REVISTIA

EJME

EUROPEAN JOURNAL OF MARKETING AND ECONOMICS

May-August 2018

Volume 1, Issue 2

ISSN 2601-8659 (Print)

ISSN 2601-8667 (Online)

REVISTIA

PUBLISHING AND RESEARCH

EUROPEAN JOURNAL OF

MARKETING AND ECONOMICS

May-August 2018

Volume 1, Issue 2

Typeset by Revistia

Address: 11, Portland Road, London, SE25 4UF, United Kingdom

Tel: +44 2080680407

Web: https://ejme.revistia.org

Email: office@revistia.org

ISSN 2601-8659 (Print)

ISSN 2601-8667 (Online)

Indexed in Elsevier's Mendeley, WorldCat, RePEc & Ideas, Google Scholar Crossref

TABLE OF CONTENTS

The Dynamics of Crowdfunding in a Frontier Market: An Exploratory Research on Romania

Raluca Andreea Vidrascu

PhD Cand. The Faculty of Journalism and Communication Studies

University of Bucharest, Romania

Abstract

In the last ten years digitalisation has maximised the power of online communities and has created a strong link to directly sustaining and financing innovation. One of the disruptive digital outcomes is crowdfunding which represents an alternative way of financing innovative ideas or projects by raising small amounts of money from a large number of individuals through dedicated online platforms usually using a reward-based model where funders receive something in return for backing a project. A starting point of this study wasa research conducted by Ethan Mollick (2013) on projects initiated on Kickstarter crowdfunding platform between 2009 and 2012 that gives a perspective on the dynamics of success and failure among crowdfunded ventures. In this paper the key findings of the above mentioned study are further developed in the context of the Romanian crowdfunding market by taking into account the level of preparedness when starting a campaign, the number of updates after publishing the prospectus and the type of compelling rewards offered by the issuers as a framework. The database consists of data regarding the projects initiated between 2016-2018 on the top three crowdfunding platforms in Romania. The study delivers insights into the level of development and the understanding of the crowdfunding phenomenon in Romania, describing the ability to get funded or get extra funds and also the main features of the most funded campaign categories. The main chapters of the paper highlight a literature review of the dynamics of crowdfunding, presentation and analysis of data and conclusions regarding changes in the way online communities understand crowdfunding phenomenon and decide to be involved in it.

Keywords: crowdfunding, social investment, online community, social media, mass collaboration, digitalization, financial inclusion

Introduction

1. Literature review

Having its roots in USA back in 2005, the crowdfunding phenomenon gained a lot of attention from researchers around the world studying the sharing economy. They have studied the mechanisms of the most developed crowdfunding platforms in the world, like Kickstarter and Indiegogo, the motivation of funders to be involved or the level of money raised. The purpose of this article is to offer a perspective on the level of development and the understanding of the crowdfunding phenomenon in frontier markets such as Romania (the findings could also be applicable to Croatia, Estonia, Serbia or Slovenia) by studying top three crowdfunding platforms in Romania and all their projects initiated from the beginning of 2016 until October 2017.

Crowdfunding represents an "open call – mostly through the Internet – for the provision of financial resources" (Leimeister et al., 2015). Crowdfunding it's also defined as an "alternative form of funding easy to access by a large number of entrepreneurs" (Schweinbacher et al., 2015) or like a "popular outlet for financing independent creative projects" (Duvall, Colistra, 2017). As De Buysere et al. (2012) mentioned in their study, crowdfunding represents also a "disruptive technology for financial intermediation" based on collective effort of individuals to support projects initiated by other people, most of them unknown until the launch moment of the project. During the last 12 years crowdfunding played an important role in supporting entrepreneurs, by creating and funding jobs in the creative industries and enriching the European society and culture especially after the challenging period of financial crisis from 2008. Since we talk about the "democratization of finance" (Mollick et al., 2016), crowdfunding can represent also a solution for big global problems like unemployment, poverty and social exclusion, because crowdfunding platforms can help both not-profit and for-profit projects and ideas (Read et al., 2016). A company can obtain capital from internal resources (the personal contribution of the project initiator or reinvested profits) or external ones like loans, initial public offerings, direct investments or money raised in crowdfunding campaigns. Through crowdfunding entrepreneurs at the beginning of their path in the innovation field have the possibility to start their own business by getting capital from funders in order to finance their ideas and using the social networks for marketing and communication purposes. Crowdfunding offers also non-financial benefits (Schwartz, 2014) like instant validation of product need in the market, price, demand, market segmentation, customer feedback about product (sometimes even before the launch), direct link with customers or online communication with no additional costs. This is one of the reasons why when taking into account the possibility of having a crowdfunding campaign for a project, project initiators should first of all consider planning the process and take their time in developing accurate and efficient presentation so they can obtain the best reaction from backers, whether this feedback consists of funding, debating or sharing the news with others and creating word-of-mouth.

As the goal of this empirical research is to provide a local perspective regarding a contemporary phenomenon, i propose a case study on the Romanian market. For this we used information available online extracted from three most active platforms in Romania. The dataset created contains all projects uploaded online between beginning of 2016 and October 2017. For all 72 projects we extracted data regarding project name, launch date, initial amount needed, amount raised at the end of the campaign, number of backers, average amount donated, if it contains video or photos, number of words in description, etc.

During this research we will refer to crowdfunding as an “alternative form of funding, easy to access by a large number of entrepreneurs” (Schweinbacher et al., 2015) with the amendment that in the Romanian case study we will talk about project initiators not about entrepreneurs willing to start a new business. During the research we will try to find the answer to several questions regarding crowdfunding. Does Romania understand the crowdfunding phenomenon as it is perceived in most developed countries or it has transformed it at the local level? What influences the success or the failure of a crowdfunding campaign? What kind of developments need to be done in order to bring crowdfunding to the next level?

2. Crowdfunding mechanism and models

When we discuss about crowdfunding we should have in mind three stakeholders: the project initiator, the backer and the platform which intermediates the collaboration between bakers who want to support a campaign from different inner reasons and project initiators. Crowdfunding platforms represent an infrastructure or an open access to funding to enable project owners to succeed. They offer transparency and an easy process to access funds, as well as full control for project owners over funded actions without any legal constrains. Since launch, crowdfunding platforms have assumed only the role of intermediating the message between project initiators and funders without being in contact or controlling any of their actions. Usually, platform owners offer a functional and easy to access both by project initiators and funders website, desirably with a good structure and, most importantly, secure from the transaction point of view in order to discourage fraud or other types of risks. Crowdfunding platforms are also defined as “internet based platforms” (Belleflamme et al., 2015) that have the scope to link fundraisers to backers. Platforms “focus on matching of project initiators and backers by providing information about the projects and functionalities” (Leimeister et al., 2015).

2.1. Steps in creating a crowdfunding campaign

In order to start the crowdfunding campaign, project initiators have to create an account on the selected platform and follow the steps until they have the project published. Depending on the platform the application is published with or without a prior review. The project initiator has to define the goal or the amount of money he needs to raise in order to complete the project, the duration of the online campaign, the minimum amount of money that can be donated and the reward tiers. During this steps project initiators have to publish a convincing pitch in order to catch the attention of the online audience. Usually platforms suggest users to upload a short video created in advance in order to have a more attractive call to action. Taking into consideration that the vast majority of online audience of these types of platforms are youngsters the campaign should be aligned with their preferred type of media communication. After the campaign is launched the project initiator can choose to keep the audience updated with the evolution of the project, the amount of money raised or the status of production of goods. Behind the scenes information, interviews with team members or with partners they choose for the project, updates regarding media opportunities they had during the launch of the campaign, answers to comments received on page and other types of communication are important to show the dedication and constant effort made by the team and the ability to manage the project until the end. When the campaign ends and the goal has been achieved, the project owner will receive the money and will pay the platform a fee. Platform owners usually publish a set of questions and answers regarding the fee they will perceive from the amount of money raised by founders when the campaign ends. If the goal of the campaign was not achieved all money will be returned to backers, in case of fixed campaigns, or will be kept by project initiator, in case of flexible campaigns. It is important to mention that platforms do not charge for the online registration of an account and they do not apply any member fee per fundraiser.

Project initiators, named also founders, have the responsibility to offer all the relevant information in order to convince the online audience to back their project online. This means that they should describe the idea or the product, they should show how it is made, what type of materials they have used, what kind of partners they have worked with or they want to work with. Taking into account the new type of online audience represented by millennials and their short attention span especially when they are online, project initiators should create and upload videos in order to say the story faster and also professional pictures with their team members and sketches of the product. They should also establish the number of pledges with the amount of money they can receive from backers and the type of reward if it is the case of reward-based platform.

2.2 Financing models in crowdfunding

In crowdfunding there are four financial models. The first one is reward-based crowdfunding where funders' objective for funding is to gain a non-financial reward or a symbolic one such as a token gift, an invitation to an event or to be able to buy the first edition release of the backed product. The second one is called donation crowdfunding where a donor backs a project without any existential reward. This is also called philanthropic or sponsorship-based incentive. In other words the project initiator asks for support with no expected compensation. The third one is lending crowdfunding where backers offer credit being repaid plus interest. And last, in equity crowdfunding or crowdinvesting the backers get shares, equity-like instruments or revenue sharing in the project.

The most popular category is the reward-based crowdfunding where we can find two types of campaigns adopted by the majority of platforms and mentioned by Schweinbacher et al. (2015) in his research paper: all-or-nothing (AON) model or fixed model and keep-it-all (KIA) or flexible model. In the fixed model the project initiator creates a goal of the campaign and, at the end of it, receives the money only if the amount is equal with or exceeds the initial goal. Otherwise all the amount raised it is sent back to the funders and the campaign it is declared unsuccessful. Kickstarter, one of the biggest crowdfunding platform in the world, adopted only the AON model for campaigns developed on their website and charge a 5% fee for successful campaigns out of the total amount raised. As we mentioned earlier in this article, Kickstarter, like any other crowdfunding platform, represents just an intermediary between project initiators and funders and it is not responsible for the project initiators actions after the campaign closes. By proposing an AON crowdfunding campaign entrepreneurs signal the quality of the project, bigger capital expectations and propose more reward levels than KIA. Also AON model offers to possible investors the feeling that project initiators are determined to launch the product they proposed a crowdfunding campaign for, to communicate harder about project on all social media networks, to attract more media attention or to create qualitative videos and photos all for the success of the campaign. AON founders offer more information to their online audience about projects (Schweinbacher et al., 2015), details about team members, many updates and respond to comments they receive in order to create and maintain a good relationship with audience. As Schweinbacher et al. (2015) mentioned, AON models offer a guarantee to the crowd that the entrepreneur does not start a project with unrealistically low funding. Also the AON crowdfunding campaigns can motivate better the team members to be as active as they can during the campaign in order to achieve or to outreach the target. The Kickstarter platform mentions on its website that by choosing the AON model founders can statistically raise more money than with a KIA model. From the funders perspective, they are more attracted by AON projects due to the sense of urgency they create than to fund a project that does not reach its goal and accepts to raise only a percentage of the final goal. Also AON projects are less risky for both funders and founders, funders being charged only if the project achieves the target and helping founders to achieve their initial goal and to accomplish what they assumed initially without any compromises.

The KIA model helps the project initiator to keep the money raised during the campaign without taking into consideration the initial goal. So if the money raised are less than the initial goal, the project initiator will keep the amount. This model is used especialy when projects are scaled or when they are already started and the crowdfunding budget represents only a step to continue it. This type of campaigns is less successful in meeting their fundraising target. Usually people are choosing this type of model when they are not sure about the team efforts and when the project they propose has small fixed costs and all that they obtain is good to receive. These two models of funding represent also a differentiator for crowdfunding platforms: some of them offer just the all-or-nothing type of funding, like Kickstarter, while others accept both types of funding. Also in terms of fees paid by project initiators to platforms they vary based on the type of funding accepted. For all-or-nothing funding the fee (which is a percentage of the amount raised) is paid only if they reach their goal, while for flexible funding project initiators pay the fee without taking into consideration the amount of money raised. Another difference is that the flexible funding is used sometimes for humanitarian causes, while all-or-nothing is used only for projects developed in the creative industries.

2.3 Backers motivations to engage in crowdfunding campaigns

As Duncum (2011) mentioned in his paper consumers are not taken into consideration only at the end of the creation process. Now it's about prosumers and about "a participatory culture that shifts the focus of creation from the individual to community engagement, to collaboration and networking". The level of participation for the online audience during crowdfunding campaigns is "an extension of the participatory culture" (Jenkins, 2006). In participatory culture "young people creatively respond to a plethora of electronic signals and cultural commodities in ways that surprise their makers, finding meanings and identities never meant to be there and defying simple nostrums that bewail the manipulation or passivity of "consumers" (Willis, 2003).

These types of crowdfunding models cover different kinds of motivations a backer may have. If until recent consumers have been taken into consideration at the end of the creation process, nowadays they are part of it since the early beginning, being considered an active asset for the creative industry. Some of them just want to see the project launched, meaning that their expectations are not correlated with a financial benefit because they do not expect something in return. Others support projects because they see there a financial opportunity, investing an amount and having the patience to receive back much more as it is the lending or equity crowdfunding. Recognition it is also a reason why backers support different campaigns with shares in social media, comments or directly with money. Whether they want to highlight some personal values or they want to be recognized by others when their name is published online, it seems that crowdfunding is nurturing their self-esteem. After backing a project usually funders become real ambassadors for that idea, taking care to communicate about it on their personal social networks and to promote it any time they have the opportunity to do it in order to help the project succeed. Funders usually empathize with project initiators having the same values, being flexible and open to change, understanding fast the potential and the need to have that project backed. Also personal network like family and friends represents one of the most important group of backers. The emotional connection with project initiators it is also an important motivation for funders to engage in some types of projects. Another factor is represented by the proximity between initiators and investors. Agrawal et. al. (2010) showed in his article that geographical proximity it is very important during backing.

2.4 Non-financial benefits for project initiators

Project initiators should also be aware of the great potential social networks have in promoting a new product and in raising capital. Having more control than in any other form of financing like loans or venture capital, crowdfunding represent a more convenient way to finance a start-up, keeping 100% ownership, deciding what type of rewards to offer and when it is feasible to send them to backers. Even so, some project initiators exert caution in sharing too many details regarding their project, as they try to protect their ideas.

Going back to non-financial benefits, many researchers noted the fact that it is important to create communities around projects using social networks. By creating a Facebook page of the project the founder of the campaign will have the opportunity to benefit longer of the attention of online audience, even after the end of the crowdfunding campaign. Backers can be informed about the evolution of the project, about the team efforts to launch the project, to send all the rewards and thetiming and rewards received. In addition, in case of a success and a plan to launch a second crowdfunding campaign, they will have the opportunity to re-engage the existing community because they know what their direct interest are and then to deliver the message to others.

3. Crowdfunding in Europe

In order to highlight the different stages of development of crowdfunding in Europe we will compare statistics regarding the amounts raised year to date in 2018 and the amounts expected to be raised in 2022 in the most developed countries like United Kingdom, France, Germany and Netherlands and also emerging countries like Croatia, Estonia, Serbia, Slovenia. In the end we will have a deep dive on Romania's case study, a frontier market. The term was first introduced by the International Finance Corporation (a member of the World Bank) and is commonly used to describe equity markets of the smaller and less accessible, but still investable countries of the developing world, perceived as more risky (eg. countries in Eastern Europe).

Moreover, when referring to crowdfunding as a financial innovation one must take into account the level of financial inclusion in each country we analyze. According to European Commission's data in the European Union 7% of people over 18 years do not have a bank account, Romania being the one with the highest rate of unbanked population: only 38% of people over 18 have a bank account, which means 61% of the active population.

In order to measure the current status of financial inclusion in Romania the Romanian Commercial Bank issued a survey in 2016 where the main finding is that 57% of teenagers with ages between 14 – 18 are bank customers and only 40% of them make online payments. Also from this survey we find out that the financial education comes mainly from the family (80%), while school only accounts for 15% of the subjects. Another important aspect regarding financial inclusion is represented by the infrastructure in this domain. In 2015 44% of population was living in the rural areas, which are less bancarized, while Germany had 29.4% and France 20.7% rural population.

In this context we will keep in mind that when discussing and analyzing the level of development of crowdfunding in Europe it is important to remember the financial and educational context at the local level. The European Commission conducted a study regarding crowdfunding and found out that even if crowdfunding phenomenon is developing fast at the European level, it still remains concentrated in a few developed countries like United Kingdom, France, Germany, the Netherlands and Italy and is still a national phenomenon with limited cross-border activity. In addition the most recent statistics issued by European Commission showed that at the end of 2014 there were 510 platform in the EU 28% of which (143) being based in the United Kingdom. After UK, the next country is France with 77 platforms, Germany with 65 platforms and the Netherlands with 58. Regarding the type of funding, in 2014 the top three were reward based crowdfunding (30.4%), equity crowdfunding (22.9%) and lending crowdfunding (21%). The majority of platforms were offering just one type of funding. European Commission recognizes the importance of crowdfunding as an alternative source of capital for small and medium sized enterprises, organizing twice a year meetings between European authorities and the crowdfunding sector in order to share best practices, promote convergence and keep developments under review. The European Commission also monitors the evolution of the sector in order to anticipate the moment when cross-border funding will grow and have a greater impact. That will be the moment when European Union will develop a single policy on crowdfunding. From online statistics published on statista.com regarding crowdfunding expectations, we can see in Fig.1 that in 2022 the transaction value amount is expected to raise the most in more developed countries. There are also expected developments in emerging and frontier markets, but the rates are lower (Fig.2).

Fig. 1 Transaction value amount (m Euro) developed countries

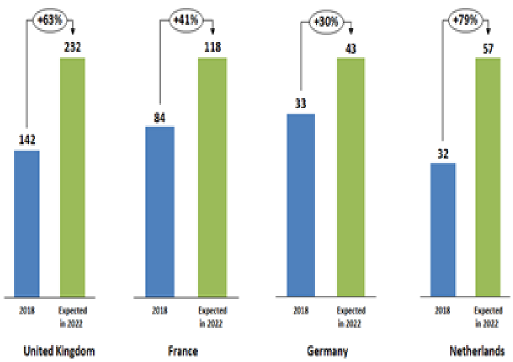
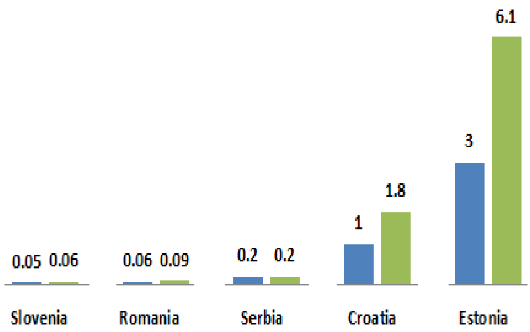
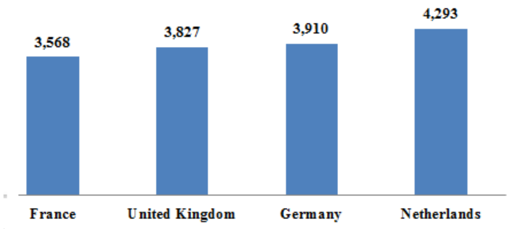


Fig. 2 Transaction value amount (m Euro) emerging and frontier countries





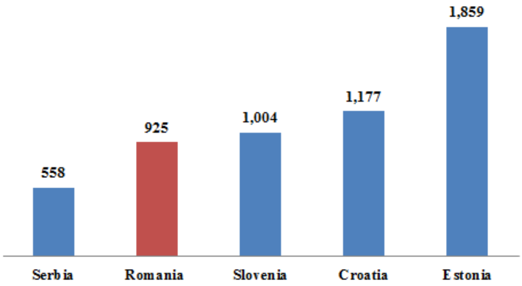


Fig. 3 Average funding amount per campaign in 2018 (Euro) - developed countries

Fig. 4 Average funding amount per campaign in 2018 (Euro) - emerging and frontier countries

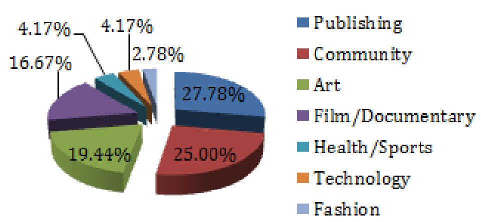
4. Romanian crowdfunding sector

As an exploratory empirical research, the scope of this paper is to develop initial evidence regarding the level of preparedness when starting a crowdfunding campaign in Romania and to show the direct correlation with the level of success or failure among crowdfunded campaigns. During this study we will take into consideration also the level of preparedness when starting a campaign, the number of updates after publishing the prospectus and the type of compelling rewards offered by the issuers as a framework. The database consists of data regarding the projects initiated in 2016 and 2017 (until October 2017) on top three crowdfunding platforms in Romania (crestemidei.ro, wearehere.ro and multifinantare.ro), taking into account the number of campaigns, the amount of money raised and the online awareness.

Even though crowdfunding has a continuous growth in the financial sector, the topic is not broadly covered by Romanian researchers. Until now themain approaches found refer to crowdfunding as an alternative source of funding projects in Poland and Romania (Toader et al., 2014), crowdfunding policies of dedicated websites (Balau, 2016) and sharing economy in Romania and highlighting the post-communist specificity (Andrei, Zait, 2017). These studies also suggest in their conclusion that a closer view on how crowdfunding campaigns are developed online and what kind of triggers function better is necessary.

As the goal of this empirical research is to provide also a local perspective regarding a contemporary phenomenon, i propose a case study on the Romanian market. For this we used information available online extracted from three most active platforms in Romania. The dataset created contains all projects uploaded online between beginning of 2016 and October 2017. For all 72 projects we extracted data regarding project name, launch date, initial amount needed, amount raised at the end of the campaign, number of backers, average amount donated, if it contains video or photos, number of words in description, etc. The platforms analysed are all reward based platforms: crestemidei.ro (45 projects), wearehere.ro (18 projects) and multifinantare.ro (9 projects). Multifinantare.ro it is the first crowdfunding platform launched in Romania in 2011 based on AON financing model. It takes 0% fee for successful humanitarian projects, 6% for Creative projects and 10% for Capital projects, being the only one with charging different fees depending on the category of the project. Crestemidei.ro was launched in 2012, adopted the AON financing model and takes 7% of the amount raised in case of a successful campaign. Wearehere.ro platform was launched in 2013, it offers both AON and KIA financing models and it charges 6% / 9% of the amount raised depending on the financial model.

We centralized the projects into seven categories: Art, Community, Fashion, Film/Documentary, Health/Sports, Publishing and Technology. As we can see in the Fig. 5, categories that gathered the most projects are: Publishing (27.78%), Community (25%), Art (19.44%) and Film/Documentary (16.67%).



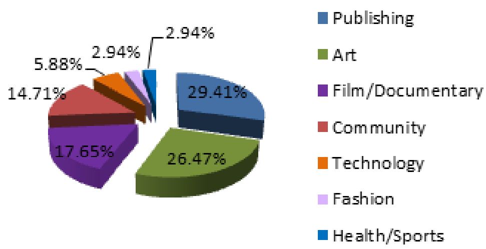
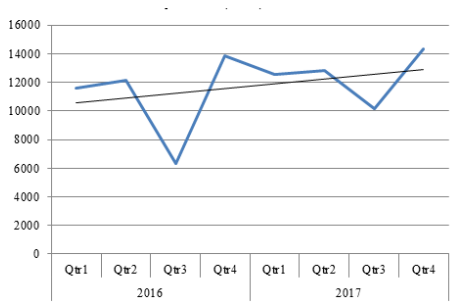


Fig. 5 Projects by category Fig. 6 Funded projects by category

The most funded categories (and also the one that raised more money) are the same four categories (Fig. 6), but we notice some important changes: the Art category, that was the third in the number of proposed projects occupies the second position in the most funded category, while Film/Documentary category that was on the forth place in the number of projects is now on the third position. We can also notice that most projects that are in the Community category are not convincing backers to support them or are issued without an appropriate communication plan.

