-Hejno's conclusion shows that rhetoric is not just an obsolete thing that ancient scholars such as Plato and Aristotle wrote about.

Rhetoric continues to be a tool that can easily be used in today's dynamic marketing environment. The so-called new media are not a barrier to rhetoric, on the contrary, rhetoric can easily be applied to the digital world.

In view of all that has been said thus far, we can conclude that there is a consensus among marketing specialists about the frequency of rhetorical figures in advertising. Rhetorical devices

are a commonly used tool in the promotion of various products and services, regardless of the cultural setting or the type of media in which an advertisement is broadcast.

Within all product categories the majority of advertising slogans employ the use of rhetoric. The percentages however vary. Hypothesis 2, which predicted that different market spheres employ figurative language to a different degree, was proven to be correct.

Rhetorical figures are most frequently used when promoting Foods and Drinks. 91,66 % of the analyzed slogans employ one or more rhetorical device.

The product category which relies on rhetoric the least is Financial Services. Only 66,66 % of the slogans used to popularize various financial tools and services use figurative language.

These findings fall in line with previous research. According to Leigh (1994), the usage of metaphoric language is linked to the product category within which an advert fall.

Katrandjiev et al. (2016) found that the usage of rhetoric varies within each market sphere. According to their research 94 % of advertising slogans used to promote Food and Drinks employed rhetorical devices. By contrast, only 44 % of slogans for Financial services did.

Hypothesis 3, which stated that different rhetorical figures are used with varying frequency in advertising, was proven to be correct. Leigh (1994) concluded that the usage of rhetorical figures in advertising is uneven - some rhetorical devices were very frequently employed, while others such as the polysyndeton were hardly ever used in advertisements.

The most frequently employed rhetorical device among the analyzed slogans was the metaphor. 40 % of the slogans included a metaphor. These results fall in line with previous studies. In 2016, Sopon and Reka analyzed the advertising slogans of various American universities.

The second most preferred by advertisers rhetorical device was found to be the appeal. 16 % of the researched slogans contained appeal within them. The appeal was most frequently employed when promoting products related to technology.

The epithet ranked third among the different types of rhetorical figures. 9 % of the ads made use of it. Hyperbola, anaphora and parallelism were the next most frequently employed rhetorical devices in the analyzed slogans.

The survey which will be conducted among students from the University of National and World Economy is currently being prepared. The obtained results from the survey and the conclusions made from them can be the subject of a future publication.

5. Conclusions and Recommendations

The use of figurative language and the effect it has on the human psyche has intrigued people for centuries. Attempts to explore the link between rhetorical figures and persuasiveness can be traced back to Ancient Greece and some of the greatest minds mankind has produced, such as Plato and Aristotle. Although rhetoric lost a part of its weight and popularity among scholars during some later periods of history, such as the Dark Ages, it has always been a means of influencing communication.

In the second half of the twentieth century, as the advertising industry grew exponentially, marking specialists began to explore the role of rhetoric in advertising. Since the 1990s, there has been a growing body of research dedicated to figurative language in marketing. Previous studies can be classified into two broad groups. The first group of studies analyzes the use of rhetoric in advertising

In the context of globalization, many scholars seek to analyze the intercultural aspect of rhetoric in advertising. There are a number of previous studies that have taken on the ambitious task of comparing the rhetoric of advertising in different countries and illustrating the similarities and differences. Such a study has never been conducted in Bulgaria. Marketing specialists should contrast rhetoric in Bulgarian and foreign ads. Researchers can compare the original texts of ads from foreign companies and their Bulgarian translation to check if some rhetorical devices are "lost in translation".

Another field of research which needs further exploration is the development and metamorphosis of rhetoric in Bulgarian ads. Marketing specialists can trace how figurative language in ads has changed over the last few decades, as well as explore the effect the global pandemic of 2020 had on it.

The second main group of studies attempts to measure the effectiveness of rhetorical figures in advertising.

The most important aspect of ads is their persuasiveness. Scholars should measure the effect rhetorical figures have on potential customers. The first question that needs to be addressed is how effective rhetorical figures are in seizing the attention of customers. Nowadays most of us struggle with information overload and it is more important than ever before for companies to create such ads which quickly win the minds of people.

The second aspect that needs to be analyzed is the extent to which figures of speech can make an advertisement more memorable. Given the constant flow of advertising that we are witnessing, it is crucial that an ad not only captures the momentary interest of consumers, but remains in their minds.

Researchers should analyze the effect rhetorical figures have on consumers' attitudes towards the ad and the brand, as well as if the inclusion of figures of speech makes advertisements more persuasive, original and creative.

Another field of research that needs further exploration is the link between product category and the usage of rhetoric. Do some market spheres rely more heavily on figurative language and if so, why is this the case?

Rhetoric has been a constant companion of humanity throughout history. We can hardly imagine the world without its tools. Marketing specialists should continue to study rhetorical figures and attempt to use them to make ads more creative, persuasive, entertaining and memorable.

References

A'zam Gharyan, A. E. R., (2013), International Advertising Translation and Cultural Differences: a Case of Studying Advertising Slogans and Their Persian Translation. Case Studies Journal, (1), 1-9

Ahluwalia R., Burnkrant R. E,. (2004), Answering Questions about Questions: A Persuasion Knowledge Perspective for Understanding the Effects of Rhetorical Questions, Source: Journal of Consumer Research, Vol. 31, No. 1, 26-42

Ang, S. H., Lim, E. A. C., (2006) The influence of metaphors and product type on brand personality perceptions and attitudes, *Journal of Advertising* 35 (2), 39–53

Batool, S., Iftikar, M., & Mashal, A. (2020). Visual Metaphors in Pakistani Television Commercials: Its Role in Shaping Female Consumer's Perceptions about Brand Image and its Consumption, Liberal Arts and Social Sciences International Journal, 4(2), 145–158

Burke, Kenneth (1950), A Rhetoric of Motives, New York: Prentice Hall

Calzada, M., (2011), Una aproximación empírica a ia clasificación y traducción de las figuras retóricas en la publicidad. Fédération Internationale des Traducteurs 1955, 57(1), 32-57.

Chang Ch., Yen Ch., (2013), Missing Ingredients in Metaphor Advertising:The Right Formula of Metaphor Type, Product Type and Need for Cognition,Journal of Advertising, 42(1), 80–94

Corbett, Edward P. J. (1971), Classical Rhetoric for the Modern Student, Second Edition, New York: Oxford University Press

Cui, Y. and Zhao Y., (2014). Translation of rhetorical figures in the advertising discourse: a case study, International Journal of Society, Culture and Language 2, 57-67.

Dubois, J. Edeline F., Klinkenberg J., Minguet Ph., F. Pire, Trinon H. (1970), A General Rhetoric, Baltimore: Johns Hopkins University Press

Durand, J. (1987), "Rhetorical Figures in the Advertising Image," Marketing and Semiotics: New Directions in the Study of Signs for Sale, ed. Jean Umiker-Sebeok, New York: de Gruyter, 295-318

Jakobson, R. (1967), "Linguistics and Poetics," Essays on the Language of Literature, ed. Seymour Chatman and Samuel Levin, Boston: Houghton Mifflin, 296-322

Jalilifar, A. (2010) The rhetoric of Persian and English advertisements, *The International Journal of Language, Society and Culture* 30, 25–39

Катранджиев, Хр., Велинов, Ив., Радова К., (2016), Реторика на българската реклама – емпирично изследване на употребата на реторични фигури в рекламните слогани, Икономически и социални алтернативи, брой 1, 51-75

(Katrandjiev, Hr., Velinov, Iv., Radova, K., (2016), Retorika na balgarskata reklama - empirichno izsledvane na upotrebata na retorichni figuri v reklamnite slogani, Ikonomicheski i socialni alternativi, broi.1, 51-75)

Katrandjiev, Hr. (2016), Rhetorical Analysis of Tourism Advertising Slogans: An Empirical Study from Bulgaria, *An International Multidisciplinary Journal of Tourism*, Volume 11, Number 1, 86- 118

Lagerwerf, L. (2002) Deliberate ambiguity in slogans: Recognition and appreciation. Document Design 3 (3), 244–260

Leigh, J. H. (1994) The use of figures of speech in print ad headlines, Journal of Advertising 23 (2), 17–33

Lick, E. (2016), Visual Rhetorical Figures in Canadian Advertising: Differences between Anglophone and Francophone Consumer Magazines, International Journal of Marketing and Business Communication, Volume 5, Issue 4, 1-15

McQuarrie, E. F., D. G. Mick (1992) On resonance: A critical pluralistic inquiry into advertising rhetoric. *Journal of Consumer Research* 19 (2), 180–197

McQuarrie, E. F., D. G. Mick (1993) Reflections on classical rhetoric and the incidence of figures of speech in contemporary magazine advertisements, Advances in Consumer Research, Vol. 20, Issue 1, 309–313

McQuarrie, E. F., D. G. Mick (1996), Figures of Rhetoric in Advertising Language, Journal of Consumer Research, Vol. 22, 424–438

McQuarrie, E. F., D. G. Mick (1999) Visual Rhetoric in Advertising: Text-Interpretive, Experimental, and Reader-Response Analyses, Journal of Consumer Research, Vol. 26, No. 1, 37-54

McQuarrie, E. F., D. G. Mick (2009), A laboratory study of the effect of verbal rhetoric versus repetition when consumers are not directed to process advertising, *International Journal of Advertising*, 28(2), 287–312

Mothersbaugh, D. L., B. A. Huhmann, G. R. Franke (2002), Combinatory and separative effects of rhetorical figures on consumers' effort and focus in ad processing, *Journal of Consumer Research* 28 (4), 589–602

Mzoughi N., Abdelhak S. (2011), The Impact of Visual and Verbal Rhetoric in Advertising on Mental Imagery and Recall, International Journal of Business and Social Science, Vol. 2 No. 9 [Special Issue - May 2011], 257 - 267

Ortiz, M. J., Murcia, M. G., & Fernandez, E. (2017). Brain processing of visual metaphors: An electro-physiological study. Brain and Cognition, 113, 117-124.

Pawlak-Hejno E. (2019), Marketing Web Writing and Rhetoric, Linguistische Rhetoric Treffen in Wrocław, Vol. 15, 185–197

Peacham, H., (1954), The Garden of Eloquence, Scholars Facsimilies and Reprint. USA

Phillips, B. J., McQuarrie E. F. (2004) "Beyond visual metaphor: A new typology of visual rhetoric in advertising 113-136." Marketing theory, 4(1-2), 113-136

Pracejus, J W, Olsen, G. D., O'Guinn, T C (2006), How nothing became something: white space, rhetoric, history, and meaning, Journal of Consumer Research, 33 (1), 82–90

Scott, L. M. (1994) Images in advertising: The need for a theory of visual Rhetoric, *Journal of Consumer Research* 21 (2), 252–273

Smith, K. (2006), Rhetorical figures and the translation of advertising headlines, Language and Literature, 15(2), 159-182

Sopon D, , Réka K. (2018), A Linguistic Approach to University Slogans, *Lingua (Language & Culture)*, 2018, Vol. 17 Issue 2, 19-27

Stella, J. R., S. Adam (2008) A reinquiry into the influence of simple and complex tropes in the advertising context, *Journal of Marketing Theory and Practice,* 16 (2), 163–172

Stern, B. B., (1988), How Does an Ad Mean? Language in Services Advertising. Journal of Advertising, 17(2), 3-14

Tanaka, K. (1992) The pun in advertising: A pragmatic approach. *Lingua* 87 (1–2), 91–102

Theodorakis Ioannis G., Koritos Christos, Stathakopoulos Vlasis (2018), Rhetorical Maneuvers in a Controversial Tide: Assessing the Boundaries of Advertising Rhetoric, *Journal of Advertising*, 44(1), 14–24

Tom, G., A. Eves (1999) The use of rhetorical devices in advertising, *Journal of Advertising Research* 15 (3), 39–43

Toncar, M., & Munch, J. (2001). Consumer responses to tropes in print advertising, Journal of Advertising, 30(1), 55-65.

Van Enschot, R., Hoeken, H. and Van Mulken, M., (2008) , Rhetoric in advertising: Attitudes towards verbo-pictorial rhetorical figures, *Information Design Journal* 16(1), 35–45

Van Mulken M., Van Hooft An., and Nederstigt Ul. (2014), Finding the Tipping Point: Visual Metaphor and Conceptual Complexity in Advertising, Journal of Advertising, 43(4), 333–343

Van Mulken, M., I. Kok (2005), Towards a new typology for visual and textual rhetoric in print advertisements, *European Advances in Consumer Research* Vol. 7, 59-65

Vasiloaia M. (2020), *Semantic Ambiguity in Advertising Language,* Vol. 23, Issue 2, 95-99

Zhao, H., Lin, X. (2019). A review of the effect of visual metaphor on advertising response, Advances in Economics, Business and Management Research, Vol. 94, 29-34

The Challenges and Effect of Covid-19 on Management of Tourism Industry

Dr. Zamira Sinaj
Department of Business
University of "Ismail Qemali" Vlore, Albania
sinaj.zamira@yahoo.it

Prof. Asoc. Dr. Fioralba Vela
Head of Business Department
Faculty of Economy, University of "Ismail Qemali" Vlore, Albania
fioralba.vela@univlora.edu.al

Dr. Rezarta Brokaj
Department of Business
University of "Ismail Qemali" Vlore, Albania
rezartab@gmail.com

Abstract

Since April 2019, tourism in the region has almost come to a temporary standstill as a result of the coronavirus disease (COVID-19) pandemic. This temporary paralysis has not only hit Albanian economies and employment hard, but also many countries in all the world. Tourism accounts for half of services exports in Albania and represents significant shares of gross domestic product (GDP) and employment. The tourism industry is one of the most important sectors in the Albanian economy, already considered as an important source of income. The last two years this sector is one of the most affected by the pandemic administrative measures COVID-19 of our government and not only. The situation created by the pandemic is very dynamic and needs relevant studies regarding the impact of coronavirus on the above sector. Through our study we have analyzed data which reflect the impact that COVID-19 has on tourism. We have noticed that there has been a decline in revenue generated by this sector due to restrictions imposed to prevent the spread of coronavirus such as quarantine. The effects of the pandemic have also modified the way consumers make purchasing decisions about tourism. Another important reason has been the decline in tourists as a result of the crisis that has gripped the entire globe.

Key words*: tourism industry, impact of coronavirus, economic crisis, GDP, lockdown.*

2. Introduction

The WTTC (2017) concluded that the global picture of Travel and Tourism's growth forecast of 4% per year for each of the next ten years (on average) masks the fact that the sector faces ever-increasing and unpredictable shocks, from terrorist attacks and political instability, to health pandemics and natural disasters. Each year, new challenges arise to test the resilience of the sector at more local levels. Looking back, this conclusion of WTTC was largely correct. One point however was wrong, namely the use of the phrase 'at local levels.' In their deliberations about critical issues for the future of travel and tourism, WTTC, like the rest of the tourism sector and in fact almost the whole world, could not imagine a global health pandemic with far- reaching consequences. COVID-19 has had and continues to have major impacts on all economic sectors, and perhaps most acutely on tourism, hospitality, leisure, and the arts.

Travel restrictions came into force in 2020. All kinds of social, cultural, and business events were cancelled, tourist attractions, hotels, and restaurants discontinued their services and even national borders in Europe were closed for 'non-essential visits' to neighboring countries. Governments in Europe enforced lockdown policies in various manners and heralded that people 'stay at home.' An unprecedented tourism situation emerged: from a forecasted good 2020 season, to an almost lost season and rather bleak prospects for the years thereafter (Gössling et al., 2020). This paper examines the question of post- COVID-19 tourism in the Western Balkan (WB) region. Tourism is one of the sectors severely hit by the pandemic (OECD, 2020) in the WB. It is an important economic sector in WB, as Table 1 shows. The figures of three major neighbouring tourism destinations are presented as well below.

Table 1. Tourism figures (overnight stay)

Countries	No. inbound (million)	Ratio Inbound / population	% GDP tourism	% arrivals by land of total arrivals
Albania	5.84	1.86	15.5	62
Bosnia and Herzegovina	1.14	0.10	2.4	64
Montenegro	2.08	3.33	22.2	n.a.
North Macedonia	0.78	0.34	3.1	n.a.
Serbia	1.71	0.24	3.8	n.a.
Croatia	16.64	4.48	19.9	89
Greece	30.12	3.34	9.9	29
Turkey	45.76	1.52	4.8	21

Note: UNWTO (2020a), checked with WTTC (2020). Due to various statistical issues, the numbers are merely indicative. Data on Kosovo are not available.

* including domestic tourism

WB tourism has grown far above average European levels during the last decade (OECD, 2018). For Albania tourism is particularly important. Bosnia and Herzegovina, North Macedonia, and Serbia have developed tourism growth strategies. OECD (2018) assessed WB tourism and observed that tourism has been growing rapidly, that WB countries have drafted tourism strategies, have improved destination and product development and have taken steps to attract more international visitors through branding and the liberalization of visa arrangements.

According to OECD (2018), challenges for the tourism sector include tourism governance, product development, tourism education, the quality of accommodation, congress and spa facilities, the high seasonality, various 'institutional constraints,' and good destination governance. OECD warns that the cost-based attractiveness of the WB countries as destinations will be hard to sustain. Lehmann and Gronau (2019) examined why tourism in the WB have grown rapidly, despite the imperfections of its tourism products. Their conclusion is that the tourism standards against which practices are measured are getting outdated and that authenticity is apparently more important than formal quality standards. For Albania, Göler (2018) mentions the country as new destination ('Discover AL') as a main opportunity for further growth and concludes that the 'gold rush mentality' hindering sustainability is a main threat. In other WB countries, a comparable 'gold rush' mentality can be observed, with limited respect for their natural and social environments. One of the results is that UNESCO warned cities that they would be put on the list of endangered sites (Balkan Insight, 2017; 2019). The COVID-19 pandemic appeared in Europe in early 2020.

The pandemic is a potential game changer in tourism and travel (cf. Hall et al, 2020; Gössling et al., 2020). EU governments, airlines, consultants, and researchers all expect that the travel and tourism sector is entering a new era – but nobody knows exactly what kind of era that will be. WB governments and tourism businesses may prefer to believe that tourism will go back to normal, as it was, and it is understandable that they would be highly active in trying to recuperate tourism as soon as travel conditions allow. But thinking that 'things will be the same again' appears odd; COVID-19 led to a deep crisis and leaves marks on all facets of the society and economy. The purpose of this contribution is to discuss the COVID-19 aftermath and to substantiate our claim that a transition for Western Balkan tourism post-COVID-19 is required, in contrast to 'back to tourism business as it was' thinking. This article will briefly discuss the WB tourism situation and its current uncertainties.

It is argued that the COVID-19, experience should not be forgotten when the pandemic is more or less under control and that the tourism sector should use the experience of the COVID-19 crisis for preparing a more sustainable, alternative, tourism sector for several reasons. The first reason is

to build up tourism resilience, which is obviously required. The second has to do with international policies; the EU decided that the Green Deal will be the instrument for economic recovery and the WB is also part of this policy development (as the recent EU-Western Balkans Zagreb Summit showed). Researchers have already defined sustainability issues as a threat to WB tourism (Göler, 2018; Nientied and Shutina, 2018; Bučar, 2017, Alkier et al, 2015). Thirdly, we must heed the saying: 'never waste a good crisis'.

"The COVID-19 pandemic should lead to a critical reconsideration of the global volume growth model for tourism, for interrelated reasons of risks incurred in global travel as well as the sector's contribution to climate change" (Gössling et al., 2020, p.13). Indeed, the COVID-19 crisis compels us to rethink the future of tourism. In several European destinations rethinking tourism futures has already started. For example, the city of Berlin uses the current situation to redevelop the city center towards a more walkable and bikeable area (Corona bike lanes, as they are called in Berlin) to reduce crowded public transport and pollution in the city. After experiencing an empty city, cities like Barcelona, Prague, and Amsterdam are currently discussing a 'reset' of their tourism.[4] Before discussing resilience and a possible transition of WB tourism, the specific character of the COVID-19 impact and the current uncertain situation needs to be depicted.

3. The COVID-19 Situation

Unlike the 2003 SARS outbreak, the Ebola crisis, various natural disasters (Filomena and De Coteau, 2020; Del Valle, 2020; WTTC, 2019; Hall et al., 2020; Gössling et al., 2020), or the Arab Spring (Morakabati, 2019), COVID-19 is a global manifestation, not a national or regional one. Even if they could freely travel, tourists cannot avoid affected regions and go elsewhere like before, since the whole of Europe and the rest of the world has been affected. Furthermore, travel has become more difficult as 96% of all countries have adopted travel bans (UNWTO, 2020b). Because of this global reach, COVID-19 is distinct from any other major occurrence for the tourism sector. After the first COVID-19 wave, many countries eased their travel restrictions, but already in early summer, some restrictions were reintroduced, limiting travel and making travel to holiday destinations uncertain with regards to, for example, an obligatory quarantine. Inbound tourism decreased quite dramatically in WB countries during the spring and summer of 2020. Tourism statistics indicate that the decrease in the number of international tourists during spring 2020 ranged from 80% to over 90%, and during the summer (July) - 40% to 60%. WB citizens also found it difficult to travel abroad because many EU countries imposed restrictive conditions like obligatory quarantine on travelers from WB countries. COVID-19 is a health catastrophe in all its human suffering both inside and outside of hospitals and it has led to a global economic crisis and social crisis with increasing inequalities.

Countries with large tourism sectors in the WB are seriously affected, but countries with smaller tourism sectors will also be affected by the economic recession following the pandemic

(OECD, 2020). The World Bank (2020) suggests that growth in the Western Balkans could plummet by about 5.7 percent in 2020, causing a more severe recession than the global financial crisis. It also suggests that in 2021 the economy will bounce back and show a high rate of growth. A particularly severe recession will affect Montenegro, Albania, and Kosovo. However, World Bank's estimates are based on UNWTO estimates of 30% fewer international tourist arrivals, and this is just a guesstimate. It appeared during the summer that this figure was much higher.

Balkan Insight's (2020) report on tourism in Mostar and Medjugorje (Bosnia and Herzegovina) shows empty hotels and streets in the tourism centers, and companies struggling for survival. It is unavoidable that many tourism entrepreneurs (big and small) lose their business income and many workers in the sector lose their jobs. Wren- Lewis (2020, p.111), who has studied the economic impacts of pandemics, warns that people (tourists) reduce their "social consumption in an effort not to get the disease." Social consumption means that people spend money on doing things that bring people into contact with other people - things like going to the pub, to football matches, or traveling.

This implies that the risk of getting COVID-19 is not a matter of one tourism season. As long as there are no effective vaccine health risks will continue, and people may choose to stay at home or select a destination following health and safety protocols closer to home that they can reach by car. This pattern has been witnessed all over Europe. The impact of COVID-19 on tourism goes beyond health risk considerations and a lost 2020 tourism season; the economic recession will have an impact too. When incomes decrease, spending on holidays and leisure will also decrease. All over Europe, the economic recession that commenced in 2020 has led to higher unemployment and income losses, which will in turn negatively affect international tourism.

The difficulty is that tourism is among the first sectors to be hit by the COVID-19 pandemic and probably the last that will fully recover because travel and leisure will be overtaken by the population's need for food, education, and security in a time of economic and social crisis. The tourism year 2020 is generally consider- ed as a loss, although countries that had modest COVID-19 cases tried hard to attract tourists. Uncertainties for this and coming years are high, depending on the duration of the pandemic. Predictions on impacts of the health and economic crisis vary and, as agencies like the European Central Bank (ECB) stress, reliable forecasts cannot be given.

The impact of COVID-19 and its aftermath on WB tourism will depend on a series of factors, marked by uncertainties that can be grouped into three categories: the duration of the crisis (pandemic control, travel restrictions, reactivation of transportation, the nature of the second COVID-19 wave, etc.); 2) which government support policies are implemented (in WB and outside WB), who will be beneficiaries, how effective these policies will be, and; 3) unknown tourist behaviour in the near future, depending on considerations such as: consumers losing or strengthening their appetite for travel, and the role trust will play among aspiring tourists in nations or regions that are tourism destinations. These three categories of external factors are

complemented by situational factors of destinations, such as the dependency on tourism, adequate destination governance at various levels, and readiness to adapt to emerging tourism behaviour. Some comments on the three categories follow.

4. Western Balkan region main outcomes

The COVID-19 outbreak forced the countries to reorganize their annual budgets increasing significantly the budget regarding the health sector. Western Balkan health system was not prepared to face the pandemic outbreak. Albania has the lowest public spending on health as a share of GDP (2.97%) compared to most South-Eastern European countries. Projections from WHO indicate that for 2020 - 2022 Albania will spend less than 10% on health compared to the overall public budget.

Health care indicators in Kosovo such as the number of nurses per patient and number of beds are among the lowest in Europe. Governments to maintain and stabilize the situation are incentivizing health workers by increasing their payments and offering benefits and have asked any volunteers from students to retired doctors to join the mission. COVID-19 structures have been established in a record time to increase the capacity of patients being treated.

The three graphs below illustrate the current situation as of 31st of January 2021 for New cases, Total deaths, and Active cases per 100,000 population for the Western Balkan countries. It is observed Albania has the lowest death per 100,000 and rates almost at the bottom in new cases. Serbia has a record-high number of active cases and North Macedonia has the highest death rate.

Graph 24: Western Balkan - Situation as of 31st of January per 100,000 population
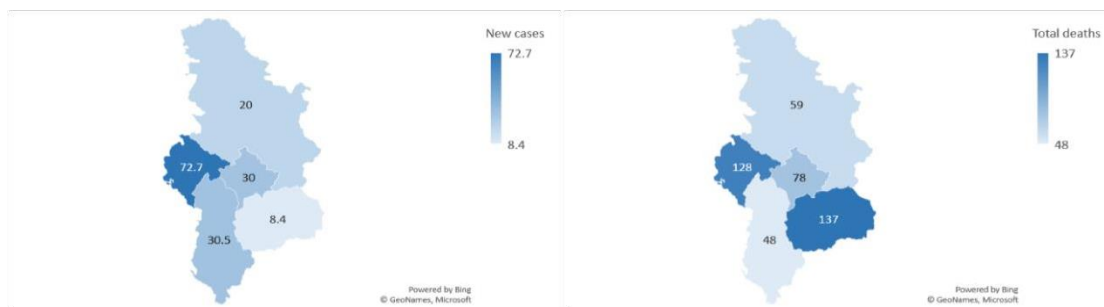
COVID-19 has diverted all the attention of the health sector to patients who have been contaminated and has left few or no resources on patients being treated for other diseases. This situation has caused that many patients have been deprived of health care aids, resulting in deterioration of their health situation. Since all the public health institutions are for treating COVID-19 patients, many people are obliged to move to the private sector to seek the required attention, which for the vulnerable groups hardly can be reached. The number of deaths from non-COVID-19 health issues has increased slightly due to the negligence of other diseases.

The region's current account deficit further increased to 7.2% of GDP in the four quarters to September, the highest level since the second quarter of 2013, as a result of continued strong losses in services exports, such as tourism, as well as, in some cases, decreasing remittances inflows. However, despite the COVID-19 crisis in Albania, the remittances are increasing, emphasizing the importance of the diaspora's role in Kosovo's economy. The fall in employment continued in the third quarter, albeit at a slower pace than in the previous three months. Unemployment rates, in general, did not decline strongly thanks to job support measures but also due to decreased labor market participation.

The support packages issued by the Governments with the sole purpose to mitigate the risk from the pandemic have increased Government expenditure significantly. Due to the crisis, business not operating fully, the Government has not been able to generate revenue to the previous year's levels thus increasing the public deficit. Macro-economic factors such as GDP and the unemployment rate suffered a drastic decrease at the start of the pandemic. Support packages implementation has amended further GDP decrease and has even decreased unemployment rate. World Bank has forecasted that Montenegro has been the most impacted due to its high dependency on Tourism, and Serbia has been the least impacted. As the forecast continues, Montenegro is expected to experience the largest increase in the GDP after the post- COVID situation. Along with a fall in GDP, this led to substantial increases in the public debt- to-GDP ratio in all countries compared to end-2019.

The pandemic has shown the world how unprepared we are to sudden changes emphasizing the gap between developed and developing countries.

5. Conclusions

The pandemic outbreak introduced the world to new normality by changing the environment drastically. The continuity of increasing infected cases with the COVID-19 forced Governments all around the world to impose stricter restrictions. The lockdown and restrictive measures imposed by Governments led to extensive changes to economic, social, and environmental features. The assessments endeavors to convey how the pandemic affected the evolution of SDGs in general and specifically focuses on sectors of health, economy, education, gender equity, environment, and how the Governments of Western Balkans countries reacted to respond to the COVID-19 threats.

Globalization and intersectoral connectivity inevitably impacted the evolution of SDGs but among all the SDG1, SDG2, SDG3, SDG4, SDG5, SDG8, SDG9, SDG10 have been impacted the most. Following that, the assessment indicates that the pandemic drastically impacted the daily life of citizens leaving and habits along with health, social and economic conditions. Relying upon countries' national and international data provision is realized that all inspected countries in similar fashion experienced akin effects. The decision of the lockdown and restricted hours of citizen movements inevitably affected the economic sector of each country illustrated by decreasing percentage rates of GDP. Furthermore, national institutes of statistics showed an increase in unemployment rates, decrease of household income, increase of poverty rate, an increase of Governments financial burden obliged to provide supporting economic packages to support citizens that lost their jobs and avoid the collapse mostly to medium and small micro-enterprises. All these implications, slowdown countries' economies and exposed a lack of economic growth prospects.

In the case of Albania, the already difficult situation experienced to address economic struggles of the November 2019 devastating earthquake, the pandemic exposed and made even more complicated not only economic and social problem but also exposed the fragility of the healthcare systems.

The development of the vaccine showed signs of hope of taking the pandemic under control. However, the Word Data Forum shows that up to 31 January 2021 a small percentage of the population to a few Balkan countries started the vaccination process (Albania and Serbia). Hence the severity and longevity of the pandemic and the slow process of citizens vaccinations, besides economic impediments, are further challenging the already existing social problems on gender inequality, mental illness, and domestic violence.

The pandemic outbreak exacerbated existing inequalities for women and girls across every sphere from health and the economy to security and social protection. Gender equality has been affected during the pandemic, especially with incidences of domestic violence increasing in Western Balkan countries, and they are confined with their abusers and have limited access to healthcare and social support services, in the event, they require urgent assistance.

Also, the pandemic exposed the education systems to an unpreceded challenge. The sudden closure of schools and related educational institutions has disrupted their operationally forcing them to operate online. Countries unprepared with sufficient resources to adapt rapidly to these changes leaving many children with no access to education. It is expected that the dropout rate will increase and vulnerable groups such as children with disabilities or living in the rural areas will be the most impacted. Kosovo has shown the highest poverty levels in South-Eastern Europe, with a 20.7% child poverty rate. The increase in the poverty rate is directly correlated with the ability of children being able to afford the technology to achieve distance learning.

The technological development of remote learning systems has become essential. The study shows that adaptation to distance learning was a major challenge to each country due to difficult adaptation to students and teachers to digitalization activities and unequal technological development and information dissimilation was associated with unequal education accession opportunities and capabilities. For example, countryside education encountered larger difficulties to perform their educational tasks due to lack of technological devices to schools and scholar's capability to own technological facilitation tools to access educations activities by putting adequate education at risk. And these problems become even more evident to vulnerable groups and disabilities because it is unclear how many students with disabilities are receiving satisfactory educational support.

References

ABC España, 2020. El Gobierno Prepara el Escenario de un Verano sin Turismo Exterior por el Coronavirus. [Online] available at: (https://www.abc.es/espana/abci gobierno- prepara-escenario-verano-sin-turismo- exterior-202004082310_noticia.html. [Accessed 11 April 2020].

Alkier, R., Milojica, V. and Roblek, V., 2015. A Holistic Framework for the Development of a Sustainable Touristic Model. International Journal of Markets and Business Systems, 1(4), pp. 366–387

Allan, J., Donovan, C., Ekins, P., Gambhir, A., Hepburn, C., Robins, N., Reay, D., Shuckburgh E. and Zenghelis, D., 2020. A Net-zero Emissions Economic Recovery from COVID-19. University of Oxford, The Smith School of Enterprise and the Environment (SSEE), Smith School Working Paper 20-01

Aramberri, J., Sharpley, R. and Jenkins, C.L., 2017. Tourism's Invulnerability: Lies, Damn Lies and Statistics. In V.S. Singh (Ed.) Challenges in Tourism Research. Bristol, Channel View Publications, pp. 135-160.

Balkan Insight, 2020. Bosnia's Tourist Hotspots Count Losses from Pandemic 'Catastrophe'. [Online] available at: https:// balkaninsight.com/2020/07/24/bosnias- tourist-hotspots-count-losses-from- pandemic-catastrophe. [Accessed 6 August 2020].

Balkan Insight, 2019. UNESCO Warning Jolts North Macedonia Tourism Hotspot.

Tourism in Transition, the Post COVID-19 Aftermath in the Western Balkans 57 58 Peter Nientied, Dritan Shutina

[Online] available at: https://balkaninsight. com/2019/05/24/unesco-warning-jolts- north-macedonia-tourism-hotspot/. [Accessed 15 June 2019].

Balkan Insight, 2017. Uncontrolled Tourism Threatens Balkan UNESCO Sites. [Online] available at: https://balkaninsight. com/2017/04/17/uncontrolled-tourism- threatens-balkan-unesco-sites-04-13-2017/. [Accessed 15 June 2019].

Balkania / Balkan Forum, 2017. *Research on Tourism in the Western Balkans.* Skopje, Balkan Forum.

Ballentyne, R., Moutinho, L. and Rate, S., 2018. Consumer Behaviour in Tourism. In L. Mountinho and A. Vargaz-Sánchez (Eds.) *Strategic Management in Tourism*. Wallongford OX, CABI, pp. 73-86.

Berbés-Blázquez, M. and Scott, D., 2017. The Development of Resilience Thinking. In Butler (Ed.) pp. 9-22.

Biggs, R., Schlüter, M. and Schoon, M.L. (Eds.), 2015. *Principles for Building Resilience: Sustaining Ecosystem Services in Social- Ecological Systems*. Cambridge, Cambridge University Press.

Bigné, E. and Decrop, A., 2019. Paradoxes of Postmodern Tourists and Innovation in Tourism Marketing. In E. Fayos-Solà and C. Cooper (Eds.) *The Future of Tourism, Innovation and Sustainability*. Cham, Springer Nature, pp. 131-154.

Brouder, P., 2020. Reset Redux: Possible Evolutionary Pathways Towards the Transformation of Tourism in a COVID-19 World. *Tourism Geographies*, first published 6 May 2020, DOI: 10.1080/14616688.2020.1760928

Bučar, K., 2017. Green Orientation in Tourism of Western Balkan Countries, In S. Renko and A. Pestek (Eds.) Green *Economy in the Western Balkans*. Bingley BD, Emerald Publishing, pp. 175-209.

Butler, R.W. (Ed.), 2018. *Tourism and Resilience.* Wallingford OX, CABI.

Calgaro, E., Lloyd K. and Dominey-Howes, D., 2014. From Vulnerability to Transformation: a Framework for Assessing the Vulnerability and Resilience of Tourism Destinations. *Journal of Sustainable Tourism*, 22(3), pp. 341-360.

Ciro, A. 2019. Tourism Governance in Albania. An Assessment of the Policy Framework for the Tourism Sector in Albania. *Annual Review of Territorial Governance in the Western Balkans*, I, pp. 69-85.
Ciro, A., Toska, M. and Nientied, P., 2019. Social Innovation and Sustainable Economic Development: Participatory Tourism Destination Management. In M. Finka, M., Jaššo, M. and M. Husár (Eds.) *The Role of the Public Sector in Local Economic and Territorial Development – Innovation in Central, Eastern and South Eastern. Europe*. Cham, Springer, pp. 173-192.

Cohen, A.A., Prayag, G. and Moital, M. 2014. Consumer Behaviour in Tourism: Concepts, Influences and Opportunities. *Current Issues in Tourism*, 17(10), pp. 872-909.
Cheer, J.M. and Lew, A.A., (Eds.), 2018.

Tourism, Resilience and Sustainability, Adapting to Social, Political and Economic Change. Abingdon, Routledge.

Del Valle, A.S., 2020. The Tourism Industry and the Impact of Covid-19, Scenarios and Proposals. Madrid, Global Journey Consulting. [Online] available at: https:// worldshoppingtourism.com/en/the- tourism-industry-and-the-impact-of- the-covid-19-scenarios-and-proposals/. [Accessed 19 April 2020].

EC (European Commission), 2020a. Tourism and Transport in 2020 and Beyond, Brussels, EC, COM(2020) 550 final, 13.5.2020.

Reviewing Recent Evidence of the Effect of Taxes on Economic Growth

Dr. Entela VELAJ

Lecturer,University "Aleksander Moisiu", Faculty of Business, Durres, Albania.
E-mail: entelavelaj@yahoo.com

Abstract

With last Albanian government proposing a variety of new taxes, it is worth revisiting the literature on how taxes impact economic growth. We are all witnesses that from 2013 onwards changes in fiscal laws have occurred more often than ever before. From 2013 to today, many papers have been written about this issue. Some of them use more sophisticated empirical methods to identify a casual impact of taxes on economic growth. The most studies find negative impacts. Below we review new evidence to prove if taxes harm economic growth. The purpose of this paper is to analyze the impact of some different taxes in GDP growth. GDP growth is dependent variable. Independent variables are taxes on international trade (% of revenue), taxes on goods and services (% of revenue), and taxes on income, profits and capital gains.

Keywords: Taxes, Taxation system changes, Economic growth

JEL classification: H2, H21, H25, O4

Literature Review

There have been constant debates on whether tax rates should be increased or decreased to impact the economic development of a country. If only the taxes of commercial companies should be increased and the salary taxes should be reduced, if a progressive system of taxes or a flat system of them is needed. (Congressman Kemp 1979) has said that low taxes would bring an increase in savings, an increase in investments, an increase in employment and thus an increase in income. While (Michael Harrington 1979) has said that lowering taxes will not necessarily make people work more. They can work as before or less and thus their standard of living does not change. According to him, if the tax rates are reduced, both situations can occur, either they work more to

increase income or they work less and stay at the same standard of living. Therefore, as long as it is not known how people will react, we cannot say for sure that the reduction of taxes will bring about an increase in income and the growth of the economy of a country1. Revenues collected from taxes, economic growth, inflation, unemployment, etc. have increasingly become a worrying problem for the economies of different countries.

Karel Mertens and Jose Luis Montiel Olea, 2018, in their study "Marginal Tax Rates and Income" examined the change in personal income tax from 1946 to 2012 and concluded that a 1 percent decrease in tax rate will increase real GDP by 0.78%
Alexander Ljungqvist and Michael Smolyansky, 2018, in the paper "Impact of corporate taxation on employment and wages" after examining the changes that occurred on the corporate taxation rate for the period 1970-2010, reached the conclusion that a 1 percent reduction in the tax rate of corporations increases employment by 0.2% and wages by 0.3%.
Nguyen 2021, in the paper "Macroeconomic Effects of Income Tax and Consumption" examined income and consumption tax changes in England from 1973-2009 and found that a 1 percent decrease in the average income tax rate increases GDP by 0.78%
E. Velaj, Ll. Prendi 2014 studied the factors affecting tax revenues in Albania by referring to data between the period 1993-2013 and reached the conclusion that the increase in GDP will cause the increase in tax revenues.

Methodology

To achieve the conclusions of this study is used the program SPSS. The data also consists of independent variable (GDP growth (annual %) and dependent variable which is Taxes on international trade (% of revenue), Taxes on goods and services (% of revenue) and Taxes on income, profits and capital gains (% of revenue). Pearson coefficient of correlation is used to the extent of relationship among different variables. The analyzed information is provided by World Bank.

The data will be analyzed through the analyses of Beta coefficient. We have used this measure in order to understand the connection between dependent and independent variables. The Coefficient of determination R-square is used to explain the dependent variables in the regression analyses.
 T-statistic is used to identify the significance of each dependent variable with the independent variable and after we use F-test to test the significance of all all independent variables. Standard Error of Estimation (SEE) is used to test the level of confidence and multiple regression analysis. The hypotheses of the research are:

H0: There is no significant relationship between taxes on international trade (% of revenue), taxes on goods and services (% of revenue), and taxes on income, profits and capital gains on GDP growth.

H1: There is a significant relationship between taxes on international trade (% of revenue), taxes on goods and services (% of revenue), and taxes on income, profits and capital gains on GDP growth.

Definitions

GDP growth: Annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2015 prices, expressed in U.S. dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.

Taxes on international trade: include import duties, export duties, profits of export or import monopolies, exchange profits, and exchange taxes.

Taxes on income, profits, and capital gains: are levied on the actual or presumptive net income of individuals, on the profits of corporations and enterprises, and on capital gains, whether realized or not, on land, securities, and other assets. Intergovernmental payments are eliminated in consolidation.

Taxes on goods and services: include general sales and turnover or value added taxes, selective excises on goods, selective taxes on services, taxes on the use of goods or property, taxes on extraction and production of minerals, and profits of fiscal monopolies.

Regression analysis:

Y   dependent variable, (GDP growth (annual %)
TiT   independent variable Taxes on international trade (% of revenue
TgS   independent variable, Taxes on goods and services (% of revenue)
TipC   independent variable, Taxes on income, profits and capital gains (% of revenue)
independent variable,

Y=α+β1TiT +β2TgS+ β3TipC+ε

We have test the data are normal. **If the Sig. value of the Shapiro-Wilk Test is greater than 0.05, the data is normal**. If it is below 0.05, the data significantly deviate from a normal distribution.

The Shapiro-Wilk Test is more appropriate for small sample sizes (< 50 samples). For this reason, we will use the Shapiro-Wilk test as our numerical means of assessing normality. If the **Sig.** value of the Shapiro-Wilk Test is greater than 0.05, the data is normal.

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
GDPgrowth	.149	9	.200[*]	.950	9	.685
Taxes on international trade	.259	9	.082	.846	9	.068
Taxes on income, profits and capital gains	.175	9	.200[*]	.960	9	.793
Taxes on goods and services	.195	9	.200[*]	.873	9	.131
*. This is a lower bound of the true significance.						

Tests of Normality

a. Lilliefors Significance Correction

With the given data we have run the regression for Albania where Y represents the dependable variable and represents the GDP growth (annual %)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.921[a]	**.849**	.758	.517002423753435
a. Predictors: (Constant), Taxes on income, profits and capital gains, Taxes on international trade, Taxes on goods and services				

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.496	3	2.499	**9.348**	**.017[b]**
	Residual	1.336	5	.267		
	Total	8.832	8			
a. Dependent Variable: GDPgrowth						
b. Predictors: (Constant), Taxes on income, profits and capital gains, Taxes on international trade, Taxes on goods and services						

| Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-47.649	20.322		-2.345	.066
	Taxes on international trade	-1.323	.255	-1.249	-5.185	**.004**
	Taxes on goods and services	.849	.320	1.359	2.658	**.045**
	Taxes on income, profits and capital gains	.497	.245	.905	2.028	.098
a. Dependent Variable: GDPgrowth						

From the regression analysis we notice that our model represents 84.9 % of the variation in the values of the dependent variable Y, that can be explained by variation in the value of the independent variables TiT, TgS, TipC and this model is statistically significant (F = 9.348) because the p-value (0.017) is smaller than α=0.05. It is also statistically significant for the independent variable TiT because it has a p- value of 0.004 which is smaller than the α=0.05 taken by us as a point of reference for this study, but is a negative relationship. The independable variable TgS, is

also significant because it has a p-value of 0.045. The independable variable TipC and *constant* are not statistically significant because their p-value are higher then the α under study.

The relationship is explained by the relation:

Y= -1.323TiT +0.849TgS +ε

Below are 3 graphs that show the annual progress of GDP growth with the 3 types of taxes that we have taken in consideration in this studied for the period 2011-2019
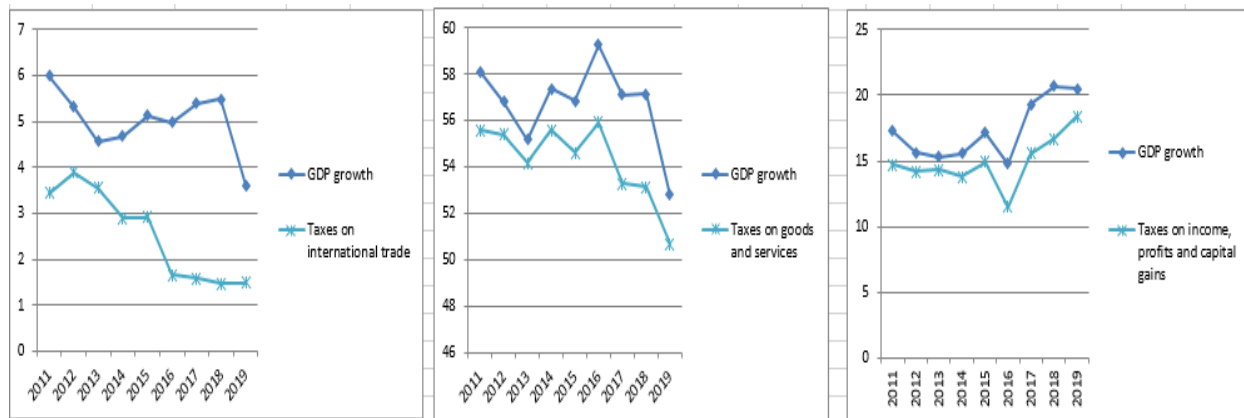
Conclusions

We took into consideration 3 types of taxes for which the data source was the World Bank. Taxes on international trade, taxes on goods and services and taxes on income, profits and capital gains. What is clear from the graphic analysis but also from the regression analysis was that the growth of Albania's GDP went in the opposite direction with Taxes on international trade. While taxes on goods and services and taxes on profits moved in the same direction as GDP growth.

From the regression analysis we notice that our model represents 84.9 % of the variation in the values of the dependent variable Y , that can be explained by variation in the value of the independent variables TiT , TgS , TipC and this model is statistically significant (F = 9.348) because the p-value (0.017) is smaller than α=0.05. It is also statistically significant for the independent variable TiT because it has a p-value of 0.004 which is smaller than the α=0.05 taken by us as a point of reference for this study, but is a negative relationship. The independent variable TgS, is also significant because it has a p-value of 0.045. The independent variable TipC and *constant* are not statistically significant because their p-value are higher then the α under study. So the relationship is explained by **Y= -1.323TiT +0.849TgS +ε**

References

1. Acosta-Ormaechea, S., and J. Yoo. 2012. 'Tax composition and growth: a broad cross-country perspective'. IMF Working Paper WP/12/257. International Monetary Fund.
2. Alexander Ljungqvist & Michael Smolyansky, 2018, "To Cut or Not to Cut? On The Impact of Corporate Taxes on Employment and Income." NBER Working Paper 20753.
3. Arnold J, Brys B, Heady C, Johansson A, Schwellnus C, Vartia L. 2011. Tax policy for economic recovery and growth. The Economic Journal 121(550): F59–F80.
4. Arnold, J. 2008. 'Do tax structures affect aggregate economic growth? Empirical evidence from a panel of OECD countries'. OECD working paper. ECO/WKP(2008)51.
5. Barro R, Lee J. 2013. A new data set of educational attainment in the world, 1950–2010. Journal of Development Economics 104: 184–198.
6. Baunsgaard T, Keen M. 2010. Tax revenue and (or?) trade liberalization. Journal of Public Economics 94(9): 563–577.
7. Blackburne E, Frank M. 2007. Estimation of nonstationary heterogeneous panels. The Stata Journal. 7(2): 197–208.
8. Calerdón C, Moral-Benito E, Servén L. 2011. Is Infrastructure Capital Productive? A Dynamic Heterogeneous Approach, Policy Research Working Paper Series 5682. World Bank.
9. Clemens M. 2015. The meaning of failed replications: a review and proposal. Journal of Economic Surveys. doi:https://doi.org/10.1111/joes.12139. Available at: http://onlinelibrary.wiley.com/doi/10.1111/joes.12139/abstract 31: 326–342.accessed 3 July 2016
10. Ditzen, J. 2016. Xtdcce: estimating dynamic common correlated effects in Stata. In United Kingdom Stata Users' Group meetings 2016 (no. 08).
11. Gunter et al., 2019, "Non-linear Effects of Tax Changes on Output: The Role of the Initial Level of Taxation," NBER Working Paper 26570.
12. Karel Mertens & Jose Luis Montiel Olea, 2018, "Marginal Tax Rates and Income: New Time Series Evidence," *Quarterly Journal of Economics* 133(4), 1803-84.
13. Nguyen et al., 2021, "The Macroeconomic Effects of Income and Consumption Tax Changes," *American Economic Journal: Economic Policy* 13(2), 439-66.
14. Prichard W, Goodall A, Cobham A. 2014. The ICTD Government Revenue Dataset. In ICTD Working Paper 19. International Centre for Tax and development : Brighton
15. Prichard W. 2016. Reassessing tax and development research: a new dataset, new findings, and lessons for research. World Development 80: 48–60.
16. PwC, "Worldwide Tax Summaries," accessed Feb. 1, 2022, taxsummaries.pwc.com.
17. Rebelo S. 1993. Fiscal policy and economic growth. Journal of Monetary Economics 32(3): 417–458.
18. Velaj Entela, Prendi Llambi (2014), Tax Revenue-The Determinant Factors- The Case of Albania, European Scientific Journal, September 2014, Special Edition, Vol. 1, pp.526-531.

Microcredit in Albania and its evolution from an EU perspective

Bardhe Karra

Department of Economics and Business Sciences, "Our Lady of Good Counsel" University, Tirana, Albania- Email address: b.karra@unizkm.al

Egi Kazani

Bachelor of Business Administration, "Our Lady of Good Counsel" University, Tirana, Albania

Elvjon Mecani

Bachelor of Business Administration, "Our Lady of Good Counsel" University, Tirana, Albania

Abstract

This work aims to highlight an instrument of significant importance for the purposes of a country's equitable social growth. It also aims to evaluate its multiple aspects, in order to make it easier to use. Micro-credit has emerged at European level as a crucial policy tool to combat social and financial exclusion, promote self-employment and support micro-enterprises. The EU supports micro-credit and businesses offering this type of operations mainly through the Employment and Social Innovation Program (EaSI) and the European Social Fund (ESF). In the next multiannual framework (2021-2027), the EU's commitment to the microfinance sector should continue through the InvestEU and ESF + programs. Considering the economic crisis and the inequality growing that Europe has had to face in the last few years, the role of microfinance becomes even more important. Micro-credit represents a lifeline or starting point for small entrepreneurs or startups that without this type of access, they would have no way of obtaining. It therefore provides a survival opportunity for businesses that otherwise would not have vital space. An instrument widely used in Western countries, for this reason should be borrowed mainly in developing countries in order to allow more favorable conditions for access to credit and a greater economic and social growth. In this paper will also be highlighted the use of microcredit in Albania; its potential and the importance of careful use of this tool; analyzing in detail the current situation and the advantages for Albania from an European perspective.

Keywords: Microcredit, Economic development, Effects of microcredit, Small business, EU integration

JEL classification: G10, G21, G32, O21

1. Introductory remarks

Microcredit, before being counted among the tools of economic development, is primarily a tool of social development. (Yunus, 2013)

It allows access to financial services to people in conditions of poverty and marginalization. Microcredit is defined as "small amount of credit" aimed at starting a business or meeting emergency expenses for socially and economically vulnerable individuals who are generally excluded from the formal financial sector. In developing countries, millions of families live off the income of their small agricultural enterprises and cooperatives as part of what has been called the informal economy. *(Bisceglia et al, 2021)*

The challenge in accessing bank loans due to the inadequacy or lack of collateral and the size of micro business considered too small by traditional banks, does not allow these productive activities to start and develop free from high interest.

Microcredit programs offer alternative solutions for these microenterprises and are more comparable to honor loans. In the last few years, there have been attempts to spread microcredit (with the appropriate adjustments) even in advanced economies in support of the so-called "the new poor", in other words, not only those who live at or below the subsistence level in developed countries and who may face serious difficulties in case of sudden expenses, but especially for small businesses and artisans who cannot access credit through traditional channels and must therefore turn to social lending or peer-to-peer loans.

Still in the context of developed countries, there are other aspects supported by microcredit: start-ups and support of other economic activities (over 20% of the programs promoted in Italy in 2006 had a relatively high probability of credit repayment), support for university studies (9.5% of programs promoted in Italy in 2006) all this in the fight against financial exclusion.

Imagine 1 – The Definition of Microcredit
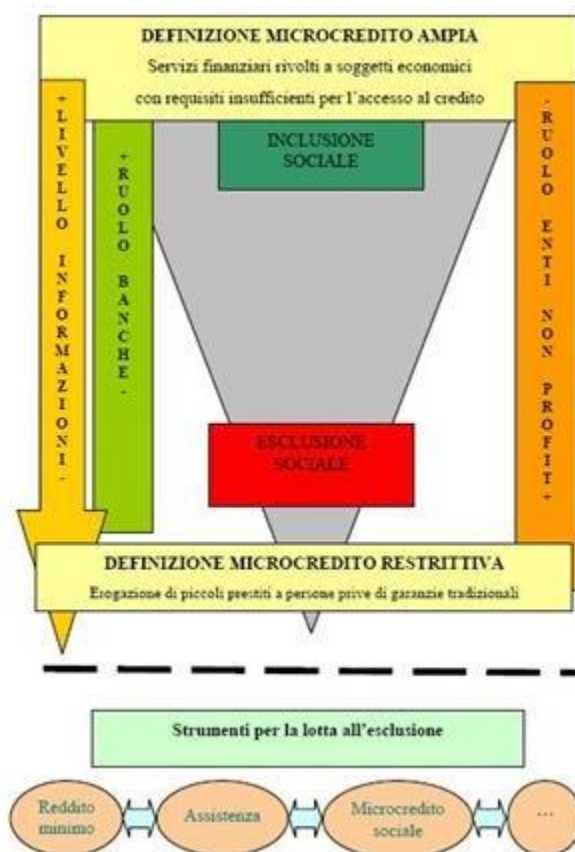
Source: inGenere.it

2. Microcredit in EU

In Europe microcredit has gone under significant development over the last few years. During this time it was created the European Microfinance Network which raises a strong awareness in financial and social inclusion within European, national and local institutions. *(AA.VV., 2019)*

EU supports microcredit and enterprises offering microcredit operations primarily through the Employment and Social Innovation Programme (EaSI) and the European Social Fund (ESF).

For the next time frame (2021-2027), the EU's commitment to the microfinance sector is expected to continue through with the help of programs such as InvestEU and ESF+. The economic crisis and growing inequality that Europe has had to face in recent years has made the role of microfinance and more specifically of microcredit even more important. However, still remains a significative unmet demand of financially excluded individuals and microenterprises in Europe today. *(Bisceglia, 2018)*

2.1 European Microfinance Network

The European Microfinance Network (EMN) is a Brussels-based non-profit organization with 91 members in 25 countries. They envision a society in which those excluded by the conventional banking system have access to a full range of financial and support services, empowering them to finance personal needs, consolidate existing businesses, and start new ventures to improve their lives. EMN's mission is to advocate for transparency and good governance in the European microfinance sector, while developing capacity

building, promoting best practices and fostering research within and beyond the membership. EMN's core membership is made up of microfinance practitioners. These are social purpose organizations delivering financial services to the underserved or facilitating access to such services. The work of the network is also supported by Partners and Corporate Members; organizations such as national networks, academia, service providers to the sector or banks that are involved in European microfinance issues and that support the development of microfinance in Europe.

2.2 EU Programme for Employment and Social Innovation (EaSI)

The Employment and Social Innovation (EaSI) programme is a financing instrument at EU level to promote a high level of quality and sustainable employment, guaranteeing adequate and decent social protection, combating social exclusion and poverty and improving working conditions. For the period 2021 – 2027 the EaSI programme will become a strand under the European Social Fund Plus (ESF+).

Some of the objectives of this program are:

- Strengthen ownership of EU objectives and coordination of action at EU and national level in the areas of employment, social affairs and inclusion.
- Support the development of adequate social protection systems and labour market policies.
- Modernization of EU legislation and ensure its effective application.
- Promote geographical mobility and boost employment opportunities by developing an open labour market.
- Increase the availability and accessibility of microfinance for vulnerable groups and micro-enterprises, and increase access to finance for social enterprises.

During 2014-2020 this programme has used for accomplishing it goals a budget of EUR 919,469,000. The program is managed directly by the European Commission. It brings together three separately managed EU programs: PROGRESS, EURES and Progress Microfinance.

These are their funds divided in percentages:

- the modernisation of social and labour policies with the programm **PROGRESS** (61% of the total allocation)
- professional mobility with the programme **EURES** (18% of the total allocation)
- access to microfinance and entrepreneurship with the programm microfinance and social entrepreneurship (21% of the total allocation).

Graphic 2 – EaSI 2014-2020
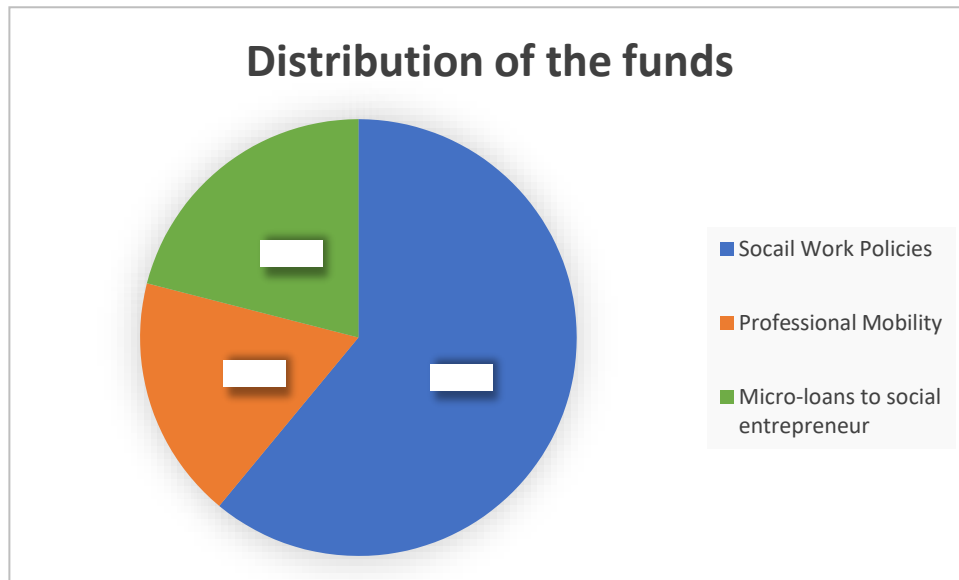
Source: Authors (Data collected in site rivista.microcredito.gov.it)

2.3 European Social Fond

The ESF is Europe's main instrument for supporting jobs, helping people get better jobs and ensuring fairer job opportunities for all EU citizens. It works by investing in Europe's human capital – its workers, its young people and all those seeking a job**.** Their priority is to boost the adaptability of workers with new skills, and enterprises with new ways of working. To focus on improving access to employment: by helping young people make the transition from school to work, or training less skilled jobseekers to improve their job prospects.

Two other important principles guide the functioning of the ESF:

- Co-financing ensures ownership at national and regional level: ESF funding is always accompanied by public or private financing. Co-financing rates vary between 50% and 85% (95% in exceptional cases) of the total project costs depending on the relative wealth of the region.
- Shared management allows for taking responsibility at the appropriate level: ESF guidelines are designed at European level through consultation with a wide variety of stakeholders, and Operational Programmes are negotiated between national authorities and the Commission. Implementation on the ground, through Operational Programmes, is managed by the relevant authorities in each country.

2.4 InvestEU

The InvestEU Programme supports sustainable investment, innovation and job creation in Europe. It aims to trigger more than €372 billion in additional investment over the period 2021-27. The InvestEU Programme builds on the successful model of the Investment Plan for Europe, the Juncker Plan. It will bring together, under one roof, the European Fund for Strategic Investments and 13 other EU financial instruments. This program has three main instruments:

- ✓ The InvestEU Fund aims to mobilise more than €372 billion of public and private investment through an EU budget guarantee of €26.2 billion that backs the investment of implementing partners such as the European Investment Bank (EIB) Group and other financial institutions.

    ✓ <u>The InvestEU Advisory Hub</u> provides technical support and assistance including capacity building to project developers and entities – private and public - helping with the preparation, development, structuring and implementation of investment projects.

    ✓ <u>The InvestEU Portal</u> brings together investors and project promoters on a single EU-wide platform, by providing an easily accessible and user-friendly database of investment opportunities available within the EU.

3. The Role Pruposed for Microcredit

At the strategic level, the most important issues for the future of the economic sector, are related to the financing and sustainability of microcredit programs. In particular, the concept of sustainability expresses the ability of a microfinance institution to survive over time without depending on external aid and donations, so as to be able to guarantee the continuity in order to guarantee the project. In concrete terms, a microfinance institution is said to be operationally sustainable when it is able to cover its operating or running costs and financially sustainable when it is able to cover not only its operating costs, but also the financial costs linked to the acquisition of capital. *(Bisceglia et al, 2021)*

Most institutions in Western Europe are heavily dependent on public and private resources for both operating costs and capital. On the contrary, in developing countries and Eastern European countries, the size of the available market and the application of high interest rates compared to Western levels are the keys to trying to achieve sustainability. In Italy in particular the reasoning cannot disregard the current legislation on credit and usury regulations, still today a non-banking entity cannot directly provide loans or collect savings so the road to operational sustainability cannot be without donations, public contributions, and volunteer work.

In fact, high operating costs represent a very strong limitation to the development of the sector, and the ability to raise capital to disburse loans is the challenge for the future: a future that seems to depend on the creation of a favorable regulatory environment, an increase in the resources to be employed in projects and their dissemination, efficiency and the ability to cover costs. From the lessons of microcredit we could find new insights to improve the microfinance tools that already exist, and seize new challenges and perspectives for a change in the financial system on a global scale. *(Becchetti, 2008)*

Imagine 3 - Microcredit in Europe
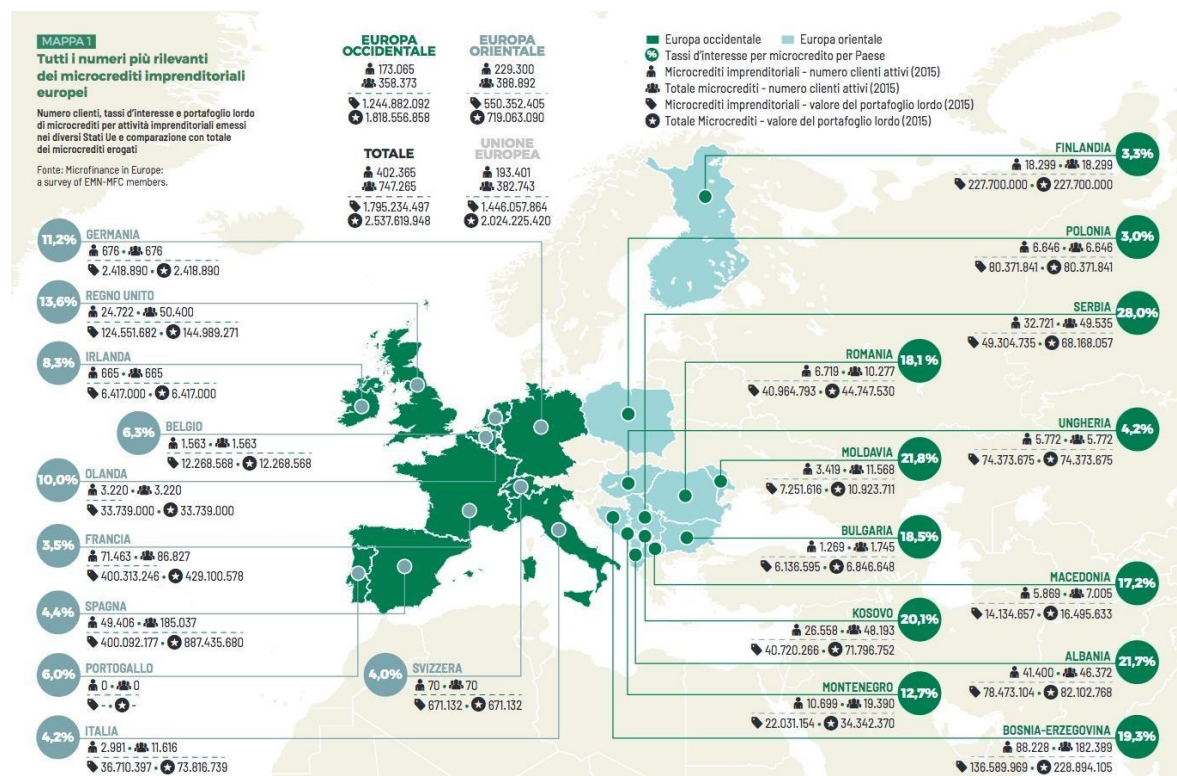
Source: rivista.microcredito.gov.it

4. Microcredit in Albania

In Albania, the microfinance sector supports a wide range of individuals, micro and medium enterprises, and other market segments, with a strong focus on job creation, reducing gender gaps in entrepreneurship, and providing financial solutions in a consistent manner. Financial institutions are divided into two main groups, non-bank financial institutions such as Agro & Social Fund, Crimson Finance Fund Albania, Fondi Besa, IuteCredit Albania, Kredo Finance e NOA, and on the other side the Savings and Loan Associations, which are financial cooperatives represented by FED Invest SHKK e UniFin SHKK. Various institutions have been operating since 1992, when Albania opened up to a free market economy after enduring one of the most feared communist regimes for 45 years. The subsequent development of microfinance in Albania was mainly due to the involvement of the World Bank as a major driver of financial inclusion of the poor through microcredit. At that time, the Albanian economy had almost no private entrepreneurs or companies, as all economic activity was owned by the state. In this context, microfinance has been seen as the most effective way to support a successful transition to self-employment and private ownership. During these years, there have been numerous institutional changes, structural updates, and strategic repositionings. Today they represent a diversified group of players, shareholders and clients, both local and international, with a complete coverage of the Albanian territory and a significant part of the financial market. The microfinance sector has already entered a new phase of its development. It is in line with the social-economic development in the country, as well as the growing demand of the market not only for products and services offering to raise the living standards of individuals and provide support for micro-enterprises, but also to ensure sustainability in the quality of life and the consolidation of local entrepreneurial activities, especially for the families and businesses. *(Niccoli & Presbitero, 2013)*

5. Microcredit post pandemic

During 2020, the market of nonbank financial institutions recorded a slight increase in the loan portfolio with 3% and in absolute value of approximately 1.1 billion LEK which is mainly attributed to lending activities such as microcredit, factoring or financial leasing. The majority of the loan portfolio of non-bank financial institutions is held by lending and microcredit entities (74%). This is followed by the portfolio of financial leasing entities (25%) and the portfolio of factoring entities (1%). The Non-Banking Financial Institutions loan portfolio reached 6% of total credit in the banking system, an increase of 0.3 percent over the previous year. According to the Bank of Albania's 2020 Annual Report, the new loans lent from non-bank financial entities were 75% to businesses and 25% to individuals. Regarding the sectors of the economy with the highest level of funding in 2020 were "Other service activities" with 28%, "Trade, and vehicle repair" with 19%, and "Agriculture" with 10%.

Graphic 4: The loan portfolio situation
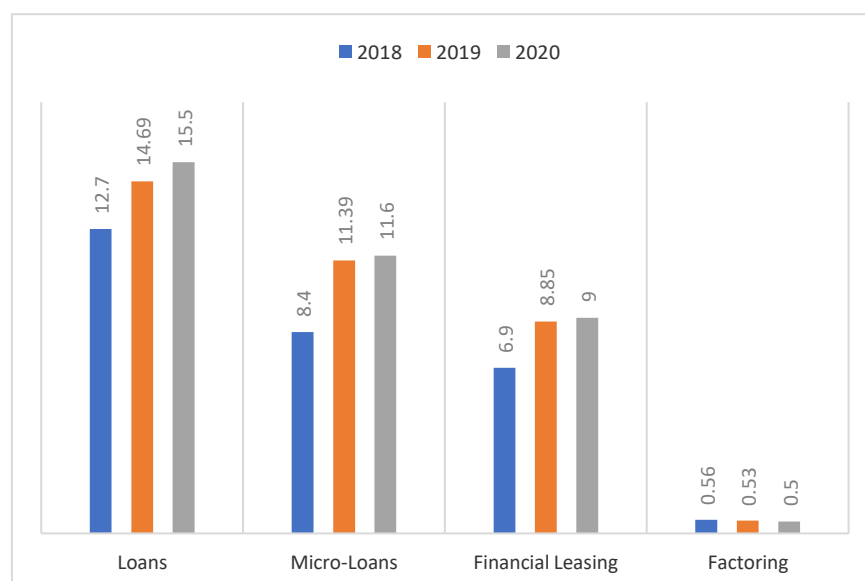
Source: Authors (Data collected from the site Albanian Microfinance Association)

5.1 Agro & Social Fund sh.p.k

Agro & Social Fund's with a staff of 67 employes served more than 2,788 clients in 2020, highlighting a portfolio of 767,886,472 LEK. Compared to 2019, Agro & Social Fund had a 19.3% increase in portfolio volume and an 11.2% increase in the number of active loans. During 2020 in particular moments and special condition for the economy they were able to prepare and bring to market, two new products, which contributed in 17% of the total loan portfolio disbursed in number of loans and 12% of the loan portfolio disbursed in the amount of loans. Bringing to 8 the total of their products. During 2020 they were able to have:

    -Increase volume of active loans by 11.1% in number and 19.3% in value.

    -Increase in the volume of Disbursements by 6.4% in number and 1.7% in value.

    -Increase Cumulative Volume by 7.3% in number and 13.2% in value.

5.2 Crimson Finance Fund Albania

Crimson Finance Fund Albania (CFFA) is a non-banking financial institution licensed by the Bank of Albania. CFFA's mission is to increase access to finance for Albanian small and medium-sized businesses that are underserved by the local financial market, moving this most vulnerable sector toward a sustainable business environment.. In compliance with the Bank of Albania's instructions, CFFA was able to handle 100% of client requests for payment deferrals up to three months, thereby restructuring 55% of its portfolio. Despite the challenges, 2020 marked some significant accomplishments for CFFA, with the capital increase of around 1 million euros. CFFA was able to increase its portfolio by about 28 percent from a year ago, as well as reducing the level of non-performing loans by 3.5 percent. In addition, for the first time since its establishment, CFFA attained to report a positive net financial result, demonstrating a significant improvement in its performance.

5.3 Fondi BESA

Since its inception, Fondi Besa S.p.A, has been continuously at the side of clients, supporting small and medium enterprises in both urban and rural areas throughout Albania. At the end of 2020, Besa Fund has 82 offices across Albania, providing broad and stable coverage, while the number of employees has increased to 608 from 576 in 2019. About 30,000 active customers, exceeding 13,000 loans granted during 2020 with a loan portfolio growth of 2.17%, reaching more than 13.5 billion Lek, these are clear indicators of efforts to serve and grow the number of customers, meeting the needs of the market for financing.