Even though we cover only 2 years of data, regarding the evolution year on year, we can say that the amount of money raised grew continuously quarter after quarter, showing that the awareness and trust in crowdfunding are also growing in Romania (Fig. 7). In terms of number of backers the evolution year on year showed us an increase with low interest from backers during summer months (July, August) and peaks of interest between October – December, the period of the year easily associated with personal costs (Fig. 8).



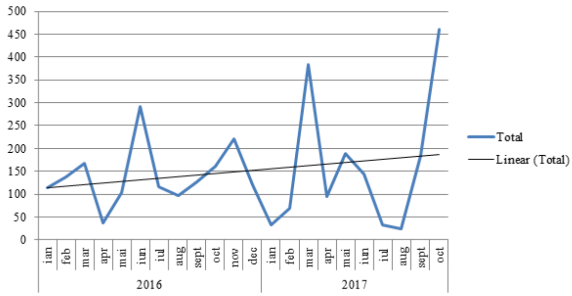


Fig. 7 Amount of money raised Fig. 8 Number of backers evolution

Trying to see how the success of a project was influenced by the goal, we split the goals amount (in euro) in five categories: 0 - 2.000 euro, 2.000 - 4.000 euro, 4.000 - 6.000 euro, 6.000 - 8.000 euro and greater than 8.000 euro (Fig. 9).

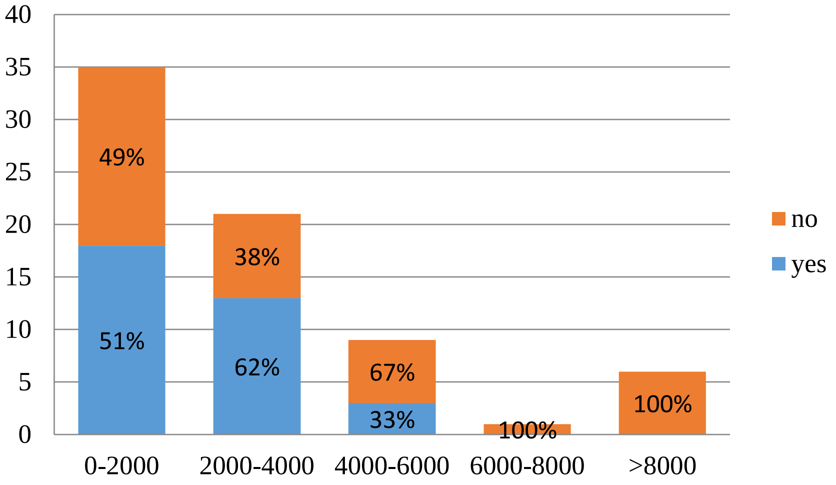


Fig. 9 Projects by goal

As we can see in the Fig. 9 35 out of 72 projects analyzed are situated in the first category, with goals between 0-2000 euro and a level of success of 51%. The biggest percentage of successful projects are situated in the second category with goals between 2.000 – 4.000 euro and a 62% percentage of success. Also we can conclude that projects over 4.000 euro have a less chance of success. The study reveals a significant negative relation (-0,315 Pearson Correlation) between the funding level and the goal (split into 5 categories: <2000; 2000 - 4000; 4000 - 6000; 6000 - 8000; >8000 euro) which indicates that the funding level is higher when the goal is set lower.

Trying to identify what else can influence the success of the project depending on the goal we have taken into consideration only the successful projects with the number of backers and the average amount / backer. We can see in Table.1 that the category with project goals between 2.000 – 4.000 euro have over 110 backers and an average amount of 47.84 have indeed the biggest chance to achieve and probably to overachieve the target.

Goal categories	Average number of backers	Average amount of donation
0-2000	49,28	30,90
2000-4000	111,00	47,84
4000-6000	136,33	38,48

Table.1 Projects by goal

Also it can be observed that the type of reward represents a really important aspect that most probably will transform followers into backers. We also segmented rewards into three categories (symbolic, entertainment and value). The percentage of projects declared successful is the highest when the rewards have a higher value (Fig.10). Fundable.com recommend to project initiators to talk about rewards with family and friends in order to test their reaction in front of the reward tiers.

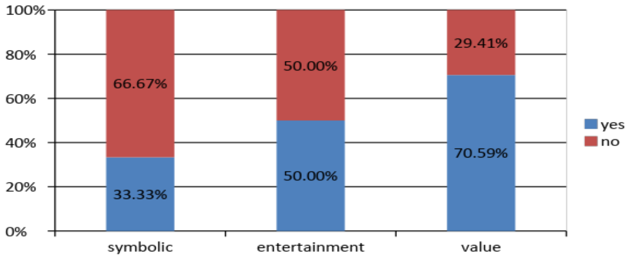


Fig. 10 Types of rewards and rate of success

As Molick (2013) mentions, another important aspect in becoming successful in crowdfunding campaign is related to the "quality signals" the project initiators send via their projects. X. Chen et al (2009) observed the "role of preparedness as a signal of quality" and by this we refer to creating videos, offer a good description for your project, stay in contact with followers, manage the social network account day by day, offer pictures with the team members and proofs of concept regarding the project submitted.

Out of 72 projects analyzed only 6 projects did not submit a video, 5 of them being declared unsuccessful in the end. These 6 projects without videos were on wearehere.ro and multifinantare.ro, none of them were on crestemidei.ro platform. This suggests that crestemidei.ro requires a mandatory video at the beginning of the campaign. This is also in line with the recommendation received by project initiators on bigger platforms, like Kickstarter, which sets as a first rule the creation of a video. Kickstarter also announces a prospective issuer from the beginning that without a video the chances to get funded are smaller. 62% of the projects that did not submit any photo or illustration (18 out of 72 – 25%) were not funded, compared with the 52% average of not funded ideas. These quality signals create a direct impact in the engagement of backers, in their willingness to share the news about a project on their social networks or to finance the project. As it was mentioned before it is less attractive for backers to invest money and time into a project with low chances of success because they do not want to be associated with failure.

Other important insights regarding the correlation between project components and the rate of success are the following:

there is a strong correlation (0.418 Pearson Correlation) between the funding level (the percentage of a project's goal that is funded by backers) and the number of information updates during the campaign.

the analysis found a positive relation (0.276 Pearson Correlation) between the funding level and the length of the presentation videos (natural logarithm).

There was a insignificant weak correlation (0,026 Pearson Correlation) between the funding level and the number of words used in the campaign presentation.

The average amount raised per backer in 2017 versus 2016 has increased by 52.3% in 2017, from 24.2 euro/backer to 36.8 euro/backer.

Category	Percent of projects	Average funded level	Average no. of updates	Average no. of backers	Average donation	Average goal	Average video duration	Average number of words
Publishing	27.78%	72.7%	2.40	48.25	24.46	1215.32	149.85	608.00
Community	25.00%	39.6%	1.28	25.06	28.00	705.67	133.06	701.83
Art	19.44%	72.7%	1.86	58.14	27.95	1685.76	139.93	596.07
Film/Documentary	16.67%	57.5%	1.75	63.83	37.65	1915.48	135.08	606.75
Technology	4.17%	87.5%	2.67	84.00	34.47	2558.89	113.67	712.67
Fashion	2.78%	71.7%	0.50	25.50	70.60	1086.50	173.50	696.00
Health/Sports	4.17%	38.1%	0.50	3.00	13.17	118.52	107.33	256.33
Grand Total	**100.00%**	**61%**	**1.80**	**45.94**	**29.45**	**1302.78**	**138.64**	**621.08**

Table.2 Descriptive statistics

		Project goal (EURO)			Amount raised (euro)			Number of backers			Updates		
		Mean	Count	Median	Mean	Count	Median	Mean	Count	Median	Mean	Count	Median
Category	Art	2412.857	14	2000.000	1685.762	14	1564.556	58.1	14	62.0	1.9	14	1.0
	Community	2366.346	18	1777.778	705.667	18	253.333	25.1	18	12.5	1.3	18	0.0
	Fashion	5116.667	2	5116.667	1086.500	2	1086.500	25.5	2	25.5	.5	2	.5
	Film/Documentary	40888.481	12	4194.444	1915.481	12	1510.444	63.8	12	38.5	1.8	12	1.0
	Health/Sports	485.185	3	311.111	118.519	3	0.000	3.0	3	0.0	.5	3	.5
	Publishing	1994.667	20	1888.889	1215.317	20	679.000	48.3	20	26.5	2.4	20	0.0
	Technology	2851.852	3	3000.000	2558.889	3	1208.889	84.0	3	59.0	2.7	3	2.0
Rewards	entertainment	2971.232	22	2111.111	1761.414	22	1424.444	49.6	22	28.5	1.6	22	1.0
	symbolic	16018.923	33	1933.333	1005.879	33	277.778	40.4	33	10.0	1.5	33	0.0
	value	1951.895	17	1888.889	1285.582	17	1208.889	51.9	17	50.0	2.6	17	2.0

Table.3Descriptive statistics

4. Conclusions

The evolution of new technologies during the last 20 years has created a path for disruptive innovation and especially for new models of financing, crowdfunding being one of them. It democratizes the access to capital without taking into consideration if the project initiator is an NGO, a public person or just a student with a great idea in mind. The stage of development in Romania is still at the beginning, with a small number of platforms and campaigns initiated. Media coverage of the subject could help the industry become more popular. In addition, given that a backer has to donate online the amount he/she desires, the crowdfunding level of development is strongly influenced by the level of bankarization in Romania (the extent of population to an entire range of banking services) where only 61% of the active population owns a bank account and only 38% of them use internet banking.

Taking these into considerationthe research provides strong evidence that a better media coverage on crowdfunding topic together with a better communication strategy and implementation both from platform owners and from project initiators will raise the awareness and attract more backers and, as a consequence, higher amounts of money raised. This paper is only an initial step in describing the specific feature of crowdfunding in Romania and shows the actual stage and an increasing trend, both in the number of backers and in the amount raised year after year. To better understand its evolution and also to enhance the positive social and economic effects of crowdfunding, data should be analysed yearly and formal recommendation, also derived from the insights provided by the European Commission on this subject, should be more closely followed by the stakeholders.

References:

[1] Agrawal, A.; Catalini, C.; Goldfarb, A. (2010). The geography of crowdfunding.
[2] Andrei, A., G.; Zait, A.; (2017). The Sharing Economy in Post-communist Societies: Insights from Romania.
[3] Anghelache, C.; Nita, O.G.; Badiu, A. (2016); Financial Inclusion, Focus on Romanian
[4] Migrants and their Families; http://www.revistadestatistica.ro/supliment/wp-content/uploads/2016/03/RRS_01_2016_A18.pdf
[5] Balau, M.; (2016). How Crowdfunding Works in Romania? https://www.researchgate.net/publication/312487812_How_Crowdfunding_Works_in_Romania
[6] Belleflamme, P.; Omrani, N. (2015). The Economics of Crowdfunding Platforms https://www.researchgate.net/publication/273850822_The_Economics_of_Crowdfunding_Platforms
[7] Borst, I.; Moser, C.; Ferguson, J.; (2018). From friendfunding to crowdfunding: Relevance of relationships, social media, and platform activities to crowdfunding performance. http://journals.sagepub.com/doi/pdf/10.1177/1461444817694599
[8] Chen, X.; Yao, X.; Kotha S; (2009). Entrepreneurial passion and preparedness in business plan presentations
[9] Colistra, R.; Duvall, K. (2017).Show Me the Money: Importance of Crowdfunding Factors on Backers' Decisions to Financially Support Kickstarter Campaigns. http://journals.sagepub.com/doi/abs/10.1177/2056305117736942
[10] Cumming, D.,J.; Leboeuf, G.; & Schwienbacher, A.; (2015) Crowdfunding Models: Keep-It-All vs. All-Or-Nothing. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2447567

[11] De Buysere, K.; Gajda, O.; Kleverlaan, R.; Marom, D.; & Klaes, M. (2012). A framework for European crowdfunding. European Crowdfunding Network (ECN), www. europecrowdfunding.org/european_crowdfunding_framework
[12] Delivorias, A.; Crowdfunding in Europe - Introduction and state of play http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/595882/EPRS_BRI(2017)595882_EN.pdf
[13] Duncum, P. (2011); Youth on YouTube: Prosumers in a Peer-to-Peer Participatory Culture http://ed.arte.gov.tw/uploadfile/periodical/3052_9-2-p.24-39.pdf
[14] Gierczak, M., M.; Bretschneider, U.; Haas, P.; Blohm, I.; & Leimeister, J. M.. (2015). Crowdfunding – The New Era of Fundraising. https://www.inc.com/kimberly-weisul/why-your-crowdfunding-campaign-should-be-all-or-nothing.html
[15] Jenkins, H.; Purushotma, R.; Weigel, M.; Clinton, K.; Robinson, A. J. (2009). Confronting the challenges of participatory culture: Media education for the 21st century
[16] Levy, Pierre. "Collective intelligence: Mankind's emerging world in cyberspace." (1997): 253-58
[17] Mihai A., (2015) Circa 44% din populaţia României trăieşte în mediul rural. Media Uniunii Europene este de 25% http://www.zf.ro/eveniment/circa-44-din-populatia-romaniei-traieste-in-mediul-rural-media-uniunii-europene-este-de-25-14918560
[18] Mollick, E; (2013). The dynamics of crowdfunding: An exploratory study
[19] Mollick, E.; Robb, A.; (2016). Democratizing Innovation and Capital Access: The Role of Crowdfunding
[20] Read, A; (2013). Crowdfunding:An Empirical and Theoretical Model of Non-Profit Support
[21] Schwartz, A. A.; (2014). The Nonfinancial Returns of Crowdfunding.https://www.bu.edu/rbfl/files/2015/07/Schwartz.pdf
[22] Toader, C., S.; Kaniowska, M., M.; Zajdel, M.; Dumitrescu, C., S.; Some aspect regarding crowdfunding as an alternative source of funding projects in Poland and Romania
[23] Willis, Paul. "Foot Soldiers of Modernity: The Dialectics of Cultural Consumption and the 21st-Century School" (2003): 392-95.
[24] Wilson, K.E.; Testoni, M.; Improving The Role of Equity Crowdfunding in Europe's Capital Markets (2014) http://aei.pitt.edu/53427/1/Improving_the_role_of_equity_crowdfunding_in_Europe's_capital_markets_(English).pdf
[25] https://www.bcr.ro/ro/presa/informatii-de-presa/2016/10/06/studiu-BCR-57-la-suta-dintre-adolescenti-sunt-clienti-ai-unei-banci-iar-40-la-suta-fac-plati-online
[26] http://crestemidei.ro/?locale=ro
[27] Millennials Are More On Board with the Sharing Economy (2015) https://www.emarketer.com/Article/Millennials-More-On-Board-with-Sharing-Economy/1013098
[28] More than just the money https://ec.europa.eu/growth/tools-databases/crowdfunding-guide/what-is/more_en
[29] What is crowdfunding? https://ec.europa.eu/info/business-economy-euro/growth-and-investment/financing-investment/crowdfunding_en
[30] https://www.investopedia.com/terms/f/frontier-market.asp
[31] http://multifinantare.ro/
[32] https://www.statista.com/outlook/335/144/crowdfunding/netherlands?currency=eur
[33] https://www.wearehere.ro/

Public Revenues and Expenditures in Kosovo

Azem Duraku

PhD Cand. Departament of Finance, Faculty of Economy, University of Tirana, Albania

Abstract

Within this Thesis, efforts have been made to explore, analyse and address the role and importance of Public Revenues and Expenditures, regarding their functioning in the country, with particular emphasis on the Republic of Kosovo during 1999 - 2018. Following the end of the war in June 1999, the Republic of Kosovo faced serious challenges, which it should have gone through. After the war, between 1999 and 2008, Kosovo was administered by UNMIK. With the declaration of independence in 2008, the Republic of Kosovo assumed all the responsibilities in the management of public finances, where state activities related to the collection of public revenues and public expenditure coverage are steered and managed by the Ministry of Finance within the State Government. According to the Legislation of the Republic of Kosovo, accountability in the management of public money consists of a chain of participants, each of which is responsible for achieving certain goals, and each is accountable to the highest level authority for achieving these goals. The highest authority in this hierarchy is held by citizens, who are represented by elected members of the Assembly and Municipal governments. The Government elected by the Assembly then assigns responsibilities to the Ministers, in order to enforce government policies, who within the scope permitted by applicable rules, through regulations, policies and administrative arrangements, assign further powers and responsibilities to the senior managers of budget organizations and other users of public property. The research question put forward is: How will the Government, through public revenues and public expenditures with a budget management, impact the growth of goods, public services for the citizens of Kosovo.

Keywords: Public Revenues, Public Expenditures, Budget, Accountability

Introduction

In order to accomplish many tasks and measures that the state is obliged to perform under the constitution, other laws and provisions, there is a need also for certain incomes. The means by which the state meets its national and social needs in its power, we name it as public income. Income systems of developed countries with roughly the same revenues per inhabitant differs, depending on whether they are developed countries, are more or less oriented to foreign trade exchange, what is the organic composition of their capital etc. Oil-rich state income systems differ from oil-importing countries. There are three main functions of Public Finances: (1) distribution - optimum allocation of resources, which is also the main function; (2) redistribution of national revenues, between individuals and households, as well as between sectors of the economy; (3) sustainability - state intervention through economic policies when the economy is in disequilibrium.

Incomes comprise mainly of income from taxes and fees, as well as the profits of state-owned companies. The state budget revenues are divided into: tax and non-tax income. The most important forms of public incomes are: taxes, contributions, fees, customs, state loans, incomes from social assets, etc. The goals and tasks that can be accomplished with the collection of public incomes can be divided into these groups: Redistribution and accumulation of revenues are the main functions of public incomes. It is known that the national incomes are generated in the process of material production and the execution of manufacturing services. Certainly, it is quite normal for people who work in non-economic sector to participate in the distribution of national revenues by redistributing it. The distribution of national revenues generators is executed through market by prices and money, which this represents the primary distribution. Secondary distribution or redistribution of the national revenues for the benefit of non-economic activities is carried out through financial instruments such as taxes, contributions, fees, customs and other charges. These instruments redistribute primary distribution through budget and reserve funds. The division of manufacturing factors is made through public incomes. Through public incomes, are generated financial means which through public outcomes shall prompt division of economic factors in those economic activities, in that volume and structure of investments according to the desire of financial policy.

Economic and social stability. The impact of incomes on the national economy is important due to that it has stabilizing capabilities. If stabilization policy requires increasing the demand, which is smaller than the supply, the public income should be reduced according to the structure. On the other hand, if demand is required to be reduced, then public income will increase through financial policy.

Promotion (stimulation of economic development). Public incomes may affect in many ways the economic development, both directly and indirectly. In direct manner, they promote the economic development through the accumulation of incomes by funds, whose function is the funding of certain economic development programs. In indirect manner, through the promotion of export or import by economic branches and areas.

The Republic of Kosovo at the end of the war in June 1999 coped with serious challenges but had to overcome it. After the war, from 1999 to 2008, Kosovo has been administered by UNMIK. With the declaration of independence in 2008, the Republic of Kosovo assumed all responsibilities in the management of public finances, where State activities concerning the collection of public incomes and public outcomes coverage are governed and managed by the Ministry of Finance within the State Government.

Research Methodology

The study was conducted on the basis of research in the field of incomes and public expenditures in Kosovo during 1999 - 2017, as well as the applicable rules on incomes and expenditures during this period. During this research, I have used secondary data from the Ministry of Finance, Kosovo Agency of Statistics, Tax Administration and other relevant institutions. In the assessment of public expenditures, are applied almost the same methods and techniques which are also applied to other areas of economic analysis, such as the selection method (cost-benefit analysis and cost-effectiveness analysis), the optimization method (linear programming method and other research methods). Subjected to the specific problems related to public expenditure, the most appropriate methods for assessing public expenditure are the Cost-Benefit method and the Cost-Effectiveness method (cost-effectiveness analysis - economic analysis).

Incomes and Expenditures in Kosovo during 1999 - 2017 - comparative analysis

When it comes to generating incomes in the new Kosovo tax system, the circumstances imposed to start building a simple tax system. The devastated economic and public infrastructure, the devastated businesses and the poor social situation of the population that Kosovo inherited in the post-war period, did not provide realistic opportunities for quick building of internal governance structures and consolidation of the economic base and self-funding of budget needs. Based on this, in the first post-war phase after 1999, UNMIK mission focused mainly on external donations, as the only sources available for financing budget needs for the functioning of public administration, public sector, reconstruction and maintenance of infrastructure and public services. Initially it was based on sales tax, at a rate of 15%, which was replaced by VAT on 1 July 2001, which has also the rate of 15% and applies to all imports and domestic products to gross turnover over € 100,000; presumptive tax at a rate of 3% in gross turnover; service tax at 10% rate and customs rate of 10%. Moreover, excises are applied to various goods, where fuel, cigarettes, alcoholic beverages, refreshments, etc. prevail. Starting from 1 April 2002, starts the application of profit tax, while from 1 April 2002, starts the application of the tax on salaries and pension contributions. Public incomes in Kosovo are collected by: Value Added Tax (VAT); Personal Income Tax; Corporate Income Tax; Withholding taxes; Pension Contributions; Issuing licenses for gambling; Excise; Customs; and other income.

The government may decrease the taxes without reducing government expenditures, or may increase government expenditures by keeping unchanged taxes, or may use both government expenditures increases and tax cuts. When the government reduces taxes, individuals and firms have more revenues in their disposal and over this basis, they increase expenditures on consumption and investment that prompt growth in production and the economy enters in the growth phase.

Table no. 1, Total Income and Expenditures 1999-2007, in millions of Euros (000 €)

Description	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total Incomes	-	-	-	-	584	619	641	656	682
Tax Income	-	-	-	-	512	533	544	551	618

Nontaxable income	-	-	-	-	44	52	56	50	40
Donor grants	-	-	-	-	69	13	94.9	43	46
General Expenditures	62	214	250	269	653.8	632	736	700	717
Current expenditures	50	139	155	165	495.7	336	329	332	326
Capital Expenditures	-	-	10	19	28	129	174	176	182
Expenditure on subsidies and transfers	12	68	79	71	192	273	172	174	164

Source: Kosovo budget 1999 -2007

Table no. 2, Total Income and Expenditures 2008-2017, in millions of Euros (000 €)

Description	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Incomes	862	956	1,106	1,264	1,384	1,423	1,345	1,470	1,634	1,725
Tax Income	752	841	890	1,060	1,128	1,182	1,162	1,269	1,410	1,512
Nontaxable income	54	58	130	159	170	208	171	188	212	201
General Expenditures	1,119	1,095	1,256	1,434	1,524	1,586	1,480	1,564	1,732	2,001
Current expenditures	375	444	507	590	637	687	1,058	1,149	1,221	1,273
Capital Expenditures	405	410	495	572	614	616	411	404	500	723
Expenditure on subsidies and transfers	194	220	248	272	282	303	11	13	12	12
Primary balances	(257)	(137)	(220)	(170)	(140)	(162)	(136)	(94)	(98)	(276)

Source: Kosovo budget 2008 -2017

Public expenditures serve to finance, respectively, meeting the public needs of the state. They enable and ensure implementation of tasks from state competence and its organs, defined by the constitution, law and other provisions. Public expenditure permeate these two characteristics: public expenditure serves to meet social needs and public interests, and public expenditures are converted into money.

Public expenditures are money expenditures, expended by the state and other public-law entities to meet general needs and public interests.

Public expenditures are closely connected to public incomes because public incomes are the source of public outcomes funding. Public needs, in historical perspective, have always increased with the increase of state functions.

Through public expenditures are met following needs:

1. general social needs (state administration needs, state representative bodies, maintaining embassies and foreign representation, internal and external insurance, as well as other needs funded by the budget).

2. common or collective needs (needs for education, culture, science, social insurance, pension health and disability insurance, as well as other common needs);

3. needs of state economic nature (state intervention in economy, international economic relations, investment in infrastructure etc.)

Human life is built in such a way that culture, wealth and civilization are transferred from one generation to the next. The older generation is born, grows, educates and transmits everything that is good and positive to the new generation. All this activity is well-organized and is implemented through the structures of responsible state institutions. For this purpose, there are education and educational institutions: schools, universities, academies of science, cultural and cultural institutions, information media, etc. States have duty to look after, above all, for the lives and health of people and community members.

The wellbeing of a community depends on the well-being of individuals in a community. Governments work on the principle of Pareto: if at least one individual is in better condition from the venture of a particular policy, and no other individual is worse than it was, then the community as a whole is better, and which this policy must be applied.

The state should become a guarantor in the application of three golden rules, which are the unchanged basis and the point of reference for the functioning of any means of communication between the state and community members. These rules are:

•Every member of a community must have equal and unrestricted access to benefit public goods, which are defined by the level of development and civilization of any country where there exist a community;

•Anyone who benefits a public good must financially contribute with a payment in favor of the state, which holds the burden of responsibility and its guarantee;

• Individuals which earn more revenues, which spend more or which own more assets, they contribute more in the favor of the state budget.

The cost-benefit analysis is oriented on minimizing the investment of means, time, talent and energy (input) to best accomplish, in the shortest possible time and at the lowest possible expense, the goal that is to be achieved with the expenditure of public income, respectively to maximize the output from public expenditures at the respective expense

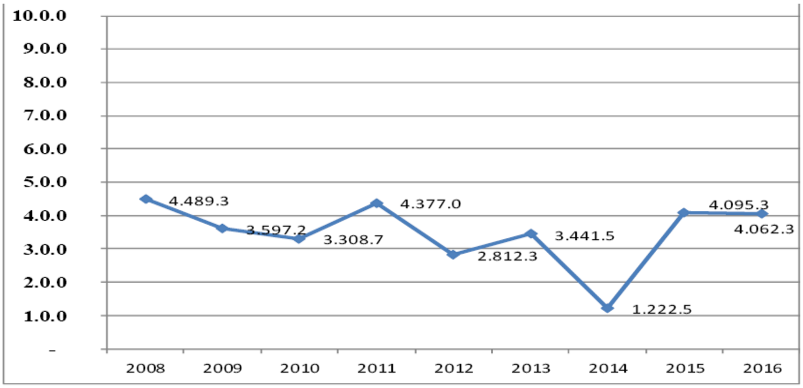
Government expenditures occupy a significant part of the country's gross domestic product. Public-sector expenditures can be grouped into three main areas: transfers, current government expenditures and capital expenditures.

Table no. 3, Turnover of goods in foreign trade, in millions of Euros (000 €)

Years	Exports (FOB)	Imports (CIF)	Trade balance	Percentage of coverage
1	2	3	4=2-3	5=2/3
2001	10.559	684.500	-673.941	1.5
2002	27.599	854.758	-827.159	3.2
2003	35.621	973.265	-937.644	3.7
2004	56.567	1.063.347	-1.006.780	5.3
2005	56.283	1.157.492	-1.101.209	4.9
2006	110.774	1.305.879	-1.195.105	8.5
2007	165.112	1.576.186	-1.411.074	10.5
2008	198.463	1.928.236	-1.729.773	10.3
2009	165.328	1.937.539	-1.772.211	8.5
2010	295.957	2.157.725	-1.861.769	13.7
2011	319.165	2.492.348	-2.173.184	12.8
2012	276.100	2.507.609	-2.231.509	11.0
2013	293.842	2.449.064	-2.155.221	12.0
2014	324.543	2.538.337	-2.213.794	12.8
2015	325.294	2.634.693	-2.309.399	12.3
2016	309.627	2.789.491	-2.479.864	11.1
2017	378.010	3.047.207	-2.669.196	12.4

Source: Kosovo Agency of Statistics, January 2018

Figure 1, Real growth rate 2008 – 2016



Source: Kosovo Agency of Statistics, GDP 2008 - 2016, October 2017.

Budgeting process

Why is the budget process important? Decisions on the manner that how our money will be collected and spent are taken during the preparation and approval of the budget. This is a sufficient reason for us to know that who are the main participants in the budget process and what is their role?

The budget is state financial instrument, which derived under certain socio-economic and political conditions. The basic instrument for funding public expenditures in all contemporary states is the budget. The budget is a financial statement of incomes and outcomes of the state for a specified period, respectively for a budget year. There are three objectives of economic policy, which are implemented through the budget such as in the following:

1. Determination of public goods (services) for citizens. Since the market does not function perfectly, some of the goods and services are obtained as public services. These are, for instance, protection, construction of highways, public order services, etc. For this reason, a considerable amount of money should be taken by the private sector on behalf of the state, in order to enable the latter to generate these public goods by choosing the best combination from them, where there's more and where less.

2. Redistribution of wealth/ income. Given that we live in the same social milieu, the redistribution of wealth among different regions of the country from a more developed region to a less developed one (through various subsidies and grants) should be performed; from younger ages to the elderly (through the payment of pensions) and from the rich ones to the poor (through social services).

3. Sustainability. This is a continuous state obligation to ensure that the desired level of employment is combined with the low level of inflation.

The most important institutions involved in the process of preparing and approving the national budget are: Assembly (Legislative), Government (Executive), Ministry of Finance and other budget beneficiaries.

The Assembly is the highest representative institution of citizens, which controls the executive (government) and legal institutions in the country. The Assembly elects from its members the standing committee, and may also appoint special committee whenever necessary. Among the standing committee, we mention the Law Committee, the Economy and Finance Committee, etc. Through the work of committees and debates in plenary session, the Assembly analyzes the fiscal policy proposed by the government.

The Government implements policies approved by the Assembly. The role of government in the budget process is to propose fiscal policy and to define state budget policies based on economic, political and social objectives. The duty of the government is to determine all the necessary measures to collect revenues and make proposals about distribution and allocation of the budget money for particular purposes and priorities.

Ministry of Finance. Also, the Ministry of Finance is responsible for proposals and advice related to macroeconomic and fiscal policy strategies and also for the forecast of revenue flows and other contributions to the national budget.

By intending better management and use of resources, the Ministry of Finance is responsible for as in the following:

• determination of public expenditure for the coming year;

• proposal to road budget beneficiaries, on cutting the expenditure if their requirements exceed the number of resources available to budget;

• providing expertise regarding capital investments of beneficiaries;

• drafting budget documents;

• controlling the implementation of the state budget;

• summary of expenditure planning and analysis of revenue, expenditure, borrowing information, and so on;

• control of all budget (actions) transactions (its borrowing and payment) related to public debt.

Beneficiaries of the national budget are all institutions, ministries, government agencies and companies which are funded from the budget. This group sums up the Assembly, the President, the Government and the Ministry of Finance, which are also the main institutions on drafting the budget. Budget beneficiaries should use their budget resources for the purposes and objectives for which they are created (Ministry of Transport for the construction of roads). Continuous control of the use of budgetary funds is performed through plan, which indicates the programs for which budgetary funds are used.

The budget goes into three phases: The first phase is the budget preparation phase, during which phase budget revenues and expenditures are planned. This phase lasts approximately six months. The second phase is the debate and the approval in the Assembly. Months of debate: November - December. The third phase is the execution of the budget - which includes implementation, supervision and control. Implementation includes the period from January to December and supervision includes the same period, while budget execution control includes the following year.

Significant issues of financing health and insurance health, as well as social and pension insurance

It should be emphasized at the beginning the complexity of the problem of financing of health, social insurance, disability and pension insurance etc. From the aspect of interest to these services we distinguish citizens who seek services, employment service center or institutions as provider of services and the state as a subject which ensures the institutional form of exercising these activities.

The basic system is the main massive and protection system, also most consolidated system of social insurance. As such, it is supported and guaranteed to function properly by respecting and applying some basic principles: 1) Universality, 2) Uniformity (equality), 3) Complexity, 4) Adequacy, 5) Guarantee, and 6) Citizen Participation in Basic Security.

Social insurance compulsorily protects all economically active citizens who reduce or lose revenues as a result of incapability to work, maternity, retirement, disability, and loss of family custody. Of course, nothing in life is free. In one way or another, benefits should be paid.

By law, the state must regulate the problem of institutional organization of these activities, the rights and obligations of institutions or employment service center, as well as the rights and obligations of citizens who seek such public services. By law and legal norms must also be defined state rights and obligations related to health financing, pension and disability insurance etc. Even the Health sector, as well as other areas of social activity, should exercise activity based on the economic laws as well, respectively in the law of supply and demand. It should be mentioned that in modern states, health in principle is not funded by the budget but by health insurance. This does not mean that this manner eliminates state participation. The role of the state in funding health and social insurance is major, especially when it comes to the means allocated for the protection against infections, the minimum subsistence level, the financing of any long-term research program in the field of health, or for funding programs of national interest.

Another part of the tools should be provided by employers, such as the question is, for the forms of disasters at work, etc. The majority of health care means should be provided by citizens themselves in the form of compulsory and voluntary contributions, or in some other forms of participation or humanitarian aid. In practice, must be applied the principle of combined insurance, which implies citizens' assurance in participation, the principle of solidarity and reciprocal dependence applied in contemporary states.

The government plays an important role in providing economic insurance to individuals and families. Social insurance programs are developed first as a response to the need of the society for certain types of insurance that neither the individual itself nor the private insurance companies can provide. Compulsory social insurance relies on the principle "Pay as you go". The social insurance system comprises of: Compulsory social insurance, Voluntary social insurance, Supplementary social insurance and special state Pensions.

Rights and obligations of health and social insurance and etc, should be implemented on the basis of norms of international conventions. International conventions also set the minimum insurance rates and rights for health insurance, pension, disability and child protection insurance etc.

However, this is essentially a long-term issue, since it is difficult to predict the payment of unemployment benefits on the basis of contributions.

Conclusion

According to the analysis of revenues and expenditures flow in the Republic of Kosovo which are presented in this study, in the following we will make some conclusions, which we consider to be of assistance in the further growth and improvement of management of public revenues, as well as the public expenditures, that will have an impact on the country's economic growth.

In the absence of monetary policy instruments, fiscal policy remains the only tool available to the Government of the Republic of Kosovo to promote private sector investment. Therefore, a sound and prudent fiscal policy is required, which is of crucial importance for maintaining macroeconomic stability, especially considering that fiscal policy in Kosovo is the main instrument of economic policy.

The tax system in Kosovo is known as a relatively simple and low tax system. In this context, it will continued with the implementation of this tax simplicity by focusing on the preparation of fiscal policies oriented towards promotion of investments and domestic production and also building up an attractive environment for foreign investment. At the same time, the Government is oriented to maintain macro-fiscal stability by being careful concerning social requirements, public sector wages and expenditures on goods and services.

The adequate tax system and favorable business environment are the most important pillars for the sustainable development of the private sector in the country. In this regard, fiscal policy reforms include VAT escalation, reducing the VAT threshold, VAT exemption of production lines and machinery, VAT exemption, and customs liability on key inputs of sectors with competitive advantage, and functionalization of industrial and technological parks in the framework which it is foreseen the provision of various tax incentives.

General revenues during the medium term in the coming years are planned to be increased at an average annual rate of 3% to 5%. The largest contribution to income growth is from tax revenues, respectively incomes collected domestically, while the increase in total income is foreseen to be stopped from one-off revenues because most of the enterprises are privatized, the Post in the near future is expected to be privatized and in the current situation it seems that there is no good performance of incomes.

Planning is required to be timely and as much as possible accurate on the budget incomes and budget expenditures to be planned with greater precision. Budget expenditure planning should be decreased to the level of detailed planning of the programs, sub-programs and within them as well as project planning. Good timely planning enables a great rationalization of the means, the realization of a larger number of investment projects and consequently greater economic growth. The Medium-Term Expenditure Framework (MTEF), drafted by the Ministry of Finance, should be as accurate as possible in the evaluation of investment projects of spending agencies and updated every year. Orientation of public expenditure on financing capital projects that have rationality and future expectations to return the investment made, it influences the development of the economy. From the participation of the funds for capital projects in the budget, we have growth trends from year to year with the planning of the budget for 2019 to reach the amount of € 810 million which is a much larger amount compared to the previous years.

There is a need to improve the database of macroeconomic indicators, as well as of those fiscal. There are still no sufficient macroeconomic indicators that are estimated to be prepared by the Macroeconomic Department at the Ministry of Finance and the same should be updated in monthly, quarterly, six-monthly, and annual periods and to be published on the Ministry of Finance website.

It should have fiscal facilities in primary agricultural production, processing, storage and marketing of agricultural products as well as incentive and subsidizing incentives and improvement of public infrastructure. It should have also, gradually increase of the fund for subsidies and grants; cooperation with development partners for the development of the agricultural sector. Small and medium-sized enterprises shall also set up a mechanism to eliminate legal barriers and reduce bureaucracy and impose a mechanism to guarantee loans.

Implementation (execution) of the budget in Kosovo needs to be improved. This can be done by improving at least two of the most important activities: a) increase the control on expenditure; and b) increase the efficiency of public expenditure. Therefore, regarding the budget execution, care should focus in particular on: timely allowance of funds; cash planning shall be done in accordance with budget authorizations, taking into consideration the following budget commitments; Effective control of expenditures at each phase of the budget cycle (ex-ante control, intern and exterior control, etc.); adequate budget monitoring at each phase of the expenditure cycle (commitment, verification and payment); strengthening of the internal control system (internal audit) in expenditure agencies.

In the framework of social policies, social welfare, and inter-societal solidarity, the Government is committed on strengthening the market economy and economic development as a key tool for mitigating poverty and unemployment, also by providing cross-social solidarity through economic redistributive economic policies. Social policies shall ensure the financial stability and sustainability of the mandatory contributions scheme.

Bibliography

[1] Bundo, SH., (2011): Teoritë Finaciare, Cikël Leksionesh, Tiranë.
[2] Bundo, SH., (2012): Financë, Tiranë.
[3] Bundo, SH., (2012): Fiskalitete, Tiranë.
[4] Hilmia, S., Angjeli, A., (1994): Financat Publike, Tiranë.
[5] Hogye, M, (2000): Local and Regional Tax Administration in Transition Countries, Budapest.
[6] Kadriu, S., (2002): Financimi Publik me Vështrim të Posaçëm në Kosovë, Prishtinë.
[7] Komoni, S., (2008): Financat Publike, Prishtinë.
[8] Kristo, I., (2004): Biznesi Nderkombetar, botimi i dytë, Tiranë.
[9] Limani, M., (2013): Makroekonomia, Prishtinë.
[10] Mayo, B., H., (2012): Bazat e Financës, Tiranë.
[11] MF, (2015): Korniza Afatmesme e shpenzimeve, Prishtinë.
[12] Mings, T., (1993): Studimi i Ekonomisë, Tiranë.
[13] OECD, (2000): Fiscal design across levels of government year 2000 survey.
[14] RIINVEST, (2002): Report on the Progress of Building Taxation and Tax Policy in Kosovo, Prishtina.
[15] RIINVEST, (2003): Ecuria e ndërtimit të politikës së tatimeve dhe taksave në Kosovë, Prishtinë.
[16] RIINVEST, (2003): Sistemi buxhetor i Kosovës-Politikat dhe qëndrushmëria, Prishtinë.
[17] RIINVEST, (2015): State and Budget, Prishtina.
[18] Rosen, S., H., (2010): Financa Publike, Tiranë.
[19] Sharku, G., Leka, B., Bajrami, E., (2017): Financa, Cikël leksionesh, Tiranë.
[20] Stamp, J., (2009): The Fundamental Principles of Taxation in the Light of Modern Developments.

Economic Growth in Kosovo as a Challenge to Environmental Preservation in the Republic of Kosovo

Ruzhdi Matoshi

University of Business and Technology, Pristina, Republic of Kosovo

Besa Veseli

University of Business and Technology, Pristina, Republic of Kosovo

Abstract

The developing economies pose a significant threat to the environment, which has become a worldwide phenomenon. The need for production, export, and economic growth poses a challenge for every government and company. The Republic of Kosovo has witnessed a considerable economic development during the recent years, but is has fallen short of considering and implementing a strategy for the preservation of the environment. Taking in account the planning and the development strategies in the Republic of Kosovo, from the side of the government and the interest of businesses to run after profit, it leads to a strong debate over the issue that is related to the process and the policies that have their implications in the preservation of the environment. The developing countries argue that they have much to do about employment, exports and an overall development of their countries. Consequently, they breach the rules and norms of environmental preservation. Kosovo is relatively rich with underground and surface resources, where there are large quantities of minerals and coal. Exploiting these resources can have a great impact on economic development. In this paper we look at the largest companies that exploit the raw materials needed for business in Kosovo, which at the same time are also the largest polluters, namely the thermo power plant “Kosova B”, the iron ore “Ferronickel”, and cement producing plant “Sharrcem”, the data for which were collected on site by the authors.

Keywords: Republic of Kosovo, economic growth, development, pollution. JEL: D13, M13, O13, Q13.

Introduction

An economic growth can be in conflict with the environment, especially when it is under pressure to make a progress that is aimed at lowering unemployment, alleviating poverty and increase of national incomes. On one side, the growth in industrial sector, relies on exploiting natural resources, while consumers produce a lot of waste that in turn pollute the environment on the others side, thus weakening the prospects of growth in the long run. This relationship is complicated and dependent on several factors. Consuming the environmental resources has come to the use of an approach that would improve efficiency while attempting to preserve or regenerate some of the renewable resources. However, to achieving a desired level of economic growth and activity faces the challenge of, among others, reducing the greenhouse emissions and possibly undertake some measures in the form of a green revolution.

Developed economies have realized that a sustainable economic growth and development must carefully consider the costs of environmental degrading. The concern is becoming more severe in the age of global climate change whose impact is increasing in the 21st century. Stern has estimated that the cost of slowing down or possibly avoiding adverse effects of climate change by 2050, ranges between 1% to 3.5% of GDP. Alternatively or not doing so, the damage may be between 5% and 20% of global GDP.[1] Economic growth is needed in order to ease human conditions of life, raise the standards of living, but this is not guaranteed for a long time as it leads to depletion of natural resources which in turn endanger the ecosystem. The increase in CO_2 emission has accelerated sharply in the 21st century, mostly by vehicles and other fuel operating transport means. The problem of intensive use and consumption of natural resources such as minerals and metals at an increased pace has been identified as early as in the 1970s by Meadows *et al,* who maintained that the Earth is limited in resources to provide steady long-term economic growth if no careful measures of protecting and adjusting the

[1] Nordhaus W.D., (2006), “The ‘Stern Review’ on the Economics of Climate Change”, National Bureau of Economic Research, Working Paper 1274.

environment are not undertaken.[1] While developing economies may justify their pressure in responding to the needs for greater exploitation of the environment in order to provide better living standards and economic welfare for their people, the developed economies with more capital have not yet come to a common agreement to address the threat to environment on a global scale. An example is the non-ratification by the United States, the largest economy in the world, of the Kyoto Protocol on reducing the greenhouse gas emissions.[2] In 2011, additional larger economies such as Japan, Russia, and Canada went on not to take no further commitment on the Kyoto Protocol, with Canada even withdrawing from it.

The developing economies, primarily those who emerged from the fall of communism and civil wars in Central and Eastern Europe as well as some from the Middle East, have seen a sharp increase in environmental pollution. The destruction in some parts was so great that repairs took considerable resources to be spent without any benefit in return in the short run. They even could not afford the cost of repair on their own, thus the donor assistance was desperate to overcome the consequences. However, the assistance focused heavily on adjusting the environment only to the point when it was sufficiently fit to resume economic activities and growth without any major concern beyond with respect to the environment. One these shortcomings of the donor assistance were that environmental professionals were not consulted on the implications the economic reforms and reconstruction projects can have to the environment. It was not just a matter of institutions directly related to environmental protection like a ministry, but of the rest of ministries and the government of a country as a whole.[3]

While the environmental cause in developed countries, despite disagreements, has made the way through into politics by establishing *green parties* that would play a significant role in political, economic and social life, many developing economies have yet to repair the consequences of wars and the fear that what is already at disposal in the environment may be lost in potential conflicts. Their concern may be to preserve the existing state, even if it does not meet satisfactory standards. War is a heavy, and often a terrible source of environmental pollution and destruction. The progressive development of various weapons such as chemical, biological, nuclear and their eventual use causes immediate damage to environment, people and vegetation. A nuclear accident like Chernobyl in 1986 has produced long term implications for much of Europe.[4] Conventional weapons, too, apart from direct damages to infrastructure, release pollutants whose effects can be harmful in longer run. In 2001 the World Health Organization reported several sites in Kosovo in which depleted uranium was used during the bombing campaign against Serbia in 1999 by NATO, mostly in western part of Kosovo, but the results were not conclusive and further investigation was recommended.[5] While those were the results of an earlier period whose approximate harmful effects were not measured, more adverse effects to the environment have come during the reconstruction period, namely by large plants of thermo power generation, mineral extraction, and massive deforestation. As Kosovo is relatively rich in minerals, primarily in lignite and some metals such as lead, zinc and nickel, much of her economic growth is expected to come from their extraction and use. However, this is the area where the bulk of the environmental pollution is coming from, which is also the focus of this paper.

The tradeoff between economic growth and environmental protection

Economic growth and development may come at a cost of environment to the extent that in the long run many would have done the things differently when they come to face the consequences. There are two main alternatives in the tradeoff between economic growth and environment. First, as already stated, to let the growth at the benefits of income generation, increasing of employment, raising of living standards, in other words, intensify economic activities by neglecting the environment, so to have the needed resources to intervene in repairing the environment. Second, economic growth should go in parallel or in coordination with considerable care to the environment, though in the short to medium run this growth may be smaller than in the first alternative. What does the experience from various countries tell in both cases? The term *cowboy economy,* regardless who might have been the first to coin it, is associated with harsh or intensive use of natural

[1] Meadows D. H., Meadows D. L., Randers J. and W. W. Behrens, (1972), The Limits to Growth" A Report to the Club of Rome's Project on the Predicament of Mankind, New York: Universe Books.

[2] Dessai, S. (2001), "The Climate regime change from the Hague to Marrakech: Saying or Sinking the Kyoto Protocol", Norwich: Tyndall Centre.