5.4 IuteCredit Albania

IuteCredit Albania, licensed by the Central Bank of Albania as a non-bank microcredit financial institution established its activity by offering loans to the consumers in 2015. The mission of IuteCredit Albania sh.a. is to create a great experience for the costumers. IuteCredit Albania helps all customers with financial services, offering consumers loans without guarantor and have a term ranging from 1 to 36 months. IuteCredit Albania offers loans for car purchase with a maturity of up to 60 months. The company is part of the IuteCredit Europe AS group based in Estonia, and is listed on the Frankfurt Stock Exchange, which is a 100% shareholder of IuteCredit Albania.

5.5 Kredo Financë

Kredo Financë is an innovative company based on FinTech technology, which during 2020 managed to be quite flexible in adapting to the demands of new customers using smart working to performe daily operations without reducing the amount of service offered. Since its establishment, Kredo Financë's goal is to provide financial inclusion in the Albanian market by providing responsible loans to its clients with excellent customer service. Kredo Financë plans to continue its development and further contribute to the country's economy. They will introduce a new application platform that will be 100% online without the need for customers to be present in branches to recive a service. Furthermore, they will continue with the mission to increase the level of Financial Education throughout Albania, as they strongly believe that only with financial education can an individual make informed and fair decisions about their finances and improve their borrowing behavior.

5.6 NOA

NOA Holdings is a small corporation, a leader in the loaning industry, with qualified staff working closely and actively with local management teams in the territory to promote and support all the small, medium businesses for a healthy growth. NOA has continued at all times to serve the needs of Albanian

entrepreneurs, farmers and families. It has funded during 2020 over 1200 farmers with a total of 674 million LEK. During 2020 the total of loans reached 3.419 billion Lek and were served 11,350 clients. The portfolio of actives has reached a growth of 8%. 30% of funded clients are women entrepreneurs and householders. Meanwhile the total of agricultural loan portfolio was increased by 6.5%.

Graphic 5: The loan portfolio situation

Source: Shoqata Microfinanca Shqiptare

6. The Savings and Loan Associations

They are formed on the basis of the voluntary organization where the members deposit their money in the Association, to be lended to its members of the Savings and Loan Association. Albanian law provides that several savings and loan associations may also be organized in an bigger structure called unions. There are currently 16 Savings and Loan Associations and 1 Union operating in Albania, which are regulated by law 52/2016. This law determines the conditions and rules for the establishment, licensing, organization, management, supervision and liquidation of Savings and Credit Associations and its Unions, as well as their supervision form Central Bank in the Republic of Albania. *(Saro, 2019)*

6.1 FedInvest SHKK

FedInvest is the largest savings and loan association in Albania with 29 years of experience, spread throughout the country with 60 physical branches and digital channels, serving members in rural and urban areas, with a diversified range of financial services (loans, deposits, service payments ect) and non-financial (consulting, training, financial education, skills, networking etc.). In response to the consequences caused by COVID-19, with the help of EaSI project, they implemented the first support scheme in agricultural for 250 small farmers in need.

6.2 UniFin SHKK

UniFin Savings and Credit Company is a financial institution, authorized by the Bank of Albania, specializing in granting microcredit and holding deposits of its members. UniFin is a non-profit institution that aims to meet the financial needs of its members in loans and deposits, thus contributing sustainably to the development of the country. During 2020, 2246 loans were granted and 6129 deposits were retained.

Graphic 6: Number of Loans and Deposits in billions of Lek
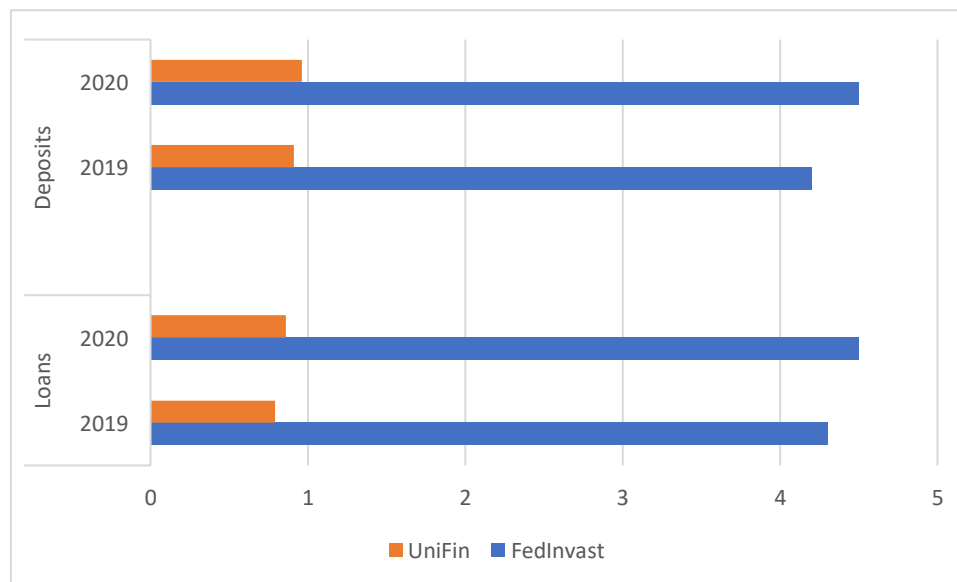
Source: Authors (Data collected from the site Albanian Microfinance Association)

7. A comparison between Western Europe and developing countries

The phenomenon of microcredit acquires different characteristics in developing countries, in Eastern Europe and in the Western European context. For poor countries, this instrument has actually become a form of large-scale access to credit involving large segments of the population. In Eastern European countries on the other hand microcredit represents as the only mean of financing for small and medium-sized enterprises, which do not find the availability of credit and services they need for their growth in a traditional bank. In Europe, the microcredit sector appears young and rather heterogeneous. The organizations involved in the projects are diverse and include banks, non-governmental organizations, associations, public entities, with a strong prevalence of non-profits. This is why microcredit is a tool that industrialized countries use it in a more general context but is addressed to a target population that can be included from the financial exclusion they have experienced. *(Bisceglia, 2019)*

7.1 Europe vs Albania

The earliest legislation on microcredit was introduced in France in 2001, followed by Bosnia and Herzegovina (2006) and Kosovo (2008). The most recent legislations were passed in Montenegro in (2017) and Greece (2020). Although microcredit regulation was passed through different approaches across these countries, a common element is that the supervisor of the non-bank MFIs is always the National Bank. In Albania, Bosnia and Herzegovina, France, Greece, Italy, Kosovo, Montenegro and Portugal, the legislation establishes the scope and rules for microcredit provision and introduces a distinct category for non-bank MFIs.

For years this approach has been in development in different perspective and ways but Covid19 was a hit for some countries and a boom for some others. When lockdowns were imposed, the demand for loans went down significantly as businesses closed and there was great uncertainty about further development of the situation. Among the Polish loan funds, the number of disbursements decreased by 32% on average, corresponding to a 24% drop in terms of the value of disbursements. However, in Albania the number of new applications plummeted by 90% from March–April, but the situation started to improve in May.

To maintain good portfolio quality, MFIs rescheduled the loans of clients in danger of non-repayment. Most MFIs offered a moratorium on a case-by-case basis and most often the repayment of loan principal was suspended for 3 to 6 months. In one of the entities of Bosnia and Herzegovina, the Federation of Bosnia and Herzegovina, over 26,000 requests for moratorium or rescheduling were approved, roughly 16% of borrowers and 24% of the gross loan portfolio. In Albania, members of the Albanian Microfinance Associations (AMA) rescheduled on average 31% of the loan portfolio as a result of the moratorium. In other countries, the numbers ranged from 15% to 64% of clients.

Although maintaining liquidity was a challenge for almost all MFIs, most successfully managed the crisis period. To reduce spending, MFIs moved some staff to technical unemployment and applied for state support to cover salaries. Some MFIs used state waivers on social insurance payments. In some cases, however, employees had to be laid off, with the extreme case of reducing the staff numbers by 38%. Office expenses were reduced because of lower electricity and water bills due to remote work of the personnel. Permanent closure of some branch offices also helped reduce administrative expenses. In Albania, MFIs had to temporarily pay cut the staff by 30% or more.

Graphic 7: Total number of active borrowers by country

	Total				Business microloans				Personal microloans			
	N. of MFIs 2019	N. of MFIs 2018	2019	2018	N. of MFIs 2019	N. of MFIs 2018	2019	2018	N. of MFIs 2019	N. of MFIs 2018	2019	2018
Albania	8	6	161,593	96,587	5	3	44,505	33,068	7	6	117,088	63,519
Belgium	4	3	4,937	2,329	4	3	2,715	2,241	2		2,222	
Bosnia-Herzegovina	16	15	242,002	228,915	9	9	112,237	110,188	8	8	114,594	107,167
Bulgaria	9	7	2,655	2,183	9	7	2,128	1,829	6	4	527	354
France	5	5	138,725	129,139	4	4	112,354	107,581	4	4	26,371	21,558
Greece	3	3	1,891	1,602	3	3	1,285	1,036				
Hungary	7	7	1,438	1,498	7	7	1,438	1,498	0	0	-	-
Italy	13	11	13,911	11,322	10	7	3,932	3,654	10	8	9,979	7,668
Kosovo	9	9	95,091	82,762	6	6	59,483	53,359	5	5	31,687	25,399
Moldova	5	5	79,707	66,317								
North Macedonia	3	3	13,909	13,842	3	3	9,322	9,032	3	3	4,587	4,810
Romania	28	27	71,519	67,088	15	15	10,485	9,730	25	24	61,195	55,684
Spain	2	2	304,300	312,096	2	2	56,158	58,484				
United Kingdom	2	2	1,278	1,167					0	0	-	-
Other countries	13	10	121,781	111,107	15	12	97,162	80,404	6	7	310,016	306,489
East	92	86	793,786	664,776	62	58	328,101	292,950	58	54	390,946	309,136
West	35	29	472,951	463,178	30	23	185,103	179,154	18	15	287,320	283,492
Total	127	115	1,256,737	1,127,954	92	81	513,204	472,104	76	69	678,266	592,628

Source: European Microfinance Network

8. Conclusions

Microcredit gives access to financial support to people in poverty and are excluted from other forms of financial services, defining it as a tool of economic and social development.

In Albania, the microcredit sector supports a wide range of individuals, micro and medium businesses, also other market segments, with a strong focus on job creation, reducion of gender gaps in entrepreneurship, and providing financial solutions in a consistent manner. During 2020, the non-bank financial market experienced a strong increase. According to the Bank of Albania's 2020 Annual Report, the new loans lent from non-bank financial entities were 75% to businesses and 25% to individuals, therefore supporting small businesses and households that would otherwise have been left out of the financial market. Regarding the sectors of the economy with the highest level of funding in 2020 were "Other service activities" with 28%, "Trade, and vehicle repair" with 19%, and "Agriculture" with 10%.

We can assure that the microfinance sector has already entered a new phase of its development. It is in line with the social-economic development in the country, as well as the growing demand of the market not only for products and services that distribute to raise the living standards of individuals and provide support for micro-enterprises, but also to ensure sustainability in the quality of life and the consolidation of local entrepreneurial activities, especially for the families and businesses.

Bibliography and sitography

[1] AA.VV. (2019). "*Microcredito sociale ed imprenditoriale: dati ed analisi dell'evoluzione in Italia*", ECRA Editore, Roma

[4] ADA Microfinance (2020). [online] Aviable: https://www.ada-microfinance.org/en

[4] Albanian Microfinance Assosiation (2020). [online] Aviable: http://ama.com.al/

[4] Agro & Social Fund (2022). [online] Aviable: https://asf.al/en/

[4] Banca Centrale d'Albania (2022). [online] Aviable: https://www.bankofalbania.org/kreu/

[4] Banca Centrale d'Albania (2022). [online] Aviable:

https://www.bankofalbania.org/Supervision/Licensed_institutions/Non-bank_financial_institutions/

[4] Banca d'Italia (2020). [online] Aviable:

https://www.bancaditalia.it/pubblicazioni/qef/2020-0588/index.html?dotcache=refresh

[1] Becchetti, Leonardo. (2008). "*Il Microcredito*", Il Mulino, Bologna

[1] Beltratti A., Russo G. (1990). "*L'andamento dei tassi di interesse in Italia. Applicazioni ai BOT ed ai CCT*", Giuffré Editore, Milano

[2] Bisceglia, Mauro, (2020). *"Systematic Risk Assessment in non-listed Banks", Evolution Journal of life Sciences and Society*; Vol I, Iusse I, July 2020, pp 54-64. ISSN 2708-678X.

[3] Bisceglia, Mauro, (2018). *"Il management di una Banca, nella dinamica dei tassi di interesse", pp. 342-352. Economia, istituzioni, etica e territorio. Casi di studio ed esperienze a confronto*, Franco Angeli, Milano, ISBN 978-88-917-7938-0

[3] Bisceglia, Mauro, (2018). *"Rendimenti attesi e scelte di investimento", pp. 242-256. 07th International Conference "Toward European Union, integration research and innovation" Faculty of Economy,* Aleksander Xhuvani University, Elbasan, Albania, ISBN 978-9928-4477-7-7

[3] Bisceglia, Mauro, (2019). *"*Stochastic aspects in credit management*", pp. 312-323. 09th International Scientific Conference of Business Faculty,* Aleksander Moisiu University, Durres, Albania, ISBN 978-9928-267-19-1

[3] Bisceglia, M; Marcocci, M., (2021). *"*Decreasing investment model for sustainability*", pp. 243-252. 4th UNICART International Conference Academic Research and Tourism "Digital Transition and Green Sustainable Economy",* Malta, ISBN 978-2-931089-15-6

[3] Bisceglia, M; Ilollari, I.; Lako, O., (2021). *"*The Microcredit in Albania. An application with a decreasing rate structure as a function of sustainability*", pp. 341-352. 11th International Scientific Conference of Business Faculty,* Aleksander Moisiu University, Durres, Albania, ISBN 978-9928-4674-1-6

[3] Bisceglia, M; Kazani, E.; Jance, M., (2021). *"*Una fotografia al Sistema Bancario in Albania: osservazioni e considerazioni*", pp. 378-399. 09th International Scientific Conference "Advances in Business, Finance and Law",* Aleksander Xhuvani University, Elbasan, Albania, ISBN 978-9928-321-32-9

[1] Cassese Gianluca, (2017). "*Economia dei mercati finanziari",* Carocci Editore, Roma

[1] Castellani, De Felice, Moriconi, (2005). "*Manuale di finanza*" vol.1, Il mulino, Bologna

[4] Crimson Finance Fund (2022). [online] Aviable: https://cffa.al/en/

[1] De Giuli, M. E.; Giorgi, G.; Maggi, M.; Magnani, U. (2008). "*Matematica per l'economia e la finanza*", Zanichelli, Bologna.

[1] Dermine, J., Bissada, Y. F. (2002). "*Asset and liability management a guide to value creation and risk control*", Pearson education limited, London

[4] Ente Nazionale per il Microcredito [online] Aviable: https://www.microcredito.gov.it/

[4] European Commission (2022). [online] Aviable:
https://erasmus-plus.ec.europa.eu/es/opportunities/organisations/jean-monnet-actions/modulos-jean-monnet

[4] European Commission (2022). [online] Aviable: https://ec.europa.eu/social/main.jsp?catId=1081

[4] European-Microfinance Network (2022). [online] Aviable: https://www.european-microfinance.org/

[4] European Social Fond [online] Aviable: https://ec.europa.eu/esf/home.jsp?langId=en

[4] European Union (2022). [online] Aviable: https://investeu.europa.eu/about-investeu_en

[4] European Union (2022). [online] Aviable:
https://erasmus-plus.ec.europa.eu/es/opportunities/organisations/jean-monnet-actions/modulos-jean-monnet

[4] FED Invest (2022). [online] Aviable: https://www.fedinvest.al/

[4] Fondi BESA (2022). [online] Aviable: https://fondibesa.com/

[1] Forestieri, G., Mottura, P. (2009). "*Il sistema finanziario*", quinta edizione, Egea, Milano

[2] Fraser, D. R., Philips, W., Rose, P. S. (1974). "A Canonical Analysis of Bank Performance", *The Journal of Finance and Quantitative Analysis*

[4] Grameenbank (2020). [online] Aviable: https://grameenbank.org/what-is-microcredit/

[4] Ingenere (2022). [online] Aviable: https://www.ingenere.it/articoli/microcredito-europa

[4] Invest Eu [online] Aviable: https://investeu.europa.eu/about-investeu_en

[4] IuteCredit (2022). [online] Aviable: https://iutecredit.al/

[4] Kredo Finance (2022). [online] Aviable: https://www.kredo.al/

[1] Maddalena Lucia, (2009). "*Matematica*", Giappichelli Editore, Torino

[3] Matz, L., Neu, P. (2007). "Liquidity Risk Measurement and Management: A Practitioner's Guide to Global Best Practices". J Wiley, Singapore

[4] Microcredito (2022). [online] Aviable: https://www.microcredito.gov.it/

[1] Moriconi, F. (1995). "*Matematica finanziaria*". Il Mulino, Bologna

[2] Nelson, C. R., Siegel, A. (1987). "A Parsimonious Modelling of Yield Curves". *Journal of Business*, vol. 60, n. 4, pp. 473-489

[1] Niccoli, A., Presbitero A. F.*,* (2013). "*Microcredito e macrosperanze*", EGEA Editore, Milano

[4] NOA (2022). [online] Aviable: https://www.noafin.al/rreth-nesh

[4] Organizzazione di Cooperazione e Sviluppo Economico (2020). [online] Aviable: https://www.oecd.org/financial/education/oecd-infe-2020-international-survey-of-adult-financial-literacy.pdf

[1] Pederzoli Vittorio, (1989). "*Approcci teorici sulla determinazione dei tassi di interesse*", Giappichelli Editore, Torino

[1] Resti, A. Sironi, A. (2008). "*Rischio e valore nelle banche, Misura, regolamentazione, gestione*", Egea, Milano

[4] Rivista Microcredito (2022). [online] Aviable: https://rivista.microcredito.gov.it/

[3] Sakovich, M., (2002). "Asset-Liability Management in banking as an instrument for minimization of expenses in the implementation of Basilea III requirements"

[1] Saro, Gianfranco. (2019). "*Istruzioni Finanziarie - Basi*", StreetLib, Milano

[2] Simonson, D. Stowe, J. Watson, C. (1983). "A Canonical Correlation Analysis of Commercial Bank Asset/Liability Structures"*, The Journal of Financial and Quantitative Analysis, vol. 18*

[4] UniFin (2022). [online] Aviable: http://www.unifin.al/

[2] Vasicek, O. (1977). "An equilibrium characterization of the term structure", *Journal of Financial Economics*, 5, pp. 177-188

[1] Yunus, Muhammad, (2013). "*Il banchiere dei poveri*". Feltrinelli, Milano

The relevance of Financial Education in evaluation between two countries

Mauro Gianfranco Bisceglia,
Department of Economics and Finance, University of Bari "Aldo Moro", Bari, Italy, Professor of Mathematical Methods of Economics and of Actuarial and Financial Sciences; Email address:
maurogianfranco.bisceglia@uniba.it

Kamela Dedaj
Graduating in Business Economics, Our Lady of Good Counsel University, Tirana, Albania

Doris Vila
Graduating in Business Economics, Our Lady of Good Counsel University, Tirana, Albania

Abstract

With this work we aim to highlight the notion of Financial Education and Financial Literacy that we consider of a great importance for the purpose of an adequate cultural level in a country. We tend to observe this notion through a multidimensional approach. The main objective is to highlight the importance of Financial Education and Literacy; hence, we started by observing countries that have already introduced these issues in a political and social level, and given its importance, have adopted appropriate legislations.

To begin with, we present a general picture of the level of Financial Education in Italy and also in the European Union in order to perform a complete comparative analysis with the situation in Albania. This analysis considers the multiple aspects that Financial Education and Literacy can impact in a country.

This preliminary work, being the core idea of the study, will make it possible to implement a second part in which we intend to address in more detail the main basic points, done through a field survey. This consents us to be able to analyze the real dimension of the financial knowledge in Albania grasping the multidimensionality of its implementation. The results of the survey will allow us to make a pointed assessment with the other realities (Italian and European), but especially is going to highlight aspects of fundamental importance for the growth and development of a society. Components that, at the start, can be integrated in the plan of Financial Education and Literacy in Albania, but can also provide further insights for the stakeholders of civic and political society.

1. Some introductory concepts

According to the Organization for Economic Cooperation and Development (OECD), financial education is a process by which, consumers, savers and investors improve their ability to understand financial products and the concepts behind them. Thanks to it, citizens are capable of better understanding the risks and the opportunities related to financial decisions, who can give them better support, who provide them support to make certain decisions and what actions ought to be taken in order to improve their economical situation. In addition, a solid financial education, protects the citizens in the events of financial crisis and directs them towards more responsible choices, which do not ignore the socio-environmental impact of their investments.

Increasing one's knowledge and competences allows on one hand to seize the right opportunities based on one's financial objectives and on the other hand helps not to fall into deception and to accept financial instruments that do not suit one's needs. *(Bisceglia & Marcocci 2021)*

2. Financial Education in Italy

A first experiment of financial education in Italy was implemented in 2007, by the Bank of Italy, following a memorandum with the Ministry of Education. The final goal and objective of the Bank of Italy with this project regarding Financial Education in the schools has been to introduce specific subjects in the curricula, in particular in the intermediate classes of high schools. However, the program has only involved a small number of institutions.

In 2017 was created at the behest of the Ministry of Economy and Finance e the Ministry of Education, the Committee for the planning and coordination of financial education activities. The Committee aims to launch the first national strategy of financial education. *(Ghisolfi, 2014)*

Moreover, important steps forward have been marked by the launch of the financial education portal and the introduction of the financial education month, which, from 2018, happens every year in October.

Aiming to understand the situation of financial education in Italy, in 2020 the Bank of Italy conducted a study to establish the level of financial literacy. The survey involved almost two thousand adults and has been followed the methodology developed by the Organization for Economic Cooperation and Development (OECD), in which financial literacy is represented by an index that includes three dimensions: knowledge (from 0 to 7 points), behavior (from 0 to 9 points) and attitude (from 1 to 5 points). The index is calculated as the sum of these results and can therefore vary from 1 to 21. A score of 5 in knowledge, 6 in behavior and 4 in attitude (15 in total) is considered to be "sufficient" by the OECD. In this study Italy had a score of *11,2*.

According to the research of the Bank of Italy, the most influential socio-demographic variables on the level mattering financial skills are age and level of education. The level of financial literacy reaches a peak at the age of 40 and then decreases. Among the less competent groups in financial matters are the youth and the over 50. The low financial literacy of young women would be related to the fact that they appear to be less attentive to the issues of precautionary saving.

The most significant variable, however, is education. The level of financial literacy increases with the degree of study. *(Cassese, 2017)*

Based on the level of financial knowledge, the survey divides individuals in:

Excluded: 21% has scarce knowledge. These people are more inclined to spend rather than save up, they demonstrate a scarce participation in the financial markets and a minor recourse to the research of information.

Incompetents: 30.1% of the population has some financial knowledge, which is not sufficient to make prudent decisions. The number of members in this group increases among 55 to 64-year-old people, among retirees and among those with a low level of education.

Competent: 31.7% of the sample. The percentage grows among the graduates, the self-employed and in the age range under 45 years old.

Experts: 17.2% have a level of competence twice that of the average ones. Among them, is the largest percentage of individuals who have purchased financial products in the last 12 months. The percentage is higher among males and graduates.

Between 2017 and 2020 the financial knowledge of the Italians has improved: there has been a reduction in percentage of the excluded and the incompetents; also shown an increasing in the percentage of the competent by about 10 percentage points. The number of experts is increased by less than one percentage point.

Table 1: Financial knowledge of Italians

Groups	Percentage in population		Average knowledge score	
	2017	**2020**	**2017**	**2020**
Excluded	27,5	21,0	1,1	1,0
Incompetents	35,9	30,1	3,2	3,2
Competent	20,2	31,7	4,7	5,0
Experts	16,5	17,2	6,4	6,5
Total	**100,0**	**100,0**	**3,5**	**3,9**

Source: Bank of Italy

To improve the skills of Italians in financial ambit and support them on their choices, various institutions promote financial education initiatives. Among these, the Committee for Financial Education, since 2018 indorses in the Month of Financial Education, initiatives aimed at promoting and diffuse in Italy a major knowledge of financial, insurance and social security issues. *(Righini, 2019)*

3. Financial education at European and Global level

3.1 Policy context and the role of the EBA (European Banking Authority)

- Pursuant to Article 165 of the Treaty on the Functioning of the European Union, EU Member States are responsible for legislating on education and have an exclusive competence in this domain. It means that each country in the EU manages and is responsible for its own education and training system and the implementation of this system. ***Financial education and Financial literacy*** therefore also fall under this Member States' exclusive competence.

- EU policy in these fields is therefore designed to support actions at the national level and to help address common challenges. However, two directives targeting the banking sector adopted by the Council of the EU and the European Parliament, refer expressly to financial education: the directive on the comparability of fees related to payment accounts, payment account switching and access to payment

accounts with basic features, the so-called Payment Accounts Directive (PAD), and the directive on credit agreements for consumers relating to residential immovable property, the so called Mortgage Credit Directive (MCD)

- The PAD in its recital 49 mentions that Member States should promote measures that support the education of the most vulnerable consumers, providing them with guidance and assistance in the responsible management of their finances. Information also needs to be provided regarding the guidance that consumer organizations and national authorities may provide to consumers.

Table 2: A summary of the report published by the EBA on the national good European Union, which reports data between the end of 2014 and the beginning of 2015

Country	Financial Education in the educational offer	National Good Practices
Austria	No	Ministry of Education has been involved in financial education projects. Educational program for children and students on the correct use of the currency. The Austrian National Bank offers various educational instruments for students from 8 to 18 years old.
Belgium	No	In 2013 was created a website for financial education to support citizens' financial choices. Numerous initiatives in the banking sector aimed at primary and secondary school students, new entrepreneurs and the self-employed.
Bulgaria	No	In addition to the banking system, private associations are also occupied with initiatives to increase the financial competence of citizens.
Croatia	Yes	The National Committee for Financial Literacy, coordinated by the Ministry of Finance, has drawn up the "National Strategic Plan for Consumer Financial Literacy 2015-2020", adopted by the government. The ministry of Education introduced in 2014 an interdisciplinary curriculum for "Citizenship Education", that integrates financial literacy into other core subjects.
Cyprus	No	The Association of Cypriot Banks organized public-oriented financial education seminars on basic banking products
Czech Republic	Yes	The National Strategy for Financial Education was adopted in 2010 and consists of two main projects: Initial Education and Adult Education.
Denmark	Yes	Since January 2015, financial education has been part of the Danish school curriculum for students between the ages of 13 and 15 (budgeting, savings and evaluation of various types of loans, consumer rights and economic circuit). The Money and Pension Panel conducts researches on financial behavior and organizes campaigns to improve young people's financial attitudes. The Danish Banking Association develops, in collaboration with mathematics teachers, new teaching materials for financial education.
Estonia	No	Financial Literacy Promotion Program 2013-2020 of the Ministry of Finance. The Financial Supervision Authority runs a website that provides

		reliable and understandable information on all financial services, as well as tests and other games for financial learning.
Finland	Yes	The Federation of Finnish Financial Services has drawn up a national strategy for improving financial literacy. The strategy was launched at the beginning of 2015. Creation of a game (ZALDO) spread in more than 200 classes, which aims to learn the management of personal finances.
France	No	Since 2006, the Ministry of Education has introduced a "common frame of skills and knowledge" that includes early legal notions and support for budget management. Additionally, has also developed financial education programs in high schools.
Germany	No	Due to the federal organization in Germany, school education is managed by 16 Lander and therefore there is no national strategy for financial education. Schools are invited by the National Government to include this teaching in their educational packet.
Greece	No	The Greek Banking Association sustains the program "Banks in Action", implemented in high schools for young people between 15 and 18 years old.
Hungary	Optional	In 2013 was launched the optional program for financial and economic education. The Hungarian Banking Association organizes several programs for adults and young people.
Ireland	No	The National Consumer Agency, created in 2007, develops the adult project "Money Skills for Life". Other training initiatives are held by the Banks in agreement with the schools.
Latvia	Yes	The Government has adopted a National Strategy for Financial Education 2014-2015, managed by governmental and non-governmental stakeholders with three strategic objectives: to strengthen the tradition of planning finances and savings, to ensure the integrity of the financial services environment and to increase the development and sustainability of public finances.
Lithuania	No	The Bank of Lithuania has the task of coordinating the activities of the European Money Week with those that are carried forward in schools for several years.
Luxembourg	No	Participates in the European Money Week. The Banking Association of the country organizes training courses for students between 15 and 18 years old. Many of the banks belonging to the Association offer financial education programs for primary and secondary school pupils as well as for university students.
Malta	Yes	In the secondary schools of the country, some aspects of financial literacy are provided in the teaching of compulsory subjects. The Home Economic Seminar Center organizes seminars for primary and secondary school pupils to increase their level of financial skills and knowledge.
Poland	Yes	Since 2001, the Polish Ministry of Education has introduced financial awareness into the non-compulsory educational offer of primary and secondary schools. For tertiary school has been introduced the compulsory

		subject "Principles of Entrepreneurship"., that includes the financial education
Portugal	Yes	Since 2011, has been introduced the National Plan for Financial Education, with the aim of creating an integrated vision of financial education projects by bringing together the contribution of different stakeholders.
Romania	Yes	The Ministry of Education has introduced the discipline of financial education into the non-compulsory formative offer. The Bank of Romania organizes communication activities, training projects that aim to improve the financial awareness of the public.
Slovakia	Yes	Since the A.Y 2014/2015 financial education is a compulsory subject in Slovakia, not as a separate course, but as an integral part in the various basic subjects in primary and secondary schools.
Slovenia	Yes	The Ministry of Education has included financial education in the home economics course, which is compulsory primary school program. The Slovenian Banking Association has created a website on banking operations addressed to adults.
Sweden	No	The Swedish government has a national strategy for financial education to favor the equal participation of consumers in the financial market. This strategy foresees the implication of private and non-profit organizations in the provision of financial education programs for the public.
Netherlands	No	In 2006 the Government launched the "Money Wise Platform" to reaffirm the importance of financial education and to create a coordination in national level of all the initiatives organized by public and private entities regarding this topic. The Platform organizes the Pension3Day to raise awareness of their social security status.
United Kingdom	Yes	Since September 2014, financial education has been a compulsory subject integrated into the teaching of "Mathematics" for secondary school and the subject "Citizenship Education"

Source: European Banking Authority (EBA)

It has been observed that those countries that have integrated financial education as a school subject and that have integrated educational offers and tools regarding financial education starting from an age range from 8 to 18, have achieved a better level of financial education through the years, as teaching and awareness that starts from the basics, creates further possibilities for development (e.g, Austria and Slovenia)

3.2 Global Financial Education Level Survey 2020

An initiative implemented in the activities of the International Network for Financial Education (INFE), active in the Organization for Economic Cooperation and Development (OECD), has defined a harmonized questionnaire used by 26 countries. *(Saro, 2019)*

The average score across all participating countries and economies is just 12.8 out of a possible 21 and 13.0 for OECD member countries only, showing significant room for improvement.

The averages hide important disparities. Higher scores were achieved by adults in Hong Kong, China (14,8), Slovenia (14,7) and Austria (14,4), for example, while low scores were obtained by adults in Romania

(11,2) and Colombia (11,2). However, even the highest overall financial literacy score (obtained by adults in Hong Kong, China) was only 71,1% of the total, which itself represents a basic level of financial knowledge, financially prudent behavior and some key long-term attitudes towards saving and money handling. Some 13 countries or economies, half of the entire sample of 26, scored in the range of 50%-60% from the total financial literacy score.

Further important heterogeneity exists between the components of financial literacy (knowledge, behavior and attitude) within economies. Some, with relatively high levels of basic financial knowledge, such as Georgia, Poland and Russia, for example, score average when it comes to overall levels of financial literacy due to their financial behavior and attitude scores. Countries such as Thailand (with the highest attitude score in the sample), Indonesia and Malaysia (with the highest and third highest behavior scores) may need to target knowledge to ensure that their populations understand the principles and become more active money managers, and help individuals fully understand the decisions they are making.

4. Financial Education in Albania

4.1 Measuring Financial Inclusion (Albania in comparison with the Western Balkan Countries)

In 2014 was conducted a research aiming to evaluate the state of financial inclusion among the countries of the Western Balkans, using secondary data from World Bank Global Findex Database (2014) through descriptive statistics.

The Global Findex Indicators measure two dimensions of financial inclusion: access to financial services and the use of financial services.

As the Global Findex indicators cover very broad area of topics of individuals' financial behavior, we focus on the following indicators that we believe to be particularly important to stipulate better insight into overall financial inclusion of individuals among Western Balkan countries:

-formal account – holding an account (savings or checking) at financial institution

-formal savings – savings at financial institution

-formal borrowing – loan at financial institution

The indicators in the Global Financial Inclusion (Global Findex) database are drawn from survey data covering almost 150,000 people in more than 140 economies, representing more than 97% of the world's population.

According to the Global Findex database 2014, it can be clearly observed that there is a wide difference in account penetration among Western Balkan countries. The highest levels of formal account penetration can be observed in Croatia (87,50%) and Serbia (83,70%), while the lowest level of account penetration is in Albania (38,24%)

Figure 1: Formal Account Penetration across Western Balkan countries
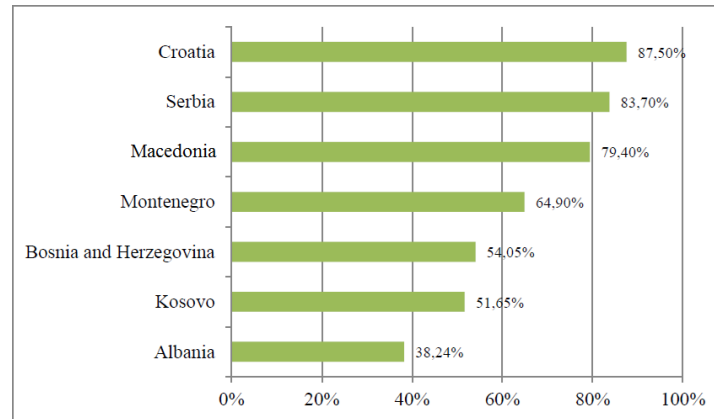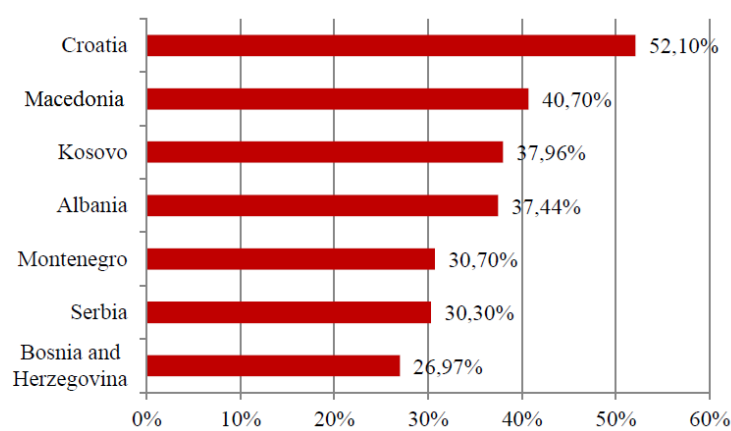
Source: Global Findex Database 2014

Based on a chi-square test of independence that has been conducted, it can be concluded that there is a significant association between having an account at a formal financial institution and gender while studying this aspect in Albania, Bosnia and Herzegovina, Kosovo and North of Macedonia, where it is more likely that males will have an account rather than females.

Survey data also shows variation in savings among Western Balkan countries. The highest level of savings can be observed in Croatia, where more than 50% of the population have saving accounts, while the lowest level of savings is observed in Bosnia and Herzegovina (26,97%). Albania, on the other hand, is in the fourth place, regarding saving accounts (37,44%).

Figure 2: Participation in Formal Saving across Western Balkan countries

Source: Global Findex Database 2014

Another analysis conducted in this survey, regards the participation in borrowing in Western Balkan countries. This analysis showed that the highest level of borrowing is in Croatia, where more than 58% of population have asked for a loan at a financial institution, followed by Albania, where 54,25% of the population have required loans at a financial institution. While the lowest level of borrowing (25,37%) is observed in Bosnia and Herzegovina.

Figure 3: Participation in Borrowing across Western Balkan countries
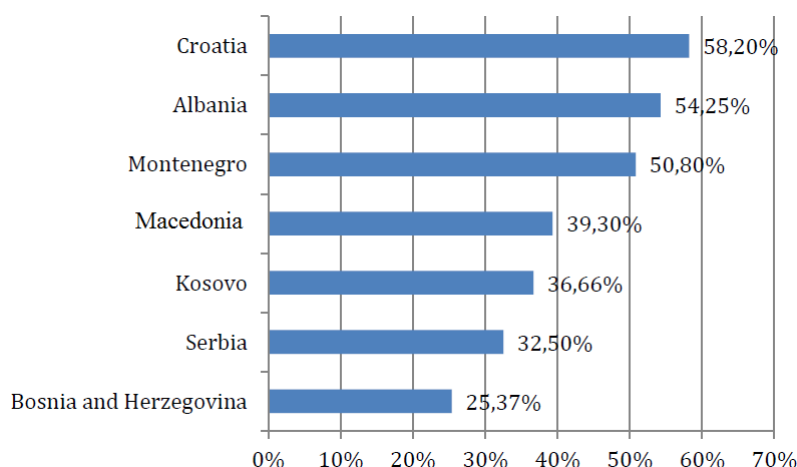
Source: Global Findex Database 2014

A chi-square test of independence shows that there are no significant differences in borrowings based on gender, education level and household income. The only exception is Albania, where there is a significant association between participation in borrowing and income level.

### 4.2. Inquiry on the level of financial education in Albania (2019)

In September 2019 a survey was conducted with 500 participants older than 18-year-old in order to have a general overview regarding the level of financial education in Albania. The inquiry is composed of 3 main chapters: people and their income, non-bank loans and financial education.

The data from this inquiry affirms that 50% of the interviewed are female and the other 50% are male participants, with 55% resident in rural areas and 47% of them from cities of the central region such as Durrës, Elbasan and Tirana.

Most respondents (80%, the majority over the age of 54 years old) admitted that they had not received financial services in the past three years to cover expenses, while 31% of respondents said they were neutral or very positive towards the microfinance sector. Only 9% of respondents, most of whom were aged between 35 to 54 years old and living in urban areas, said they had received non-bank loans.

The two main reasons people use non-bank loans are: the speed and ease to provide information and receiving the asked credit, as well as understanding the loan process. Moreover, the main reasons for spending money according to the survey results are the purchase of cell phones and appliances, home repairs and urgent expenses such as healthcare, but citizens do not prefer to borrow from banks because of their complex procedures and the lack of loans concerning small amounts of credit. *(Bisceglia, 2018)*

49% of respondents admit that their knowledge in terms of financial education is medium to low, especially those aged between 35 to 54 years old and those aged between 18 to 34 years old. 21% of respondents admitted that they do not pay attention to this issue.

Figure 4: The knowledge of individuals in financial terms
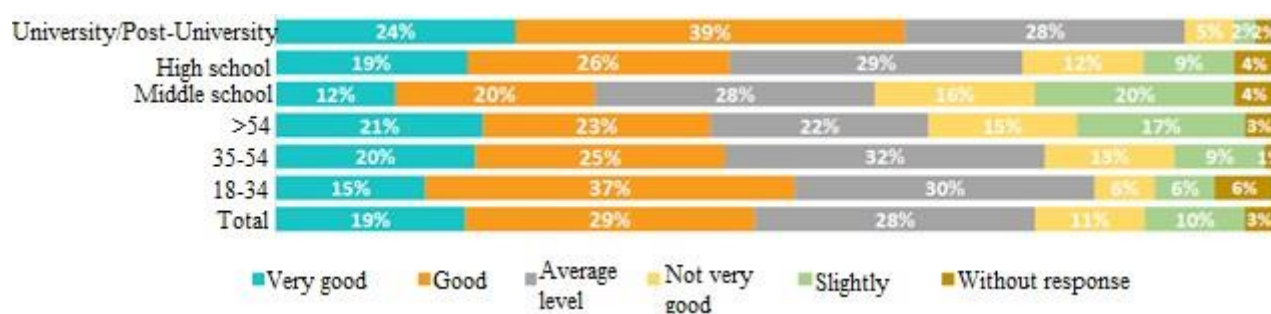
While from the data collected it is observed that only 11% of the interviews is interested in broadening their personal knowledge of financial education in order to be able also to use e-commerce etc., the other 6% are curious to try new financial services.

On the other hand, 51% manage their finances with what they know, while 21% of the interviewed do not pay attention to financial education at all.

From the remaining part of the interviewees, 13% of them think they do not need an education in the financial field, while 7% did not give an answer regarding this topic.

Figure 5: What individuals do to be more financially educated
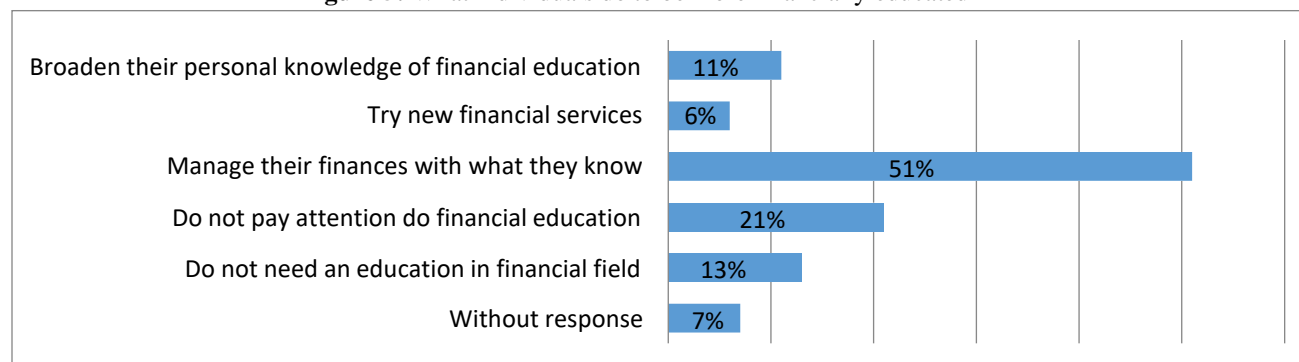
The results of this survey show that financial involvement is made possible through non-bank financial institutions and that there is an immediate need for Financial Education for the entire population.

The survey also demonstrates that a great deal of effort is necessary from all parties involved to contribute to publics' financial education. Only people with an appropriate financial education are able to plan and manage their family budget properly, are able to work on savings and make the right decisions about the best services; while they are choosing between bank loans and non-banking services. *(Bisceglia et al, 2021)*

4.3 Survey 2019 (OECD) - Comparison between countries

In 2019, a survey was carried out in Albania, North Macedonia, Italy, Montenegro and OECD-12 (OECD member states) in order to have a better understanding of the level of financial education in these countries. The results of the survey for Albania were as follows:

1. The financial literacy index in Albania is 11.2 out of 21 (max), lower than the average for countries in 2019.
2. In Albania only 53% of the interviewed model has accurate financial knowledge, behavior and attitudes, compared to the average level of all countries, which is 61%.

3. Lack of financial knowledge have been on issues related to the right estimate and value of capital in a definite or indefinite time, simple or compound interest calculations.
4. 29% of individuals in Albania have the minimum level of financial understanding, which is low compared to the OECD-12 average and that of all countries (53-57%)

Figure 6: Minimum target score in financial knowledge (in percentage)
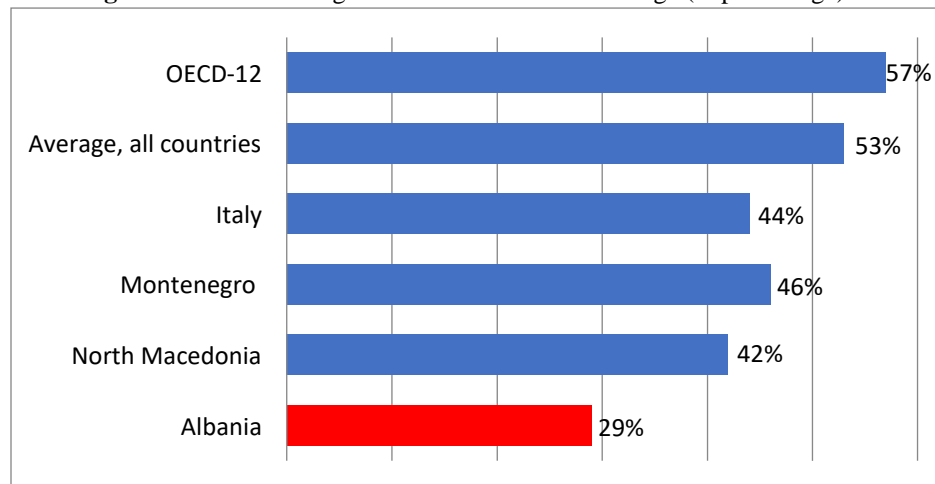
Source: OCSE

5. The most vulnerable groups were:
   • Women

   • Individuals between 60 to 79 years old,

   • Subjects without minimum education

   • Unemployed, inactive and incapable individuals

   • Low income.

Table 3: Percentage of individuals with a minimum of financial knowledge

Total		28.7%
Gender	Women	23.4%
	Men	34.2%
Age	18-29 years	34.9%
	30-59 years	31.9%
	60-79 years	17.4%
Area	Urban	28.2%
	Rural	29.2%
Education	Tertiary level	46.5%
	Secondary level	31.7%

	Basic level	16.6%
	No education	0.0%
Employment status	Self-employed	38.1%
	Employed	38.3%
	Student	54.3%
	House person, economically inactive	16.9%
	Unemployed	20.6%
	Incapable for work	16.7%
Income level	Low level	21.7%
	Medium level	34.1%
	High level	41.5%

Source: OECD

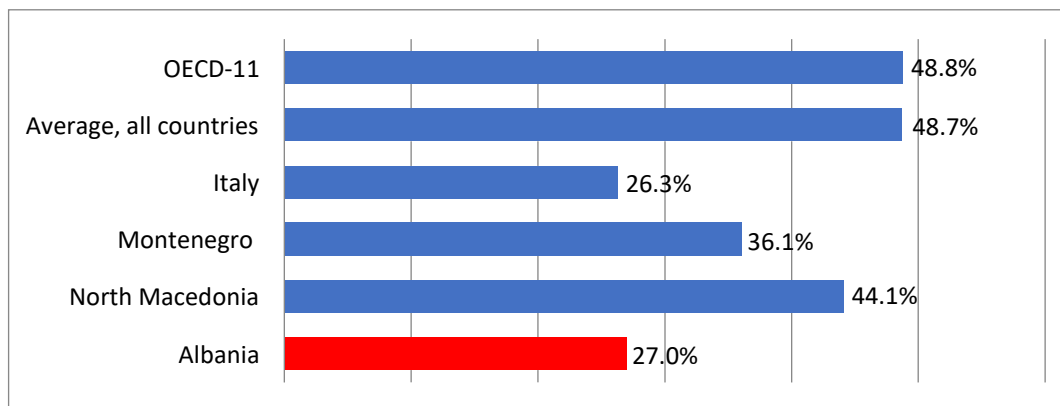6. Albania's financial behavior score is 4.3 (out of 9) below the world average or OECD-11

Figure 7: Financial behavior score
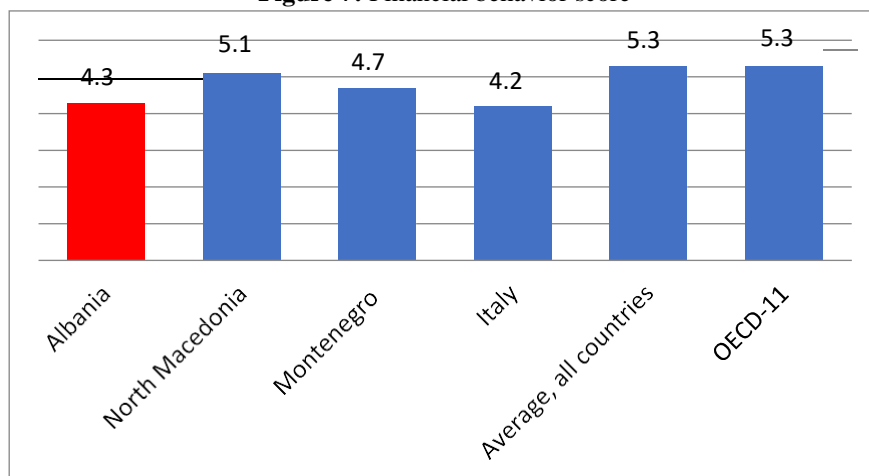
Source: OECD

7. Only 27% of adults in Albania were able to achieve the minimum score of 6 or more.
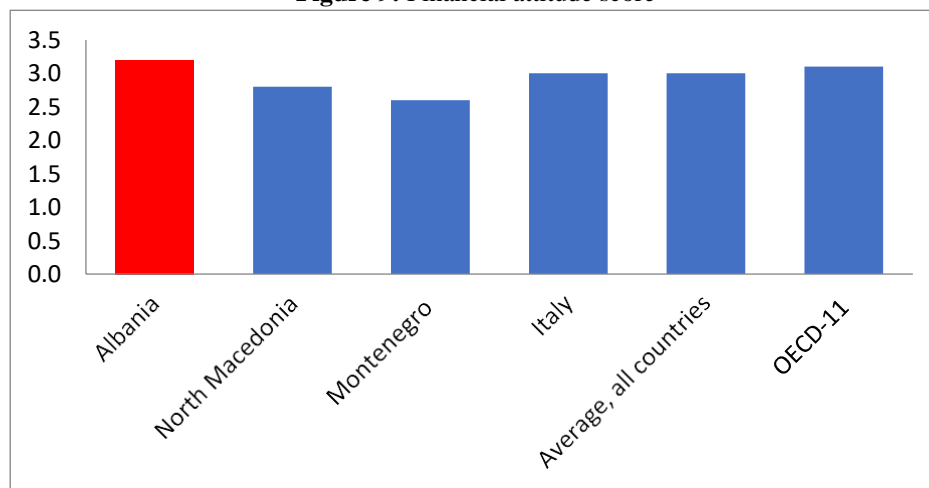
Figure 8: Minimum target score on financial behavior (in percentage)

Source: OECD

8. The financial attitude score in Albania is 3.2 slightly above the average index of all countries.
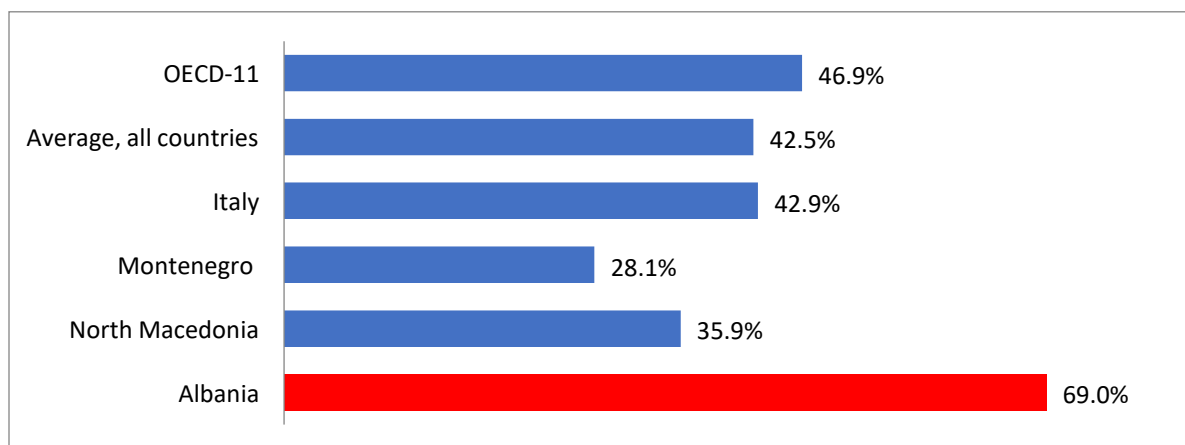
Figure 9: Financial attitude score

Source: OECD

9. Almost 70% of adults in Albania were able to reach the minimum target score of over 3 (out of 5).

Figure 10: Percentage of responses who give correct answer on financial attitude

Source: OECD

Therefore, the data shows a low level of financial literacy and a high heterogeneity between groups, the most vulnerable of which are young people, women, individuals with no primary or lower education, students, the unemployed, the poorest. *(Forestieri & Mottura, 2009)*

Consequently, promoting financial literacy and (digital) financial inclusion are important incentives for Albanian authorities and institutions to achieve the sustainable development goals.

4.4 The role of the Bank of Albania in financial education

Not many thinks "financially" and do not accurately perceive the profits and costs of using bank loans, or the wealth-related effects of home ownership and other similar long-term assets. *(Bisceglia, 2018)*

The reasons behind this behavior are understandable and related to the fact that most of the society acquires information on an incidental basis, hoping that actual failure will become a lesson for the future.

One way to eradicate circumstantial learning is to introduce financial reading at an early stage of education. With this in mind, the Bank of Albania is providing its valuable contribution.

The first strategic financial education station provided by the Bank of Albania was the assessment of needs and the identification of training priorities. From this point of view, this institution considered that it was essential to open the Bank "de facto" to the public.

More frequent communications with the market and its key participants, as well as regular explanations of monetary policy decision making and the balance of risks associated with inflation and financial stability, are some initiatives that are considered very effective in the educational process.

Another important aspect is the identification and division of the population according to its demographic, geographical and cultural characteristics, as financial education is a public good intended for all.

In keeping with the best international experiences, financial education for young people, addressed not only to students but also to their educators, was identified as very important. Its practical implementation was a complex process that required adequate human and financial resources. The methodology of implementation is widely known from face-to-face meetings, interactive games that intrigue children's imaginations, a series of publications with a flexible level of difficulty, training of economy teachers and a tour to various schools in the country.

In this regard, a great contribution was made by the Bank of Albania to high school students with the book: "Personal finance in your hands", which is conceptualized as an elective subject for high schools. *(Moriconi, 1995)*

4.5 Other Albanian institutions that promote financial education

The Albanian Network for Financial Education (ANFE), is an organization established in 2018, which is supported by ten financial institutions and organizations representing market operators:
• Albanian Association of Banks
• Albanian Association of Insurers
• Albanian Microfinance Association
• Albanian Association of Life Insurance
• Pension and investment funds
• Securities Trading Association
• Albanian stock exchange ALSE
• Junior Achievement of Albania
• Albanian Partners for Change and Development
• National Youth Service
• German Sparkassenstiftung in Albania

The main mission of this network of organizations is to contribute to improving the level of financial education in Albania by raising awareness, supporting and promoting the activities organized by the participating organizations for this purpose.

Another Albanian authority, the Financial Surveillance Authority (MFA), has as its main priority to continuously inform the public about the financial sectors under the supervision of the same authority. AMF aims to achieve this through:

• The development of an educational program, which aims to broaden the knowledge of different interest groups;

• The creation of informative and educational publications aimed at making consumers aware of the non-banking financial market, its functioning, the actors, the products and the services offered;

• The active presence of this institution and the experts in the written and visual media who participate in the dialogue between the interest groups for the development of the insurance market, the capital market and investment funds and voluntary private pensions.

5. Conclusions

Being financially educated is essential in order to understand how to "take care" of the money, how to become more informed and make decisions wisely and reasonably and how to improve the standard of living. It has been observed that financial knowledge grows proportionally with the increase in the level of education and personal training. Therefore, most countries are committed to implementing new strategies, regulations and ways of financially educating their citizens in order to increase the level of financial literacy.

Regardless of some strategies adopted in Albania, which have brought about improvements in financial education, its level remains quite low. One of the efficient ways that could lead to progress in this area would be to regulate through an appropriate legislation and guidelines the necessity to educate Albanian citizens in the financial field, achieved by an implementation of subjects related to economics and finance not only in Economic Universities, but also in middle and high schools, so that education can start from the ground up.

In addition, it is essential to nationally develop strategies and organize more activities that promote the importance and need to be financially educated. In a way, the improvement of one's financial education takes place from the commitment of each individual to study and get informed on topics and latest news concerning finance. *(Bisceglia et al, 2021)* Reading newspapers and articles related to this sector, relying on the knowledgeable and expert voice of online financial newspapers and creating your own library with volumes on the world of finance will help you develop a critical knowledge and awareness to have a greater awareness on how to invest your savings and underlying risks that such actions enclose.

Bibliography and sitography

[4] Albanian Microfinance Assosiation (2020). [online] Aviable:

http://ama.com.al/wp-content/uploads/2020/10/AMA_Raporti_Vjetor_2019_anglisht.pdf

[4] Albanian Microfinance Assosiation (2020). [online] Aviable:

http://ama.com.al/wp-content/uploads/2020/10/Prezantim_Financial_Literacy_23_10_19.pdf

[4] Autorità Bancaria Europea (2020). [online] Aviable:

https://www.eba.europa.eu/sites/default/documents/files/document_library/News%20and%20Press/Press%20Room/Press%20Releases/2020/EBA%20identifies%20trends%20and%20lessons%20learned%20in%20financ

ial%20education%20and%20literacy%20initiatives%20in%20its%20second%20Financial%20Education%20Rep

ort/EBA%20Financial%20Education%20Report%202019-2020.pdf

[4] AMF (2020). [online] Aviable:

https://amf.gov.al/pdf/publikime2/mbikeqyrje/RAPORTI_MBIKEQYRJES_2020_23tetorfinal.pdf

[3] AA.VV., (2016). "L'asset allocation in presenza di tassi di interesse negativi", *I quaderni di minerva bancaria*, *Minerva Bancaria*

[4] Banca Centrale d'Albania (2020). [online] Aviable:

https://www.bankofalbania.org/Supervision/Licensed_institutions/Non-bank_financial_institutions/

[4] Banca d'Italia (2020). [online] Aviable:

https://www.bancaditalia.it/pubblicazioni/qef/2020-0588/index.html?dotcache=refresh

[1] Beltratti A., Russo G. (1990). "*L'andamento dei tassi di interesse in Italia. Applicazioni ai BOT ed ai CCT*", Giuffré Editore, Milano

[2] Bisceglia, Mauro, (2020). *"*Systematic Risk Assessment in non-listed Banks*"*, *Evolution Journal of life Sciences and Society*; Vol I, Iusse I, July 2020, pp 54-64. ISSN 2708-678X.

[3] Bisceglia, Mauro, (2018). *"*Il management di una Banca, nella dinamica dei tassi di interesse*"*, pp. 342-352. *Economia, istituzioni, etica e territorio. Casi di studio ed esperienze a confronto*, Franco Angeli, Milano, ISBN 978-88-917-7938-0

[3] Bisceglia, Mauro, (2018). *"*Rendimenti attesi e scelte di investimento*"*, pp. 242-256. *07th International Conference "Toward European Union, integration research and innovation" Faculty of Economy,* Aleksander Xhuvani University, Elbasan, Albania, ISBN 978-9928-4477-7-7

[3] Bisceglia, Mauro, (2019). *"*Stochastic aspects in credit management*"*, pp. 312-323. *09th International Scientific Conference of Business Faculty,* Aleksander Moisiu University, Durres, Albania, ISBN 978-9928-267-19-1

[3] Bisceglia, M; Marcocci, M., (2021). *"*Decreasing investment model for sustainability*"*, pp. 243-252. *4th UNICART International Conference Academic Research and Tourism "Digital Transition and Green Sustainable Economy",* Malta, ISBN 978-2-931089-15-6

[3] Bisceglia, M; Ilollari, I.; Lako, O., (2021). *"*The Microcredit in Albania. An application with a decreasing rate structure as a function of sustainability*"*, pp. 341-352. *11th International Scientific Conference of Business Faculty,* Aleksander Moisiu University, Durres, Albania, ISBN 978-9928-4674-1-6

[3] Bisceglia, M; Kazani, E.; Jance, M., (2021). *"*Una fotografia al Sistema Bancario in Albania: osservazioni e considerazioni*"*, pp. 378-399. *09th International Scientific Conference "Advances in Business, Finance and Law",* Aleksander Xhuvani University, Elbasan, Albania, ISBN 978-9928-321-32-9

[1] Cassese Gianluca*,* (2017). "*Economia dei mercati finanziari",* Carocci Editore, Roma

[1] Castellani, De Felice, Moriconi*,* (2005). "*Manuale di finanza*" vol.1, Il mulino, Bologna

[1] Cossard, Lorenzo. (2021). "*Giuda all'educazione finanziaria: impara a gestire il tuo denaro*", StreetLib, Milano

[1] De Giuli, M. E.; Giorgi, G.; Maggi, M.; Magnani, U. (2008). "*Matematica per l'economia e la finanza*", Zanichelli, Bologna.

[1] Dermine, J., Bissada, Y. F. (2002). "*Asset and liability management a guide to value creation and risk control*", Pearson education limited, London

[1] Forestieri, G., Mottura, P. (2009). "*Il sistema finanziario*", quinta edizione, Egea, Milano

[2] Fraser, D. R., Philips, W., Rose, P. S. (1974). "A Canonical Analysis of Bank Performance", *The Journal of Finance and Quantitative Analysis*

[1] Ghisolfi, Beppe. (2014). "*Manuale di educazione finanziaria"*. Aragno, Torino

[4] Global Findex Database (2014). [online] Aviable:

https://thedocs.worldbank.org/en/doc/681361466184854434-0050022016/original/2014GlobalFindexReportDKSV.pdf

[4] Grameenbank (2020). [online] Aviable: https://grameenbank.org/what-is-microcredit/

[1] Maddalena Lucia, (2009). "*Matematica*", Giappichelli Editore, Torino

[3] Matz, L., Neu, P. (2007). "Liquidity Risk Measurement and Management: A Practitioner's Guide to Global Best Practices". J Wiley, Singapore

[1] Moriconi, F. (1995). "*Matematica finanziaria"*. Il Mulino, Bologna

[2] Nelson, C. R., Siegel, A. (1987). "A Parsimonious Modelling of Yield Curves". *Journal of Business*, vol. 60, n. 4, pp. 473-489

[4] Organizzazione di Cooperazione e Sviluppo Economico (2020). [online] Aviable: https://www.oecd.org/financial/education/oecd-infe-2020-international-survey-of-adult-financial-literacy.pdf

[1] Pederzoli Vittorio, (1989). "*Approcci teorici sulla determinazione dei tassi di interesse*", Giappichelli Editore, Torino

[4] RearceGate (2022). [online] Aviable:

https://www.researchgate.net/publication/316797575_Measuring_Financial_Inclusion_in_Western_Balkan_Countries_-_A_Comparative_Survey

[1] Resti, A. Sironi, A. (2008). "*Rischio e valore nelle banche, Misura, regolamentazione, gestione"*, Egea, Milano

[1] Righini, Elisabetta. (2020). "*Educazione finanziaria. Uno strumento per cittadini, risparmiatori e mercati"*, Franco Angeli, Milano

[4] Rivista Microcredito (2022). [online] Aviable: https://rivista.microcredito.gov.it/images/13/8.pdf

[3] Sakovich, M., (2002). "Asset-Liability Management in banking as an instrument for minimization of expenses in the implementation of Basilea III requirements"

[1] Saro, Gianfranco. (2019). "*Istruzioni Finanziarie - Basi"*, StreetLib, Milano

[2] Simonson, D. Stowe, J. Watson, C. (1983). "A Canonical Correlation Analysis of Commercial Bank Asset/Liability Structures"*, The Journal of Financial and Quantitative Analysis, vol. 18*

Microfinance: economic, social and cultural development

Mauro Gianfranco Bisceglia

Department of Economics and Finance, University of Bari Aldo Moro, Bari, Italy , Professor of Mathematical Methods of Economics and Actuarial and Financial Sciences; Email address:
maurogianfranco.bisceglia@uniba.it

Ines Ilollari

Bachelor of Business Administration, Our Lady of Good Counsel University, Tirana, Albania

Odri Lako

Bachelor of Business Administration, Our Lady of Good Counsel University, Tirana, Albania

Abstract

The present work sets itself as a first observational analysis of the regulation of non-banking financial institutions in Albania, considering the increasing development of the financial scenario started since 2000. This first analysis will lead the work towards an evaluation of the importance of microfinance, observed according to its different peculiarities. Subsequently we will come to analyze the effects that microfinance produces in the country; effects that will be declined according to three strands, certainly interconnected but observed in their intrinsic nature. Attention will therefore be paid to economic development in general, social development and, last but not least, the cultural development of the country. An analysis that will take into consideration the multiple aspects and intersection between these three elements of observation that are believed to have a strong influence on good and sound management of microfinance in a country. A consideration that stems from the potential that microfinance has in the social fabric of a large population and a small economy, and accentuated in a developing country like Albania. This part of the study, which we believe can be considered the heart of the work, will provide a good basis for planning a more accurate survey on the territory, in order to have a much more detailed and real picture of observation and to be able to use it for a valid and useful comparison with other realities (Italian and European). Finally, the purely financial aspects of the evaluations are not neglected from a mathematical point of view, in order to be able to count on quantitative aspects that give greater weight to the evaluations and the results obtained.

Keywords: Microfinance, Economic development, Social growth, Cultural growth

JEL classification: I22, I24, I25, G28

1. Introduction

Let's start by looking at the significance of Microfinance. It is a set of banking services of low relevance from a quantitative point of view and therefore provided to low-income individuals who would otherwise have difficulty in accessing credit. Included in microfinance is microcredit, a particular form of credit aimed at subjects who are not very robust from an income and capital point of view *(Bisceglia, 2020)*. Recently, a series of banking services have been introduced, aimed precisely at a large population considering the fact that it can be a very convenient way to affect various areas of economic systems, as well as the social and cultural development of a country. The implementation of microfinance instruments also by non-banking financial institutions, known precisely as microfinance institutions, has initiated a possibility of economic independence to the basic clientele by promoting the development of youth entrepreneurship and bringing relief from poverty; all to the benefit of the poorest segments of the population. In addition, it not only increases the rate of banking penetration, but also contributes to a significant improvement in living conditions, as well as the achievement of the United Nations Sustainable Development Goals. As seen before, non-banking financial institutions are basically financial institutions whose activity is to carry out financial activities as stipulated by the legal and regulatory framework, such as lending, microcredit, factoring, financial leasing, payment and money transfer services, issuance of electronic money, foreign currency exchange, etc. Regarding a country like Albania which is a small open economy that has enjoyed high and stable economic growth at the end of the last decade, supported by a rapid and strong expansion of the financial sector and an increase in domestic consumption and productivity. As a result, the financial system in this country is relatively new and showed high dynamics immediately after the privatization of the former largest state-owned bank in 2004 and the introduction of foreign banks into the market. In addition, the following part of the paper will focus on how non-bank financial institutions operate in the aforementioned sector in Albania *(Bisceglia, 2018)*.

2. Historical context of microfinance

The concept of microfinance is not a recent one, but it was first introduced in the 1970s in Ireland by Jonathan Swift with the aim of improving the conditions of impoverished Irish citizens by building a new large-scale system of microfinance. In addition, the system was also extended to other regions such as Bangladesh by Muhammad Yunus, the founder of the Grameen Bank organization around the 1980s that allowed loans to its clients with the aim of improving their lives. In 1998 one of the largest microfinance operations was taken over in India by SKS Microfinance which still operates similar to Grameen Bank by organizing all clients into groups of five members who work together to ensure that their loans are repaid. *(Castellani, et al. 2005)*.

In Albania, on the other hand, microfinance has developed considerably due to the strong demand for microfinance products. Most Albanian MFIs follow a socially responsible policy targeting financially excluded individuals and disadvantaged areas. The microfinance sector supports a large scale of individuals, micro and small enterprises, and other market segments, with a strong focus on job creation, reducing gender gaps in entrepreneurship, and offering financial solutions in a sustainable manner. Associations, such as AMA, have created the opportunity to unite all Albanian MFIs with the aim of offering a range of financial products to stakeholders, which together represent an outstanding loan portfolio of 29 billion lira (approximately 235 million euros) and a number of more than 177,000 active clients. The AMA focuses in three main directions; that of representing, when necessary, its members at national or international gatherings, legislative consultations and business events; it supports the technical and institutional consolidation of its members through the exchange of best practices and the identification of financial and

economic trends; and finally, it promotes financial education and literacy, access to finance, responsible and social financing, and the microfinance sector as a whole.