[3] Bell, R. G. and Russell, C. (2002), "Environmental Policy for Developing Countries", Issues in Science and Technology, Vol. 18, No, 3.

[4] International Atomic Energy Agency - IAEA (2006), "Environmental Consequences of the Chernobyl Accident and Their Remediation: Twenty Years of Experience", Report of the Chernobyl Forum Expert Group 'Environment', Vienna: IAEA.

[5] World Health Organization (2001), "Depleted Uranium Mission to Kosovo", undertaken at the request of the Special Representative of the Secretary-General and Head of the United Nations Interim Administration Mission in Kosovo (UNMIK), Geneva: WHO.

resources with almost no care to harmful effects against the environment and direct hazard to the people's health. It may only take into account the removal of garbage from the working place just around the corner to enable the work. Due to the regulations, this hardly is allowed to apply in modern times. Some limitations are imposed everywhere, but the hunger for economic growth industrialization often overshadows these limitations. The People's Republic of China, when it adopted communism in 1949, was a developing country facing unemployment and poverty. The primary task of the communist party, just as in the rest of communist states and based on mainstream Marxist ideology of development, was rapid industrialization, relying especially in the development of heavy industry. Indeed, this focus and heavy commitment of China on heavy industry produced remarkable results. For 30 years in a row since 1978, China recorded an average economic growth rate of 10% per year. The growth continued to be among the highest in the world to the present day, and this has made China the largest economy as measured by GDP in terms of purchasing power parity.[1] Has this path of economic boom come to the damage of environment? Certainly yes, but what are the magnitudes of this harm? According to the World Bank, in 2003 the cost of environmental pollution and premature deaths by conservative estimates in China was 157.3 billion Yuan or 1.16 of GDP.[2] The economy may record a high growth and even get overheated, but the cost can also be enormous. But the cost of environmental degradation as measured by its share to GDP, was even higher elsewhere such as Middle East and North African countries than in China. In these two world regions, the damage to the environment in 2000 was estimated at $9 billion per year with an estimate mean of 5.7% of GDP, with spillover effects to global environment estimated at 0.9% of their own (Middle East and North Africa) GDP.[3] In less developed countries people appear to be more hostile to the environment as they tend to exploit natural resources more carelessly to make their own ends meet. Latin America and the Caribbean have depended on extraction of natural resources for their economic development. In Peru and Colombia for example, the annual cost of this extraction for development averaged 3.8% of their GDP.[4]

Realizing the tradeoff between economic growth and environmental preservation through extraction and consumption of resources, the focus is actively shifting towards on innovations that friendly to the environment, and investment on renewable sources of energy, while undertaking measures to reduces the current emission of pollutants. This focus of attention has gained importance after the evidence from the hypothesis that higher incomes is associated with better or improved environment, was inconclusive.[5] Comparisons between countries suggests that it is not the average level of income that determines the health status, but the size of the gap between the rich and the poor within a country.[6] Connections between the urbanized environment and health include designs for the prevention of side damages (e.g, roads, buildings and security codes), exposure to toxins (e.g, lead in paint and gasoline, pesticides and fertilizers, fecal discharge), reduction of violence and crime, exercise, and recreation. Given the interdependence of these factors, there is also a strong relationship between the urbanized environment and mental well-being or healthier labor force.[7]

The third or the era of information technology development, is generally friendly to the environment, but in itself cannot reverse the already harm. It can be used efficiently for substantial improvement. How to do that? Maybe through just one man! Interesting, one of the main leaders of the third industrial development that made him the richest person in the world (Bill Gates), has initiated the forth industrial revolution, or the revolution of the environment, for which he has established Bill and Melinda Gates Foundation in 2000. What makes his approach quite different from the first alternative that we referred to earlier, is that his foundations aims at providing economic growth and development, but not so much in developed countries. Another difference is that the fund's donations are primarily directed to developing nations in the projects related against diseases, vaccines, agriculture, education, water supply and irrigation. Only for vaccines the Gates

[1] In 2017, Chinas GDP at PPP amounted 11,218.3 US$ billions or 17.76% of the world's total, ahead of USA's 15.49%. For more details, see World Bank (2017), The Global Competitiveness Report 2017-2018: Insight Report, Geneva: World Economic Forum.
[2]World Bank (2007), Cost of Pollution in China: Economic Estimates of Physical Damages, Conference Edition, Washington DC: The World Bank.
[3] Muawya, A. H. (2008), "Costs of Environmental Degradation: An Analysis in the Middle East and North Africa Region", Management of Environmental Quality, Vol. 19, No. 3, pp. 305-317.
[4] Wingqvist, G. Ö. (2009), 'Environmental and Climate Change in Latin America and the Caribbean - Policy Brief', University of Goethenburg: School of Business, Economics and Law.
[5] Pears, D., Barbier, E., and Markilndya, A. (2000), Sustainable Development Economics and Environment in the Third World, Edward Elgar: London.
[6] Donovan, R. J. (2000), "Understanding the social determinants of health", Social Marketing Quarterly, Vol. 6, No. 3, pp. 55–7.
[7] Burdette, A. M. and Hill, T. D. (2008), "An Examination of Processes Linking Perceived Neighborhood Disorder and Obesity", Social Science and Medicine, Vol. 67, No. 1, pp. 38–46.

Foundation has joined a coalition of $460 million.[1] This is a different approach which takes a different stance to economic growth and development, i.e. the priority should focus on health and environment.

Methodology and data

The primary source of data used in this paper is from three case studies or the companies that are the largest pollutants in Kosovo. As there was no available consolidated database for them, e.g. in the Ministry of Environment and Spatial Planning, especially for some indicators in which were mostly interested in, the data were obtained by our direct visit to the companies concerned and access to the relevant data, which include the period 2010-2012, and that not for all. There are two main reasons for the choice of this period, despite that the scholars undoubtedly would ask for more recent to understand the trend:

As we highlighted in the introductory part, the WHO in 2001 had collected the data on the consequences of NATO bombs of depleted uranium in western Kosovo, but cot not draw conclusions, thus the difficulty of obtaining reliable data; and

The data for 2010-2012 were more consolidated and comparable for analysis compared to their shortage before and afterwards that period.

The limitation in quantity and quality of the data and their timeframe has constrained us to provide better measurements on potential impact of the pollutants on economic growth, especially at micro level. Instead, the interpretation of the main existing findings is made by knowing the gap in research for the respective country, after which this paper goes on to recommend that more detailed and diversified data on environmental pollution in relation to economic growth, should come before any environmental policy is put into action at national level.

Economic growth and environmental pollution in Kosovo

Developing economies such as Kosovo with high unemployment and widespread poverty press for more activity that would increase their incomes and economic welfare. Economic hardship forces businesses and consumers in search of whatever ways to get more of their material gains. First, let us look at the pace of economic growth in Kosovo and other main macroeconomic indicators.

Table 1: Main macroeconomic indicators of Kosovo (in millions of €, unless otherwise indicated)

	2012	2013	2014	2015*	2016*
Population (in million)	1,807	1,815	1,842	1,838	1,866
Gross Domestic Product (GDP)	5 059	5 327	5 568	5 745	5 994
Annual GDP growth (in %)	2,8	3,4	1,2	3,5	3,8
GPD per capita (in €)	2 799	2 935	3 023	3 126	3 213
Import	-2,360	-2,297	-2,372	-2,494	-2,519
Export	287	305	321	327	350
Remittances (in % ofGDP)	10,3	10,4	11,2	11,5	11,4
Government expenditures	888	950	1.059	1.187	1.169
Foreign investment (in % of GDP)	4,2	4,5	2,2	4,2	4,2
Balance of payments	-7,5	-6,4	-7,9	-7,2	-8,9
Foreign assistance	83	-8	-18	56	46
Unemployment (of labor force)	30,9	30,0	35,3	32,0	-

Note:

* estimated

[1] Greyfeld, K. and Bass, D. (2017), "Gates Foundation Joins New $460 Million Coalition for Vaccines", available at: https://www.bloomberg.com/news/articles/2017-01-18/gates-foundation-joins-new-460-million-coalition-for-vaccines, accessed on January 20, 2018.

- no data

Source: International Monetary Fund (2016), "Republic of Kosovo", IMF Country Report No. 16/22, Washington D.C.: IMF, table 1, 2, 3, p. 22-24.

Kosovo has relatively low per capita income in the nominal value of 3 213 €, as of 2016. Unemployment is still high and ranges between 30% and 35% of the labor, which is partly a problem inherited from the past. Kosovo's trade balance is negative, where exports cover only over 12 percent of imports, but with a tendency to growth. Economic growth as measured as a percentage increase of annual GDP has been close to 3% over the period 2012-2016. The economy is making little progress and facing some economic disproportion. GDP continues to grow but with a dynamic that can be considered insufficient to make visible changes in economic development. The fall in foreign financial assistance is also observed. At the same time, it appears that due to this decline in external financing, which is mainly driven by international organizations and agencies of different countries, the remittances of Kosovar emigrants have increased. The balance of payments seems to worsen in the future, while there is a constant increase in Government spending.

Although with moderate economic growth rates, environmental concerns such pollution of air, water, soil, and deforestation continue to increase. Then, where such a pollution comes from, in what level, and who is the main cause? According to a report by the World Bank, the cost of environmental degradation in 2010 was estimated between €123 and €323 million, with an average of €221 million. In terms of percentage to GDP, this represented between 2.9 to 7.7, or on average 5.3%.[1]Comparing this to GDP growth rates which reach a maximum of around 4%, it suggests that even the current growth rates, apart from some economic gains, cause more harm than good. Although Kosovo is completing the legislation regarding the environment, which are in compliance with European Union standards, the implementation to preserve, repair the damage or otherwise protect the environment is far away in the required standards. We are more interested in the pollutants which in their reasoning are necessary for economic growth and income generation, namely the sector of power generation, mineral extraction and cement manufacturing.

Case studies

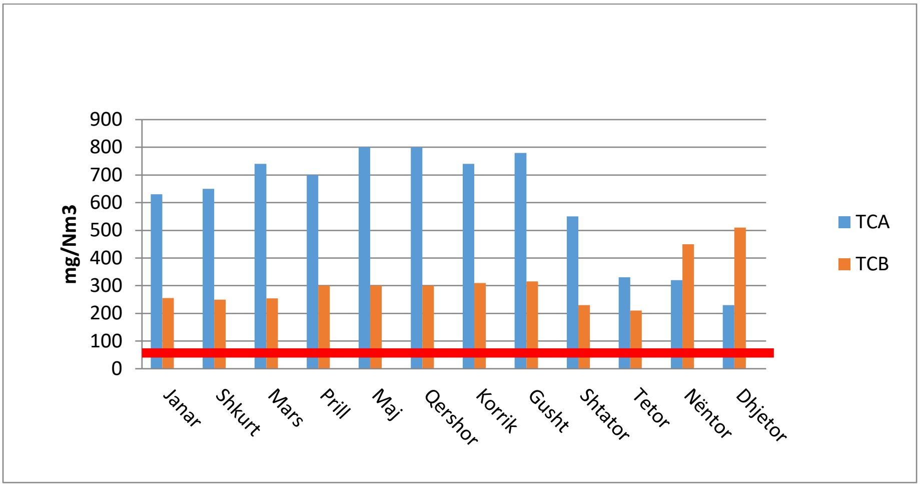
Kosovo's relative small geographical area (less than 11 000 square kilometers) is best known for the resources such as coal and minerals. By various estimates, the coal reserves of Kosovo are amongst the largest in the world. The coal is primarily used for electricity generation and consumption as fuel by the households. At the end of 2017, the Government signed a contract with Contour Global to build a new thermo power plant "Kosova e Re" that would rely on exploitation of the coal nearby. The contract envisages investment worth $1.3 billion for a power plant with a capacity of 500 MgW. It is expected to be operational by 2023 and have a life time of 40 years. Only few kilometers away, the iron ore "Ferronickel" is a privatized company extracting and exporting nickel, a large polluter. The third largest polluter that is also included in our case studies, is the "Sharrcem" cement plant located close to the border crossing with the Republic of Macedonia.

Kosova B

Is a thermo power plant of KEK (Kosovo Energy Corporation). KEK continues to be one of the strongest sources of air pollution due to high emissions from the Kosovo A and Kosovo B Power Plants. The evaluation of emissions is based on the results of measurements and calculations , for these pollutant parameters: Dust, SO2, NOx and CO2. The dust emission (PM_{10}) for both plants (TC A and TC B) is shown in figure below.

[1] World Bank (2011), "Kosovo Country Environmental Analysis Cost Assessment of Environmental Degradation, Institutional Review, and Public Environmental Expenditure Review", Washington, DC: World Bank.

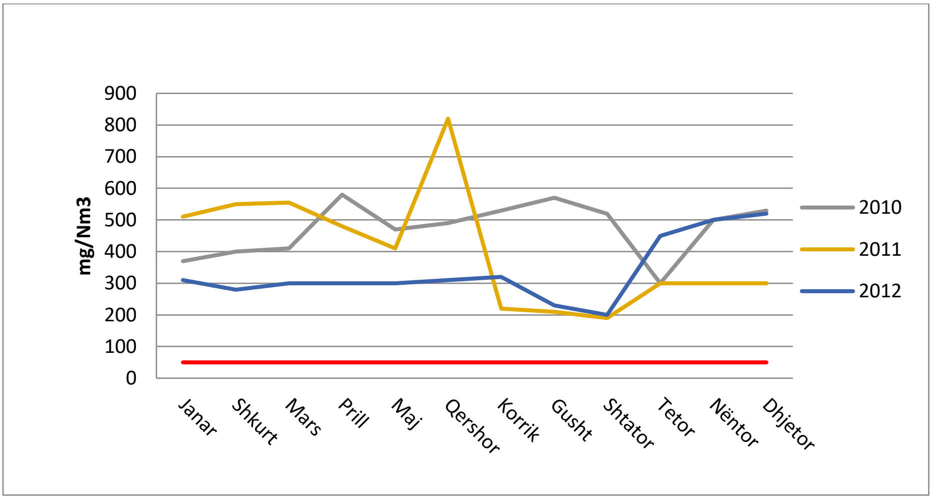
Figure 1: Dust emissions in TC A and TC B as of 2012, by months



Source: KEK database and Authors' calculation.

The red line indicates maximum level of dust allowed to be emissioned, which clearly shows both power plants were well above or exceding it. From 2010 to 2012, in TC A and TC B, the results for dust emissions appear lower compared to the previous years, they still above the red line. TC B in particular, after e short period of lowering the dust emissions, has risen in 2012, as shown in Figure below.

Figure 2: Dust emissions in TC B from 2010 to 2012



Source: KEK database and Authors' calculation.

Over 2010-2012 period, there has been a considerable overtaking of maximum allowed volume of SO2 emission TC B by nearly twice as much (400 mg/Nm^3 allowed versus 750 mg/Nm^3 released). Even larger so has been the overtaking beyond limits in emission of Nitrogen Oxides (NOx), 500 allowed versus 900. To sum up this case without going into further details, TC B remained a heavy polluter, far above the maximum level allowed.

Ferronickel

The main problems of environmental pollution from the mines are that during the mining process large amounts of dust is released, especially during the summer season, which damages the environment and the health of the population and plants nearby. Ferronickel has replaced the filters in early 2007 (before resuming the work), in order to reduce the dust emission and polluting the water.The electric furnaces in which the melting of the iron and nickel is made, releases large amounts of dust and gases (CO, CO2, SO2, NOx) due to high melting temperatures (about 1500 $_0$C). At the beginning of resuming the work after privatization, this unit worked without a dust and gas cleaning system. However, since 2008, the company has contracted the system of cleaning of gases by the Norwegian company "Vatvedt". The gas cleaning system in both electric ovens was put into operation in March 2010. But that is only one part in the chain of activities involving excavation of the minerals, transporting, depositing, processing into alloys, to the storage of scrap and other remains that heavily pollute the environment.

The dust granules created during extraction and processing of minerals are released into diffusive forms into the atmosphere. The dust is categorized by the size of granules (PM_{10}, $PM_{2,5}$ and PM_1 with a certain aerodynamics diameter < 10µm, <2,5µm and<1µm) and total suspension granules (GTS). The emissions of these harmful materials by Ferronickel is presented in the table below.

Table 2:Dust granules emission by Ferronickel, 2011 and 2012

Months	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
mg/m^3	270	180	172	141	112	127	90.1	142	107	80.75	-	102,1
MVA	50 mg/Nm^3											
Months	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
mg/m^3	-	117.4	55.4	44.6	91.2	50.5	64.4	76.9	70.1	86.9	83.2	103.5
MVA	50 mg/Nm3											

MVA = Maximum volume allowed

- no data

Source: Ferronickel database and Authors' calculation.

The figures in Table 2 do not need much explanation as they can speak on their own. Every single indicator at all observed times is well above the maximum volume of allowed emission, which is a clear indicator what pollutant in this area Ferronickel is. The situation with other pollutants such as SO_2 and NOx is found to be more acceptable in terms of environment.

Table 3: SO_2emissions into the air, 2011-2012

Months	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
mg/m^3	1.58	1.91	1.93	1.75	619	1.00	1.00	1.44	390	977	-	841.4
MVA	800 mg/Nm3											
Months	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
mg/m^3	-	1.54	504	4.47	2.03	770	800.8	948.8	848	746	708	807.4
MVA	800 mg/Nm^3											

MVA = Maximum volume allowed

- no data

Source: Ferronickel database and Authors' calculation.

The first half of the years has witnessed lower values of SO_2emissions than the maximum volume allowed. Only in few months of the second half is the opposite. Here, the situations can be brought under control and bring this slightly higher level of emissions than allowed under control. The same can be said for NOx emissions, the value of which over the same period has always been under 400 mg/Nm^3 or the volume allowed by environmental standards. Despite this, Ferronickel remains a large polluter through dust granules.

Sharrcem

Like the first two cases, the technological process of production of clinker at the Sharrcem factory in Han i Elezit is largely followed by the emission of pollutants with an impact on the environment. The main environmental impacts of the cement plant in the air come from the rotary kiln chimney as a result of the physicochemical breakdown of the raw material and the burning process in the oven at high temperatures up to 1,450 ° C.

Other potential sources of contamination by cement factories are mills for milling cement, clinker warehouse packaging system and transport of finished products. All of these sources that are pollutant dust producers are controlled between the dust filtering system through mechanical dryers whose efficiency is 20mg/m_3. The furnace outflow gas filtration system is controlled through an electrostatic filter whose efficiency is below 50mg/m_3. The pollutants coming from or related to the Sharrcem, include: dust, flying dust, NOx, SO_2, organic steam components, and greenhouse gases.

Table 4: Emissions of pollutants by Sharrcem in 2012

Type	Dust	SO_2	NOx
Quantity (mg/Nm_3)	18	30	390
MVA	50	450	800

MVA = Maximum volume allowed

Source: Sharrcem database and Authors' calculation.

In all pollutant emissions, Sharrcem falls under the limits allowed by regulation and environmental standards. Though still a heavy pollutant, is keeps all the pollutants below the maximum volume allowed, which was not the case with other two previous companies. Once it was privatized and sold to a foreign buyer, the investor (Holcim from Switzerland) begun the series of repairs and investing in technology that reduce the environmental pollution before resuming with the production process. As the company is profitable and with prospects to rise, it is a lesson that it should be better to invest in environmental concern first, and not neglect the pollution problem which when it accumulates, becomes so harmful that may go beyond repair and cause the company to be closed down on these grounds.

Conclusion

It is possible to get the economy overheated by intensive exploitation of natural resources such as coal, metals and cement. Not only possible, but actually easy at an enormous cost of environment that is already in trouble. The economic growth rates in many countries outweigh the cost of environmental degradation in the period they both refer to, and this is still considered a great concern. By comparison, in Kosovo, the cost of harm to the environment as measured in percentage of GDP, is higher than the rate of GDP growth. If in China the problem is a concern of alert type, in Kosovo the issue can be considered to have come to the state of alarm.

The three case studies included in this paper are the largest entities of pollutants. At their current state, the objective to pursue their own interest in making profit at the benefits of consumers such as employment, buyers, and spenders of electricity, is coming at a large cost of environment and health of the population. Yet, the Government rushed to sign the contract for construction of a new thermo power plant that is the site of largest pollution of air and soil in Kosovo. As no comprehensive measures were undertaken to the present day, the environment will likely further be degraded, thus the current and future projects in exploiting the mines should come after only the environmental cause is dealt with in advance. Kosovo does not have the needed resources to cope decisively with the harms caused in the environment. The first alternative as we dubbed in this paper, which is focusing on economic growth then switch to radical measures in favor of repairing and preserving the environment, should either be dropped, or the standards of environmental protection are respected, at least to the maximum volume allowed and never exceed it because it is already late. Only the Sharrcem is found to meet the needed criteria regarding the environment.

The second alternative should be put on place instead. Humans would not only like to live longer, but also would wish their heirs to live longer. The question is if they are ready to accept some material gains that brings them faster to premature death and lose everything earlier, or live longer with less economic resources. In the option "either, or", they would like to live longer with material gains. This is not possible in the first alternative, but it can be in the second. How? Economic growth and welfare should switch to other sectors rather than heavy industry like in the second industrial revolution. At this stage, we recommend a more urgent task to determine the diagnose of environmental pollution by collecting more diversified, detailed and reliable data not only for the present, but also for earlier periods in order to better understand the causes and consequences of environmental degradation before the policies are brought for alleviating or neutralizing the scale of harm to the economy.

References

[1] Bell, R. G. and Russell, C. (2002), "Environmental Policy for Developing Countries", *Issues in Science and Technology,* Vol. 18, No, 3.

[2] Burdette, A. M. and Hill, T. D. (2008), "An Examination of Processes Linking Perceived Neighborhood Disorder and Obesity", *Social Science and Medicine,* Vol. 67, No. 1, pp. 38–46.

[3] Dessai, S. (2001), "The Climate regime change from the Hague to Marrakech: Saying or Sinking the Kyoto Protocol", Norwich: Tyndall Centre.

[4] Donovan, R. J. (2000), "Understanding the social determinants of health", *Social Marketing Quarterly*, Vol. 6, No. 3, pp. 55–7.

[5] Greyfeld, K. and Bass, D. (2017), "Gates Foundation Joins New $460 Million Coalition for Vaccines", available at: https://www.bloomberg.com/news/articles/2017-01-18/gates-foundation-joins-new-460-million-coalition-for-vaccines, accessed on January 20, 2018.

[6] International Monetary Fund (2016), "Republic of Kosovo", IMF Country Report No. 16/22, Washington D.C.: IMF, table 1, 2, 3, p. 22-24.

[7] International Atomic Energy Agency - IAEA (2006), "Environmental Consequences of the Chernobyl Accident and Their Remediation: Twenty Years of Experience", Report of the Chernobyl Forum Expert Group 'Environment', Vienna: IAEA.

[8] Meadows D. H., Meadows D. L., Randers J. and W. W. Behrens, (1972), The Limits to Growth" A Report to the Club of Rome's Project on the Predicament of Mankind, New York: Universe Books.

[9] Muawya, A. H. (2008), "Costs of Environmental Degradation: An Analysis in the Middle East and North Africa Region", *Management of Environmental Quality,* Vol. 19, No. 3, pp. 305-317.

[10] Nordhaus W.D., (2006), "The 'Stern Review' on the Economics of Climate Change", National Bureau of Economic Research, Working Paper 1274.

[11] Pears, D., Barbier, E., and Markilndya, A. (2000), *Sustainable Development Economics and Environment in the Third World,* Edward Elgar: London.

[12] Wingqvist, G. Ö. (2009), 'Environmental and Climate Change in Latin America and the Caribbean - Policy Brief', University of Goethenburg: School of Business, Economics and Law.

[13] World Bank (2007), *Cost of Pollution in China: Economic Estimates of Physical Damages,* Conference Edition, Washington DC: The World Bank.

[14] World Bank (2011), "Kosovo Country Environmental Analysis Cost Assessment of Environmental Degradation, Institutional Review, and Public Environmental Expenditure Review", Washington, DC: World Bank.

[15] World Bank (2017), *The Global Competitiveness Report 2017-2018: Insight Report,* Geneva: World Economic Forum.

[16] World Health Organization (2001), "Depleted Uranium Mission to Kosovo", undertaken at the request of the Special Representative of the Secretary-General and Head of the United Nations Interim Administration Mission in Kosovo (UNMIK), Geneva: WHO.

The Dynamics of Foreign Direct Investment in Albania. Comparison with the Western Balkan Region

Lorena Çakërri, PhD Cand.

Department of Finance, University "Ismail Qemali "Vlorë , Albania

Prof. As .Dr. Filloreta Madani

Department of Finance, University "Ismail Qemali "Vlorë , Albania

Abstract

Foreign direct investment is an international financial flow that has grown in the last 25-30 years. These financial flows are desirable both from developing countries and developed countries. Although developed countries are those that absorb the largest share of foreign investment, during the last years has increased the share of foreign direct investment directed towards developing countries and countries in transition. Albania has also intensified its efforts to be more competitive in this "struggle" in attracting these international financial flows. Foreign investment can bring significant benefits to the recipient countries as the effect on economic growth of these countries. These efforts have been efficient in view of the growing trend of foreign direct investment inflows. However, it is necessary to see a broader picture to see if this trend has occurred in the countries of the Western Balkans region as well. The purpose of this paper is to analyze if foreign direct investment impacts the economic growth in Albania. Also this paper analyze whether Albania and the countries of the Western Balkans region have followed the global trend of the FDI flows or not, and to determine the decisive factors in these developments. The methodology of the paper is based on the descriptive analysis of the secondary data collected by the financial institutions in Albania, the region and the world.

Keywords: *Foreign direct investment, financial international flows, attractive policies ,economic growth.*

Introduction

Over the last decades, Albania has undergone fundamental changes that have had a significant impact on the country's economy. Prior to 1990, the Albanian economy acted as a completely centralized economic system. After the collapse of communism in the early 1990s, Albania entered a phase of transition that was accompanied by a large number of social and economic changes. In 1993, Albania implemented a successful macroeconomic stabilization program (by controlling the budget deficit, currency growth and inflation rate), liberalizing prices and foreign trade, and privatizing agricultural land. These reforms focused on increasing attractiveness for foreign investors which were seen as indispensable for securing financial capital.

The other reforms undertaken were aimed at creating all the premise for moving quickly to a market economy. In the focus was the privatization of state-owned enterprises. (IMF 2004). Reforms also focused on adopting the legal framework for Albania, which was trying to move towards a market economy.

Soon the results of the effort were noticeable. Albania generally managed to stabilize the macroeconomic situation. The economic growth after 1997 shows a positive rate fluctuating at an average of 5% in the last decade and the 2009-2010 period shows the effects of the global crisis on the economic growth of our country, reducing it to 3.5%. The 2012 the economic growth rate was much lower than that of 2011. The global crisis affected Albania also through the recession experienced by its main trading partners, Italy and Greece(Curran 2009). Thus 2013 continued with a 1.1% decrease in economic growth. In 2014, Albania began to experience GDP growth. The growth of real GDP reached 2%, reflecting a significant increase from the previous year. This improvement of the economic situation could be the effect of improving the economic situation of the European Union as the European Union is the main trading partner of Albania.

In 2015, economic growth in real terms climbed to 2.8%. This growth was caused by the increase in domestic demand, as a result of increased investment. It was the construction sector that had a significant impact on economic growth. It grew by 14%, recovering from the situation this sector experienced in the second half of 2014. In 2016, Albania experienced a better economic situation. Real economic growth amounted to 3.2%. This was caused by the formation of gross capital from the Trans Adriatic Pipeline project and by the increase of exports of goods and services.

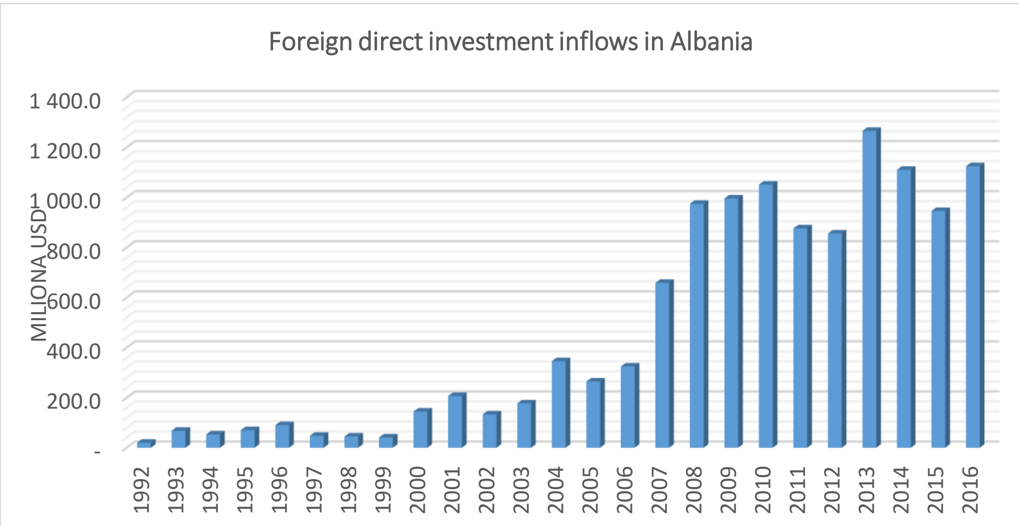
1. Dinamics of foreign direct investment development in Albania

Foreign Direct Investments in Albania began to emerge mainly after the 90s of the last century. At the beginning of these years, the number of FDIs was relatively small, but over time they began to grow significantly. Albania adopted a law on foreign investment in 1994. This law aimed to release the entry of foreign investors by increasing the legal protection for them.

A Law on Concessions was approved in 1995, which created some investment facilities in the fields of physical infrastructure, mining, tourism etc. This is because Albania is a country that offers great opportunities for foreign investors.

The graph below shows the performance of FdI flows for the years 1990-1999.

Graph 1. Foreign direct investment, inflow, 1992-2016



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

From Graph 1 we see that over the years, FDI inflows have come to a generally upward trend until 1996. An important part of these flows at this time can be attributed to the ever increasing activity of the schemes pyramid.

The collapse of financial schemes in 1997 brought about a drop of around 50% of direct investment inflows compared to their best performance over 1995-1996. The Kosovo crisis in 1999, although a regional factor, had its impact in Albania as part of the Balkans. Thus, investments continued to decrease.

Synthesized in the years 1990-1999, the inflow of foreign direct investment inflows has been varied over the years. These developments are mainly attributed to political and macroeconomic stability.[1]

Foreign direct investments are considered as one of the decisive elements for Albania's economic growth. The generally growing FDI trend in Albania has helped transform the country's economy into a market economy, boosting the country's level of opening up and helping Albania's economic integration. Also, the positions of the Albanian state for integration have

[1] In fact, political and macroeconomic stability are crucial factors for FDI inflows (Global Investment Competitiveness Report 2017/2018)

reflected the growing of FDI. If we look at the performance of foreign direct investments in this period, we note that they have come to an upward trend. Among the developments of direct investment flows and GDP growth in Albania, we see a similar performance. In the years Albania experienced a rise in inflows of foreign direct investment, it has experienced growth of economic growth.

In 2000, FDI captured $ 206 million. The privatization of the National Commercial Bank had a significant impact during this year. In the period 2001-2002 there was a decrease of FDI level compared to 2000, reaching a value of 133.1 million euros. In 2003, FDI surged to 177 million euros. The 2004 year saw another increase, FDI inflows totaled 345.7 million euros. In fact, the growth of foreign direct investment flows in 1999-2004 can be attributed mainly to successful privatization initiatives by the Albanian government, such as the sale of Amc to Cosmote, increased investment from Vodafone, privatization of the Savings Bank, privatization Alb Telecom and Armo.

In 2005, foreign investments experienced a reduction of $ 264 million. Starting from 2006 until 2008, a significant increase in FDI was observed. This increase in investment flows in this period was mainly provided through concessional contracts in strategic sectors such as industry and energy. An undertaking and a set of other measures for the creation of industrial zones and parks and improvements in the field of legislation were undertaken.

What is also evident from the presentation in Chart 5, the performance of foreign direct investment, although fluctuating, has had a significant upward trend in 2000-2008. The total of FYIs in this period was 3.22 billion euros. From 2006 to 2008, FDI inflows increased by 300%, reflecting the growth of foreign business confidence in Albania's political and economic stability. Based on all macroeconomic indicators, during the course of the year, the Albanian economy during these years marked a positive performance.

In 2009-2010, foreign investment inflows continued to maintain the upward trend of previous years, not showing the effects of the global financial crisis. Again, an important role played privatization in the total inflow of investment inflows.[1] The sale of 76% of the shares of the power distributor (OSSh) to the Czech company CEZ contributed to maintaining the upward trend of FDIs.

In 2010, Albania ranked the second largest FDI in the region after Serbia when its FDI increased to more than $ 1 billion for the first time. A feature of foreign direct investment by 2010 is the fact that they appear mainly in Merges and Acquisition form. Greenfield's investment is limited in this period. In 2011, foreign investments were oriented towards the energy sector, with the construction of small hydropower plants, which constituted an important part of the total FDI. FDIs during 2010 were green investments, with total privatization shortage. These investments went mainly to the energy sector. In 2011, FDI inflows dropped slightly to EUR 742 million. Even in 2012, FDI dropped slightly.

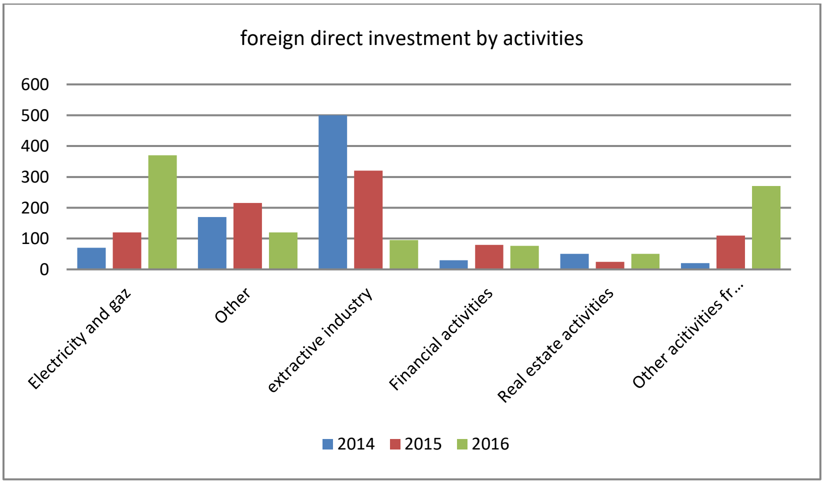
So if during 2008-2011, many countries were experiencing the effects of the economic-financial crisis, foreign direct investment in Albania continued to grow.[2] But it should be said that the growth rate slowed down compared to the 2006-2008 period.

In 2016, foreign investments again marked a significant increase. Part of the Significant in this value are investments for Gas Pipeline (about 40%). This investment in the extractive industry made it in 2016 this sector with the largest share of FDIs.

Chart 1 Foreign direct investment by activities in Albania over years 2014-2016.

[1] In a study by Boubakri et al. (2011), it has been suggested that privatization could create an opportunity to improve the investment climate.

[2] The impact of the international financial and economic crisis in Albania was also mitigated by the limited importance of the export channel to convey the crisis in the country and Albania's relatively modest support to international financial markets. Monetary policy framework, prudent banking supervision and flexible exchange rate also had stabilizing effects

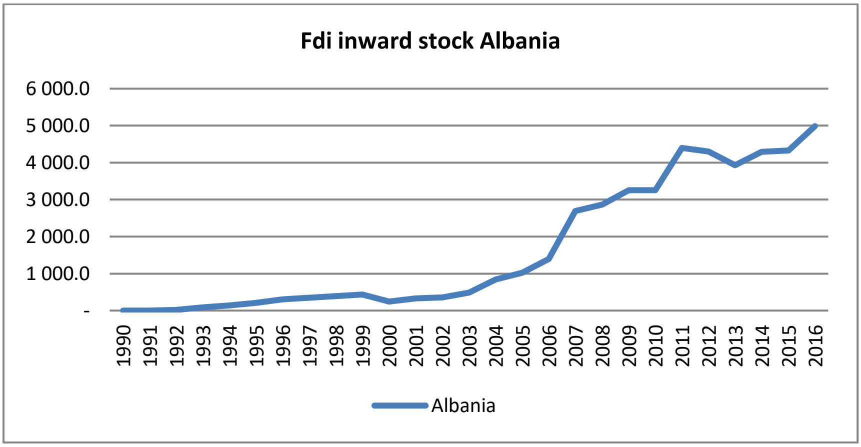


Source: Bank of Albania, processed by the author

Generally, over the past ten years foreign investment inflows have increased considerably. In the years 2008-2017, inflows inflated to an average value of $ 1 billion a year. FDI inflows amounted to more than $ 1 billion in 2017, compared to $ 1.12 billion in 2016 and $ 9.45 billion in 2015.

So what can be said about the inflow of foreign investment inflows into Albania during the period 1990-2017 is that there has been an upward trend in general, although it has been associated with fluctuations of values over the years. What is important, however, is the fact that the foreign direct investment stock in Albania has been growing steadily.

Graph 2.Foreign direct investment inward stock in Albania.



Source: Unctad, edited author

In fact, the growth of foreign direct investment stocks over the years is an element that explains the positive impact of foreign investment on economic development. Johnson (2006) states that FDI stock is the one that conveys the long-term effects of foreign direct investments in the host countries. This indicator for Albania is significantly increasing throughout the period.

2. An overview of the economic situation in the region

The Western Balkans region has all the opportunities to achieve a positive and lasting economic growth both short-term and long-term. And in 2016, the region experienced a growth of economic growth compared to the previous year. Not all countries in the region equally affected this growth. They experienced growth of the economic growth rate of Albania and Serbia, thus affecting the economic growth of the region. These optimistic forecasts for the region are devoted to increasing the role of investments in the region and net exports. Employment also marked positive performance almost throughout the region.

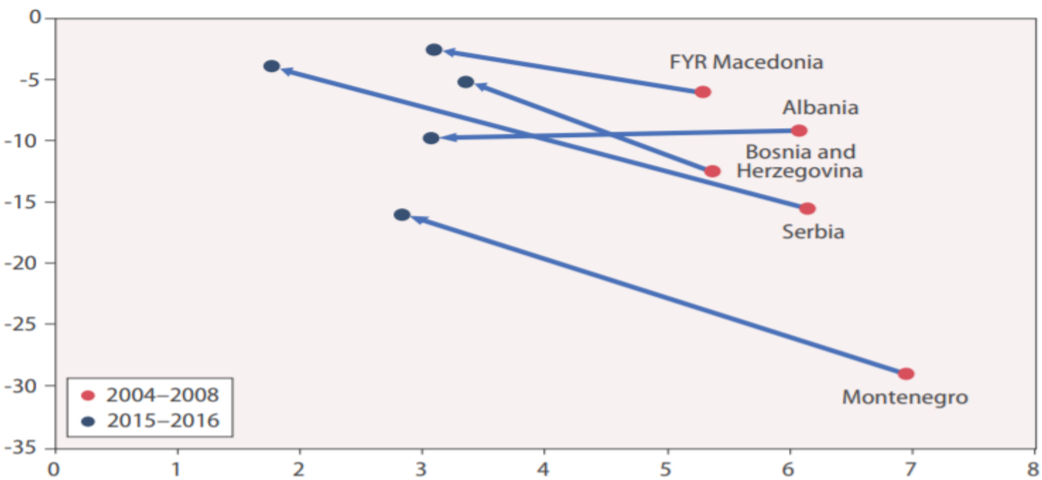
Table 1. Real GDP (Annual change in percentage)

	Average									**Forecasting**		
	2000–09	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2023**
Albania	5.9	3.7	2.5	1.4	1.0	1.8	2.2	3.4	5.9	4.3	3.7	3.2
Bosnia dhe Herzegovina	4.2	0.8	0.9	-0.7	2.4	1.1	3.1	3.2	2.7	3.2	3.5	4
Kosovo		3.3	4.4	2.8	3.4	1.2	4.1	4.1	4.1	4	4	4
Macedonia	3.1	3.4	2.3	-0.5	2.9	3.6	3.9	2.9	0	2.8	3	3.5
Montenegro		2.7	3.2	-2.7	3.5	1.8	3.4	2.9	4.2	3.1	2.4	3
Serbia	5.1	0.6	1.4	-1	2.6	-1.8	0.8	2.8	1.8	3.5	3.5	4

Source: IMF, World Economic Outlook April 2018, Cyclical Upswing, Structural Change

Infrastructure improvements are seen as an important element in achieving a sustained performance of economic growth, especially in Montenegro and Albania. But these large infrastructure projects have boosted imports, thus exacerbating external deficits. Also, these infrastructure projects financed by China[1] loans have exacerbated public debt, despite all fiscal consolidation efforts in the region. Also, current account deficits mean that these countries need foreign capital for financing. However, the pattern of growth in recent years in the region appears to be more balanced.

Chart 4. GDP growth and current account deficits in South East Europe



Source: IMF International Financial Statistics and UN/DESA ,World Economic Situation and Prospect 2018: Chapter 3; Regional Development and Outlook

Thus, this situation made Foreign Direct Investment (FDI) an important way of securing capital in the Western Balkans region. But the Balkans region needs to create a growth pattern that is not so much dependent on foreign financial flows.

[1] World Economic Situation and Prospect 2018: Chapter 3; Regional Development and Outlook

In fact, the possibility of joining the European Union of Western Balkan countries will also condition the economic performance of these countries.

Table 2. Current Account Balance (Percent of GdP)

								forecasting		
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2023
Albania	-11.3	-13.2	-10.1	-9.3	-10.8	-8.6	-7.6	-7.2	-6.7	-6.7	-6.1
Bosnie Herzegovina	-6	-9.5	-8.7	-5.3	-7.4	-5.7	-5.1	-5.2	-5.9	-6.5	-4.8
Kroacia	-1.1	-0.7	-0.1	0.9	2	4.5	2.5	3.7	3	2.1	0.3
Kosovo	-11.6	-12.7	-5.8	-3.6	-7	-8.7	-8.9	-8.7	-8.9	-8.6	-7.7
Macedonia	-2	-2.5	-18.5	-14.5	-15.2	-13.2	-18.1	-18.9	-19	-17.8	-10.2
Montenegro	-22.7	-17.6	-3.7	-1.3	-2.1	-0.6	-0.3	0	-0.9	-1.2	-2.1
Serbia	-6.4	-8.6	-11.5	-6.1	-6	-4.7	-3.1	-4.6	-4.5	-4.1	-3.8

Source: IMF, World Economic Outlook April 2018, Cyclical Upswing, Structural Change

3. Foreign investment in the Western Balkans

Western Balkan countries are characterized by growing current account deficits. These countries see inflows of foreign investment important, but at the same time this fact makes them more dependent on these flows.[1]

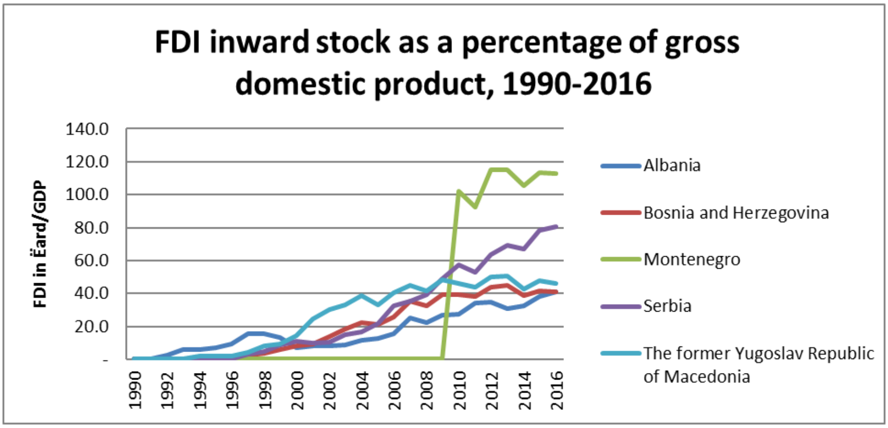
The region is increasing its competitiveness by improving the investment environment. Significant improvements are being made in all directions. Even improving infrastructure, as an important element in the absorption of FDI, the Western Balkans is paying much attention[2].

All Western Balkan countries have institutionalized aspirations for attracting more foreign investment by creating agencies for fostering foreign investment. Even these countries are making efforts to create regional investment agreements, no longer agreements by special countries. For all these countries, the possibility of being part of the European Union is a fact that has influenced the positive performance of the inflows of the ihds. Many of the improvements made to the investment environment of these countries are the result of reforms needed for their membership in the EU.

For most Western Balkan countries except Montenegro, foreign investment has flourished in the period 2000-2010, including 2008, the year of the global financial crisis. In fact, the impact of the global financial crisis on these countries was felt in 2011 because these countries were not integrated into global networks. Consequently, this served as a protection for them.

Graph 5:Fdi inward stock as a percentage of gros domestic product, 1990-2016

[1] United Nations, World Economic Prospects, 2018. https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/WESP2018_Full_Web-1.pdf
[2] Global Competiviness Report . 2017-2018.

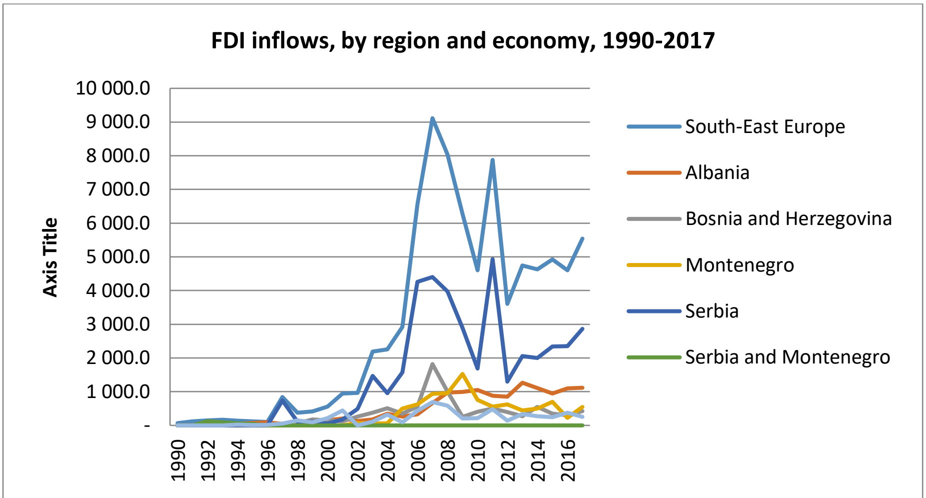


Source: Unctad, edited author

Graph 5 shows clearly the trend of FDI stock growth. It is slowing down after 2011 compared to the rapid growth we see in the period 2000-2010.