Fig 01: Financial accounts of all sectors operating in Albania

LLOGARITË FINANCIARE									FINANCIAL ACCOUNTS
Tabela /Table 1	Ekonomia e vendit (të gjithë sektorët rezidentë) (S.1) (në milionë lekë)							Domestic economy (all resident sectors) (S.1)	(millions of ALL)
		Ari monetar dhe SDR / Monetary gold and SDRs	**Monedha dhe depozitat / Currency and Deposits**	**Letra me vlerë të borxhit / Debt securities**	**Huatë / Loans**	**Kapitali dhe aksionet në fondet e investimit / Equity and investment fund shares or unit**	**Sigurime dhe skemat e pensioneve/ Insurance, pension and standardised guarantee schemes**	**Dervativët financiare / Financial derivatives**	**Llogari të tjera të arkëtueshme/ pagueshme / Other accounts receivable /payable**	**Totali / Total**

Year		Ari monetar dhe SDR	Monedha dhe depozitat	Letra me vlerë të borxhit	Huatë	Kapitali dhe aksionet	Sigurime dhe skemat	Dervativët financiare	Llogari të tjera	Totali / Total
2013	Dec.	16,701	1,402,905	821,409	884,220	869,268	12,306	31	966,623	4,973,464
2014	Dec.	19,300	1,466,196	942,210	800,477	856,324	15,055	17	1,057,765	5,157,343
2015	Dec.	30,577	1,623,071	913,359	753,157	963,283	17,607	28	986,823	5,287,904
2016	Dec.	27,214	1,725,509	943,529	804,529	936,769	21,193	16	975,317	5,434,077
2017	Dec.	25,725	1,859,762	884,092	811,212	942,362	22,321	97	903,428	5,448,999
2018	Dec.	19,626	1,933,962	885,194	787,867	1,005,820	23,022	19	919,388	5,574,898
2019	Dec.	24,181	1,957,656	941,569	815,842	1,041,870	33,503	14	1,176,703	5,991,338
					Detyrimet financiare / Financial liabilities					
2013	Dec.	7,287	1,363,251	589,077	1,297,387	1,200,932	10,074	0	1,001,731	5,469,741
2014	Dec.	7,753	1,430,131	618,204	1,332,508	1,244,343	12,355	0	1,101,050	5,746,343
2015	Dec.	8,104	1,508,099	600,181	1,344,167	1,365,982	15,502	0	1,039,229	5,881,266
2016	Dec.	7,981	1,579,769	607,355	1,386,015	1,410,717	17,986	0	1,024,681	6,034,504
2017	Dec.	7,340	1,629,354	629,726	1,400,991	1,516,675	18,835	0	951,711	6,154,632
2018	Dec.	6,978	1,669,028	669,639	1,354,201	1,657,136	19,793	0	971,364	6,348,138
2019	Dec.	6,987	1,720,806	680,318	1,398,586	1,759,530	26,194	0	1,220,910	6,813,332

Source: Bank of Albania

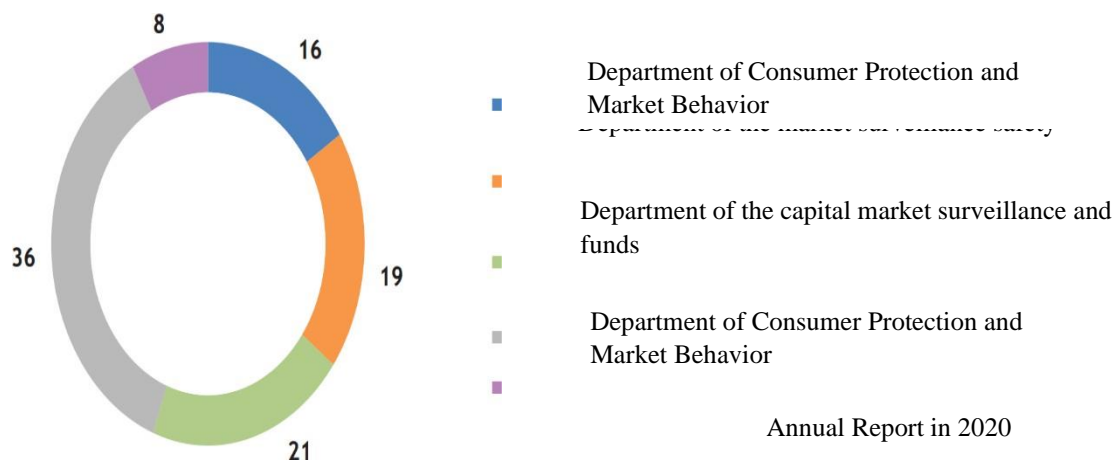## 3. Albanian Financial Supervisory Authority

In Albania, the Albanian Financial Supervisory Authority (AFSA) was created in 2006 as an independent public institution accountable to the Albanian Parliament. In October 2006, the integration of three existing non-bank financial regulators, namely the Insurance Supervisory Authority (AMS), the Securities Commission (KLV) and the Inspectorate of Supplementary Private Pension Institutions (IPPS), was achieved, creating a single institution under the name of Financial Supervisory Authority. The process of unifying the three non-bank financial regulators, was supported by the World Bank, including strategy and technical assistance to strengthen institutional capacity.

AFSA is the main authority in the field of regulation of the non-bank financial system in order to protect consumers through legal, administrative and information tools, as well as to maintain stability and transparency in the field of insurance, securities and voluntary private pensions. AFSA's work is characterized by professionalism, transparency, and high standards *(Wilson, 1988)*.

The main areas of its activity are the insurance market and its operators, the securities market and its operators, the voluntary private pension market and its operators, and other non-bank financial sector activities. As for its mission, it focuses on promoting financial stability and healthy development of the supervised financial markets. The objective of AFSA is to stimulate high standards for consumer and investor protection and enhance market integrity, increase the efficiency and stability of non-bank financial markets, and improve the level of professionalism through the regulation and permanent supervision of markets. The main objective of the AFSA is to protect the interests of consumers and investors, which are closely linked to the safety and soundness of supervised entities, by ensuring the enforcement of the law. In the exercise of these powers, the Authority has full rights firstly to approve, issue or refuse licenses to entities applying to operate in one of the supervised financial markets, secondly to supervise the financial

markets, natural or legal persons involved in the activities provided for in Article 2 of Law No. 9752 "On the Financial Supervisory Authority and finally to pursue compliance with and enforcement of the laws and statutes issued by the Authority, as well as the application of coercive measures. The AFSA had a relevant role on the Albanian financial system considering the fact that recently the dynamics of the markets under supervision have expanded due to the investment funds market in particular on the systemic risk to the financial system. AFSA as a system of supervision and regulation not only aims to ensure the effective functioning of non-bank financial markets, but also ensures the stability of the system in general. One of the services offered by the AFSA is the charter of consumer and investor rights which represents the primary rights of the consumer and investor in receiving services in the non-bank financial market in accordance with the legislation governing the activities of the Financial Supervisory Authority. This non-bank institution operates in several markets, as mentioned above, which consist mainly of three areas: the funds market, the capital market, and the insurance market. Each of them is supervised by the AFSA according to various aspects of their activities, and in the following part of this article we will look at every angle of the institution's work in these markets.

Fig 02: Chart of Functional Divisions by Departments

Department of Consumer Protection and Market Behavior

Department of the market surveillance safety

Department of the capital market surveillance and funds

Department of Consumer Protection and Market Behavior

Source: AFSA Annual Report in 2020

4. The regulatory system of AFSA

Starting with the investment funds market, it is important to note that since the beginning of its activity in 2012, it has significantly increased and already represents a significant part of the financial sector in Albania. In 2020, the total net worth of the investment funds market increased by 0.92% compared to 2019. The number of members of investment funds is 32,655 and increased by 11.67%. During 2020, the assets of investment funds were administered by four administrative companies, three of which perform administration for investment funds as well as voluntary pension funds. Regarding the structure of this market, for the most part it is composed of government bonds within and outside the country, government treasury bills, and bonds of foreign companies. *(Bisceglia, 2019)*

Fig 03: The percentage of each investment fund's net assets in the market
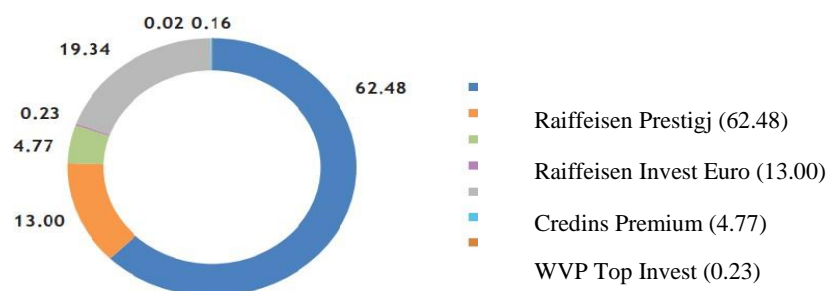
Source: AFSA Annual Report 2020

Consecutive to the investment fund market is the capital market, primarily focused on the authority that regularly monitors the activity of licensed entities in the market that own a minor portion of government securities. This market follows the Over the counter model and includes only transactions between brokerage firms licensed to conduct retail securities transactions (primarily banks) and individual investors or investors - legal entities. As part of the supervision, the Authority also during the year 2020 has been in constant communication with the entities in this market segment with the aim of reconciling the data reported by the entities and the data from the GSRM system, a system that focuses on expanding the idea of involving environmental concerns in microfinance and its products, the so-called green finance. The Albanian Stock Exchange currently has 3 members (3 bank brokerage firms), which conduct transactions on behalf of their portfolio and on behalf of clients. The total number of completed transactions is dominated by transactions in treasury bills made in lek currency and on behalf of legal entities.

Fig 04: Volume of the Albanian stock exchange in 2019/2020
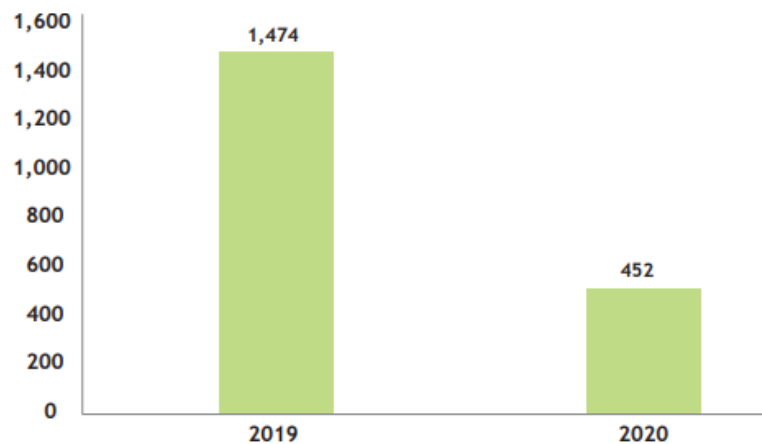
Source: AFSA Annual Report 2020

As a final approach, we should consider the last market that the Authority oversees and regulates, the insurance market. During 2020, 12 insurance companies operated in the insurance market. The volume of gross written premiums generated in this market amounted to approximately 16.6 billion euros, contracting by 5.73% compared to 2019. Gross written premium income decreased in both life and non-life business.

Fig 05: Percentage of gross premium written depending on type of insurance

Source: AFSA Annual Report 2020

5. General analysis of other non-bank institutions

The microfinance activity of non-bank institutions, is based on a series of projects that mainly represent the enterprise of lending, money exchange, leasing and financial advice or intermediation. Currently, there are 38 active non-bank institutions operating regularly in Albania and here, it is important to consider and analyze the main aspects of these microfinance operators. Non-bank financial institutions (NBFIs) are included in the group of institutions authorized to provide micro-loans, which are then further classified

into two categories. The first consists of institutions authorized to conduct lending operations, while the second category incorporates institutions authorized to conduct microfinance operations (microfinance financial institutions). To qualify as a microfinance financial institution, NBFIs must meet the following criteria: lending and loan advisory services are the sole purpose of their business; the average value of a loan extended to a borrower does not exceed the value of the microcredit, which is a maximum of 600,000 Lek (approximately €4,800); and at least 50% of the loan portfolio is composed of microfinance. On the other hand, there are other institutions that are authorized to provide micro-loans, such as savings and credit associations and their unions. Savings and credit associations (SCAs) are legal entities composed of voluntary unions of individuals or legal entities, which deposit their money in the society and whose funds are used by the society to issue loans to members. *(Sakovich, 2002)*

Regarding the product that these institutions offer, the Albanian regulation on NBFI lending activities does not distinguish between different types of microfinance products. There are no specifications for minimum and maximum loan amounts for NBFIs in Albania, but the only specification is for institutions authorized to conduct microfinance operations, where the loan portfolio should be at least 50% microloans, with an average loan amount not exceeding 4,800 euros (600,000 lek). The NBFI regulation does not set maximum loan duration or impose limits on interest rates on microfinance. *(Forestieri et al, 2009)*

Fig 06: Non-bank institution facilities by activity
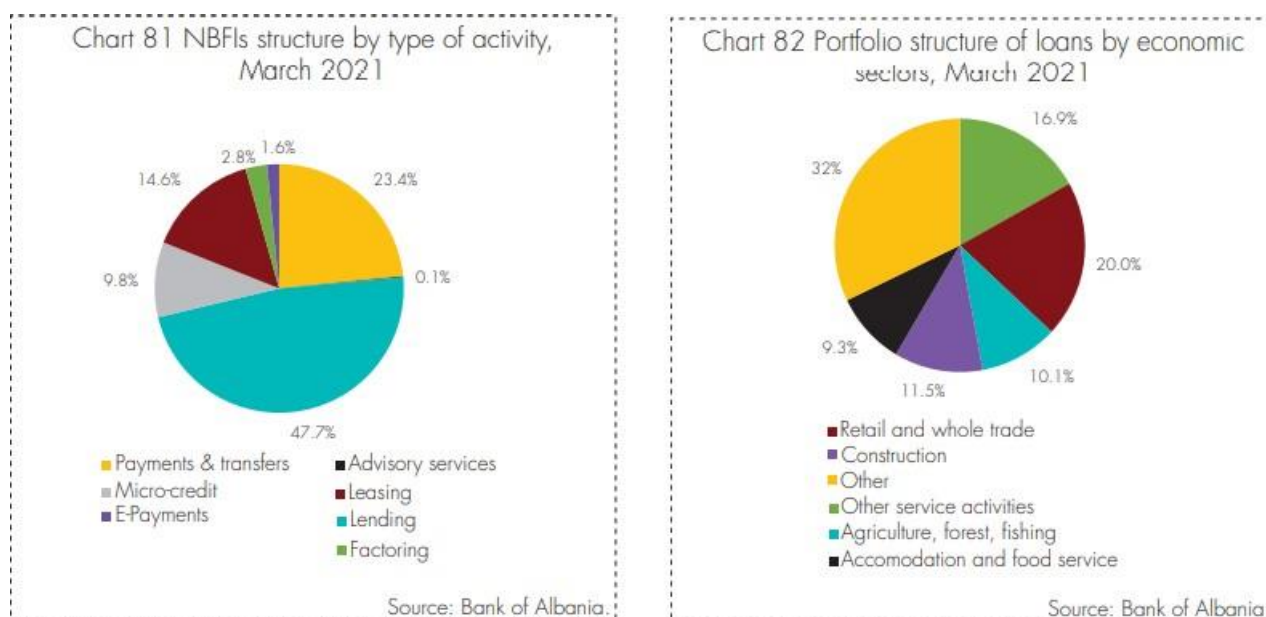
Source : Bank of Albania

Currently, the main problem as well as some of the main challenges faced by entrepreneurs are the lack of consumer protection, access to capital and financial skills needed to establish and develop a business, although some of these points have been covered lately by AFSA. Aside from facilities for registering and establishing a business, entrepreneurs have no social bridge to support them in their transition out of unemployment. The government has not designed or implemented any social programs to support innovative startups and other new businesses that create jobs and expand the tax base. There are currently

no disaster-related financial support schemes to support entrepreneurs following unexpectedly worsening circumstances (such as the COVID 19 pandemic or the 2019 earthquake). Entrepreneurs are left to make spontaneous decisions under emergency conditions but are not part of a centralized response, and thus this has prompted NBFIs to meet client needs and initiatives with tools that can be easily supported by these entities *(Bisceglia et al, 2021)*.

Fig 07: A volume comparison of non-financial and financial institution accounts.

LLOGARITË FINANCIARE　　　　　　　　　　　　　　　　　　　　　　**FINANCIAL ACCOUNTS**

Tabela /Table 2		Korporatat jofinanciare (S.11) (në milionë lekë)							Nonfinancial corporations (S.11) (millions of ALL)	
		Ari monetar dhe SDR / Monetary gold and SDRs	depozitat / Currency and Deposits	Letra me vlerë të borxhit / Debt securities	Huatë / Loans	e investimit / Equity and investment fund shares or unit	pensioneve/ Insurance, pension and standardised guarantee schemes	financiare / Financial derivatives	pagueshme / Other accounts receivable /payable	Totali / Total
					Mjetet financiare / Financial assets					
2013	Dec.	-	142,905	0	187,081	59,230	7013	..	666,482	1,062,711
2014	Dec.	-	176,790	57,158	72,988	58,214	8867	..	699,182	1,073,199
2015	Dec.	-	185,945	61,652	66,378	39,537	10281	..	672,058	1,035,851
2016	Dec.	-	246,896	61,268	65,047	62,573	13620	..	628,935	1,078,340
2017	Dec.	-	274,848	46,909	56,917	68,065	13,858	..	612,405	1,073,002
2018	Dec.	-	254,399	26,027	69,137	77,984	14,218	..	600,126	1,041,890
2019	Dec.	-	258,224	28,258	67,885	84,263	19,601	..	779,957	1,238,188
					Detyrimet financiare / Financial liabilities					
2013	Dec.	-	-	47,009	763,785	974,726	-	..	812,087	2,597,607
2014	Dec.	-	-	48,308	741,218	986,607	-	..	941,575	2,717,706
2015	Dec.	-	-	36,772	704,436	1,082,926	-	..	814,850	2,638,983
2016	Dec.	-	-	38,572	703,641	1,117,579	-	..	793,552	2,653,344
2017	Dec.	-	-	38,856	686,829	1,221,193	-	..	734,572	2,681,450
2018	Dec.	-	-	34,973	658,822	1,380,102	-	..	780,440	2,854,336
2019	Dec.	-	-	32,604	678,544	1,467,459	-	..	890,116	3,068,723

Tabela /Table 3		Korporatat financiare (S.12) (në milionë lekë)								Financial corporations (S.1 (millions of ALL)
		Ari monetar dhe SDR / Monetary gold and SDRs	Monedha dhe depozitat / Currency and Deposits	Letra me vlerë të borxhit / Debt securities	Huatë / Loans	Kapitali dhe aksionet në fondet e investimit / Equity and investment fund shares or unit	Sigurime dhe skemat e pensioneve/ Insurance, pension and standardised guarantee schemes	Dervativët financiare / Financial derivatives	Llogari të tjera të arkëtueshme/ pagueshme / Other accounts receivable /payable	Totali / Total
2012	Dec.	17,703	296,591	663,974	645,679	12,238	1,291	14	27,347	1,664,837
2013	Dec.	16,701	317,498	749,362	635,084	14,213	3,863	31	16,732	1,753,485
2014	Dec.	19,300	327,761	809,139	662,957	13,987	4,235	17	15,882	1,853,278
2015	Dec.	30,577	445,160	768,411	648,944	18,820	4,928	28	15,974	1,932,841
2016	Dec.	27,214	461,287	801,837	695,748	22,426	4,711	16	23,172	2,036,412
2017	Dec.	25,725	541,270	744,024	702,364	27,567	5,033	97	26,430	2,072,509
2018	Dec.	19,626	579,496	762,993	657,761	30,127	4,787	19	25,702	2,080,511
2019	Dec.	24,181	557,517	827,472	686,547	34,109	9,096	14	26,656	2,165,592
					Detyrimet financiare / Financial liabilities					
2012	Dec.	7,558	1,320,765	0	77,586	200,647	8,600	334	19,071	1,634,561
2013	Dec.	7,287	1,363,251	159	76,342	226,206	10,074	0	22,757	1,706,077
2014	Dec.	7,753	1,430,131	410	80,676	257,736	12,355	0	18,141	1,807,203
2015	Dec.	8,104	1,508,099	5,978	58,465	283,056	15,502	0	21,348	1,900,554
2016	Dec.	7,981	1,579,769	6,333	76,819	293,138	17,986	0	17,739	1,999,765
2017	Dec.	7,340	1,629,354	7,438	85,675	295,483	18,835	0	15,856	2,059,980
2018	Dec.	6,978	1,669,028	6,675	81,181	277,035	19,793	2	19,735	2,080,426
2019	Dec.	6,987	1,720,806	7,991	97,052	292,071	26,194	0	22,135	2,173,237

Source : Bank of Albania

Fig 08: List of non-banking institutions in Albania and the activities they perform

	List of institutions	Shareholders and %	Licensed financial activity
1	UNION FINANCIAR TIRANË SH.A. (Institucion i parasë elektronike)	5 individuals(35%, 35%, 10%,10%,10%)	Issuing electronic money, foreign money exchange
2	POSTA SHQIPTARE SH.A.	Ministry of Economy, Trade and Energy of the Republic of Albania (100%)	Money transfer services, foreign money exchange
3	AK- INVEST SH.A.	2 individuals(65%, 35%)	Lending, Factoring, Insurance agent, Advisory and Commitment
4	NOA SH.A.	Noa Netherlands(100%)	Lending, Management of payments, foreign money exchange
5	FONDI BESA SH.A.	1 individual(20%) , Fondi Besa (60.6%)	Lending, Advisory, Function of intermediation
6	FINAL SH.P.K.	1 individual(100%)	Lending, Financial Leasing
7	AGROKREDIT.SH.A. SH.A.	Ministry of Finance of the Republic of Albania(100%)	Lending, Advisory, Function of intermediation
8	RAIFFEISEN LEASING SH.A.	Raiffaisen Bank(100%)	Financial Leasing
9	LANDESLEASE SH.A.	Union Bank SHA(100%)	Financial Leasing
10	AGRO & SOCIAL FUND SH.P.K.	Fondi Besa(100%)	Microcredit
11	CAPITAL INVEST SH.A.	4 individuals(30%,25%,10%,5%)	Microcredit
12	TRANZIT SH.P.K.	4 individuals(10%,10%,50%,30%)	Lending, Advisory, Function of intermediation
13	M - PAY SH.P.K.	1 individual(100%)	Management of payments
14	FAB INVEST SH.P.K.	Fab Group SHPK(100%)	Factoring, Advisory, Function of intermediation
15	PLATINIUM INVESTMENT SH.P.K.	1 individual(100%)	Advisory and intemediation
16	TIRANA FACTORING & LEASE SH.A.	3 individuals(40%,40%,30%)	Factoring, Financial Leasing, Foreign Exchange
17	PORSCHE LEASING SH.P.K.	Porsche Bank Aktiengesellschaft (AG), Austri(100%)	Financial Leasing
18	ALBANIA LEASING SH.A.	4 institutions(36%,30%,22%,12.5%)	Financial Leasing
19	IUTECREDIT ALBANIA SH.A.	AS Iutecredit Europe, Estonia(100%)	Microcredit
20	AGRO PARTNER SH.P.K.	1 individual(100%)	Microcredit
21	CRIMSON FINANCE FUND ALBANIA SH.P.K.	4 institutions(36%,8%,25%,30%)	Factoring, Advisory, Function of intermediation
22	EASYPAY SH.P.K.	1 individual(96.5%)	Lending, Factoring, Insurance agent, Advisory and Commitment
23	KASTRATI SH.P.K.	1 individual(100%)	All payment and money transfer services
24	MICRO CREDIT ALBANIA SH.A.	1 individual(100%)	Lending, Advisory, Function of intermediation
25	ALBANIAN FINANCIAL INSTITUTION SH.P.K.	2 individuals(80%, 20%)	Lending, Factoring, Financial Leasing
26	RAEA FINANCIAL SERVICES SH.P.K.	2 individuals(90%,10%)	All payment and money transfer services, Advisory and intemediation
27	MOGO ALBANIA SH.A.	Mogo Finance S.A(100%)	Financial Leasing
28	KREDO FINANCË SH.P.K.	AS "ELEVING CONSUMER FINANCE HOLDING", Latvia(100%)	Microcredit
29	TIRANA CAPITAL TRADE SH.P.K	2 individuals(90%,10%)	Factoring
30	MICRO CREDIT RISK SH.P.K	2 individuals(75%,20%)	Microcredit
31	PAYSERA ALBANIA SH.P.K	3 individuals(10%,10%,80%)	Issuing electronic money
32	ANTIGONE FINANCIAL ENTERPRISE SH.P.K	1 individual(100%)	Financial Leasing
33	eReja SH.P.K	AK – INVEST SH.A., Albania(100%)	Issuing electronic money
34	RPAY SH.P.K.	2 individuals(30%,30%), 2 institutions(20%,20%)	Issuing electronic money
35	SOFT & SOLUTION SH.P.K.	1 individual(100%)	Issuing electronic money
36	RUBICON SH.A.	4 individuals(27%,27%,14%,7%)	Issuing electronic money
37	VELOX PAY SH.P.K.	AS Iutecredit Europe, Estonia(100%)	Issuing electronic money
38	LENDAL SH.P.K.	2 individuals(30%,70%)	Microcredit

Source: Bank of Albania

6. Social and environmental point of view

Non-banking financial institutions in Albania, through microfinance, have made an important contribution to the development of the country's environmental and social lane. They have contributed, through the projects provided and the specific activity carried out, to a progressive improvement in the economic and social as well as cultural conditions of the country. Many institutions, such as ADA, Appui au Développement Autonome - which was created in May 1994. It was an organization intended to be, as its name implies, a support, that is, a support over time of the necessary projects to the people willing to carry them out. The initiative of this institution was innovative from the beginning as it focused on digital finance, which represents a real opportunity to accelerate the development of financial inclusion and in time introduced the provision of advice and long-term financing to MFIs. It was also promoted in Albania and they introduced the use of financial tools in different dimensions of our lifestyle. The ADA was one of the first to launch what is known as agricultural finance, which aims precisely at the application of these

instruments in the agricultural sector, a method initially tested in West and Central Africa. Green finance was also the main objective of the ADA project. In fact, in 2020, ADA supported the introduction of the Eco-shems product in the pilot branch in the city of Tozeur, before deploying it in five other branches in the south of the country. By the end of 2020, despite the health crisis that slowed down the project, 22 loans totaling 144,000 euros had been disbursed. The goal for 2021 has been set in granting 240 Eco-shems loans and providing agricultural technical assistance to 50 producers to teach them good water management techniques. In time, the method taught can then be replicated by microfinance institutions as well. In addition, Enda Tamweel and ADA have begun to think more broadly about implementing a financial product that allows clients to undertake the farm's energy transition using solar panel technology and its many possibilities. These projects focus primarily on installing solar panels; improving or constructing sanitation facilities and managing waste and water scarcity; energy renovation and green homes, such as transparent roofs to let in natural light; and implementing environmental practices in farming operations, all elements of the popular sustainable energy. Finally, on the social side, for nearly fifteen years, ADA has been actively investing in promoting social performance and transparency in the area of inclusive finance. From 2003 to 2013, ADA coordinated the Rating Fund and Rating Initiative projects that aimed to encourage MFIs to carry out financial and social ratings. These projects involved multiple donors and allowed MFIs to apply for co-funding to cover a portion of the cost of the ratings. What these institutions have also incorporated is digital innovation and the effect that financial products have on upgrading the technology used. Digital solutions offer many opportunities for financial inclusion. In addition to reducing costs, they make it easier to reach people in hard-to-reach areas and allow for fast and secure service delivery to customers. That's why ADA and other non-bank financial institutions are helping microfinance institutions (MFIs) integrate digital solutions into their strategies.

7. Conclusions

As we have observed, the focus on microfinance in the Albanian territory has had a great sensibility, causing a considerable growth in all sectors of the financial markets. The purpose of this study was precisely to highlight this new vision of credit; how it has been structured in our current circumstances and how it has improved and can be further improved. Many associations have coalesced over the years to map out a plan for the functioning of non-bank financial institutions in Albania. In the past, this country has not shown good significant involvement in the financial sphere, yet it presents a potentially important role. In fact, from recent studies the national financial inclusion is about 45% and is expected to grow. One of the most important goals that several financial associations and groups want to achieve is to introduce non-bank financial institutions to a diversified market, where they can create different models and products to further meet the needs of their clients. Even though microfinance is in a state of growth, it still needs to address many challenges that this country manifests, such as legal or tax challenges, competitive side markets, expectations of efficiency, strong demand for investment in new technologies, etc.

Bibliography and sitography

[4] ADA (2020). [online] Aviable: https://www.ada-microfinance.org/en

[4] AMA (2020). [online] Aviable: http://ama.com.al/en/home/

[4] AMF (2020). [online] Aviable: https://amf.gov.al/

[4] AMF (2020). [online] Aviable:

https://amf.gov.al/pdf/publikime2/mbikeqyrje/RAPORTI_MBIKEQYRJES_2020_23tetorfinal.pdf

[3] AA.VV., (2016). "L'asset allocation in presenza di tassi di interesse negativi", *I quaderni di minerva bancaria*, *Minerva Bancaria*

[4] Banca Centrale d'Albania (2020). [online] Aviable:

https://www.bankofalbania.org/Supervision/Licensed_institutions/Non-bank_financial_institutions/

[1] Beltratti A., Russo G. (1990). "*L'andamento dei tassi di interesse in Italia. Applicazioni ai BOT ed ai CCT*", Giuffré Editore, Milano

[2] Bisceglia, Mauro, (2020). *"*Systematic Risk Assessment in non-listed Banks*"*, *Evolution Journal of life Sciences and Society*; Vol I, Iusse I, July 2020, pp 54-64. ISSN 2708-678X.

[3] Bisceglia, Mauro, (2018). *"*Il management di una Banca, nella dinamica dei tassi di interesse*"*, pp. 342-352. *Economia, istituzioni, etica e territorio. Casi di studio ed esperienze a confronto*, Franco Angeli, Milano, ISBN 978-88-917-7938-0

[3] Bisceglia, Mauro, (2018). *"*Rendimenti attesi e scelte di investimento*"*, pp. 242-256. *07th International Conference "Toward European Union, integration research and innovation" Faculty of Economy,* Aleksander Xhuvani University, Elbasan, Albania, ISBN 978-9928-4477-7-7

[3] Bisceglia, Mauro, (2019). *"*Stochastic aspects in credit management*"*, pp. 312-323. *09th International Scientific Conference of Business Faculty,* Aleksander Moisiu University, Durres, Albania, ISBN 978-9928-267-19-1

[3] Bisceglia, M; Marcocci, M., (2021). *"*Decreasing investment model for sustainability*"*, pp. 243-252. *4th UNICART International Conference Academic Research and Tourism "Digital Transition and Green Sustainable Economy",* Malta, ISBN 978-2-931089-15-6

[3] Bisceglia, M; Ilollari, I.; Lako, O., (2021). *"*The Microcredit in Albania. An application with a decreasing rate structure as a function of sustainability*"*, pp. 341-352. *11th International Scientific Conference of Business Faculty,* Aleksander Moisiu University, Durres, Albania, ISBN 978-9928-4674-1-6

[3] Bisceglia, M; Kazani, E.; Jance, M., (2021). *"*Una fotografia al Sistema Bancario in Albania: osservazioni e considerazioni*"*, pp. 378-399. *09th International Scientific Conference "Advances in Business, Finance and Law",* Aleksander Xhuvani University, Elbasan, Albania, ISBN 978-9928-321-32-9

[1] Cassese Gianluca, (2017). "*Economia dei mercati finanziari",* Carocci Editore, Roma

[1] Castellani, De Felice, Moriconi, (2005). "*Manuale di finanza*" vol.1, Il mulino, Bologna

[1] De Giuli, M. E.; Giorgi, G.; Maggi, M.; Magnani, U. (2008). "*Matematica per l'economia e la finanza*", Zanichelli, Bologna.

[1] Dermine, J., Bissada, Y. F. (2002). "*Asset and liability management a guide to value creation and risk control*", Pearson education limited, London

[1] Forestieri, G., Mottura, P. (2009). "*Il sistema finanziario*", quinta edizione, Egea, Milano

[2] Fraser, D. R., Philips, W., Rose, P. S. (1974). "A Canonical Analysis of Bank Performance", *The Journal of Finance and Quantitative Analysis*

[4] Grameenbank (2020). [online] Aviable: https://grameenbank.org/what-is-microcredit/

[1] Maddalena Lucia, (2009). "*Matematica*", Giappichelli Editore, Torino

[3] Matz, L., Neu, P. (2007). "Liquidity Risk Measurement and Management: A Practitioner's Guide to Global Best Practices". J Wiley, Singapore

[1] Moriconi, F. (1995). "*Matematica finanziaria*". Il Mulino, Bologna

[2] Nelson, C. R., Siegel, A. (1987). "A Parsimonious Modelling of Yield Curves". *Journal of Business*, vol. 60, n. 4, pp. 473-489

[1] Pederzoli Vittorio, (1989). "*Approcci teorici sulla determinazione dei tassi di interesse*", Giappichelli Editore, Torino

[1] Resti, A. Sironi, A. (2008). "*Rischio e valore nelle banche, Misura, regolamentazione, gestione*", Egea, Milano

[3] Sakovich, M., (2002). "Asset-Liability Management in banking as an instrument for minimization of expenses in the implementation of Basilea III requirements"

[2] Simonson, D. Stowe, J. Watson, C. (1983). "A Canonical Correlation Analysis of Commercial Bank Asset/Liability Structures"*, The Journal of Financial and Quantitative Analysis, vol. 18*

[4] Sksindia (2020). [online] Aviable: https://www.sksindia.com/know_sks.html

[3] Svensson, L.E.O., (1994). "*Estimating and interpreting forward interest rates: Sweden 1992-1994*", IMF Working Paper, n. 114.

[2] Vasicek, O. (1977). "An equilibrium characterization of the term structure", *Journal of Financial Economics*, 5, pp. 177-188

[1] Wilson, J. S. G. (1988). "*Managing bank assets and liabilities*", Euro Money publications, London

ALBANIAN MEASURES REGARDING PANDEMIC COVID – 19 VIRUSES AND ROLE OF AUDIT.

Msc. Zamir Kurushi
Lecturer at Albanian University, Tirana, Faculty of Applied and Economic Sciences
Head of Internal Audit at INSTAT
E_mail:zkurushi@hotmail.com

Msc. Elfrida Taraku
Lecturer at University " Aleksandër Moisiu", Durrës, Business Faculty,
Finance- Accounting department
E_mail: itaraku@yahoo.com

Msc. Arba Taraku
Lecturer at University " Aleksandër Moisiu", Durrës, Business Faculty,
Department of Marketing,
E_mail:arbataraku@live.com

Abstract

Albania as a potential country for EU membership, during the year 2020 showed some difficulties in managing the pandemic Covid – 19 and faced some challenge of covering universal health care. During the year 2020 more than ever, people need the public institutions to work efficiently and effectively with their measures, because they have the authority to boost the economic and health and challenges. Some measures did not work adequately and one of the main reasons was that institutions did not have adequate strategic documents and how to react in similar conditions. Some of these strategic documents are Annual Plan, Risk Management and Risk Register, Contingency planning, which all public institutions have to update it at least every year based on our financial management and control law. If public institutions failed to make those documents effectively what auditors have did? On the other side working online from home showed that was a challenge and changing the way all public sector organizations have to work, with a much greater focus on remote working.

The objectives of this study analysis is to spotlight how public sector reacted to mitigate risks which were arise during pandemic period and how auditors helped public institutions to surpass it.

Key words: Public Sector, Accounting and Audits, Auditing, Government Policy and Regulation, Government Policy, Regulation, Public Health, Planning Models, Planning Policy

JEL Classification: H83, M42, M48, I18, O21

1. Introduction and Background

On March 8, 2020, Albania confirmed the first two cases of Corona viruses, a father and a son, who had come to the country from Florence, Italy. On the same day, the government banned all flights and ferries coming from the northern part of Italy until April 3. The government also closed schools for two weeks, ordered a ban on all groups of people, and urged sports federations to suspend activities. At noon on March 11, was recorded the first death from Coronavirus in Albania.

Impact of Pandemic from Covid – 19 had great influence in the economy of every country. In Albania revenues from VAT collected (gross), was realized in the amount of ALL 5.8 billion, 252 million or 4.6% more than in January 2020, as well as 473 million or 7.5% less than the VAT plan to be collected in January 2021. Not collection revenues from VAT and hit that the Albanian economy received from last year's earthquake and the Covid-19 pandemic[48].

This research wanted to highlight impact that two major situations have affected public institutions to work efficiently and effectively during their daily operations with aim to achieve their goals and intended to help institutions to achieve their objectives in an Economically Efficient and Effective (3E) way, through a disciplined and systematic activity evaluating and improving the effectiveness of risk management and control processes.

The purpose of the research is to evaluate the activity as well as to assess whether the measures taken by public institutions have been implemented effectively.

The criteria for this research where the bylaws in force that Albanian Government (Decision of Councils of Ministers/DCM) issued especially for Covid – 19 viruses.

A good tool for monitoring the implementation DCM issued for Corona Viruses was done through the questionnaire that was sent to 280 public employees which helped us to support the findings and conclusions. Actually we have received 127 or 45%.

In this research are used different methods, which aim to obtain detailed and sufficient information from different sources such as:

a) Analysis of Documentation: was performed through a review of the documentation. The documentation was obtained electronically. The basis for the preparation our opinion was the review of the documentation such as, Annual Plans, Annual Reporting, Risk Register, Internal Regulation, etc.

b) Interview: We have prepared some questionnaires that were send to different employees in public sector, aimed at obtaining information more quickly and clarifying ambiguities during this engagement.

Based on our research we have found that most of public institutions did not had contingency plan, strategic documents to predict how institutions to react / operate in such situations.

---

[48] Ministry of Finance and Economy https://www.financa.gov.al/mbi-ecurine-e-treguesve-kryesore-te-shpenzimeve-buxhetore-per-periudhen-janar-2021/

2. What impact had Covid – 19 in Albanian Economy

The Albanian economy is suffering the consequences of two consecutive shocks, the November 26 earthquake and most of all, the prolonged crisis of the COVID-19 virus pandemic. Referring to the National Accounts data, the effect of two consecutive shocks shows that we were in an economic downturn for the fourth consecutive quarter, entering the deepest recession since 1997.

For the first nine months of 2020, gross domestic product (GDP) has shrunk by -5.52%, on an annual basis. For the same period, Final Consumption of the Population fell by - 3.8%.

External Demand also experienced a significant deterioration with a contraction of -6.63%, as a result of the decline in exports of goods and services by -29.63% and imports of goods and services by -23.14%.

The highest reduction was experienced by Gross Fixed Capital Formation, with -7.46%, while Public Administration Consumption shrank only by -0.31%, reflecting the measures taken with anti-Covid packages.[49]

The State Budget for Health in 2020 and the dynamics of changes that the Executive and Parliament have approved during the year were to meet the needs of Health Institutions during the Pandemic. The research focused only on changes for Health and this article does not describe changes related the cost of anti-Covid-19 vaccinations.

The State Budget for 2020 was approved by Law no. 88/2019. During the year,the Executive and the Legislature have amended this Budget four times. Specifically, the Budget was amended on March 21 with Normative Act no. 6, on April 15 with normative act no. 15, on July 28 with normative act no. 28 and only two weeks before the end of the year with Normative Act no. 34.

Programs directly related to Health are the following programs: Primary Care Service; Secondary Care Service; Public Health Service and National Emergency Service.[50]

Budgetary Programme for Health	Planned in beginning 2020 in 000 ALL	The budget Final Normative Act no. 34 in 000 ALL	Difference in %
Primary Care Services	8,321,138	8,096,208	-2.70%
Secondary Care Services	25,860,464	28,215,868	9.10%
Public Health Services	3,007,928	2,987,428	-0.70%
National Emergency Service	333,182	325,782	-2.20%
Total of 4 Programmed for Health	37,522,712	39,625,286	1.05%

---

[49]   http://www.asp.al/pdf/Ekonomia_post_COVID-_Sfida_dhe_mundesi-converted.pdf

[50] https://ndiqparate.al/?p=11315

Also in the bellow table we can analyze the budget in the beginning compare to the final budget for the 4 Programmes of Health and the Ministry of Health and Social Protection.

	Planned in beginning 2020 in 000 ALL	The budget Final Normative Act no. 34 in 000 ALL	Difference
Total of 4 Programme for Health	37,522,712	39,625,286	2,102,574
Ministry of Health and Social Protection	62,969,940	66,015,914	3,045,976[51]

As we see the state budged for Ministry of Health and Social Protection and for the Total of 4 Programmed for Health was increased by 5,148,550,000 ALL, or € 41,584,282,36. (bank average currency 1 E= 123,81)

3. How Public Institution reacted during the pandemic from Corona Viruses[52]

On March 8, 2020, the first 2 cases of Covid - 19 were registered in Albania, in this situation the Minister of Health and Social Protection issued Order no. 156, dated 10.3.2020 "On Taking Special Measures to Prevent the Spread of Covid Infection - 19", where point 4 provides that: *"Public and private institutions, to design according to their area of responsibility, within dated 11.3.2020, a plan of measures to ensure the provision of priority services, prioritizing the category of service mainly through the provision of online service, remote work and only in necessary cases to provide the service through physical contact. For services that require direct contact with the public, institutions should provide employees with protective equipment in order to maintain their health. Public institutions that provide reception services for the public at the counters to take measures to make the most of online services and the e-Albania platform".* Also DCM no. 208, dated 10.3.2020 *"On setting the dates 10 to 23 March 2020 days off for the custodial parent of minor children",* it is provided that: *"Civil servants and employees mentioned in point 1 of this decision, during this period, they are charged to perform any functional task assigned to you by the direct superior or the head of the institution, which can be fulfilled in the conditions of the apartment, through telephone communication or other means of electronic communication".* This framework Public Institutions started to reorganize daily operations.

We had made some research on public institutions to regarding the approval of the continuity plan. Only some institutions had this documents and IPA Units.

---

[51] https://ndiqparate.al/?p=11315

[52] https://thedocs.worldbank.org/en/doc/88570159070994163800800222020/original/RERSocProtectionCovidResponseWeBaALB.pdf

But what is Contingency Plan? It is a course of action to be followed if a preferred plan fails or an existing situation changes. It is a plan or procedure that will take effect if an emergency occurs; emergency plan.[53]

As mentioned above this strategic document is a plan developed and should be implemented only when some situations will happen other than in the usual (expected) plan. It is often used high risk management and for exceptional risk that, and if it happened, would have catastrophic consequences for the institutions.

On the other hand Albanian Government have adopted a wide range of policy response measures social protection, aimed at supporting formal sector workers, the unemployed, the poor and seniors, which we will examine below. Some of these measures (like payroll subsidy) can be valid policy instruments for the short term, but remain quite costly and may be less effective as long-term response measures. Also Government issued some legal acts with aim to prevent Corona Viruses in public arias such as:

- Mandatory to use masks,
- use of disinfectants,
- disinfection of institutions,
- Keeping employees at work limits number in the office
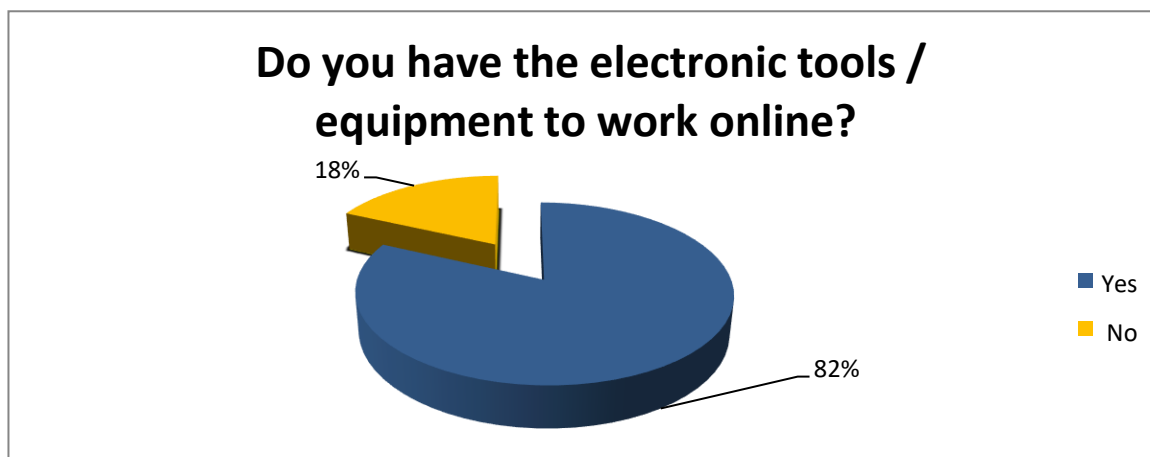- Working online from home.

Based on some research at 3 institutions we have monitored expenses (for the period March 2020 - March 2021) performed with aimed to prevent Covid – 19 for 1 employee. These expenditures for masks, alcohol, disinfection of buildings, etc varies from 10.9 ALL - 39.2 ALL per active working day per employee.

Because we cannot have clear information based monitor documentation if the above measures were implemented effectively, we have conducted a survey at some employees.

A. SAFETY ENVIRONMENT WORKPLACE.

Do you have the electronic tools / equipment to work online?

---

[53] https://www.dictionary.com/browse/contingency-plan

## Do you have the electronic tools / equipment to work online?


During COVID-19 pandemic situation, Albanian institutions were not ready to switch from working face to face daily operation to working online, because of luck of investments. Moreover Workers, Pupils, etc with aim to attend daily tasks should invest in logistics (PC, Laptop, Tablet, Mobile, etc) also to invest in internet for those who did not have it at home.

*How long have you kept the mask in the workplace?*
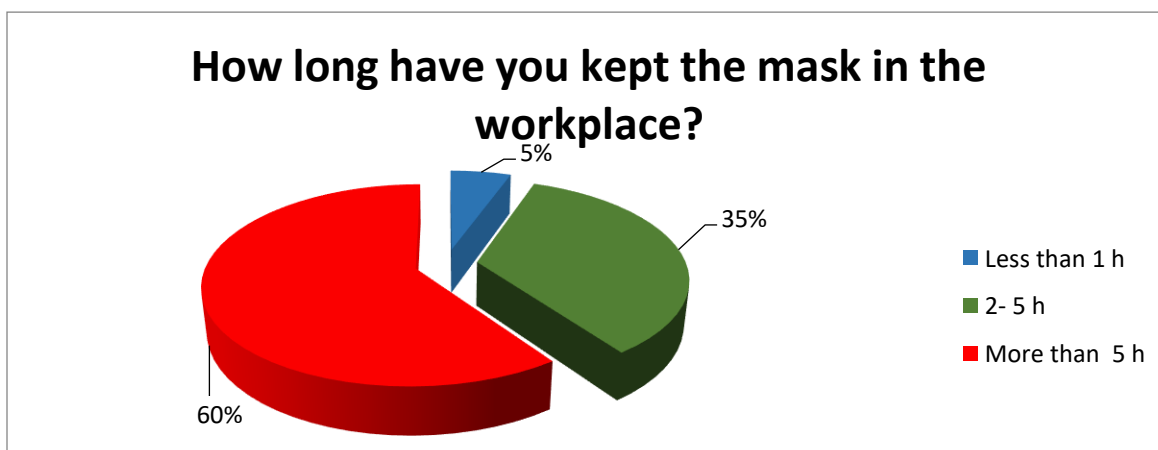
Based on the questioner the employees did not adequately respect pandemic rules.

Did the hygienic-sanitary equipment (alcohol, disinfectant, etc.) in your institution were functional?
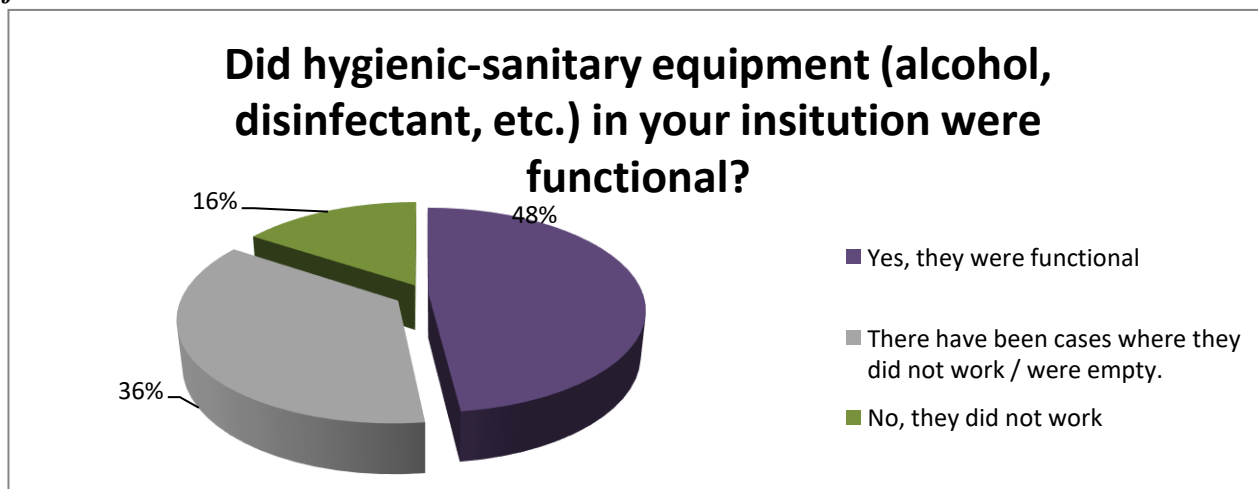
Regarding the use and operation of Hygienic-sanitary equipment it was found that there was a lack of disinfectants in the equipment mounted, which were not effectively monitored by the relevant structures. Also this situation is expressed by the interviewed who have completed the questionnaire where only 48% of responses claim that the Hygienic-sanitary equipment was functional.
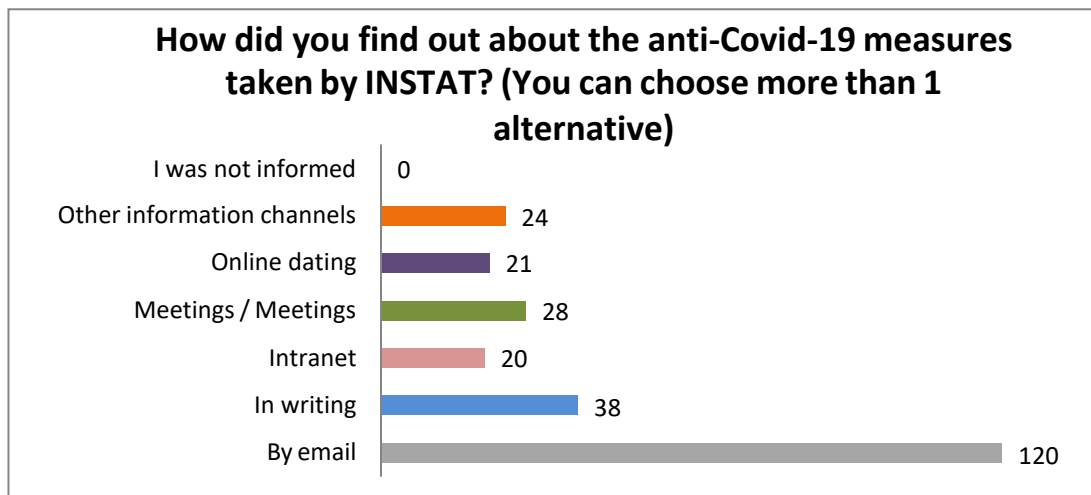
***Did you often use the sanitary equipment during your stay at work?***
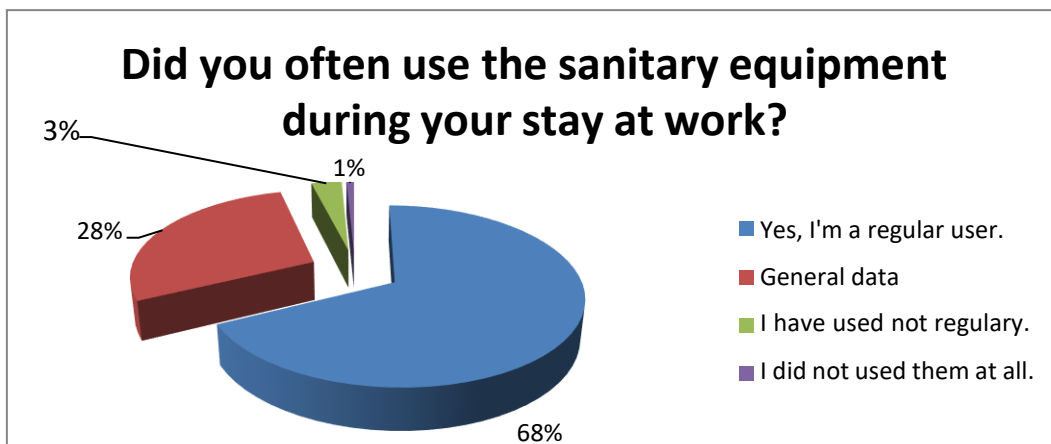
From the above as a result of non-functioning of Hygienic-sanitary equipment has affected the daily use of these equipment's by employees, despite the fact that the use of Hygienic-sanitary equipment in the workplace has been mandatory for all of them.

B. IMPLEMENTATION OF MEASURES

How did you find out about the anti-Covid-19 measures taken by INSTAT? (You can choose more than 1 alternative)

How did you find out about the anti-Covid-19 measures taken by INSTAT? (You can choose more than 1 alternative)

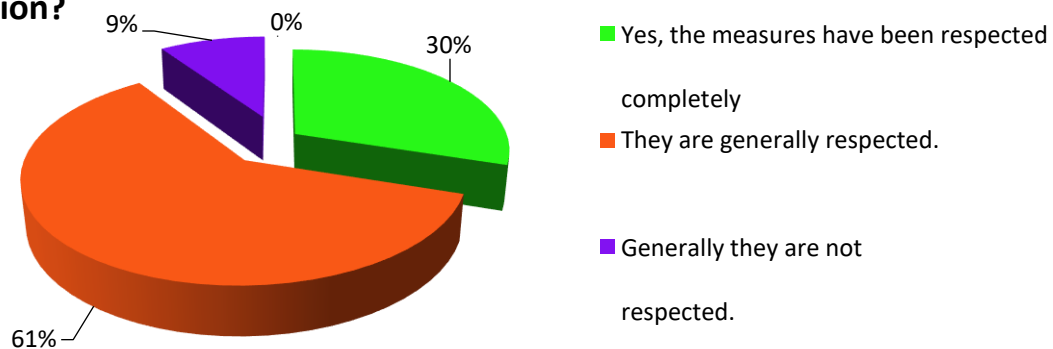| Category	Value
I was not informed	0
Other information channels	24
Online dating	21
Meetings / Meetings	28
Intranet	20
In writing	38
By email	120

Do you think it would be more effective if your institution should other methods promotion, awareness or activities for anti-Covid measures?

Do you think it would be more effective if your institution should other methods promotion, awareness or activities for anti-Covid measures?

- 45% No
- 55% Yes
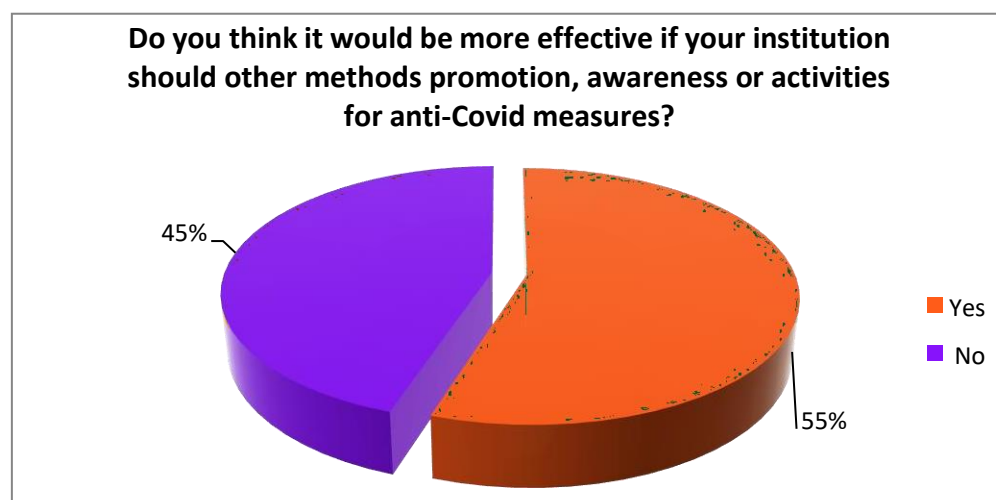
Do you think that your institution has respected the anti-Covid measures which have been approved by the head of the institution?

Do you think that your instiution has respected the anti-Covid measures which have been approved by the head of the institution?
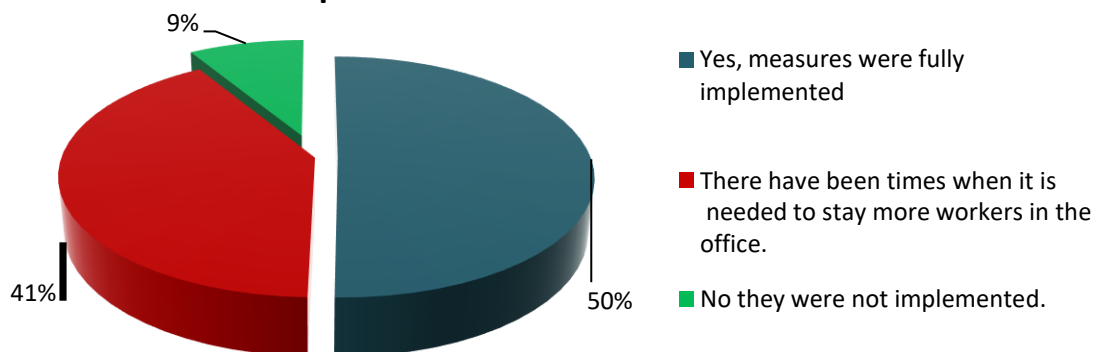
- Yes, the measures have been respected completely
- They are generally respected.
- Generally they are not respected.

9% 0% 30% 61%

In your workplace, were you monitored for the implementation of anti-Covid-19 measures?

In your workplace, were you monitored for the implementation of anti-Covid-19 measures?

- Yes my supervisor
- Yes other structure (HR, etc)
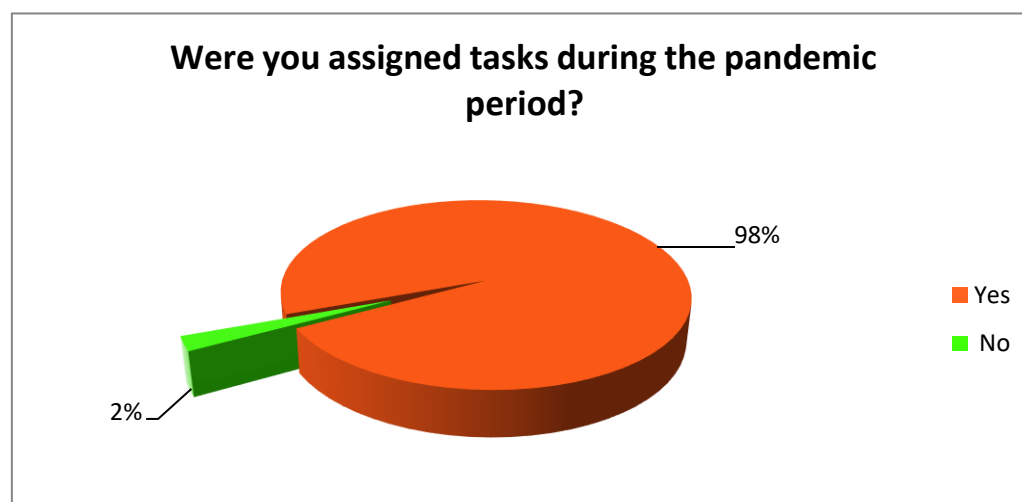- Not monitored

12% 24% 64%
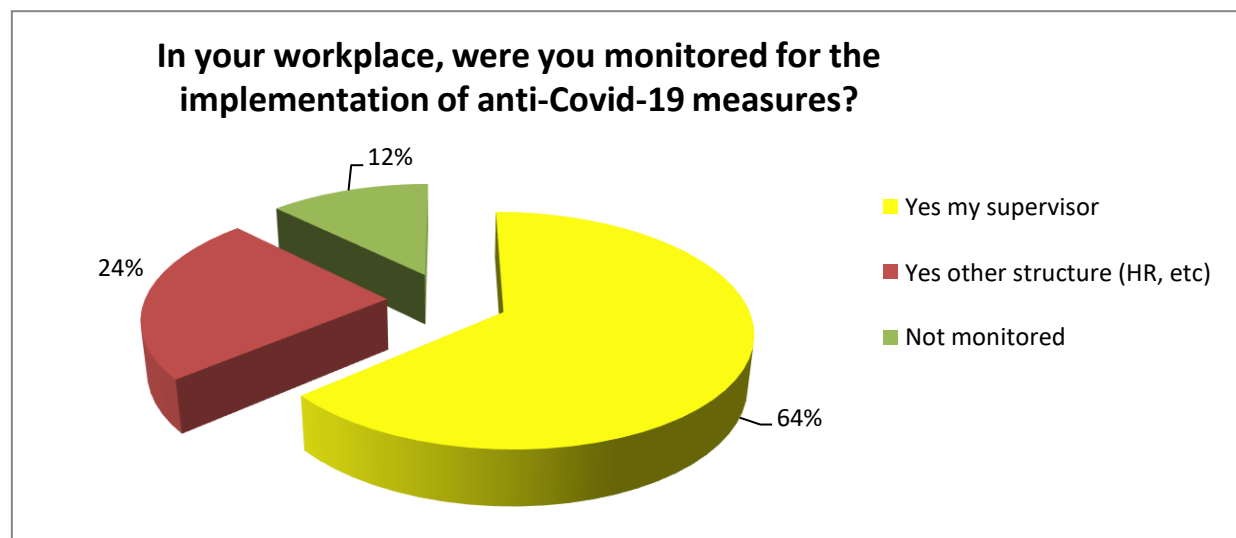
Do you think that the measure for social distancing and the number of employees in the office has been implemented?

g. Do you think that the measure for social distancing and the number of employees in the office has been implemented?
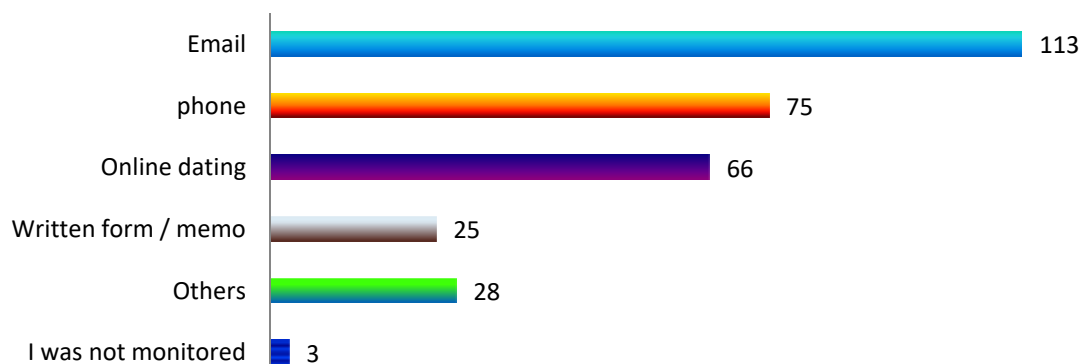
9%

41%

50%

- Yes, measures were fully implemented
- There have been times when it is needed to stay more workers in the office.
- No they were not implemented.

C. DAILY WORK (TASKS REALIZATION)

Were you assigned tasks during the pandemic period?

Were you assigned tasks during the pandemic period?
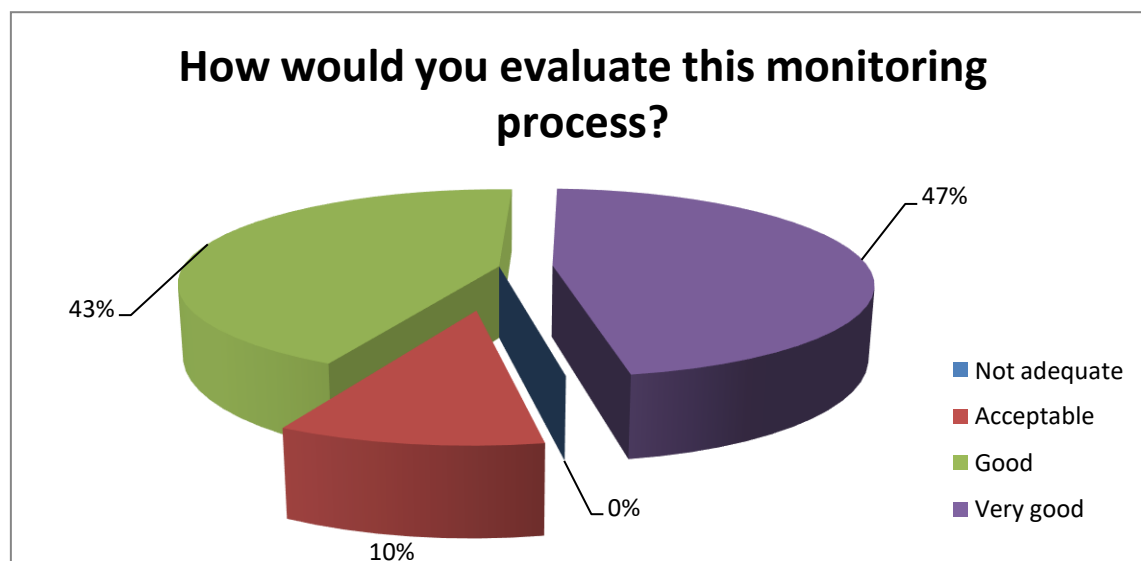
98%

2%

- Yes
- No

Which were the methods that supervisor monitored your assigned tasks? (You can choose more than 1 alternative)

Which were the methods that supervisor monitored your assigned tasks (You can choose more than 1 alternative)

Email	113
phone	75
Online dating	66
Written form / memo	25
Others	28
I was not monitored	3

How would you evaluate this monitoring process?

How would you evaluate this monitoring process?

- 47% Very good
- 43% Good
- 10% Acceptable
- 0% Not adequate

Legend:
- Not adequate
- Acceptable
- Good
- Very good

4. THE ROLE OF AUDIT STRUCTURES

Based on our research we have found that Supreme State Audi (governmental external audit structures) have conducted Performance Audit Report "Effectiveness of situation management pandemic Covid-19". The auditees were Ministry of Finance and Economy, Ministry of Health and Social Protection, Central Directorate of Health Care Operator.

Based on this report was found that management of COVID-19 in our country highlighted the many problems of the health system, such as:

- insufficient regional hospital capacity to treat cases with COVID-19,
- inefficient functioning of health centers of local health care units,

- professional capacity of infectious disease specialists in very limited primary health care,
- insufficient financial resources,
- shortage in the stock of personal protection materials (PPM),
- insufficiency in the training of medical staff, job insecurity, etc.

In the conditions when Albania today, referring to European standards, faces the challenge of covering universal health care in health, it is necessary that state policies implement the principles of a public good in the service of increasing the quality of life of citizens towards European integration.[54]

On the other hand internal audit structure based on our research and interviews failed to conduct and audit with scope on impact of Covid -19 in public institutions. But they have audited the procurement (expenditures) for COVID-19 such as alcohol, masks, disinfectants, disinfection of institutions, etc.

5. THE IMPACT OF COVID-19 AND THE OPPORTUNITY FOR DIGITAL TRANSFORMATION

The COVID-19 pandemic negatively affected the economy of our country and increased the demand to increase investments on logistics such as laptops and payed programmers such as Mircosoft teams, Webex Meetings, Web Zooming, etc. Thus Covid-19 has had a major impact on society and the economy in general and has significantly accelerated the need for digital transformation of companies.

Therefore, it is important that public institutions should be orient themselves towards mitigating the economic consequences of the pandemic and to adapt accordingly and to be oriented towards conducting online activities.

Considering Covid-19 as the main driver of digital transformation of public institutions as well as digital transformation as a necessary process for public entities to remain relevant by providing services in an economical, efficient and effective way, highlighting the importance of digital transformation as a pillar for recovery economic.

The world is changing at a rapid pace along with digital technologies which are transforming every aspect of life, society and economy. Digital transformation not only changes the way it is organized today but constantly creates new opportunities for growth and prosperity for all segments of the public and private sector. Digital transformation makes it possible to use technology, manpower and processes to move state structures forward. However, digital transformation involves much more than the full integration of digital technologies.

One of the major problems worldwide is that public institutions find it difficult to translate digital transformation. There are many reasons that lead businesses towards digital transformation as mentioned above. However, in the wake of the Covid-19 pandemic, digital transformation requires a new organizational approach and considerable investment.

---

[54] https://www.klsh.org.al/content_text/3900

6. FINDING CONCLUSIONS AND RECOMANDATIONS

Conclusions

1. The budget of Albanian Government was not adequate because Albania confronted two natural disasters (November 26 2019 earthquake and Pandemic Coronaviruses 2020).
2. The measures which were imposed to prevent form spreading Coronaviruses were not implemented adequately in public institutions. Also the structures which have the authority were ineffective to perform to monitor those measures.
3. The pandemic situation found the government unprepared and not with adequate logistics that public intuitions to work online from home. Undoubtedly, the Covid-19 pandemic has accelerated the process of digital transformation of public institutions. The Covid-19 Pandemic has led many institutions to increase investment in logistics for computer equipment and to treat the digitalization process as an additional opportunity for effective solutions to carry out processes economically. Given the consideration of social distancing to be seen more as an opportunity to transform the governance of public institutions and as a good opportunity to reduce operating costs.
4. Supreme State Audit have performed an audit regarding coronaviruses, but it did not evaluated if policies that were taken from Government were Economically, Efficient and Effective (3E)
5. Internal Audit Structures did not perform audit with aim to help Management and other Structures to achieve their objectives effectively. Also internal audit could not help their institutions through security services to guide them in order for the institution to achieve its objectives

Recommendations:

1. Should be prepared a strategy for maximizing the impact of fiscal policy on economic growth through expenditure and revenue restructuring such as:
   a. Increase operating and maintenance costs in order to maintain the state of capital investments.
   b. Ministry of Fonance and Economy should make adequate analysis on cost-benefit and / or cost-effectiveness with aim for evaluating large investments.

2. Albanian Government should increase investment in logistics for computer equipment and to treat the digitalization process as an opportunity for effective solutions to carry out their processes economically and efficiently.
3. Audit structures should start engaging adequate Performance audit with objective to evaluate the auditees policies and procedures and analyses if objectives were achieved economically, efficiently and effectively.

7. Bibliography / Reference

1. Interviews with public internal audits

2. Questioners send at employees which were working in public institutions

3. Strategic documents such as Risk Register, Annual Plans,

4. Ministry of Finance and Economy https://www.financa.gov.al/mbi-ecurine-e-treguesve-kryesore-te-shpenzimeve-buxhetore-per-periudhen-janar-2021/

5. http://www.asp.al/pdf/Ekonomia_post_COVID-_Sfida_dhe_mundesi-converted.pdf

6. https://ndiqparate.al/?p=11315

7. https://thedocs.worldbank.org/en/doc/885701590709941638008002020/original/RERSocProtectionCovidResponseWeBaALB.pdf

8. https://www.dictionary.com/browse/contingency-plan

9. https://www.klsh.org.al/content_text/3900

10. Decisions from Council of Ministers regarding the coronavirus pandemic situation

THE LACK OF LABOR FORCE IN ALBANIA AND THE FACTORS AFFECTING IT

Dr. Entela VELAJ

Lecturer at the Economics Department, Business Faculty, Aleksandër Moisiu University, Durrës.

entelavelaj@yahoo.com*,*

ORCID: 0000-0001-6141-6868

Abstract

The purpose of this paper is to analyze the causes that have influenced the decline of the labor force in Albania and the problems that this phenomenon has brought. In recent years, Albania is facing more and more problems with the lack (decline) of the workforce. The period after covid-19 made it even more evident. The lack of labor force is not only from the ranks of the free labor force, but also from the category of teachers, doctors, nurses, economists, IT workers, etc. This has caused a lot of difficulties for private companies, both domestic and foreign, operating in Albania, as they cannot fulfill the cooperation contracts they have signed inside and outside the country in a timely manner. This is accompanied not only by increased costs for breach of contract deadlines, but also by loss of customers. In the last 2 years, private companies have been making efforts to find and employ workers from countries such as the Philippines, Bangladesh, etc. This has caused a significant increase in costs such as payment for travel tickets, accommodation, and food, payment for residence permits, visas at the Embassy and also payment for employment intermediary agencies. But this way is most unsafe since these individuals see Albania as a springboard to go to the countries of the European Union.

Keywords: Labor force, education, emigration, fertility, unemployment, etc.