If we look at the inflow of foreign direct investment inflows into the Western Balkans, we see that Serbia has the largest share of inflows. Albania is the second country in the region to assess the size of inflows. However, Albania has a positive feature compared to other countries. It is the only country that has a steady growth trend of inflows for the entire period, starting in 1990.

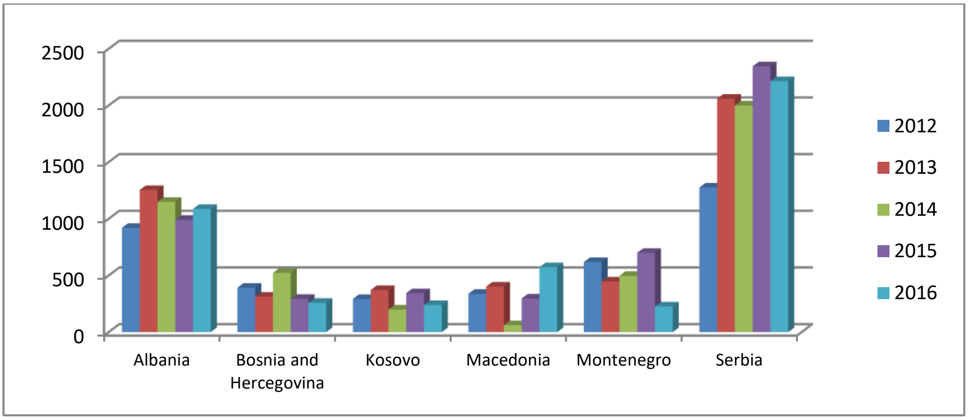
Graph 6: FDI inflows, by region and economy, 1990-2017



Source:Unctad http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx

The distribution of net FDI flows between the Western Balkan countries appears unevenly distributed (see Chart 2).Serbia has been able to absorb the largest amount of FDI net inflows over the past years, 2012-2016. Serbia has the advantage of being the largest market in the region, including the number of its population. Also, Serbia has a distinctive feature compared to other countries in the region as there are some economic zones devoted to foreign investment, focusing on industry development. The likelihood of EU membership also contributes to increased inflows.

Chart 2 Net FDI flows, for the period 2012-2016.



Source :World Bank

Also, Serbia has the largest share of foreign direct investments in the Greenfield form compared to the countries of the region. These investments in this form are known for their positive effects in the host country.

Table 3. Value of FDI projects declared greenfield, by destination, 2004-2016 (Million dollars)

Country	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Albania	135	660	445	4 458	3 324	116	58	450	326	56	53	132	39
Bosnia Hercegovina	455	2 282	640	601	1 981	1 316	311	1 235	1 338	888	981	3 145	925
Montenegro	-	-	131	695	715	120	372	388	340	755	1 177	43	608
Serbia	985	1 178	3 292	3 061	7 734	3 262	3 775	3 964	4 731	4 205	2 545	4 580	2 186
Macedonia	175	266	1 676	533	2 661	776	454	830	1 120	578	839	435	328

Source: ©UNCTAD, Financial Times Ltd, fDi Markets (www.fDimarkets.com).

Albania ranks after Serbia in the region, attracting relatively constant amounts of FDI net flows over the years (averaging about $ 1 billion). This amount is partly due to investments in projects in the energy sector that have occurred in recent years, especially the TAP project. Significant structural reforms have been undertaken, especially in the energy sector and in the financial sector. Albania is making efforts to strengthen the judicial system and the functioning of a rule of law. Foreign direct investments are mainly drawn from various privatization initiatives in sectors such as banks, telecommunications, production and energy. In 2017, Albania's IAs suffered a decline.

Macedonia has seen a steady growth of FDI inflows. Compared to 2012, the volume of FDI in 2016 has increased by approximately 70 percent. The year 2017 marked a significant decline compared to 2016. Macedonia has a wide network of special economic zones. Also Macedonia has paid attention to the effect of various incentives for foreign investors, extending the range of these incentives, involving tax and financial incentives.

While for Montenegro, foreign investments have declined in 2016. Macedonia has been aiming for legislative improvements over the years in order to stimulate the privatization process. In Montenegro in 2017, foreign investments marked a positive performance. The sector that contributed most was tourism. However, this economy needs to diversify the economic structure because it relies on very few sectors.

Kosovo has a small share of the total foreign direct investment in the region. These low FDI values can be explained through the country's troubled political situation. In 2016, FDIs in Kosovo declined. There was an increase in 2017, mainly in the sectors of financial intermediation, construction and real estate. What damages Kosovo is the political image.

Bosnia and Herzegovina's performance is not one of the best in the region in absorbing the flows of flies. Since 2014, there has been a decline in FDI. Bosnia and Herzegovina has not made much progress with the country's economic and structural reform. This has led investors to perceive many negative elements of the investment climate, such as high corruption.

Conclusions

Foreign direct investment inflows in Albania showed a generally upward trend throughout the period from 1990 to 2017. Positive performance owing to continued improvements in the legal and regulatory framework devoted to the investment climate liberalization. Generally, over the past ten years foreign investment inflows have increased considerably. In the years 2008-2017, inflows inflated to an average value of $ 1 billion a year. FDI inflows amounted to more than $ 1 billion in 2017, compared to $ 1.12 billion in 2016 and $ 9.45 billion in 2015.

So what can be said about the inflow of foreign investment inflows into Albania during the period 1990-2017 is that there has been an upward trend in general, although it has been associated with fluctuations of values over the years. What is important, however, is the fact that the foreign direct investment stock in Albania has been growing steadily. The negative impact on foreign direct investment inflows has been turbulent political situations. Foreign direct investments in Albania did not show significant decreases as a result of the financial crisis that included the main investment countries in Albania.

For almost all of the Western Balkan countries, foreign direct investment recognized growth in the period 2000-2010. The impact of the global financial crisis on these countries was felt in 2011 because these countries were not integrated into global trade networks. Serbia is the country that has the largest share of the total direct foreign investment of the region. Also, Serbia has the largest share of Greenfield projects in the region. Albania is the second country in the region for foreign direct investment flows. Albania has a positive feature compared to other countries. It is the only country that has a steady growth trend of inflows for the whole period, starting in 1990. In Western Balkan countries, foreign direct investment has contributed to the financing of current account deficits. All of these Western Balkan countries have a problem with the judicial system and the credibility of the rule of law, thus damaging their image in the eyes of foreign direct investors.

References

[1] Boubakri, N., Cosset, J.-C., Guedhami, O. & Saffar, W. (2011). The political economy of residual state ownership in privatized firms: Evidence from emerging markets .*Journal of Corporate Finance, vol.17: pp.244 258.Available online at http://www.en.affi.asso.fr/uploads/Externe/08/CTR_FICHIER_407_1259662579.pdf*

[2] Curran , L. 2009 "The Impact of the Crisis on EU Competitiveness in International Trade", *Intereconomics, September/October 2009* Availlable online at https://archive.intereconomics.eu/downloads/getfile.php?id=702

[3] Global Competiviness Report . 2017-2018. Available at http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf

[4] IMF International Financial Statistics and UN/DESA ,World Economic Situation and Prospect 2018: Chapter 3; Regional Development and Outlook Available online at https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/WESP2018_Full_Web-1.pdf

[5] IMF, World Economic Outlook April 2018, Cyclical Upswing, Structural Change, Available online at https://www.imf.org/~/media/Files/Publications/WEO/2018/April/text.ashx

[6] INVESTMENT CLIMATE IN MONTENEGRO 2017, Available online at www.srp.gov.me/ResourceManager/FileDownload.aspx?rId...2

[7] Investment policy review , Bosnia and Hercegovina , *United nations conference on trade and development, 2015.* Available online at http://unctad.org/en/PublicationsLibrary/diaepcb2015d1_en.pdf

[8] Kikerkova,I 2017, "Success or failure of the implemented strategy on attracting foreign capital in the form of FDI in the Republic of Macedonia" *EKON. MISAO I PRAKSA DBK. GOD XXVI. (2017.) BR. 2. (939-954),* Available online at https://hrcak.srce.hr/file/282103

[9] Osmani ,R. 2016." Improved Business Climate and FDI in the Western Balkans", *Journal of Economic and Social Studies,* Available at http://eprints.ibu.edu.ba/2971/1/5%20Jecoss%206.1%20%28Osmani%29.pdf

[10] Prifti, E 2014, "BOT Contract through the optics of Albanian legal provisions. Issues of the implementation and transfer framework" *Academicus - International Scientific Journal* Available online at http://www.academicus.edu.al/nr14/Academicus-MMXVI-14-094-106.pdf

[11] Pula,E Loxha,A Elshani D 2017," How 'friendly' is Kosovo for Foreign Direct Investments: A Policy Review of Gaps from a Regional Market Perspective", *A POLICY REPORT BY GROUP FOR LEGAL AND POLITICAL STUDIES NO. 01 — FEBRUARY 2017,*Available on line at http://www.legalpoliticalstudies.org/wp-content/uploads/2017/03/How-friendly-is-Kosovo-for-Foreign-Direct-Investments-Policy-Report-GLPS.pdf

[12] Radenković,I 2016. Foreign Direct Investments in Serbia, Research Paper Series of Rosa Luxemburg Stiftung Southeast Europe,Available online at http://www.rosalux.rs/sites/default/files/publications/6_Radenkovic_engl_web.pdf

[13] Sanfey P, Milatovic J 2018, The Western Balkans in transition:diagnosing the constraints on thepath to a sustainable market economy Availabe online at https://www.ebrd.com/.../western-balkans-summit-2018-diagnostic-p...

[14] United Nations, World Economic Prospects, 2018.Available online at *https://ww.un.org/development/desa/dpad/ëp-content/uploads/sites/45/publication/WESP2018_Full_Web-1.pdf*

[15] Western Balkans : Regional Economic Integration Issues Notes June 2017.

[16] www.unctad.org

[17] www.worldbank.org

[18] Zoto, O.2012, Investimet e huaja direkte nw Shqipwri ,analizw e efekteve ,politikave dhe lidhja me rritjen ekonomike, *http://www.doktoratura.unitir.edu.al/wp-content/uploads/2012/09/Oltjana-Zoto-Fakulteti-i-Ekonomise.pdf*

Real Estate Market in Tirana

Dr. Luciana Koprencka

University "Ismail Qemali" Vlore, Albania

Dr. Valbona Gjini

University "Ismail Qemali" Vlore, Albania

MSc. Redian Hysi

Abstract

The Real Estate Market is the most important branch of Albania economy. This Market is complex and influenced by many factors, we can mention the financial, economic, social and demographic factors. In this paper we are studying the Real Estate Market of Tirana, the development and dynamics of the price of real estate as an integral part of the economy. The data used in this paper are derived from the database of the World Bank, the Institute of Statistics, Bank of Albania Reports, as well as information provided individually on the ground and in various sources. The empirical model analyze the relation between residential price and other independent factors, such as population, gross national income, and the total new dwelling area approved from the government each year. This analyze becomes more complicated by the interference of temporary tendencies during different periods. The econometric model is based on multiple linear regressions, and the analysis extended over a period of 12 years from 2005 to 2016. The price of immovable property can be considered as a major indicator of the business cycle. For this reason, the Real Estate Market investigation is an important part of the analysis of the economic situation of a country.The dependent variable for the purpose of this study will be the selling prices of apartment and residential areas in the capital of Albania, Tirana. Through this paper is analyzed the development and dynamics of the price of real estate as an integral part of the Albanian economy. To accomplish this study, is used the Linear Regression Method.

Keyword: Real Estate market, Real Estate price, buble effect, price definition, multiple linear regression method

Introduction

1. Decription of Literature

The purpose of this study is to test the literature and the assumptions derived from the theory on the factors and main varieties that affect the price of real estate. Factors that affected the price of real estate are different, we are studying personal income, demographic factors and construction permits. Personal income has a positive impact in real estate price and increase in the national gross domestic product (GDP) would lead to higher prices of assets. Demographic factors also have a significant impact on determining the price of assets, size of population and domestic migration are relevant factors in the real estate market. Construction permits has an important impact in the trend of real estate price in Albania, during the year politics applied in this field enact the real estate market.

In this paper the concepts on which the theory is based should be translated and defined in measurable units. Particular attention should be present to the reliability and validity of the data collected, as well as the data needs to be stable over time. The validity of data tells us if we have chosen the appropriate variables to test the theory. A valid measurement can be reliable, but a reliable measurement should not necessarily be valid **(Bryman, 2008).**

The purpose of the regression analysis is to predict variance variables dependent on independent variables, and the regression analysis may also explain the variation responsible for a given outcome and may help to construct predictive models **(Field, 2009).**

1.1 Personale Income

Based on economic theories, the price of an asset is related to the information available to the factors that affect it. According to **Muellbauer** and **Murphy(2008):** if the price is determined by the equilibrium between demand and supply, then prices are provided by the inverse curve of demand from the asset stock and the factors that determine the demand. The price of assets depends on the demand and supply for them, where the offer (asset stock) is given in the short run. So, to determine asset prices, we must pay close attention to the factors that promote demand and asset supply. **Case and Shiller (2003)** carried out a study by comparing the price of the property with personal income. Through a mere regression between the proceeds of the asset price, they discovered a positive impact of the property price income. For some sustainable areas, in terms of property prices in the ratio of personal income, the income had an explanatory power of up to 99% of the property price variance. While the most unstable areas, with a more volatile income price ratio per capita, income explained about 50% of variance in asset prices.

Sutton (2002) used an autoregressive vector model in determining the impact of property overruns. The autoregressive vector model (A VAR) is an econometric model used to identify the development and interdependence between time series of different variables. Subsequently, these results were used to calculate how changes in independent variables would lead to changes in dependent variables. In the case of an increase in gross national income, Sutton's study shows that an increase in the national gross domestic product (GDP) would lead to higher and higher prices of assets.

Much of the study deals with the determination of the price of assets in different way. **Meen (2002)** for example, has used a long-term equilibrium model to identify asset price determinants both in the American market and in the English market. The long-run equilibrium model uses a long-term price-based equation based on determinants that affect the demand and supply of assets. A long-term assessment of the relationship between the asset price and the assumed determinants has been made and the long-term equilibrium is calculated. Also, this study has used a short-term corrected model, which examines the real price variations, long-term model, and the speed at which these deviations are equilibrated. Through this model, Meen showed a similar asset price elasticity for both countries. This means that an increase in real incomes for both countries will lead to an increase in asset prices. The revenue elasticity found for both the US and England were respectively 2.51 and 2.71.

Other studies identify the income of individuals disposing of assets as a significant factor in a comparable manner. **Abelson, Joyeux, Milunovich and Chung (2005)** analyzed the Australian property market through a long-term model. They came to the conclusion that, among other variables, the real disposable income of the owners determines the real price of the assets. The revenue elasticity for real estate prices in the Australian case is 1.7, slightly lower than **the Meen (2002)** study for the American and English market mentioned above, but revenue again has a significant effect on the price real estate.

This is because the demand for asset prices is partly dependent on the amount of money individuals are in the expense of spending. When the average real disposable income of households increases, a higher percentage of owners can afford a higher percentage of total available assets in the market. So, the average income of individuals will increase, this would lead to an increase in wealth demand. This implies that real incomes have a positive influence on wealth demand. Therefore real income is an essential element in determining the price of assets. There are also scholars who criticize the findings of the aforementioned studies about real incomes and dispute some of the conclusions. **Shiller (2006)** used data from different countries and defined a long-term equilibrium model to see if, among other factors, revenue fluctuations were integrated with asset price fluctuations. The study concluded that although earnings and other underlying factors may affect the price of assets, there is little evidence that assumes that it is possible to predict the level of asset prices from its determinants' levels.

Tsatsaronis and Zhu (2004) conducted an analysis using data from 17 industrialized countries in an autoregressive vector model. According to this study, income changes have little influence on the explanation of price changes in assets. They concluded that the contribution of individuals' income to the explanation of the total price variation of assets is less than 10%. However, the connection they found is important, they came to the conclusion that household income is not a major factor in determining long-term real estate prices.

1.2 Demographic Factors

Demographic factors also have a significant impact on determining the price of assets. **Mankiw and Weil (1989)** published a link between the number of births and a significant rise in asset prices in the years to come. They predicted a constant price trend of assets based on future growth projections and population age. Significant increase in the price of assets is attributed to the boom of children born when they reach adulthood. **Mankiw and Weil (1989)** have found an important link between population demographics as we can mention the size or age and price of the assets. **Poterba (1991)** applied the method used by **Mankiw and Weil (1989)** in the Canadian market and came to the conclusion that the link between demographic factors and asset price becomes irrelevant over the time series used. **Levin, Montagnoli and Wright (2009)** studied the impact of demographic factors in determining UK housing prices. Their study was focused on changing the price of assets, population, age and incomes between Scotland and England. Through these differences they found a constant link between asset prices and demographic factors. Specifically, they found that the growth rate of the ages of 20-29 who buy for the first time an asset and the age group 30-44 have a significant link to the rate of asset price growth. They also came to the conclusion that the size of the population is an important determinant of the price of assets.

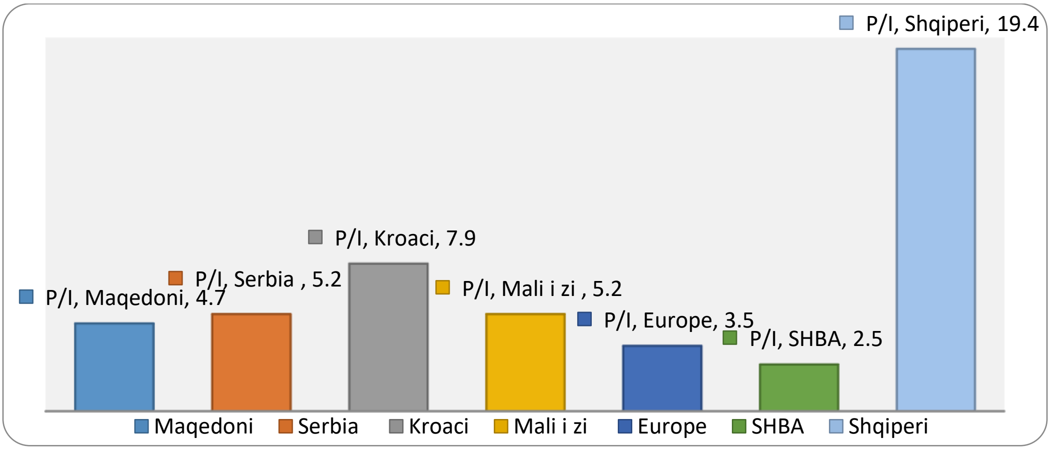
Domestic migration has a significant impact on the price of real estate, and even in some cases it determines the development of a city or a certain area. An increase in demand would automatically impact the price increase. It has often been argued that demographic changes have a significant influence on determining the price of wealth, but the magnitude of these effects is difficult to model. So the demographic factors are widely studied, but their influence on the price of wealth remains unclear.

2. Ratio Price/Income

This report is one of the most important indicators of residential apartment market analysis, for the reason that we can not judge the level of housing prices without first comparing the apartment's average price with GDP per capita, or with the wage level, which would help us determine the real value of residential apartments.

Increasing income raises consumption, so people will also increase their consumption of homes, and increasing their demand for housing will also raise the prices. So housing prices are very much related to the income per capita of the population.

Graph 1. Ratio price/income per capita of the population



Source: IMF

Referring to the graph, this ratio in Albania is very high (it has a value of 19.4), compared not only with European countries (the price / income ratio is 3.5) and US (the price / income ratio is 2.5), but also compared with other countries of the region. This is not due to the level of housing prices in Albania, which today is much lower than in other countries, including those of the region, but because Albania is the country with the lowest GDP per capita compared with the countries of the region.

An apartment of surface of 68 square meters in the city of Tirana (prices are the highest in Albania here) costs an average of 76 thousand Euro, while in Prague it costs 169,048 Euro, in Berlin 108,392 Euro, in Warsaw 179,000 Euro, in Budapest 87,720 in Vienna 147,220 and in Rome it costs 266,900 Euro.

The level of housing prices in Albania and other Eastern European countries is considerably low, however, that does not mean it is easier for an investor in these countries to provide funds for buying a residential apartment, rather, given the very low income conditions, this investment becomes quite difficult.

3. Demographic Developments Occurring in Albania

The complete process and urbanization structure in Albania between 1945 and 1990 was characteristic of combining two factors: concentration and centralization. The key to success in initiating Albania's policies was the development of rural areas and the limitation of urbanization in these areas. The main features of these policies were: a) 1/3 population distribution in urban areas and 2/3 in rural areas; b) the increase of the urban population during 1945-1960, during which time 7% of the population lived in Tirana.

After the 1990s, due to migratory movements, there has been a change in the structure of the Albanian population: the population living in villages decreased from 64% of the country's total population in 1990 to 58% in 2000 and in 2018 it was estimated that 53.4 % of Albania's population lived in cities.

Demographic data have a determining effect on the real estate market price at local level, which match the differences in the housing demand in various geographic areas.

In particular, the density and population age structure play an important role in determining the price dynamics in the real estate markets at local level. According to the Institute of Statistics INSTAT, the population of Albania in 2016 was 2,886,026. Tirana is the area with a population of 811,649 – the highest in the country – making it the largest urban area in Albania. On average, 20300 people migrate annually to urban areas. According to INSTAT data, in 2001, 22.9% of the total population lived in Tirana and Durres in 2006, the population of both areas reached the 25.5%, and in 2017 the population living in both areas reached the 28%.

By contrast, in the northern and southern areas there happened a decrease in the percentage of the population (INSTAT). Demographic changes and demographic movements of the rural population towards urban areas, especially Tirana, Vlora, Durrës, Shkodra, have caused housing prices to be higher in these cities. The very young age of our country's population (29.7 years) is another element confirming that housing demand will continue to be high. The most important population group related to the development of housing real estate, is that between 25 and 40 years old. This economically active age group represents the largest demand for residence; in 2005 this age group was made of 601 thousand inhabitants, while in 2017 it was made of 674 thousand inhabitants. To determine the impact of this age group change on the demand for housing estates, we need to know its prospective trend. If in the US, people continue to buy their first home at the age of 25, here they are doing it at about the age of 35.

4. Impact of Construction Permits in Real Estate Market

Construction permits has an important impact in the trend of real estate price in Albania.

The declining annual trend of new constructions alerted a slowdown in the demand for real estates, which led to a slight drop in prices. This is also reflected in the real estate price index, which by 2007 has constantly gone upward, while throughout this year, such index, as seen from the graph, has the tendency of declining, thus expressing the eventual crisis of the Albanian real estate market and economy.

Furthermore, this stagnation of the real estate market was caused by the lack of construction permits. It is estimated that throughout 2007 the number of construction permits has reached its minimum over the last 20 years. Never before has the number of construction permits been so low (466 construction permits were issued this year or about 68% less than in 2006). The lack of construction permits in some way paralyzed the construction sector as well as the housing sales market. The drop in the demand for apartments and a fall in the housing prices affected the value of collaterals required by banks, which are engaged in providing mortgage loans and lending to the construction sector.