JEL classification: E24, J21, J23, J61

1. Introduction

We say we have a labor shortage when the demand for workers for a certain profession is greater than the supply of workers who are qualified, available and willing to do that job. This type of absence is based on demand - job offers. During the labor shortage, their recruitment becomes difficult and the jobs remain open for a long time. Employers are forced to increase wages and reduce the requirements for the professional skills of employees. There are several factors that affect the lack of labor force. We can mention the mismatch between the qualifications that the employer needs and those that the employee has, the wages that the employer is willing to pay, the total number of people, the fiscal policies on the income of individuals, the general aging of the population, immigration, the growth of mortality and decrease in births, etc. The decline in the labor force has negative impacts in many areas. It is accompanied by the shrinking of the production capacities of private companies, the decrease of national income, negative impact on tourism and agriculture services, as well as non-fulfillment according to the standards of public services such as health, education, defense, etc. The workforce can be described as the engine of an economy. Albania has a shortage in all sectors of the economy. The increase in emigration and the decrease in births will bring less product, less consumption, but it will certainly have a negative impact on the social side of the country.

2. Literature review

The Labor Force includes employed and unemployed persons. The reduction of the labor force is accompanied by social costs, productivity costs, costs due to the reduction of investments, etc

A summary of possible causes for labor shortage is presented in the table below.

Demographic changes
immigration
Decrease in births
Low public investments in the education system
Low wages
Under the qualification for the necessary job positions
Demographic changes

Over the years, many studies have been conducted regarding the reduction of the workforce.
An aging population affects labor productivity which means that older people are less productive and less innovative (Harper, 2014), (Vasile & Dobre, 2015). According to (Foster & Walker, 2015) Europe has an "active ageing" policy which deals with extending the working life of individuals. According to the neoclassical theory, there should not be a shortage of labor because the market itself would be balanced. The fact that we are suffering this situation means that the market is not moving towards equilibrium, that is, an adjustment of wages (Arrow and Capron 1959)
Referring to Junankar (2009) in a study conducted for Australia, he says: ""standard neoclassical economics predicts that if there is a skills shortage, the labor market would respond with large increases in wage rates. Our results, however, show that real wages were growing at a relatively

slow rate (compared to productivity growth) and even in Western Australia and Queensland the wage rates of skilled occupations were growing very slowly."[55]

Shah and Burke (2003) define labor shortage as follows: "A shortage occurs when the demand for workers for a particular occupation is greater than the supply of workers who are qualified, available and willing to work under existing market conditions." "Over time, the market might adjust in a number of ways, including price and/or quantity adjustment, and the imbalance clears."[56]

(Berlingieri and Erdsiek 2012) analyzing further supply side factors such as personal characteristics of job seekers (e.g. over-qualification, family or partner related reasons) that may lead to a mismatch of labor supply and demand.

Healy et al. (2015) studied different strategies of Australian SMEs to overcome skills shortages based on the Australian Business Longitudinal Database. SMEs report strategies such as making better use of their existing workforce by increasing working hours or alternatives such as reducing production.

Cui et al. (2018) analyzed the determinants of unemployment in China at a macroeconomic level. The authors found that especially structural demographic changes and disparities in regional economic growth lead to labor shortage problems.

Bennett and McGuinness (2009) studied the impact of skills shortages on the productivity performance of high-tech firms in Northern Ireland. The authors observed "both hard-to-fill and unfilled vacancies had reduced the level of output per employee by about 65-75% in the affected firms.

Barnow et al (2013), in his study said that labor shortage is defined in multiple dimensions. He identified two dimensions: a) the presence of unfilled vacancies and b) the longevity of vacancies. Most of the studies conducted on the lack of labor force focus on the lack of skills especially in developed countries (Dobbs, et al., 2012) in his study predicted that there will be 13 percent of the lack of qualified workers high and 15 percent of the shortage of middle-skilled workers and 10 percent of the surplus of low-skilled workers globally. An economy may experience labor shortages in the presence of an aging population, where more people retire and new additions to the labor market are relatively fewer. Mass youth migration can also be a cause of labor shortages (Shah & Burke, 2014).

David S. Blank and George J. Stigler (1957) argue that to alleviate the shortage, wages in the occupation must rise, and some of the work formerly performed by the occupation with the shortage will now be performed by others.

---

[55] Junankar, P. N. (2009): Was there a Skills Shortage in Australia? IZA Discussion Paper No. 4651, Bonn
[56] Shah, C., Burke, G. (2003): Skill Shortages: Concepts, Measurement and Implications. Monash University, Centre for the Economics of Education and Training, Working Paper No. 52, Clayton.

3. Analysis some of the factors that have influenced the loss of labor force in Albania

1.1. Number of births over the years

To analyze the progress of births, both in total numbers and according to gender, we have referred to the data published by INSTAT for the period 1990-2021. The number of births has dropped significantly and this trend continues. In 1990, there were 82,125 births for both genders. In the year 2000, there were 51,242 births. In 2010, there were 34,061 births and in 2021, there were 27,211 births. If we compare the period 1990 to 2021, we have a decrease in births by 66.87%. If we compare the period 2000 to 2021, we have a decrease of 46.9%, and the period 2010-2021 we have a decrease of 20.11%. The figures are alarming as this is a very important indicator for the decrease in the number of the population and also the decrease in the labor force.

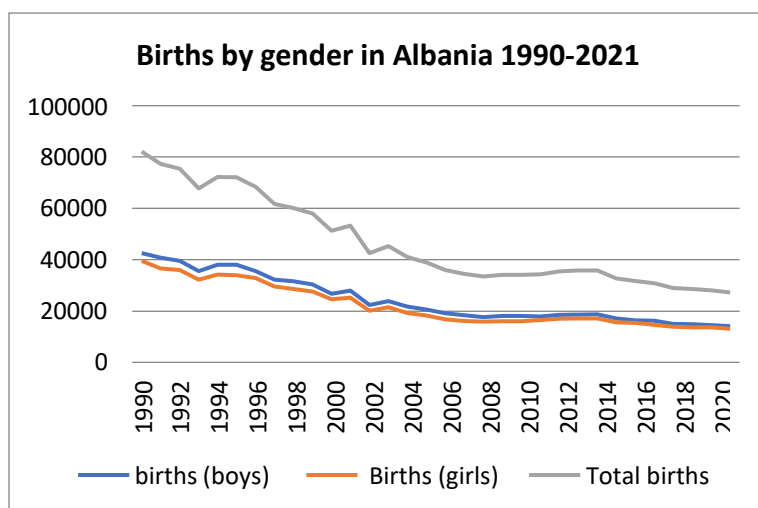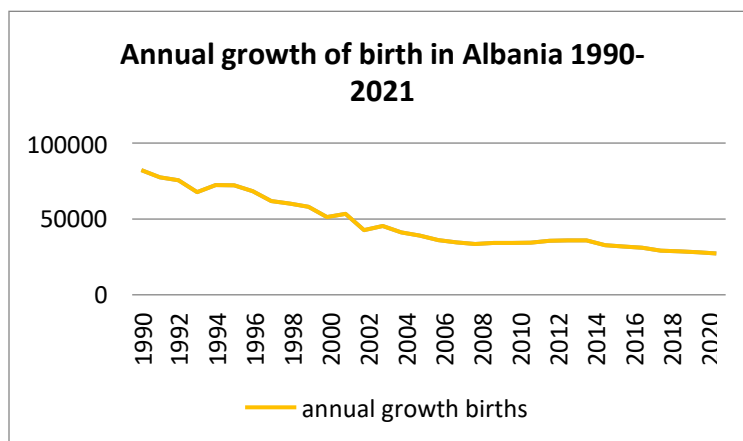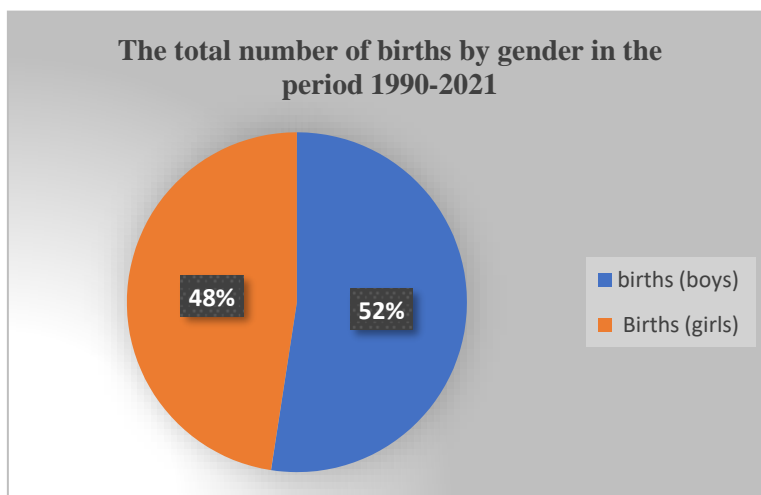Figura 1 Births by gender in Albania 1990-2021

Figura 2. Annual growth of birth in Albania 1990-2021

In Albania, for this entire period, the number of births (boys) has been higher every year than the number of births (girls). This difference ranges from 6.6 to 14.3% more boys born than girls.

Figure 3 The total number of births by gender in the period 1990-2021

1.2   Mortality by gender

If we analyze mortality as a phenomenon for the period 1990-2021, we see that we have a significant increase in mortality in 2003 of 10.5%, in 2009 of 28.26% and in 2020 of 25%. Albania in the entire study period from 1990-2021 has a higher number of deaths of men compared to women. The lowest difference is in 2019, where the deaths of men are only 9% more than women. While the highest values belong to the years 1994, 1996, 1997 and 1998, which varies from 40.9% to 56.2% more men than women. Figures 4, 5 and 6 show the values according to the entire period of the study for mortality in Albania.
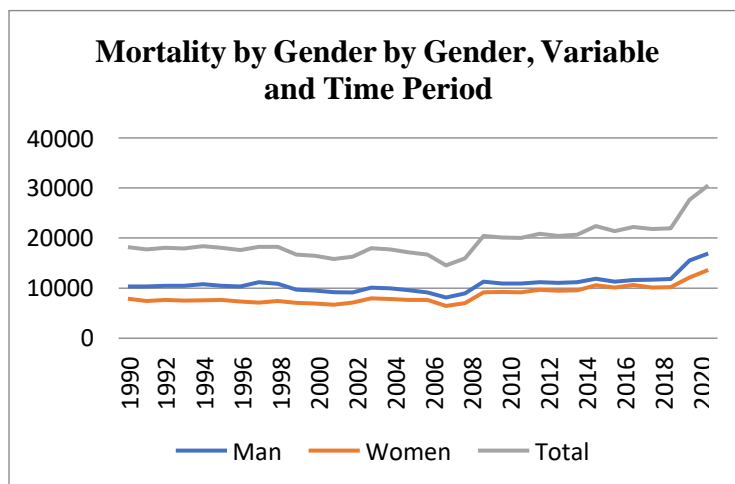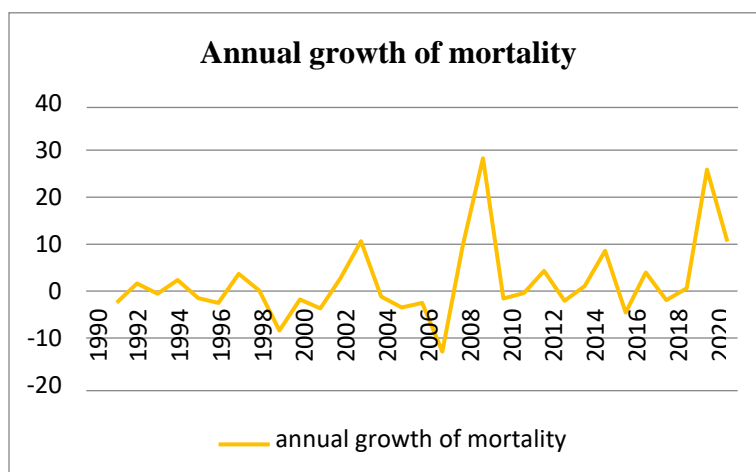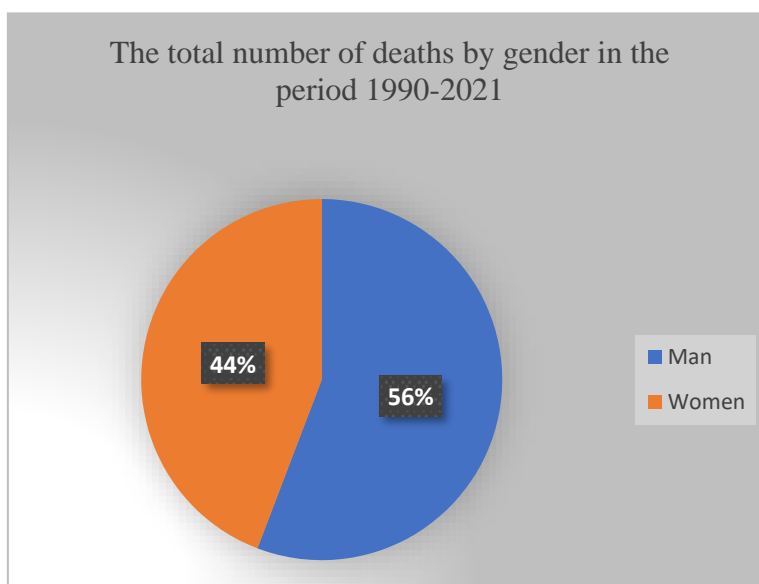
Figure 4 Mortality by Gender

Figure 5 Annual growth of mortality

In total, during the study period, 55.8% of deaths are male and 44.2% of deaths are female, or in numerical value there are 344831 men and 273124 women. So there are 71,707 more deaths of men than women.

Figure 6 The total number of deaths by gender in the period 1990-2021


1.3   Emigration by gender

One of the main causes that have influenced the decrease in the number of the workforce in Albania is emigration. Figure 7 presents the data by gender and in total for the people who emigrated for the period 2014-2021. We noticed that from 2018 onwards we have an increase in the number of people who emigrate. In 2018, there are 26,437 in total and in 2021, there are 42,500 people who emigrated. It should be emphasized that these values belong to the legal paths of emigration, but they are significantly larger since many people leave in informal ways. If we compare the year 2021 with 2014, we have an increase of 32.08% of people who have emigrated.

Figure 7 The number of people who have emigrated outside Albania for the period 2014-2021

The number of people who have emigrated outside Albania for the period 2014-2021
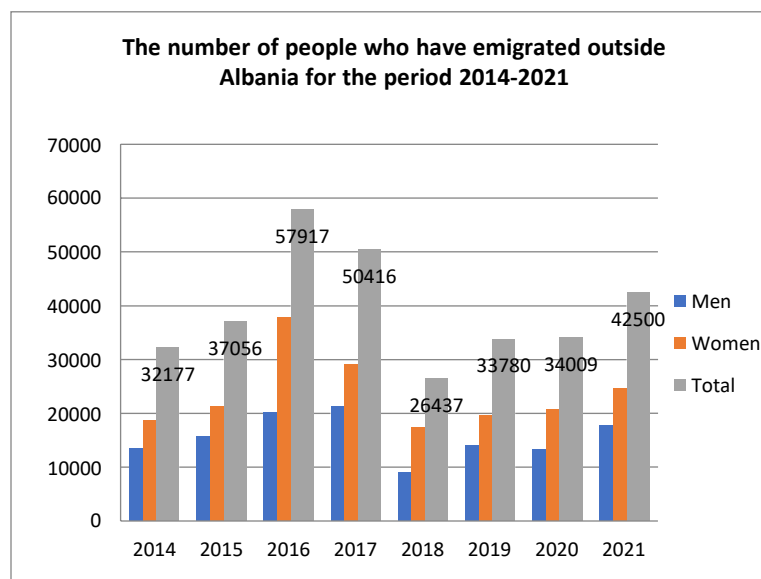
From the data published for the period 2014-2021, we noticed that for this period the number of women who emigrated is higher than the number of men.

Figure 8 Annual growth of emigration

Annual growth of emigration
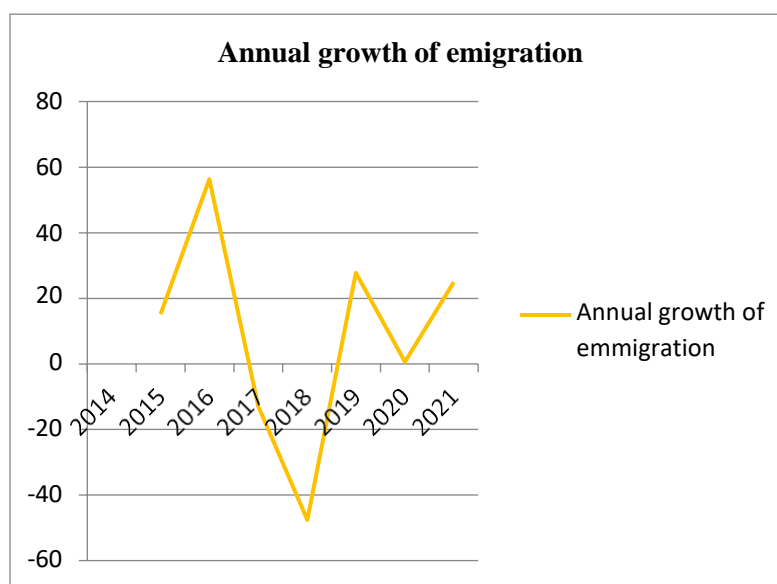
1.4   Average and minimum salary in Albania

According to the General Directorate of Taxes, the average monthly salary for 2021 is 57,182 ALL. If we refer to the data of INSTAT for the period 2001-2020, the data for the average and minimum salary are according to table 1. Albania continues to have the lowest wage level even if compared to countries in the region.

Table 1 Average and minimum salary in Albania 2001-2020

years	average salary	minimum salary
2001	17,218	7,580
2002	19,659	9,400
2003	21,325	10,060
2004	24,393	10,080
2005	26,808	11,800
2006	28,822	14,000
2007	33,750	14,000
2008	36,537	17,000
2009	40,874	18,000
2010	43,625	19,000
2011	46,665	20,000
2012	50,092	21,000
2013	52,150	22,000
2014	53,025	22,000
2015	46,830	22,000
2016	47,522	22,000
2017	48,967	24,000
2018	50,589	24,000
2019	52,380	26,000
2020	53,662	26,000

But the level of prices for real estate, rent, education, transport or the consumption basket has increased significantly since the February 2022 period, which started with the war in Ukraine.

4. Conclusions and Recommendations

In this work, we were based on the data published by INSTAT. We analyzed the data for several factors that have influenced the reduction of the labor force in Albania, such as births, deaths, emigration and the average salary. From the analysis of the data, we noticed that the number of births in Albania has continuously decreased from 1990 to 2021. In Albania, more male's babies than female are born every year. Also, the mortality has significant values, where only for the year 2020 we have an increase of 25%. The number of deaths in Albania is higher for males than for females. Emigration has increased in significant values, although the data pertains only to its formal ways and does not include the considerable number that leaves informally. The minimum and average salary in Albania is among the lowest, even if we compare it with the countries of the region.

In order to avoid this massive loss of workforce, measures must be taken by private companies, the education system and the government.

It is necessary to restructure the work positions with the aim that these positions are performed by current employees.

To improve working conditions such as schedules, work environment, safety at work, etc. in order not only to attract new employees but also to be able to retain current employees

Review the evaluation and payment systems of employees. Salary increase, job security, correct implementation of contracts would bring an increase in the workforce. Increasing wages increases the motivation and commitment of employees, so it is difficult to leave the job.

To implement the system of rewards both for achieving productivity as well as quality and correctness.

The educational system should be adapted to the needs of the country's market.

The government should revise the fiscal packages, the method of taxation of individual incomes with the aim of facilitating the life of the category of employees and not restrictive fiscal policies as followed in recent years.

Indexation of wages should be done in accordance with the inflation rate increases, since the price increase in the consumption basket has been quite high in recent years.

Encouraging, facilitating and financially supportive policies should be implemented to increase the number of births.

It is necessary to improve the health system, both in the number of doctors per inhabitant and in the quality of reducing mortality.

5. References

- Baird, M., Daugherty, L., Kumar, K. (2019): Improving Estimation of Labor Market Disequilibrium Using Shortage Indicators, with an Application to the Market for Anesthesiologists. IZA Discussion Paper No. 12129, Bonn.
- Barbieri, L., Mussida, C., Piva, M., Vivarelli, M. (2019): Testing the Employment and Skill Impact of New Technologies: A Survey and some Methodological Issues. UNU-MERIT Working Paper Series 2019-032, Maastricht.
- Barnow, B. S., Trutko, J., & Piatak, J. S. (2013). Conceptual Basis for Identifying and Measuring Occupational Labor Shortages. *Occupational Labor Shortages: Concepts, Causes, Consequences and Cures*, *1*(May), 1–34.
- Bennett, J., McGuinness, S. (2009): Assessing the impact of skill shortages on the productivity performance of high-tech firms in Northern Ireland. Applied Economics 41 (6): 727-737.
- Berlingieri, F., Erdsiek, D. (2012): How Relevant is Job Mismatch for German Graduates? ZEW Discussion Paper No. 12-075, Mannheim.
- Cui, Y., Meng, J., Lu, C. (2018): Recent developments in china's labor market: labor shortage, rising wages and their implications. Review of Development Economics 22 (3): 1217-1238.
- David M. Blank & George J. Stigler, 1957. "Demand and Supply: Methods of analysis, "NBER Chapters, in: The Demand and Supply of Scientific Personnel, pages 19-46, National Bureau of Economic Research, Inc.

- Dobbs, Richard, Anu Madgavkar, Dominic Barton, Eric Labaye, James Manyika, Charles Roxburgh, Susan Lund, and Siddarth Madhav (2012), *The world at work: Jobs, pay, and skills for 3.5 billion people*, McKinsey Global Institute.
- Foster, L. & Walker, A. (2015). Active and successful aging: A European policy perspective. *The gerontologist* 55, no. 1 (2015): 83-90.
- Harper, S. (2014). Economic and social implications of aging societies." *Science* 346, no. 6209 (2014): 587-591
- Healy, J., Mavromaras, K., Sloane, P. (2015): Adjusting to skill shortages in Australian SMEs. Applied Economics 47 (24): 2470-2487.
- Junankar, P. N. (2009): Was there a Skills Shortage in Australia? IZA Discussion Paper No. 4651, Bonn.
- Peters, B., Rammer, C. (2013): Innovation panel surveys in Germany. In: Gault, F. (ed.): Handbook of Innovation Indicators and Measurement. Cheltenham: Edward Elgar, 135-177.
- Piva, M., Vivarelli, M. (2009): The role of skills as a major driver of corporate R&D. International Journal of Manpower 30 (8): 835-852.
- Shah, C., & Burke, G. (2014). *Skills shortages : concepts , measurement and implications Ensure boundaries for these boxes stay the same Skills shortages : concepts , measurement and implications Use insert function WORKING PAPER No . 52*
- Shah, C., Burke, G. (2003): Skill Shortages: Concepts, Measurement and Implications. Monash University, Centre for the Economics of Education and Training, Working Paper No. 52, Clayton.
- Vasile, V., & Dobre, A. M. (2015). Overview of demographic evolution in Romania. *Romanian Statistical Review*, 4, 27-45.

Economic and financial reforms toward European integration

Belisa Korriku[1] , Suada Korriku[2]

[1]Slovak University of Agriculture, Nitra, Faculty of Economics and Management, Department of Marketing, Albania , belisakorriku@hotmail.com,

[2]Ministry of Agriculture and Rural Development, Directorate of Irrigation and Drainage Durres, Albania, suadakorriku@hotmail.com

Abstract

This study aims to determinate and analyze the economics and financial reforms in Albania toward European integration. The research method used in this paper is qualitative, for developing a basic research model through analysis and websites, journals, conference papers etc. In this paper we represent the results of a literature review that aims to provide the impact between economics and financial reforms in Albania toward European integration. Theoretically, European integration would bring positive effects on a country's economy, making the economy more efficient in using resources or increasing investment. On assessing the effects of European integration on investment and economic growth, literature has dealt especially with the cases of countries that have joined the EU along the way. European integration brings, in the medium term at least, a further increase economic high for EU member states, so the financial environment must also adapt to the European spirit. Also Albania is providing such a theory by implementing these policies and reforms. But, we should also mention that we don't have a measuring indicator which also shows the success of these reforms, so we see only in the small steps that the Albanian economy is taking towards the common European market.

Keywords: Economic reforms, European integration, free market, financial environment

JEL classification: G20, F02, F15, F36

1. Introduction

When it comes to European integration, although the political criterion receives the main attention, in fact in this process, the fulfillment of the economic criterion is equally important, according to the principles sanctioned in the basic EU documents, which have their origins in the '50s of the last century. At the heart of the European Community lies the common market and the four fundamental freedoms: the freedom of movement of persons, goods, services, capital, but also the rules of competition. The process of European integration for each candidate country is initially related to the deepening of economic cooperation with its neighbors, until the finalization of the common regional market, which is considered as the antechamber of the EU . Furthermore, a gradual integration into the EU common market is envisaged, through harmonization with the community structures, according to the directives in the field of standards, certification, customs administration, competition protection and intellectual property rights. The right answer to these challenges is the survival of the Albanian enterprise in the common market, which even after "Brexit", counts about 500 million clients.

Integration into the European Union brings a number of advantages for the citizens of a member state, starting from the movement without borders, more opportunities for employment and education, better products, use of the common currency, etc. But on the other hand, it poses a number of risks to the economy if our government does not undertake the necessary reforms before accession, as happened with Bulgaria and Romania. The membership of these countries in 2007, among other things, was expected to increase foreign direct investment, as well as to create more development opportunities for domestic entrepreneurship, accelerating integration into the European market.

 However, the competitive pressure of European companies pushed towards the closure of the activity, a considerable part of the enterprises, which did not reach the required standards. The emigration of specialists, or as it is known, the "brain", was another cost of full membership, for the two new member states of the Union.
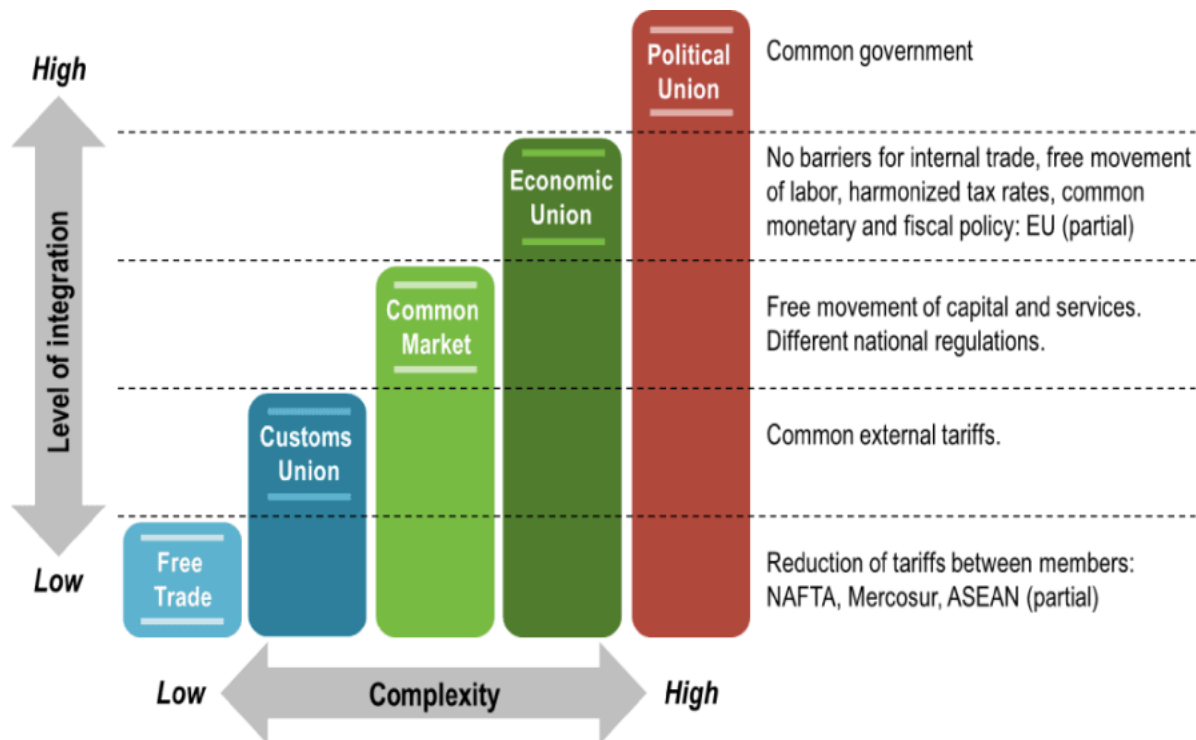
2. Literature Review

The idea of a new sovereign federation across Europe goes back a long time, but it received a big push from the first half of the twentieth century. At the end of World War II, the promoters of European integration looked back at the previous decades and saw a continent fragmented in independent and unconstrained nation states, which had pursed costly beggarthy-neighbor policies during the Great Depression and engaged in two major wars. The goal 2 of European integration was to create a system where nation states would no longer follow such unilateral and destructive policies. **(Enrico Spolaore, 2013).** European integration has been described by some as having the end goal of building a United States of Europe. European integration is the product of the selective pooling of national sovereignty, or ultimate jurisdiction over a body politic, by postwar European nation-states. It has yielded the European Union (EU), the most successful experiment in international cooperation in modern history. European integration poses daunting challenges to political science as a discipline. The EU defies traditional conceptions of states as atomized, self-sufficient units that engage in alliances strictly on an *ad hoc* basis. Only the EU amongst all international organizations has its own system of law, supranational institutions, and currency. It has evolved into a polity in its own right, although an extraordinarily complex and protean one, which sustains more than it supersedes the nation-state in Europe. European integration has been subject to frequent stops

and starts. It rarely has shaken free of tensions between distinct national interests and shared economic interdependence **(J.Peterson , International Encyclopedia of the Social & Behavioral Sciences, 2001)**
Economic integration, or regional integration, is an agreement among nations to reduce or eliminate trade barriers and agree on fiscal policies. The European Union, for example, represents a complete economic integration. Strict nationalists may oppose economic integration due to concerns over a loss of sovereignty. Economic integration can be classified into five additive levels, each present in the global landscape:

- Free trade. Tariffs (a tax imposed on imported goods) between member countries are significantly reduced, some abolished altogether. ...
- Custom union.
- Common market.
- Economic union (single market).
- Political union.

Figure 1 : Levels of Economic Integration

Source : https://transportgeography.org/contents/chapter7/globalization-international-trade/economic-integration-levels/

Economic governance has become one of the most important key aspects of the EU enlargement process over recent years, mirroring moves in the EU to strengthen economic policy coordination and multilateral surveillance under the European Semester. In its 2013 and 2014 enlargement strategies the Commission outlined a new approach to economic governance. It involved clearer guidance on the reforms needed to foster macroeconomic stability, deliver fiscal sustainability and support long-term growth and competitiveness. Focus on fundamental reforms, including those related to the economy, was further reinforced in the new enlargement methodology adopted by the Commission in February 2020. In the same

vein, the Economic and Financial Dialogue between the EU and the Western Balkans has since 2015 provided targeted policy guidance for each candidate country or potential candidate.

Albanian European Integration has to be understood as a process, evolving step by step. Each step has to be implemented properly. Albania will have to implement fundamental, far reaching reforms. This would finally enable the country to fully participate in European integration, including rights and obligations.

Albania had already received Western assistance since 1991. In December 1992, the Agreement of Economic Cooperation and Trade (AECT) became the contractual framework, in which relationship with the EU and assistance from the EU could develop. The implementation of the Agreement and preparations for a second one were halted by the uncertain domestic political situation in the years 1996/97, followed by the Stabilisation and Association process for the Western Balkan in the year 2000 . **(Elke Thiel, 2004).**

In 2021, the Republic of Albania, Bosnia and Herzegovina, Kosovo, Montenegro, the Republic of North Macedonia, the Republic of Serbia and Turkey submitted their seventh annual Economic Reform Programmes covering the period 2021-2023. The programmes have been assessed by the European Commission and the European Central Bank. Based on these assessments, joint conclusions with countryspecific policy guidance were agreed and adopted at the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey. (**Economic Reform Programmes of Albania, Montenegro, North Macedonia, Serbia, Turkey, Bosnia and Herzegovina and Kosovo: The Commission's Overview and Country Assessments, 2021**).

According to the Comission's overview the implementation of the comprehensive public finance management (PFM) reform strategy progressed but the reform pace slowed, hampered by the pandemic and a lack of capacity. The updated PFM reform strategy for 2019-2022 addresses key weaknesses and includes targets to improve public investment management, budget comprehensiveness, expenditure and arrears control, fiscal risk monitoring and revenue mobilisation. However, speedier implementation is prevented by continuing capacity limitations across the administration. The reporting and publication of arrears have substantially improved. VAT refunds reached most small businesses promptly but new agreements had to be arranged for delayed VAT refunds to some large firms and local government arrears increased.

Complex Albanian procedures, co-financing, VAT reimbursement and the need to advance reimbursable expenditure for a long period of time are hindering access to CBC Programmes by Albanian local governments and civil society. Extremely prolonged procedures are followed by the Ministry of Finance and Economy for opening of project bank accounts and transferring of funds/tranches between foreign and Albanian project partners. The reimbursement of VAT for expenditures incurred under EU financed projects is still problematic. In addition to the complexity of procedures under CBC programmes, potential participants find it often difficult to ensure the required co-financing. To guarantee the financial liquidity of projects, MEFA has proposed to the Ministry of Finance and Economy the establishment of a National Co-financing Fund (or emergency fund) to cover all co-financing of Albanian beneficiaries implementing Territorial Cooperation projects. Related measures taken/planned, recommendations for further action: The Albanian authorities are committed to resolving the remaining issues concerning VAT. The facilitation of procedures by the Ministry of Finance and Economy to reduce the legal and financial burden on Albanian beneficiaries is essential. A dedicated budget line under the state budget could be established to cover co-financing for Albanian public beneficiaries (for approved projects). A draft Council of Ministers Decision is pending approval.(**Annual report on the implementation of IPA II assistance under direct and indirect management Republic of Albania, 2021).**

According to the **"Albania 2021 Report",** European Commission, Albania is moderately prepared in the area of economic and monetary policy. Limited progress was made on the National Accounts and Excessive

Deficit Procedures notifications, significant improvement is still needed to achieve full compliance with ESA 2010. In addition, no progress was made on last year's recommendations in regard to complying with the EU acquis regarding the Bank of Albania's independence and its accountability to the Parliament, and government's policy coordination and consultation mechanism with nongovernmental stakeholders. Albania should therefore:

→ Align with the EU acquis the legislation on the Bank of Albania's independence and accountability to the Parliament;

→ Improve the government's policy coordination and consultation mechanism with non-governmental stakeholders when formulating sector policies and economic reforms;

 → Increase reporting capacities for governmental financial statistics according to the EU (ESA 2010) and ensuring regular monitoring of the standards.

In the area of monetary policy, the central bank's primary objective, set out in the Law on the Bank of Albania (BoA), remains to achieve and maintain price stability.

In the area of economic policy, further alignment of legislation with the EU acquis on requirements for budgetary frameworks is needed. Albania has complied with the fiscal rule since its adoption in 2016, with the exception of 2020 and 2021 due to the impact of COVID19. In July 2020, a new fiscal rule was stipulated in the amended organic budget legislation which targets a positive primary balance by 2023. However, in June 2021 this target was postponed to 2024 to allow the government to continue with fiscal stimulus in 2021 with a higher deficit and public debt target. (**"Albania 2021 Report", European Commission, 2021)**

3. Methodology or Materials and Methods

The research method in this paper is Qualitative, for developing a basic research model through analyzing and interpreting of information collected from books, websites, journals, articles, Conference papers.