In addition to the lack of price increase, constructors faced another quite unknown phenomenon that was the failure to sell apartments, which has perhaps been one of the main reasons for this situation in the housing market, although there has also been a certain interim saturation of the demand for housing ownership or a preparation for the breaking of the bubble recently observed in the housing market in Albania.However, Albania's construction industry has been quite slow in reacting to the global financial crisis, which originated in the US real estate market, for the reason that construction activity is based on orders given several months ago, or in some cases even years ago.

The entire Albania will return to the construction site. Almost all of the circles result in a significant increase in data release permits in the third quarter of this year, whereas in the capital, growth has started in the first quarter of the 2017s.

The number of building permits issued in the country during 2017 has increased considerably, with the record keeping of Tirana, warning of a new wave of construction in the medium term. According to data published by INSTAT, in 2017, 819 construction permits were issued throughout the country, with an increase of 88.3% or 384 more permits. The largest concentration of permits has been in the capital. According to INSTAT, in the year 2017, in total, 231 permits were issued in Tirana, with an increase of 118% compared to last year, or 125 more permits. The building has also been the area of construction permits given in the capital. In 2016, a total of 106 construction permits were issued in Tirana for an area of 209.3 thousand square meters, while in 2017 the number of permits amounted to 231 for a total area of 522 thousand square meters. So for the surface, the growth was 2.5 times. The planned area for construction in Tirana is as much as 60% of the total for all of Albania

After Tirana, the construction license is headed by Fier, with 133 permits granted for the whole year and Durres with 105 permits. Cities where there is no interest in construction are Kukes and Dibra, where the number of permits granted was minimal. The area for new buildings in Albania increases by 128.5% According to INSTAT's official announcement, in the fourth quarter 2017, a total of 211 construction permits were approved for new buildings, out of 147 approved permits in the fourth quarter 2016, marking an increase of 43.5%. Referring to 2017, a total of 819 construction permits were approved for new buildings, out of 455 permits approved in 2016, marking an increase of 80%. The area of building permits approved for new buildings, in the fourth quarter 2017, is approximately 197,130 m², out of about 183,319 m² approved in the fourth quarter 2016. This indicator, in the fourth quarter 2017, compared to the same quarter of a year before, it increased by 7.5%. During 2017, the area of building permits approved for new buildings is about 868,534 m2, from about 380,141 m2 approved in 2016, marking an increase of 128.5%. All over the country there is a high orientation of cheap liquidity in the construction sector where the most sensitive is in the main cities, especially in Tirana, Fier, Vlora, Durres. Experts have warned that this offer being created with apartments is higher than demand and the market may risk bubbling, as dwellings risk being left unchecked.

5.Econometric Analysis (bubble effect)

In the first section of this study, we have analyzed the theoretical impact of different factor on residential price. ***In this section we will analyze the empirical connection between residential price and other independent factors, such as population, gross national income and the total new dwelling area approved from the government each year.***

The econometric model is based on multiple linear regressions, and the analysis extended over a period of 12 years from 2005 to 2016. In order to increase the number of periods, the data are expressed on quarterly bases, by totaling 48 observations.

The dependent variable for the purpose of this study will be the selling prices of apartment and residential areas in the capital of Albania, Tirana. Meanwhile the independent variables included in the model are the Population of Tirana (“POT”), Gross National Income per Capita (“GNI/C”), and the total area of new Construction Permits Approved (“CPA”) from the government each year in Tirana, which represent the area added each year in Tirana residential sector. GNI/C is the most reliable variable to expresses the economic potential of a country because reflects the average income of a country's citizens. The increase of Tirana population in these 15 years was one of the main factors affecting the growth of the new constructions and the development of real estate sector. Meanwhile the new dwelling area approved from the government each year is the best metric to measure the increase of real estate sector and to determine the future supply in the real estate market.

Table 1. Data Used in the econometric model

Year	Average Residential Price ($)	Construction Permits Approved (sqm)	Gross National Income per Capita ($)	Population of Tirana
2005	826	1.278.000	2763	667.405
2006	1.040	678.000	3093	683.927
2007	1.161	342.000	3703	700.163
2008	1.335	953.000	4393	715.328
2009	1.306	470.000	4049	731.004
2010	1.174	774.000	4053	747.169
2011	1.245	745.000	4425	763.561
2012	1.045	320.000	4216	780.905
2013	954	495.000	4424	798.263
2014	963	666.000	4521	816.222
2015	877	4.000	3916	834.151
2016	1.091	141.000	4130	842.981

Source: INSTAT, World Bank, Authors Analysis

The information regarding the GNI/C is based on World Bank database and is expressed in US dollar currency; meanwhile the other independent variables are based on data provided from Albanian Institute of Statistic.

The information regarding the residential selling prices are based on market research conducted by the authors of the study, considering information published by real estate agencies operating in Albania and other public data. The information is expressed in US dollar currency.

The study has been extended over a period of 12 years from 2005 to 2016, because we have a lack of data related to the real estate price in the country since before the 1990s there was no real estate market at all. Even in the early 1990's, where a real estate market began in Albania, most of the transactions were carried out in informality and therefore we do not have reliable information to expose the study to a greater extent.

Multiple Linear Regression

To build up the statistical model, we have used the statistical program EViews 6.0, and the output of the data analysis is the following equation.

Residential Price = 2397.463- 0.000657 * C***PA*** + 0.3741 * ***GNI*** + 0.00359 * ***POT***

Test 1: Econometric Analysis

Dependent Variable: P
Method: Least Squares
Sample: 2005Q1 2016Q4
Included observations: 48

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2397.463	252.6825	9.488046	0.0000
CPA	-0.000657	0.000199	-3.295529	0.0019
GNI/C	0.374114	0.033105	11.30076	0.0000
POT	0.003597	0.000398	9.047447	0.0000

R-squared	0.749672	Mean dependent var	1072.128
Adjusted R-squared	0.732604	S.D. dependent var	164.0605
S.E. of regression	84.83624	Akaike info criterion	11.79898
Sum squared resid	316676.2	Schwarz criterion	11.95491

Log likelihood	-279.1755	Hannan-Quinn criter.	11.85791
F-statistic	43.92311	Durbin-Watson stat	0.205492
Prob(F-statistic)	0.000000		

In the statistical model generated, the ***R^2 Adjusted*** coefficient which is a better indicator than ***R^2,*** indicate a percentage of 73.26 % which mean that 73.26 % of depended variable i.e. the residential price is defined by the independent variables included in the model, and the rest is the remaining term which includes other factors not considered in the model.

By analyzing the coefficients β1, β2 and β3 signs, we will see that independent variables have a positive impact on the property price, except the CPA which has a negative impact. By referring to the values associated, we will have this analysis.

- If the CPA variable will change with one unit and the other variables will remain unchanged, the dependent variable will change by - 0.000657 units.
- If the GNI/C variable will change with a unit by keeping the other variables unchanged, the dependent variable will change with 0.3741 units.
- If the POT variable will change with a unit by keeping the other variables unchanged, the dependent variable will change with 0.00359 units

Fisher's Test is used to determine the general significance of the model. Based on the data generate from the model, the F-statistic indicates a value of 43.9 which is way higher than the Critical F with freedom degree [3;48] and significant level of α = 0.05, which in our case has a value of 2.79. Based on this result, we have the right to reject the null hypothesis and accept that the model we have built is important.

To determine the importance of each independent variable, we have used the Student's t-test. The value of the t-test for the variable POT is 9.04, for the GNI/C 11.3 and for the CPA -3.29, which are higher/lower than the critical t with freedom degree [48-3] and significant level of α = 0.05, which in our case result at a value of +/- 2.011. Considering this result, we have right to reject the null hypothesis and accept that independent variables are important.

In addition, if we want that the model that we have built to be accurate it should complement the hypotheses of the Ordinary Least Squares method (OLS), i.e. the β coefficients are BLUE (Consistency, Unbiased and Efficient).

Homosedasticity Test

To test whether or not heteroscedasticity is present in our model we will use the ARCH test.

The ARCH test is an autoregressive procedure over the residual squares over time:

Hypothesis :

H_0: $\varphi_{1}=\varphi_{2}\ldots\ldots=\varphi_{p}=0$ ***Homosedasticity***

H_a: At least ≠0 : ***heteroscedasticity***

The results obtained by the ***Testi ARCH***[1] confirm that the test value ***n^*R^2=*** 28.16 is lower than the critical value ***χ^2_{47} =*** 67.5, concluding that our model does not suffer from heteroscedasticity.

Testing the normality distribution of remaining (residue) term.

To test if the remaining (residue) term has normal distribution, we will use the ***Test Jarque - Berra***, which tests in the whole if the distribution is normal or not.

Hypothesis:

H_0 : Normality (good prediction parameters)

[1] Tesi ARCH ndodhet në ankes testi 3.

H_a : Lack of normality (the parameters are not good for prediction*)*

From the test results we see that the value of the coefficient Jarque-Bera = 1.34 is smaller than the critical value of $\chi^2_{(3)}$ whose value is 7.815 with the coefficient of significance α = 0.05. So we are within the acceptance zone of the zero hypothesis, which means that the remaining (residue) term have normal distribution,

Testing the autocorrelation

If in a regressive pattern the remnants are correlated with themselves in the past then this model suffers from autocorrelation. To test the first order autocorrelation we will use statistics Durbin – Watson.

Hypothesis

H_o: lack of autocorrelation

H_a: Autocorrelation *(the parameters are not credible for projections)*

To prove that a model does not suffer from the autocorrelation, the coefficient DW must be equal or circa 2. In our case the value of DW = 0.20, which means that our model suffers from a significant positive autocorrelation.

In this situation to correct the presence of autocorrelation we will apply two techniques.

Through the first technique, the presence of autocorrelation will be eliminated by using the first level differentiation.

In addition, by applying the second technique, we will include in the equation an autoregressive term AR (1).

Analyzing the equation obtained by the modifications applied we will see that the DW coefficient has reached a value of 1.78 that is close to 2, which mean that we have eliminating the presence of autocorrelation in our model.

Testing the multicolinearity.

Testing multicolinearity means testing whether there are strong correlated between descriptive or independent variables. In such cases action must be taken to eliminate such links in order to obtain a better model.

To identify links between variables, we build the matrix of correlations.

Table 2. Correlation Matrix

	P	CPA	GNI/C	POT
P	1,00	(0,65)	0,70	0,85
CPA	(0,65)	1,00	(0,43)	(0,68)
GNI/C	0,70	(0,43)	1,00	0,74
POT	0,85	(0,68)	0,74	1,00

Source: Authors Analysis

By analyzing the correlation matrix, we can conclude that the independent variables are not correlated with each other and the model does not suffer from multicolinearity, except the variables GNI/C and POT which have a positive correlation coefficient of 0.74, which is justified by the theory because an increase in the number of population would bring an increase of GNI.

In addition, in order to understand the correlation of residential price with other independent variables, we will analyze each variable.

- Firstly, the residential price and the CPA have a negative correlation of c. -0.65, which is justified because an increase in construction permits would increase the stock of real estate and an increase in the stock would inevitably lead to a reduction in the selling price.

- In addition, the residential price has a positive correlation with the GNI/C of circa 0.7. Theoretical, an increase of GNI/C, which represents the average income of a country's citizens, would increase the demand for real estate and therefore the selling prices.
- The same we can conclude also regarding the positive correlation between the residential prices and the population, which an increase of population in a specific area would increase the demand for real estate and therefore the selling prices.

In conclusion, the model meets all the hypotheses of the OLS method and thus it is a model specified correctly and the coefficients α and β are consistent, unbiased and efficient (BLUE).

Study Limitations.

Although the linear regression model that we have outlined above fulfills the conditions for being a good model as well as fulfilling the hypotheses of the OLS method, again it has its limitations.

First, as we abovementioned, the residential price variable is an average of the prices of Tirana. The real estate selling price in Tirana fluctuate from one zone to another, were the price in central area of the city range from 2,000 to 2,500 USD/m², meanwhile in the city outskirts it range from 500 to 900 USD/m². It would be more interesting if we were to create two econometric models, one for central area and one for outskirts to soften variance between observations.

Secondly, although most of the data is referred to the World Bank database, which increases the credibility of the study, the remaining are based on public information and does not refer to an official database.

Lastly, in order to prove that a model is conducted in the right way, the main finding should be in line with other studies conducted by other researchers. Unfortunately in Albania we have absence of studies regarding the dynamics of real estate prices and the real estate sector in general.

Conclusions

1. The price of real estate has increased rapidly during last years in Albania. Real Estate market is influenced by many factors, the most important is income of the population. According to empirical analysis the residential price has a positive correlation with personal income of about 0.7, because a growth of personal income, would increase the demand for real estate and therefore the selling prices of real estate.

2. It has often been argued that demographic factor has a significant influence on determining the price of wealth, they are widely studied, but their influence on the price of real estate remains unclear. In the real estate market in Tirana, residential price and the demographic factor are strongly related, we can conclude that this correlation is positive 0,85, which an increase of population in a specific area would increase the demand for real estate and therefore the selling prices.

3. The residential price and the construction permits have a negative correlation -0.65, which is justified because an increase in construction permits would increase the stock of real estate, and an increase in the stock would inevitably lead to a reduction in the selling price.

4. Bubble effect on real estate is a new occurrence in Albania. Currently, the real estate market in Albania is in a bubble stage because the prices and stock of assets are very elevated. The real estate market in Albania is very complex. This complexity can be caused by many factors such as informality, the government's lack of regulatory capacity, and uncontrolled population migration to the capital and the coastal cities as Tirana, Durres and Vlora.

5. Has a conclusion, the empirical results indicates that c. 73% of depended variable is defined by the independent variables included in the model, meaning that the residential price in Tirana during the last 12 years, was highly affected by the increase of the population, which has direct impact the demand for real estate, the increment in the household income as well as government policies that have been implemented in the real estate sector.

Appendix

1. Heteroskedasticity Test: ARCH

Heteroskedasticity Test: ARCH

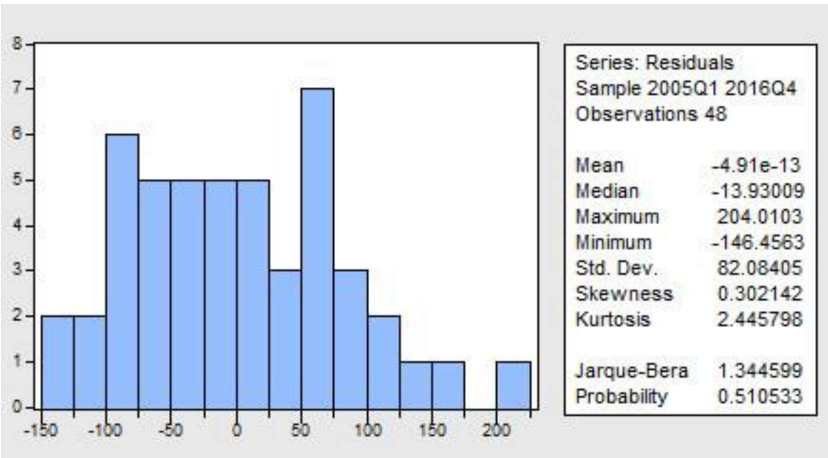
F-statistic	67.30420	Prob. F(1,45)	0.0000
Obs*R-squared	28.16722	Prob. Chi-Square(1)	0.0000

Test Equation:
Dependent Variable: RESID^2
Method: Least Squares
Sample (adjusted): 2005Q2 2016Q4
Included observations: 47 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	650.4172	1045.344	0.622204	0.5369
RESID^2(-1)	1.011633	0.123311	8.203914	0.0000

R-squared	0.599303	Mean dependent var	6570.753
Adjusted R-squared	0.590398	S.D. dependent var	8101.294
S.E. of regression	5184.839	Akaike info criterion	19.98649
Sum squared resid	1.21E+09	Schwarz criterion	20.06522
Log likelihood	-467.6824	Hannan-Quinn criter.	20.01611
F-statistic	67.30420	Durbin-Watson stat	1.329481
Prob(F-statistic)	0.000000		

2. Histogram, Normality Test



3. The new equation to correct the presence of autocorrelation

Dependent Variable: D(P)
Method: Least Squares
Sample (adjusted): 2005Q3 2016Q4
Included observations: 46 after adjustments
Convergence achieved after 8 iterations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	52.64939	26.52403	1.984970	0.0539
D(CPA)	1.22E-05	3.12E-05	3.390328	0.0083
D(GNI)	0.201299	0.036924	5.451697	0.0000
D(POP)	-0.012416	0.005857	-2.120043	0.0401
AR(1)	0.846119	0.086776	9.750587	0.0000

R-squared	0.873528	Mean dependent var	7.291713
Adjusted R-squared	0.861189	S.D. dependent var	34.60926
S.E. of regression	12.89449	Akaike info criterion	8.053800
Sum squared resid	6816.986	Schwarz criterion	8.252565
Log likelihood	-180.2374	Hannan-Quinn criter.	8.128258
F-statistic	70.79546	Durbin-Watson stat	1.783718
Prob(F-statistic)	0.000000		

Inverted AR Roots	.85

References

[1] Abelson,P. Joyeux, R. Milunovich, Chung, D. Explaining House Prices in Australia: 1970–2003. (2005), 99.

[2] Field, A. (2009) Discovering Statistics Using SPSS. 3rd Edition, Sage Publications Ltd., London.

[3] Bryman,A. Bell, E. Mills, Albert J. Yue, A. R.(2008). Business Research Methods. *Oxford University Press*, 35, 38-40.

[4] John M. Quigley* Real Estate Prices and Economic Cycles *International Real Estate Review 1999 Vol. 2 no ,* 1 – 20.

[5] Karl, E, Case. Shiller,R, J. Is there a Bubble in the Housing Market? (2004) *Cowles Foundation for Research in Economics Yale University,* 307.

[6] Mankiw, G,N. Weil, D. The Baby Boom, the Baby Bust, and the Housing Market (1989), 239, 241, 244

[7] Meen G, Modelling. Spatial Housing Markets: Theory, Analysis and Policy (2002). *Advances in Urban and Regional Economics, Vol. 2,* 352.

[8] Muellbauer, J. Murphy, A. Housing Markets and the Economy (spring 2008), Oxford Review of Economic Policy, Vol. 24, No. 1. 18, 20-22.

[9] Levin,E. Montagnoli, A. Wright, R, A. Demographic Change and the Housing Market: Evidence from a Comparison of Scotland and England(2009), 29

[10] Sutton,G, D. Explaining changes in house prices1, (2002), 48.

[11] Schil, T. Housing: Boom or Bubble? , (2005), 6.

[12] Tsatsaronis,K . Zhu H, What drives housing price dynamics: cross-country evidence, (2004). 71, 73-75.

[13] Poterba, J. The Role of Tax Policy and Demography, (1991). *Massachusetts Institute of Technolog,House Price Dynamics,* 148.

[14] Tidwell, L. C., Walther, J. B. Computer-mediated communication effects on disclosure, impressions, and interpersonal evaluations: Getting to know one another a bit at a time. (2002). Human Communication Research, 28, 317-348.

[15] Underwood, H., Findlay, B. (2004). Internet relationships and their impact on primary relationships. Behaviour Change, 21, 127-140

National Financial Inclusion Strategy for Fighting Against Poverty and Enhancing Sustainable Economic Development in Albania

Fitim Mexhuani

Artur Ribaj

Abstract

This paper presents the issues that Albania is facing related to financial inclusion and the recommendations to be taken in consideration based on results of my qualitative and quantitative research over public reports, surveys and interviews. Based on the analyses of interviews for this paper with undergraduate students of economic faculties all around Albania, the results show that: a) about 62% of interviewees do not have knowledge for financial products such as mortgages, overdrafts, online banking, money transfer; b) about 94% of interviewees do not have knowledge for voluntary insurance products, investment pensions funds, investment funds, corporate bonds and equity investments; c) about 61% of interviewees do not know the role of BoA and AFSA as regulatory and supervisory authorities of financial markets in Albania; etc. Albania needs a national financial inclusion strategy for fighting against poverty and enhancing sustainable economic development of the country. This will contribute to achieve the enabling of the easy access and reasonable cost to a whole range of financial services - not just credit but also savings and payments - for individuals (regardless: the low level of income, gender, age, very young or very old, location, rural or urban, etc.) and businesses (regardless if they are: natural or legal person, small or large, with activities in agriculture or commerce, in the village or town, etc.). The financial education is key to understand what you sign when you invest. In Albania the level of financial education is very low which affects the financial decisions of adults, their life and sustainability of Albanian financial markets. Implementing obligatory financial education programs for each target group reduce social effects and intermediaries' financial risks, increase healthy consumption and develop stable financial markets. Recommendations of this paper demand the involvement of the Albanian Government, regulatory authorities and other stakeholders for setting up a dedicated public structure as responsible for implementing asap measures for each targeted segment. According to World Bank, access to financial services made possible thanks to reforms. Albanian authorities (MoFE, MoESY, BoA, AFSA, ACA) must amend the legal and regulatory framework approaching EU Directives, OECD principles and best practices to enable competition not concentration, transparency, access to finance for vulnerable segments and quality financial services. By the other side, these authorities should supervise and take care without allowing "shadow banking" and other financial intermediaries not subject to any regulatory oversight, which is becoming a growing concern for supervisory authorities worldwide and mainly for developing countries.

Keywords: financial inclusion, financial education, consumers, businesses, regulatory authorities, financial intermediaries.
JEL classification: E2; E44; E58; G21; G22; G23; G28; H52; H54; H77; H81; I2; K23

Introduction

Albania is a middle-income country and has generally been able to maintain growth rates and financial stability, despite the ongoing economic crisis. However, growth is expected to stay below the country's potential over the medium term. The financial sector has remained stable throughout the turbulence of recent years.

During these transition years, emigration and urbanization brought a structural shift away from agriculture and toward industry and service, allowing the economy to begin producing a variety of services - ranging from banking to telecommunications and tourism. Nevertheless, agriculture sector is a main source of employment and income in Albania and represents around 22% of GDP while accounting for about half of total employment. Albania's agricultural sector continues to face several challenges, and one of them is limited access to finance and grants.

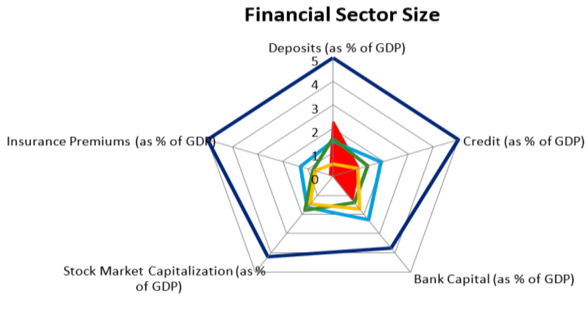
According to the World Bank Development Group's Global Findex[1] for Albania generated on October 29, 2015. The survey estimated key indicators in Albania, as per table below:

Account (% age 15+)	38%
Made or received digital payments (% age 15+)	22%
Received wages or government transfers into an account (% age 15+)	14%
Disclosure index (Global Survey on Consumer Protection & Financial Literacy 2013)	3%
SMEs with an account at a formal financial institution (%)(Enterprise Surveys, 2013)	72%
SMEs with an outstanding loan or line of credit (%) (Enterprise Surveys, 2013)	27%

Financial inclusion is a new issue which dates from the 2008 financial crisis and since then all relevant global institutions including the World Bank and the International Monetary Fund (IMF) have placed on their agendas. This implies the involvement of all citizens, especially those from rural areas and those with special needs in financial services but also deepen financial inclusion of those who have a bank account.