This paper aims to examine the impact of economic and financial reforms that the Albanian government has undertaken, in order to help integrate into the EU

4. Results and Discussions

Based on the analysis of this study and from the literature review we see that in 2020, the economy contracted by less than initially projected. Hit by the double shock from the earthquake of November 2019 and the COVID-19 pandemic, real GDP decreased in 2020. Pandemic-related domestic and international restrictions caused substantial losses in tourism and manufacturing, but economic conditions started to improve in the second half of the year. Within the limited fiscal and monetary policy space, the government and the central bank took swift and appropriate action to support businesses, households and the healthcare sector; this cushioned the impact on the labour market and preserved macroeconomic and financial-sector stability.

An impressive number of financial reforms inspired by EU law will contribute to the stability and development of the sector beyond 2021. The BoA has begun to update resolution plans for systemic banks and intends to have a complete regulatory framework for banking sector resolution. Work continues on alignment with EU directives on financial instruments, payment systems and money laundering. Financial inclusion has improved, due in part to the modernisation of payment systems and the promotion of electronic financial transactions and banking services in view of reduced mobility during the pandemic.

5. Conclusions and Recommendations

Based on all the economic-financial reforms that the Albanian government has undertaken to approach the EU, we can say that:

1- **Albania's business environment remains prone to structural weaknesses**. Albania's private-sector development remains below its potential, and efforts to improve the business environment need more effective policy instruments. The COVID-19 pandemic has exacerbated certain weaknesses, notably the low level of product diversification. The reforms to improve the economy's competitiveness have stagnated, and Albania has dropped further in the ranking of the Global Competitiveness Report, sliding from 76th to 81st (**World Economic Forum, 2019**).

2- **The informal economy has a large negative impact on the business environment.** It keeps tax revenues low and reduces the fiscal space for investments. The Economic and Investment Plan for the Western Balkans will help increase the competitiveness of Albania's economy backed by a green and digital transition. A substantial investment package, which is at the heart of the Economic and Investment plan, will direct a large majority of support towards key productive investments and infrastructure. This will support the twin green and digital transition and the development of connected, competitive knowledge-based, sustainable, innovation oriented and thriving economy, with an increasingly dynamic private sector.

3- **Strengthening the fight against informality**. This measure is a well-designed measure which can have an impact in the reduction of informality, but it mainly focuses on the fiscalisation aspects and it is not inscribed in a wider comprehensive strategy to tackle all aspects of informal economic activity and informal employment. Implementation has just started and it foresees that all the businesses subject to the law on fiscalisation should be using electronic invoices by the end of 2021. The proposed indicators are relevant but there is no indicator to measure the tax gap, the expected increase in revenues, nor on the informality in the labour market.

4- **Development of the broadband infrastructure for digital economy.** This measure was carried over from the 2020 ERP. The overall reform is in line with the EU strategy for the Digital Agenda for the Western Balkans and aims to address Albania's low broadband penetration, particularly in rural areas.

5- **Facilitating cross-border movement of goods.** This is a relevant measure undertaken in the framework of Albania's active involvement in the regional trade integration through CEFTA, MAP REA and the Regional Cooperation Council. The measure was carried over from the previous ERP. The activities foreseen for 2020 will be undertaken during 2021- 2023. These include enhancing the cross border trade at the border crossing point with North Macedonia by opening the single operational one-stop shop. Furthermore, the new computerised transit system is intended to be fully operational by 2023**.**

6- **Improve transparency through business ans social partners**. Provide enhanced business support services to improve access to finance and entrepreneurial knowhow. Improve transparency in the adoption and implementation of legislation particularly by ensuring an effective timely consultation of businesses and social partners on the new legislation affecting their operations. Draft and consult a comprehensive strategy to tackle and monitor all aspects of informality, with an action plan with

baselines, including clear and measurable targets and establish the regular a performance-based monitoring of its implementation and results.

References (*Times New Roman, size 10*)

[1] Enrico Spolaore , (2013). "*What is European integration really about? A political guide for economists)*," National Bureau of Economic Research, Cambridge, MA 02138

[2] The National IPA Coordinator , (2021). "Annual report on the implementation of IPA II assistance under direct and indirect management Republic of Albania", http://integrimi-ne-be.punetejashtme.gov.al/

[3] 2021 Economic Reform Programmes of Albania, Montenegro, North Macedonia, Serbia, Turkey, Bosnia and Herzegovina and Kosovo*: The Commission's Overview and Country Assessments, (2021). INSTITUTIONAL PAPER 158 | JULY 2021, Luxembourg: Publications Office of the European Union, 2021

[4] Elke Thiel , (2004) , European Integration of Albania: Economic Aspects, ISBN 3-931052-45-1, 2-4

[5] European Commission, Albania 2021 Report, *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Strasbourg, 19.10.2021 SWD(2021) 289 final*

Market Policies and Economic and Financial Institutions – Author considerations

Rexhina Alite[1]

[1]Financial Specialist, "Aleksander Moisiu", University, Durres, Albania ,

rexhinaalite@gmail.com

Abstract:

The aim of this paper is to investigate the serious economic and social consequences of the Covid-19 pandemic in Albania during the years 2021-2022, as well as the measures that should be taken to ensure the country's stability and economic growth.

The entire world, including Albania, is dealing with an unusual situation: a health crisis caused by COVID-19, which has forced governments to take drastic measures and suspend a variety of public activities.

We are all committed to overcoming this crisis in order to protect our health.

At the same time, we must manage the economic situation, which has been greatly impacted by the crisis, in order to assist economic agents in coping with difficult conditions and to create opportunities for a possible resumption as soon as possible.

In this context, the country's main institutions have taken continuous measures, in collaboration with one another, to coordinate as much as possible the joint efforts against the invisible enemy and the damage it is causing to our lives.

In response to this situation, the Bank of Albania has taken immediate measures to support the Albanian economy, which has been hit hard by the coronavirus pandemic.

The measures taken were aimed at mitigating the negative effects on the well-being of businesses and individuals, as well as laying the groundwork for a faster economic recovery in the coming period.

The Bank of Albania is constantly monitoring the situation and is prepared to use all operational tools and regulatory space at its disposal to mitigate the effects of the pandemic on the Albanian economy and financial system in particular.

The thesis envisions maintaining the country's monetary and financial stability, reducing the costs of the crisis for Albanian businesses and families, and overcoming this situation with as few negative consequences as possible so as not to jeopardize the country's long-term development.

Keywords: Economicpolicy,economic measures, economic stability

JEL classification: D0, E58, E59

Introduction

Monetary policy is based on the neutral interest rate, which is the cost of money required to balance the need to save and invest. This is a critical variable over which central banks have little influence.

Albanian debts have risen to more than 80% of GDP in the last decade, making businesses and households more sensitive to even minor rate increases.

This sensitivity is related to the need for borrowers to be caught even after a reduction in loan costs, no matter how small and related to interest rates, rather than monetary policy in terms of lending to businesses and households.

Meanwhile, our financial market has disbursed the majority of its loan portfolio to public companies, while private businesses show a decline compared to 2020, which was a business-blocking year.

Individuals have used with a revival compared to 2020 borrowing, driven by mass construction and the opportunity to use personal savings in addition to bank loans to anticipate the growing trend of civil construction.

Meanwhile, individual and business savings have resulted in an increase in deposits in the financial system (more than two-thirds in Euro), with the impact on increasing the level of deposits in Albanian banks already setting a historical record, with close to ten billion euros available to banks.

In the event that inflation in Albania exceeds the current rate of 3%, this will have a negative impact not only on citizens' savings, but also on the overall cost of businesses. Although they will pass on a large portion of the cost of inflation to consumers, they will need to strike a balance in raising prices to avoid falling sales, i.e. revenues.

While the economy is likely to have grown more than 3.5 times faster than the average rate of economic growth over the last decade, the main effect has been increased consumption by businesses and consumers, who have spent more money on goods and services. Given this trend, businesses have begun to raise prices significantly above the average inflation in the last decade.

Forecasts for economic growth in 2022, where the annual rate is expected to be less than 4%, will have an impact on the inflation rate, which is expected to fall. However, given the impact on economic growth from massive construction development, an expected negative consequence in the context of this declining economic growth rate may be the explosion of an asset price "bubble."

This situation, known in macroeconomics as stagflation, occurs when fiscal policies with frequent changes and an interference in business decision-making dictate the normal flow of the market, resulting in the Albanian market remaining in an unfavorable position for future shocks.

There are few examples of central banks containing inflation when the economy is not in a medium-term slump. Fighting inflation risks sending the recovering economy into a slump. If this is the case, the prospect of interest rates rising to influence inflation is merely a consolation.

Rising interest rates influence people by encouraging them to save more and borrow less, lowering costs and slowing price growth. This is why, in the face of inflation at its highest level in ten years, the Bank of Albania decided not to raise interest rates in early 2022.

However, when the cost of living begins to rise, the Bank of Albania has the option of raising interest rates. In order to avoid financial market shocks, the world's central banks typically raise interest rates gradually and steadily.

This policy does not apply in the case of Albania's financial market because we do not have one.

Monetary policy, which expresses a wait-and-see approach to inflation events, appears to be changing course quickly by tightening monetary policy quickly and rapidly only when inflation has entered an unstoppable upward trend.

The Governor of the Bank of Albania recently stated, "Unconventional policies in developed economies have been implemented by expanding the balance sheets of central banks, through the purchase of tradable securities of the public and private sectors." These quantitative easing policies have been made possible in large part by the availability of a diverse range of tradable private sector instruments. However, the Bank of Albania's actual ability to use and measure unconventional policies is constrained by the structure and development of Albania's capital market, which is very limited.

With the exception of Albanian government securities, this market lacks any tradable financial or private sector instruments that the central bank could purchase to enable quantitative easing and expand the Bank of Albania's balance sheet.

Based on this analysis, it can be seen that although a rudimentary development of the financial market is observed, the situation is not considered alarming.

This viewpoint may have a direct impact on businesses in the construction and real estate sectors, as well as service businesses selling in the domestic market. Another effect will be felt by homeowners, who will wonder whether the low interest rate policy will end this year or whether the cost of borrowing will rise.

It is true that the economy has recovered faster since the pandemic than it did following the effects of the 2010-2013 financial crisis in Albania. This is due in part to the pandemic stimulus and reconstruction efforts, which are now winding down. Meanwhile, the transition to liberalization and the use of renewable energy potentials necessitates investment of up to 20% of GDP in order to avoid a significant impact on public finances from the energy price crisis.

To summarize, higher energy prices are one of the primary causes of this inflation, which increased significantly in December 2021. Large increases in oil prices, as well as fiscal policy, have raised fuel prices, but also service bills.

The highest prices for goods purchased from abroad play a significant role in inflation. People began to buy more goods as economies around the world reopened.

The main businesses that have increased their costs and mandated higher prices for consumers in order to meet this additional demand, which has been hampered by labour shortages but also by the general tendency of businesses to take advantage of our market's stagnation.

Inflation is likely to rise further in the coming months as a result of these effects.

Stagflation can be defined as an inflation period combined with a decrease in gross domestic product (GDP)..
Interest rates refer to the cost that one pays to use someone else's money

In October 2021, the Albanian government declared an emergency for electricity supply, after the increase of energy prices in recent months.

After the extraordinary general meeting of the government, Prime Minister Edi Rama stated that the emergency declaration for electricity supply, gives the government the opportunity to intervene with financial and administrative instruments.

Rama compared the energy crisis with the pandemic and warned that such a situation will last until mid-2022. Not only that, but even after the crisis is over, there will be no price reductions.

""It is a very similar situation in terms of dealing with the pandemic situation, but unlike the pandemic different countries have some characteristics.
Experts believe that the crisis will be present with its peak until the middle of next year and think that even after overcoming the peak, prices will not return to their previous state.

Hence, in such a situation after the pandemic and energy crisis, the monetary policy in Albania risks an inflation for 2022. Based on data from Instat Tirana, May 9, 2022: Consumer Price Index in April 2022, reached 109,7 compared to December 2020. The annual change of the consumer price index in April 2022 is 6.2%, a year ago it was 1.9%. The monthly change of the consumer price index in April 2022, compared to March 2022 is 0.7%.

The following are the most important research questions that the given thesis seeks to answer:

1. Has the Bank of Albania taken any steps to ensure price stability and the country's macroeconomic balance?

2. Has the Bank of Albania been able to keep consumer price inflation at 3.0 percent in the medium term?

3. What mitigation measures did the government implement for borrowers, businesses, and individuals who were impacted economically and financially by the situation? Were these mitigation measures beneficial to the latter?

4. Which industries were the most affected by the pandemic, and have they recovered?

5. Is it expected for the inflation in Albania to rise above the current rate of 3%?

6. How much will the energy crisis affect inflation, and what steps should be taken to avoid

this situation?

Literature Review:

The Bank of Albania is the only institution in the Republic of Albania responsible for the conception, drafting, approval and implementation of monetary policy. Monetary policy encompasses a set of principles, measures and instruments through which the central bank intervenes in the financial markets and the economy, aiming to meet its objective of price stability.

World theory and practice suggest that price stability is the greatest contribution the central bank can make to support the country's long-term economic growth. More specifically, by guaranteeing price stability, the Bank of Albania makes a direct contribution to maintaining the country's macroeconomic balances, reducing risk premiums, sustainable economic growth and long-term welfare improvement, as well as supporting the stability of the financial system.

In quantitative terms, with price stability, the Bank of Albania will mean maintaining consumer price inflation at the level of 3.0 percent, in the medium term.

The Bank of Albania deems that, by maintaining inflation at a level of around 3.0 percent, monetary policy will continue to make a positive contribution to the development of the Albanian economy.

The main indicator of the balance of inflationary pressures in the economy and the desired monetary policy response will be the deviation of the medium-term inflation forecast from the target level, supported by a general analysis of economic indicators.

In addition to measuring inflation as the annual change of the Consumer Price Index, the Bank of Albania, in order to improve monetary policy decision-making, uses other measurements, such as core inflation, inflation of tradable and non-tradable goods, and inflationary expectations of economic agents. These measurements create a more complete basis for taking the most realistic decisions possible.

The Consumer Price Index (CPI), calculated and published by INSTAT, serves to measure headline inflation. However, the values of headline inflation may also reflect the action of factors of a temporary nature, or of shocks that occur only once and that fade over time. Estimated inflation excluding the effects of short-term fluctuations, one-time shocks and supply shocks is called core inflation. It represents the most stable part of inflation, which is influenced by factors of demand and, consequently, monetary policy.

For the purposes of analysis and decision making, the Bank of Albania has developed various measurements of core inflation. The main measurement of core inflation, which is referred to in the Monetary Policy Reports, is that with the "permanent exception". This approach implies the permanent exclusion of some basket items whose prices show high volatility in the short run or changes that do not depend on monetary policy. Data on core inflation estimates are obtained from the CPI published by INSTAT.

The core inflation series is usually updated around the 14th of each month, or the next day if it falls on a holiday.

Inflation expectations influence financial agents' consumption and investment decisions. As such, they are an important indicator for predicting inflationary pressures and future inflation.

Expected inflation is an immeasurable indicator derived directly from official statistics. They are evaluated using various methods, the most common of which is observation. The Bank of Albania assesses inflation expectations using data from surveys of near businesses, consumers, and financial agents.

In collaboration with other authorities, the Bank of Albania helps to maintain financial stability. As part of this contribution, the Bank of Albania develops and implements macroprudential policy with the goal of preventing risks to financial stability and increasing the viability of banks and other financial institutions.

Financial stability benefits the economy and economic agents as a whole, specifically by:

- Households, companies, other private and public economic entities;

- Financial systems;

- Markets

- Public authorities

When there is financial stability, economic growth is healthier and more sustainable because: the savings and investments of economic agents, both private and public, are brought closer to contractual expectations and determinations; markets function better and help the financial needs of economic entities to be realized more efficiently; there is greater resistance to financial stress situations, financial crises are avoided, and taxpayers do not pay to cover their costs; the central bank's and other public authorities' economic policies are more effective.

Data and Methodology

My research method will be empirical comparative, with some descriptive analysis and statistical regression. The majority of the information and data on my specific requests and their consequences will be gathered from working documents and reports of the Bank of Albania, INSTAT, the Ministry of Finance, the IMF, the Tax Branch, and others.

I will collect data through questionnaires and surveys distributed to various businesses to compare the financial situation prior to 2019 and after 2019, to see if economic profit has increased or decreased. How much government assistance did they receive during and after the pandemic? The analysis of this data will reveal which businesses are in the most trouble following the pandemic and the energy crisis. What financial policies can be implemented to assist this type of business while also ensuring the country's economic and financial growth?

Expected results

This research lays the groundwork for a more in-depth examination of financial policies. We will be able to determine whether my forecasts were correct or not once we have more data on the performance of the Bank of Albania and its impact on financial markets, as well as changes in inflation in the country.

I believe that my thesis will be informative about the country's current economic situation and will provide sufficient information for economic growth and financial stability in the coming years following the pandemic and energy crisis.

References:

- Financial reports on the official website of the Bank of Albania

- Data from INSTAT

- Financial reports on the official website of the Ministry of Finance

Impact of the pandemic covid – 19, on the development of E-Marketing.

Dr. Vaeld ZHEZHA[1]

"Aleksander Moisiu University", Business Faculty,Albania, *vaeldzhezha@uamd.edu.al*

Abstract

During pandemic covid 19, all of us as individuals, consumers, professionals or businesses find ourselves in front of abnormal and unexpected situations, changing the way of life, as well as making new ways to purchases or establish new relationships with consumers. as well as businesses.

The situation created for the business is an unprecedented situation globally. As never before, the need arose for both consumers and businesses to adapt to a new economic reality. In this new reality where the consumer is limited in his free circulation, the market begins to shift or strengthen in a digital dimension

And the purpose of this paper is to analyze exactly how in the field of E-marketing, during the pandemic, businesses began to perceive new opportunities for their development through online marketing. In the paper it will be pointed out that obviously whenever crises occur, there is development. The cause leads to consequences which are not necessarily negative and the digital marketing industry without a large number of changes in this period.

The competition became even fiercer, but this time not in terms of products, but in the field of marketing, services as well as promotion or online shopping. Exactly the paper will try to see how specialists in the field of digital marketing were forced to adapt to the situation with urgency as never before, to create new strategies, in order to adapt now, to the demands of consumers who no longer had the freedom to act as before.

In this article we will use secondary data, making an analysis of quantitative and qualitative data, to conclude how much and how the use of the advertising business in the digital sphere has changed.

Keywords: Competition, pandemic, targeted marketing , Marketing and advertising, e marketing.

JEL classification : *, Z32, E01, E24, E25,M3*

1. Introduction

One of the greatest inventions of the 20th century is undoubtedly the Internet. From the beginning, the destination of the Internet was communication, first between two computers, related to the data processed by

scientists with priority in military technology, and then began to be used for communication between ordinary people, not necessarily professionals in the field of electronics. In a very short time the use of the Internet began to occupy a place in many areas of modern life, where definitely an important place is occupied by communication, information search, doing business, as well as marketing.

Some time limits for online development[1]

1969 US universities connect up network facilities for the first time.
1971 Ray Tomlinson creates first network email application.
1976 HM Queen Elizabeth II sends an email.
1978 First spam email is recorded.
1982 Standard network protocols are established: Transmission Control Protocol (TCP) and Internet Protocol (IP) , Domain Name System (DNS) is introduced.
1985 A company named Symbolics becomes the first registered dot.com domain.
1991 Web Father, Tim Berners-Lee releases World Wide Web (www)
1995 Amazon is launched by Jeff Bezos.
1996 Yahoo! is launched on the stock exchange and shares are up nearly 300% on
           first day.
1999 Peter Merholz coins the word "blog"
2004 Facebook launches from the Harvard dorm room of Mark Zuckerberg, Dustin Moskovitz, Chris Hughes and Eduardo Saverin
2005 Launch of YouTube. Google buys Android Inc.
           2006 Google buys YouTube for $1.6 billion. Facebook membership opens to anyone.
           Twitter launches
2022 on January , there were 4.95 billion internet users worldwide - 62.5 percent of the global population. Of this total, 4.62 billion were social media users.[2]

The biggest changes in the last 20 years on the internet, were directed globally through exchange and communication, thus, many of the classic forms of doing business through the old distribution channels, saw new opportunities through the internet to identify new markets, as well as new ways to contact these markets.
Also being a new distribution channel, the internet is being watched by the business community as a domain of much interest, especially with the increasing involvement of all potential customers. Pajanen & Allington have underlined the importance that this domain was taking, regarding marketing professionals, the internet was becoming a very hot issue in the business world.[3]

Traditional business has already been transformed as a result of access to almost immediate contacts between the parties, as a result of which cheaper ways were achieved from the economic point of view between, producers, sellers, as well as publicity agents.[4]

There is some discussion at the search level, where it is thought that in the near future, traditional marketing will be less efficient in current markets. Regarding the impact that the internet has on marketing, we need to see the change, in marketing that we know, or as a revolution, only at the level of a new channel.
Schibrowski[5] advocates the idea that it is still too early to identify the impact of the internet on the evolution of marketing; a more efficient marketing using the internet, regarding the meaning of how users access the

---

[1] E- Marketing: The essential guide to digital marketing Fourth Edition by Rob Stokes
[2] Data available on https://www.statista.com/statistics/617136/digital-population-worldwide/
[3] Tian, R.G. and C. Emery, Cross-cultural issues in Internet marketing Journal of American Academy of Business, Cambridge, 2002. 1,2(March).
[4] Oudan, R., Strategic Decision-Making In the Emerging Field of E-commerce. International Journal of Management and Information Systems, 2010

internet. This trend in studies will lead researchers and academics to adapt new formulas and theories related to E-Marketing

In this article we will see how the covid-19 pandemic has impacted the development of E-Marketintg.

2. INTERNET MARKETING

Internet marketing is more user-oriented, and specifically focuses on traffic to web addresses, to achieve maximum profit.

It is the way of using the internet, to reach new users, the connection with new customers.

Having an SEO-oriented web address, we can become part of this category, for example

PPC campaigns for search engine marketing, or how Google Ads is.

While digital marketing is a sub-branch of internet marketing, it relates to the tactics used on all platforms where the internet can be used.

Bud Caddell [6] defines "digital" as "A participatory layer of all media that allows users to choose their own experiences and offers marketers the ability to connect to media, receive feedback, repeat their message, and build relationships." (Caddell, 2013).

- **Internet marketing**[7] focuses on these things, in order:

1. Create a website

2. Choose some SEO-friendly keywords and best practices

3. Run PPC campaigns

4. Convert traffic to sales with on-site copy and offers (including pop-ups)

- **Digital marketing** examples of tactics and focal points :

1. Mobile apps for your business and related push notifications

2. Electronic billboards

3. In-app PPC ads

4. Databases that contain market research or audience information

5. TV commercials

We can say that both sit under an umbrella, supporting each other.

Internet in traditional marketing mix.

Definitions of Marketing – Definition by Philip Kotler[8]:

---

[5] Schibrowsky, J.A., J.W. Peltier, and A. Nill, The state of internet marketing research : A review of the literature and future research directions. European Journal of Marketing, 2007. 41(7/8).

[6] Data available on https://biz.libretexts.org/Bookshelves/Marketing/Book%3A_eMarketing__The_Essential_Guide_to_Marketing_in_a_Digital_World_(Stokes)/01%3A_Think_-_Strategy_and_Context/1.04%3A_What_is_digital_marketing

[7] Data available on https://disruptiveadvertising.com/marketing/emarketing-vs-digital-marketing/#:~:text=Emarketing%20is%20much%20more%20relationship,falling%20under%20its%20large%20umbrella.

Marketing, more than any other business function, deals with customers. Creating customer value and satisfaction are the heart of modern marketing thinking and practice. Marketing is the delivery of customer satisfaction at a profit. The two fold goal of marketing is to attract new customers by promising superior value and to keep current customers by delivering satisfaction.

The marketing mix traditionally consists of four P's, of sales which constitute an element of a strategy that over time must be revised as a result of their change.
A strategy should be based on strong choices seem examined, the factors that affect the business.
Here are some elements, competition, market, customers and key competencies
To make a strong choice, a strategist must first examine what the choices are: what are the factors influencing your business?
This underscores the fact that competition has become dynamic over the strategies used.

   a) Products and Services.

What makes the whole economy move and the business , are the products and services that a company sells. Starting with digital products, software, consulting, goods, a large range of new products, are enabled through fast communication on the Internet.
The technology, which is advancing every second, already allows mass personalization of products, which is a growing trend. Customers have the opportunity to personalize their products before they are created and then purchased, in a market that knows no boundaries. The Internet creates a globalization of supply and demand.

   b) Price

Already a large number of people have access to the internet, and this is a positive point for customers of products, whose information is available on the Internet and consequently the identification of prices worldwide the same products is a matter of seconds. Internet pop o grows a market close to perfect competition.
A perfectly competitive company is like a price taker from a competitive market, finding a point of equilibrium in price.
Search engines as well as shopping comparison websites like www.pricerunner.co.uk and www.nextag.com, give customers, buyers the opportunity to compare prices from many manufacturers, or retail supplements.
Also the manufacturing companies themselves, look at the market prices before deciding on the price levels for their products or services.

   c) Placement or distribution

The Internet has changed a lot the distribution of products which, previously influenced by the location of the manufacturer. Digital services have given companies access to a global market.

---

[8] Data available on https://www.businessmanagementideas.com/marketing/marketing-definition/20516

Especially for digital products and services, the internet gives companies access to a global market. The distribution of products and markets should not be dictated by location. With efficient delivery and transportation channels, non-digital products can also benefit from a much wider market.

The Internet allows the basic foundations of mail order businesses to flourish online with a catalog that is cheaper to produce and update and cheaper to distribute - a website.

d) Promotion

The Internet, as a means of information and entertainment, itself is offered to promote products, becoming an extension of offline promotion, but with some important changes.

E-place strategies[9]

Online shopping is one of the changes brought by the internet in mix marketing. Customers can now buy directly from manufacturers, bypassing distribution channels. The basic factor for this is the time that a manufacturer must anticipate and evaluate for the delivery of the product to the customer, in the shortest possible time. Online location can refer to where links are placed on other websites.

To be as close to the customer as possible, you currently need to have an online address, and a link to the www.google.com home page, which enables significant traffic to online business sites, where they can be identified, from where are customers who visit online sites.

3. Impact Covid-19, in E marketing

The Covid Pandemic - 19, all over the world showed how unprepared not only small or medium-sized businesses were but also large companies. At the small business level, the impact was almost catastrophic for most of them.

This meant that, during the two long years of blockages and remote work, some companies were somehow in a stronger position because they had started to position the brand on digital platforms and consolidated it even further.

In a study done by CRITERIO [10] surveyed over 1000 marketing executives worldwide, including countries like USA, UK, France, Germany, Italy, Spain, Australia, Japan, South Korea and India, to learn about their plans for 2021.One from the findings of this study was that about 61% of the various industries that were surveyed, reported lower sales in 2020 compared to the same periods of 2019. Positive result was shown only in relation to sales on the website. Criteo data show that despite a turbulent year, e-commerce sales grew + 14% globally in December 2020, compared to year 2019.

Table 1.

---

[9] Data available on https://www.learnmarketing.net/emarketing.htm
[10] Data available on https://www.criteo.com/blog/digital-marketing-spend-2021/

Source –
Criterio COVID – 19 impact on Marketing Survey, Global October 2020, Nr - 745

As shown by the study, great importance is given to the achievement of visitors, or new audiences, as well as the re-engagement of expired offline customers [11], which is a critical part of business success

The same study shows that 87% of businesses plan to spend at least the same financial level or more. on a proven performance driver, paid display / retargeting on publisher sites and apps, in 2021 [12] At the same time, many retailers also aim to diversify earned budgets through the open internet: 43% plan to spend more on retail media this year than in 2020

Table 2.

Will your digital marketing budget increase for the following channels in 2021?

Marketing Channel	Likely to increase	Likely to stay the same	Likely to decrease
Social Media	**47%**	40%	13%
Website/Content Marketing	**44%**	44%	12%
Advertising on Retail websites/apps	**43%**	44%	12%
Retargeting/Paid Display on Publisher websites/apps	38%	49%	13%
Paid Search	36%	50%	13%
Email Marketing	36%	47%	17%
Omnichannel Strategy	36%	51%	13%
Paid Video	34%	49%	17%

Source: Criteo COVID-19 Impact on Marketing Survey, Global, October 2020, n=1026.

Source — Criterio COVID – 19 impact on Marketing Survey, Global October 2020, Nr -1026

Something that the pandemic has emphasized for companies is the importance and role that E marketing plays in current strategies as well as in the future.
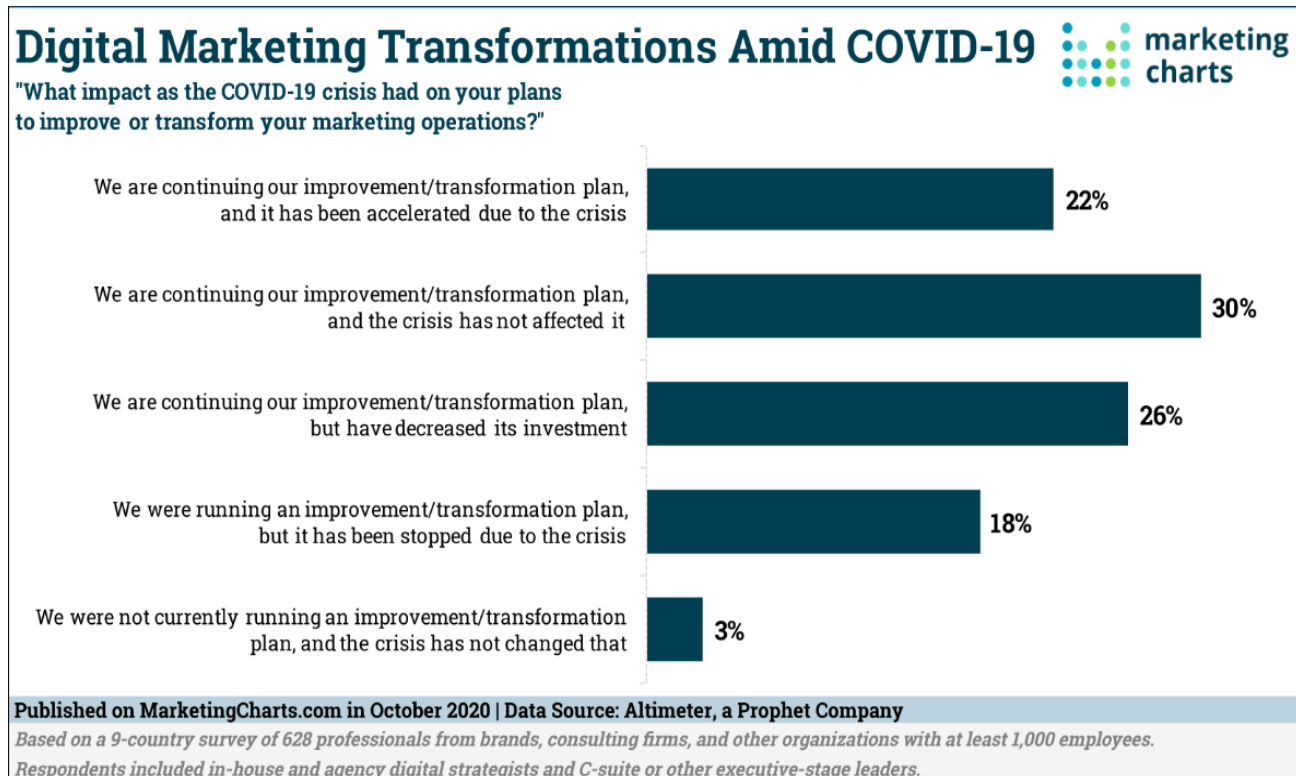
According to a report by Altimeter, a Prophet Company [13], it turns out that most marketing agents need to speed up their plans as well as transform online operations.

Here priority is given to work from home (82%); digital marketing (78% invest to improve); digital sales (76% try to reduce compliance gaps); virtual distribution of products / services (52%); and growth initiatives (37%)[14]

Table 3.

---

[13] https://www.marketingcharts.com/customer-centric/analytics-automated-and-martech-115057
[14] Data available on https://www.prophet.com/download/the-2020-state-of-digital-transformation/

Source – MarkeitngCharts.com, Data source rom Altimeter, a Prophet Company

About the Data[15]: Findings are based on a 9-country survey of 628 professionals (including in-house and agency digital strategists and C-suite or other executive-stage leaders) from brands, consulting firms and other organizations with at least 1,000 employees.

About 22% of respondents claim that COVID-19 has made them increase the improvements for their E-marketing operations
Two-thirds of organizations are also relying more on data and intelligent technologies
To gain knowledge during the pandemic
These respondents say they are driven to increase the use of these technologies by the desire to get more value from these investments (59%)

Based on this study, companies were asked about the metrics they chose, in relation to digital transformation, they mentioned, growth (31%), customer metrics (31%), business performance as revenue or profits (31%) and operational efficiency such as as productivity and cash flow (30%) as some of the key metrics

To a lesser extent they are also pursuing engagement metrics: active customer engagement (i.e. comments or likes, 26%), employee engagement and satisfaction (23%), and passive customer engagement (i.e. layoffs, clicks and time on the page or in the application, 20%).

IV. CONCLUSION
The interest, no doubt, has not only changed the way people communicate, it is also changing the way they do business.

---

[15] Data available on https://www.marketingcharts.com/customer-centric/analytics-automated-and-martech-115057

As a result of the development of technology, the increasing access of the population to the Internet poses challenges for companies and small enterprises, related to price transparency.

The competition is becoming more and more dynamic, regarding the use of E marketing, as well as digital marketing, to explore new markets, which are found online, customers and buyers as well.

Marketing technologies can help increase the effectiveness and efficiency of marketing activities

As a result of the pandemic - Covid, 19, companies have to adapt to the new reality, only then will they have an advantage in the global market.

Recommendation.

E-marketing trends and ideas to consider:

- Market from home - Quickly set up home campaigns, collaborate on teams and keep traders engaged with apps.

- Engage customers - Listen to your customers, use real-time data to better understand their current situation and needs.

- Personalize digital communications - Accelerate digital channel adoptions, deliver the right message, the right person, at the right time.

REFERENCES

Rob Stokes 2016 E- Marketing: *The essential guide to digital marketing* Fourth Edition

Oudan, R., Strategic Decision-Making In the Emerging Field of E-commerce. International Journal of Management and Information Systems, 2010

Schibrowsky2007., European Journal of Marketing , *The state of internet marketing research* : A review of the literature and future research directions., 41(7/8).

Tian, R.G. and C. Emery, 2002. 1,2(March).*Cross-cultural issues in Internet marketing* Journal of American Academy of Business, Cambridge, https://www.businessmanagementideas.com/marketing/marketing-definition/20516

Internet sources:

https://disruptiveadvertising.com/marketing/emarketing-vs-digital marketing/#:~:text=Emarketing%20is%20much%20more%20relationship,falling%20under%20its%20large%20umbrella.

https://www.criteo.com/blog/digital-marketing-spend-2021/

https://www.criteo.com/blog/digital-marketing-spend-2021/ 1. All eyes are on marketers to drive full-funnel results.

https://www.criteo.com/blog/digital-marketing-spend-2021/ 2. Digital marketing spend is being spread across more channels in 2021.

https://www.learnmarketing.net/emarketing.htm

https://www.marketingcharts.com/customer-centric/analytics-automated-and-martech-115057

https://www.marketingcharts.com/customer-centric/analytics-automated-and-martech-115057

https://www.prophet.com/download/the-2020-state-of-digital-transformation/

https://www.statista.com/statistics/617136/digital-population-worldwide/

https://biz.libretexts.org/Bookshelves/Marketing/Book%3A_eMarketing__The_Essential_Guide_to_Marketing_in_a_Digital_World_ (Stokes)/01%3A_Think_-_Strategy_and_Context/1.04%3A_What_is_digital_marketing