Access to financial products for Albanians and their businesses

Albania's banking sector is similar in size to its Balkan neighbors in terms of loans and bank capital, but nonbank financial services lag far behind the region. The other non bank financial markets are under developed. The country will continue to struggle to diversify its bank-centric financial sector in the current economic environment. The government remains almost the only issuer of bonds except a few corporate fixed income securities offered privately. Insurance products are still not widely held except compulsory insurance products. **Financial Sector Size graph**, as per following:



Graph 1

Financial inclusion ensures sustainable access to appropriate financial products for all people and businesses at affordable cost. Financial accessibility is vital for achieving development and economic goals for a country. Having people in Albania with no access to financial products such as current accounts and other financial products, it means they cannot fully participate in economic life of the country. Most of these people live in less-developed cities or villages in Albania.

[1] The 2014 Global Findex features more than 100 indicators. The database includes indicators on ownership of financial institution accounts and mobile money accounts; use of mobile money accounts for savings and payments; purposes of account use, such as receiving government transfers, wage payments, and agricultural payments; how adults send and receive domestic remittances; savings behavior; use of savings methods, such as banks, and informal savings clubs or people outside the family; sources of borrowing, such as banks, friends, family members; and purposes of borrowing, such as home purchases, school fees, and emergencies. The target population is the entire civilian, noninstitutionalized population age 15 and above. The set of indicators will be collected again in 2017.

Even for the Albanians who have a current account and living in urban area; does not mean there is fully the access to finance for them. Even though financial education is integrated as a subject into the last year of the secondary education curriculum, it does not fulfill the needs of Albanian citizens for getting education on financial literacy. Albania does not have a formal strategy for financial education/literacy of its citizens for either adults or children and youth. There is the risk, they make wrong decisions and assume obligations they cannot meet in the future. The financial services consumers' lack of knowledge can undermine their financial resilience.

Based on the analyses of interviews for this paper with students of economic faculties all around Albania, the results show that:

a) about 62% of interviewees do not have knowledge for financial products such as mortgages, overdrafts, online banking, money transfer;

b) about 94% of interviewees do not have knowledge for voluntary insurance products, investment pensions funds, investment funds, corporate bonds and equity investments;

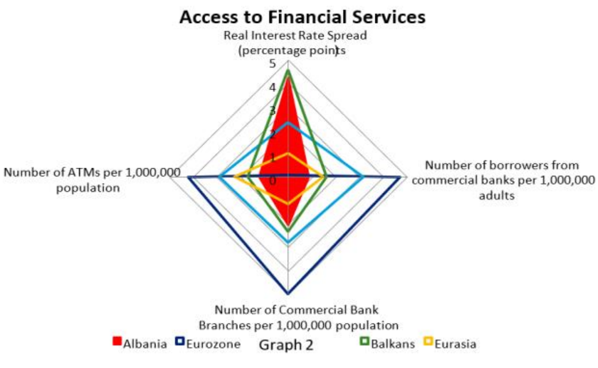
c) about 61% of interviewees do not know the role of BoA and AFSA as regulatory and supervisory authorities of financial markets in Albania; answering for Government as the body which regulate and supervise the financial markets in Albania;

e) about 51% of interviewees have a banking account using only to get their part-time job salaries or scholarships; they raised as issues the increased costs of maintaining a bank account, money transfer, commissions/fees for online banking and commissions/fees for paying with bank cards in POS-es, etc; and about 87% of them raised the issue of lack of transparency by the financial intermediaries (banks, lending NBFI-s and insurance companies for compulsory insurance products, where mentioned because they had at least a product with them during their life); They referred to agreements having small size letters, unclear language; changing the products terms and conditions without informing, etc;

h) about 93% of them or their families had only MTPL (compulsory insurance) no other insurance products, because they could not identify the benefits of these products. They consider insurance agents as salespeople not trusted people for serving financial products.

Access to finance/credit

Banking sector assets account for 93 per cent of total financial system with 16 banks operating in the market (in total 500 branches/agencies). The total banking assets in Albanian banking activity is concentrated, four biggest banks in Albania have almost 68% of total banking assets and the level of non-performing loans still remains high at 15.9% as per BoA data of May 2017. According to BoA expert, cleaned from the write-off effects, the annual growth of the total loan portfolio in April remained modest, at 3 percent. However, the BoA expects lending activity to improve gradually in the quarters ahead, reflecting the expected expansion of demand and improvement of supply (Source: Xinhua| 2017-07-07). Access to banking financial services graph, as per following:



Graph 2

Access to banking services remains very limited in Albania, although modest improvement is seen in most of the indicators. There are no positive trends regarding numbers of bank branches, ATMs, POS, etc. Based on a report of IMF, Financial

Access Survey: "The value for Commercial bank branches[1] (per 100,000 adults) in Albania was 21.91 as of 2013. Over the past 9 years this indicator reached a maximum value of 22.42 in 2009 and a minimum value of 9.11 in 2004; the value for Borrowers[2] from commercial banks (per 1,000 adults) in Albania was 136.05 as of 2013. This indicator reached a maximum value of 140.14 in 2012 and a minimum value of 13.42 in 2004." Todays, with the new acquisitions in the banking sector during the end 2017 (American Bank of Investment bought National Bank of Greece, Albania) and beginning of 2018 (Tirana Bank, member of Piraeus Bank is in the process of selling its shares and another existing bank in the market might be the buyer), we might assume that these indicators will decrease in the future.

In the absence of a state-owned bank in Albania, the government cannot influence directly the banks to be present in every location for increasing the access to finance of the Albanians, despite their location being in west or east, in city or village, in Tirana or Tropoja or Ksamil. It should not be concluded that government ownership is either the best or the cheapest way in which to maintain rural access to the banking system, knowing the costs and bad administration of state owned banks and poor lending practices, however, the government must find solutions for increasing the financial inclusion of Albanians.

A more effective – and cheaper – approach to foster outreach may be to provide grants to private banks to increase their rural presence using lower cost mechanisms (such as mobile offices and new technologies such as mobile payments) and reinforce this by promoting the development and regulation of non-banking institutions such as the stated owned Albanian Post (500 branches/agencies). Albanian Post during 2015-2016-2017 has undertaken projects on digitization of postal and financial services, the development of a new comprehensive platform to support e-payments (e-commerce), project payments via telephone (mobile payments platform & e-wallet) as an important instrument in the financial inclusion of all citizens, etc. However, Albanian Post must be more accurate and demanded on its objectives for offering financial services to unbanked people in Albania.

Compared to EU businesses, the Albanian businesses often face obstacles in securing access to credit sources. Some obstacles originate from the lack of investment or credit readiness of the Albanian businesses, such as inadequate or non-existent business planning, accounting practices and book keeping, lack of awareness and knowledge about financing options and instruments, and economic informality. According to OECD Report (Access to Finance & Innovation in The Western Balkans Findings from the Small Business Act Assessment,1 March 2017), Banks remain the most important source of credit for SMEs which have been disproportionately affected by credit constraints; Domestic credit to the private sector as a share in GDP has decreased between 2009-2014; Albania has the lowest ranking in the region[3] for Government financial support services for innovative SMEs.

Bank finance in Albania is a major and almost the only source of external finance for businesses. However, obtaining credit is one of the top five challenges of **doing business** in Albanian economy according to the latest EBRD survey of 2014. The banks should effectively fulfil their role as intermediaries between owners and users of funds for ensuring a more efficient allocation of financial resources. According to the latest report of World Bank related to domestic credit to the private sector[4] over GDP, the report for 2016 is 40.55 compering to 40.61 for 2015 and based on the report of WB Doing Business[5] (Getting Credit) for Albania, as per Credit Register database the number of borrowers is 648,828 individuals and 19,002 businesses.

The competition in the banking sector measured by the degree of concentration in the banking sector, which is captured by the share of total assets controlled by the largest banks and the additional information on the degree of state and foreign ownership in the banking system. Even knowing that around 90 per cent of the banking system capital share in Albania is owned by foreign capital, Albania considered having issues in concentrated banking sector which might result in a lack of competitive pressure to attract savings and channel them efficiently to investors.

[1] Are retail locations of resident banks that provide financial services to customers
[2] Are the reported number of resident customers that are nonfinancial corporations (public and private) and households who obtained loans
[3] Albania, Kosovo, Macedonia, Montenegro, Serbia, Bosnia & Hercegovina
[4] http://data.worldbank.org/, as per data of November 2016
[5] http://www.doingbusiness.org/

Albanian Competition Authority (ACA) in January 2011 after a monitoring process issued a decision regarding the banking sector and its transparency in the banking services (Decision no 174, dated 25.01.2011). During 2015-2016 the authority has conducted a general investigation to assess if there are distortions or restrictions of competition in relevant banking market. The investigation procedure has been concluded but the decision-making is still in process. Albania might lose the benefits of competition in the financial sector which are the enhanced efficiency, the provision of better products, increased innovation and credit interest rates.

2.2 Access to other financial products

Non-bank financial institutions (licensed and supervised by AFSA) are still at early stages of development. The indicator of total assets of all three financial markets, *insurance* market, voluntary pension funds and investment funds were 6.7% of *GDP at the end of* 2016. While, during 2016 the Albanian *insurance* industry continued a pace of expansion with *total assets* to *GDP* of 2.2% in 2016. According to BoA (Financial Stability Report 2017 H1, page 44, July 25, 2017), *Total* share of banking sector *assets* decreased at 91.9% of *GDP*, against 94.9% at the end of 2016. The contribution of these markets to GDP is increasing slowly during years, further limiting private sector's access to financial products as well. As per following the table "Share of financial system segments[1] in GDP, over years" (Financial Stability Report 2017 H1, page 44, July 25, 2017)

Licensing and supervising authority	Financial system	2011	2012	2013	2014	2015	2016	2017 H1
Bank of Albania	Banking sector	84.7	89.6	90.5	91.7	91.3	94.9	91.9
	NBFIs	2.5	2.7	2.5	2.7	2.7	2.9	2.8
	SLAs and Unions	0.7	0.8	0.8	0.8	0.7	0.6	0.5
Financial Supervision Authority	Insurance companies	1.5	1.6	1.6	1.7	1.9	2.1	1.9
	Pension funds	0.01	0.02	0.03	0.04	0.1	0.1	0.1
	Investment funds		1.21	3.7	4.5	4.7	4.4	4.7
	Financial intermediation	89.41	95.93	99.13	101.44	101.3	105.1	101.9

Figure 1 shows the premium per capita and ggross written premiums according to each prefecture. The insurance penetration rate has increased in 1.04% in 2016 compared with 0.98% in 2015, but still remains scope to increase this indicator at least to the level of the region (Kosovo1.39 %, Montenegro 2.15%, Macedonia 1.51% and Serbia 2.15%). Regarding the extent of the use of insurance products by the population, in 2016, premium per capita averaged 5.370 Lek (39.09 euros), an increase of 490 Lek compared with a year ago. The premium per capita in the non-life insurance for 2016 averaged 5,000 Lek. Also, over 90% of the banks' branches are in urban area. Figure 2 shows the number of bank branches by location/prefecture, about 40% of them in the capital city (Tirana). The definition of branch is expanded to include all types of access points - agencies, pay-points, mobile units, satellite branches, and sub-branches. The distribution also reflects a difference in geographical importance between west and east part of Albania.

[1] The financial system consists of banks, non-bank financial institutions, savings and loan associations (SLAs), insurance companies, private supplementary pension funds and investment funds.

The growth of the insurance market is mainly driven by the growth dynamics of compulsory motor insurance during 2016, or 61.56% of total gross written premiums of non-life insurance. The average premium for compulsory motor insurance in Albania is approximately 115 euros from 109 euros that was the premium level in 2015. By comparison with countries in the region note that Albania has a premium level higher than Macedonia (88 euros) and Croatia (102 Euro) but lower than Kosovo (137 Euro) and Bosnia and Herzegovina (145 Euro). The report of claims paid over insurance market premiums for non-life results 38.75% in 2015 from 35.75% in 2014. During 2016 claims paid were about 31.16 million euros, or about 17.53% more than in 2015.Most claims paid belong to motor insurance with about 18.93 million euros or 61.65% of the total.

The establishment of other external finance (bonds, stock exchange, etc.) enables Albanian businesses to meet working capital requirements, fill temporary gaps in the cash-flow cycle and support expansion plans, leveraging the internal resources (the investors' equity contribution and/or retained profits). Compared to EU businesses, the Albanian businesses often face obstacles in securing access to such external financing sources.

The Tirana Stock Exchange, TSE, opened in 1996, shortly before the fraudulent pyramid investment scams. Some of those investors lost houses and herds of cattle when they sold their possessions to get a 300 percent return on their investment in 90 days (Thomson Reuters, OCTOBER 19, 2017). TSE never gained the trust of local businesses, remaining a ghost financial institution up to 2014, when the Ministry of Finance frozen it. AFSA licensed Albanian Securities Exchange on 3 July 2017, with a registered capital of 50 000 000 Lek (approx. EURO 370 000). The ALSE has three shareholders, Credins Bank with 42.5% of the capital, American Investment Bank with 42.5% of capital and AK Invest company with 15% of the capital. The Albanian Securities Exchange, which will trade Albanian government securities up to July 03, 2018 and will trage corporate bonds and equities after July 03, 2018. ALSE began trading securities on February 22, 2018. According to the statistics published by ALSE: "ALSE in its early days has reported a satisfactory volume of EURO 5 million, although the number of transactions is still limited. In seven transactions registered on the ALSE, five of them involved treasury bills and the two other government bonds". According to Thomson Reuters, (Big Story, OCTOBER 19, 2017), people (albanians) like this tend to see securities trading as fraud, making it an uphill struggle for ALSE's team to persuade them otherwise. ALSE must operate effectively with transparenc and accquarecy for supporting access to finance but caring for investors as well.

The survey over access to finance for Albanian businesses, shows; access to bank finance is constrained by uncertain prospects of success, long time-horizons, account book keeping, fair competition, a lack of tangible assets that can be used as collateral and a limited operating history. Therefore, access to a sufficiently broad range of business financing instruments is desirable to obtain the form and volume of financing to specific needs and the stage of the business life-cycle. Also, some other obstacles originate from the relationship between the providers and users of such external finance, in particular, information asymmetries, moral hazard (which can be amplified by the limited capitalisation of small enterprises) and relatively high transaction costs. However, equity finance, is needed to strengthen business' capital structure and boost investment in innovative start-ups and high-growth. Also critical for more mature firms which can raise capital in stock markets, access to equity finance is an important feature of a competitive environment that supports business creation and expansion.

Stock markets allow investors to trade their stakes, realise capital gains and eventually redirect their capital into new investments (UNECE, 2009). For Albanian businesses access to stock markets is difficult, however public listings of business equity can help to provide funding, particularly for innovative, start-ups and high-growth businesses. Specialized listing platforms[1] for "new markets", can offer more flexible listing criteria, eased disclosure requirements and comparatively low admission cost, which enable businesses better access compared to generic stock exchanges (OECD, 2015).

Alternative financing instruments could be relevant in Albania. This could include other instruments of asset-based lending, alternative (besides leasing and factoring) debt instruments (e.g. corporate bonds, securitized debt, covered bonds, private placements, crowd funding), and/or equity instruments.

2.3. Other findings related to financial inclusion of Albanians and their businesses

Credit information services. The use of credit information is recommended to improve risk management for lenders and access for borrowers. The quantity of information includes the type of information collected (positive, negative or both) and the existence of historical data. Efforts to increase the number and types of information providers (financial institutions as insurance companies, brokers, etc.; utility companies, etc.) are also considered. Well-functioning public and private credit information systems and bureaus provide information on borrowers, including firms and individuals, reducing information asymmetries between lenders and borrowers, increasing market transparency, encouraging greater investor participation and reducing financing costs for the Albanian businesses. They enhance lenders' ability to verify the indebtedness and repayment history of borrowers and increase borrowers' cost of default.

The search on financial education conducted, approaching the OECD guidelines. Albania has a financial system relatively new and therefore knowledge, experience and customer relations are still in the early stages of development. About the relationship between financial inclusion and demographic features, noted that the more educated (moreover, recognition of basic financial concepts) people recognize and use financial products. The financial products are known and used more by men than women, and individuals belonging to the age group 30-59. Also, 50% of interviewees admitted that when they are caught in a situation of insufficient income have chosen to borrow from friends or relatives to get out of the difficulty, without demanding the credit institutions.

Albanian Financial Supervisory Authority (AFSA) since December 2016 started signing Memorandums of Understanding for joint activities and initiatives for financial education with Economic Faculties in Albania and during 2017 progressed all around Albania. BoA as every year at March 2018 organized the "Money Week" with some activities related to financial education. Are those enough? Even though, BoA and AFSA are key players for sustainable economic development of Albania, but there should be a national coordinated strategy with other stakeholders as well to set up joint initiatives for improving financial education and encouraging financial inclusion.

Consumer protection will be effective only if the customer actively protects its rights. It is important that citizens are increasingly requiring information to compare terms and conditions of financial products and most importantly is that they raise their voice if they encounter problems. Mistakes happen, so financial institutions should be aware of the mistakes and be given the chance to correct them. Also, financial education increases the ability, freedom and confidence of families and companies to better manage their finances, considering the economic and social side. But, to be implemented the program for consumer protection requires intervention in the regulatory and legal framework for consumer protection in the financial sector, strengthen market supervision, dispute resolution where customers will be provided with mechanisms to protect pro-actively their rights. Without adequate consumer protection, the advantages of financial inclusion may fade.

Technological innovations (exp. FinTech) and growing competition for financial services worldwide have expanded the range of financial services offered to consumers, including people with low incomes and poor, but on the other hand, they also carry new risk. Appropriateness of the recent world financial markets underlined the necessity of adequate consumer protection and financial education to ensure long-term stability of the financial markets. Therefore, financial education and

[1] Equity-based crowd funding is another instrument listed by the G20/OECD High-level Principles on SME Financing.

protection of financial markets consumers are fundamental pillars of financial inclusion, which guarantees long-term stability of financial markets for a developing country like Albania.

Recommendations

Albanian Government in cooperation with international institutions (as exp. WB, OECD, etc.) must develop a national strategy for its financial inclusion, settling a dedicated public structure under the authority of the Ministry of Finance and Economy with measurable objectives in short and long term, strategies and budget for increasing financial inclusion through coordination and cooperation between all institutions (MoESY, BoA, AFSA, ACA, etc.) in Albania.

Under the coordination of this dedicated public structure, some measures need to be taken as soon as possible for enabling financial inclusion, as per following:

Implement obligatory financial education programs for each target group providing knowledge over financial products; therefore, reduce social effects and financial risks, increase healthy consumption and develop stable financial markets;

Authorities to amend the legal and regulatory framework for consumer protection approaching EU Directives, OECD principles and best practices by developing countries to enable competition not concentration, transparency, access to finance for vulnerable segments and quality financial services.

Create credit information system for generating credit scoring as an important factor for access to finance (credit, and healthy lending to Albanian consumers), reduction of costs and facilitate financial inclusion for other financial products as insurance, investment funds, pension funds, etc.;

Increase capacities of Albanian Post (as a financial institution), for supporting especially those business activities which concentrate on small and medium-sized enterprises, entrepreneurs, innovators, youth-owned businesses, women-owned businesses and farmers in less-developed regions of Albania and in projects that contribute to greater economic diversification and regional integration of Albania, to catalyze business growth and job creation by financing underserved individuals and businesses.

Reducing to zero online banking fees, commissions for payments with bank cards in POS-es, commissions for getting information and maintaining a bank account, which are increase sing significantly by commercial banks in Albania during these last years. Asking transparency over terms and conditions of financial products, informing their customers in an understanding and sustainable way of communication, reduce the risks and boost financial inclusion;

High costs and delays for foreign currency money transfers between customers of Albanian banks (EURO currency is common used in business transactions in Albania, but clearing settlements for this currency is performing outside Albania, exp. through Deutche Bank) and late payments for public procurement payment transactions are forcing Albanian businesses and families to seek external financing to cover cash flow gap and/or to cut back investment, hiring plans, or consumption in case of households;

Developing corporate bonds and stock exchange services for generating other sources for raising capital to business, requires urgent measures for insuring transparency and confidence to investors through effective supervision over financial intermediators and financial statements of listed companies;

References

[1] World Bank, Doing Business Economic Profile 2017, http://www.doingbusiness.org/
[2] EBRD (2014), “BEEPS V 2012-2014”, Business Environment and Enterprise Performance Survey
[3] Dataset, European Bank for Reconstruction and Development, http://ebrd-beeps.com/.
[4] OECD (2015), New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264240957-en.
[5] UNECE (2009), Policy Options and Instruments for Financing Innovation: A Practical Guide to Early-Stage Financing, UNECE, and Geneva
[6] Ribaj, Artur, Issues to Be Addressed by Legal Framework for Protection of Mortgage Loan Consumers in Albania (February 5, 2018). Available at SSRN: https://ssrn.com/abstract=3137289
[7] Ribaj, Artur and Ribaj Çinaj, Valbona, Challenges for the Implementation of Credit Scoring in
[8] Albania (March 2, 2018). Available at http://dx.doi.org/10.2139/ssrn.3133013

[9] https://www.reuters.com/article/us-albania-exchange/new-albanian-securities-exchange-sees-trading-start-by-year-end-idUSKBN1CN2MM
[10] http://www.xinhuanet.com/english/2017-07/07/c_136424701.htm
[11] https://ec.europa.eu/jrc/sites/jrcsh/files/20170301-02-tech-transfer-innovation-brenot_en.pdf
[12] https://ec.europa.eu/jrc/sites/jrcsh/files/20170301-02-tech-transfer-innovation-brenot_en.pdf
[13] https://www.bankofalbania.org/rc/doc/7_financial_system_9818.pdf
[14] MoFE Reports, http://www.financa.gov.al
[15] BoA Reports, https://www.bankofalbania.org/
[16] AFSA Reports, http://www.amf.gov.al
[17] http://www.un.org/esa/ffd/topics/inclusive-finance.html
[18] http://www.worldbank.org/en/topic/financialinclusion/overview#1
[19] http://data.imf.org/?sk=E5DCAB7E-A5CA-4892-A6EA-598B5463A34C
[20] http://www.afi-global.org/
[21] http://datatopics.worldbank.org/financialinclusion/country/albania
[22] http://microdata.worldbank.org/index.php/catalog/2376/related_materials

Material Management, Information Technology, and Marketing Performance: Implications for Sustainable Business Development in Africa

Adegbuyi, Omotayo (Ph.D.)

Associate Professor, Faculty of Business and Management,

Victoria University, Kampala, Uganda

Kehinde O.J. (Ph.D.)

Associate Professor, Department of Business Management,

College of Business and Social Sciences,

Covenant University, Ota, Ogun State – Nigeria

Adegbuyi, Abimbola Abidemi (Ph.D. Researcher)

Department of Business Management,

College of Business and Social Sciences,

Covenant University, Ota, Ogun State – Nigeria

Binuomote, Michael Olayinka Ph.D

Lecturer, Department of Vocational and Technical Education,

(Businesses Education), Faculty of Education,

Federal University Ndufu-Alike Ikwo, Ebonyi State

Abstract

One of the primary purposes of every organization is to satisfy the needs of customers. Satisfaction of need based on the premise that sustainable business performance is not in view unless the needs of the customers are satisfied. As a result of economic metamorphosis from pre-industrial era to experience economy, the human factor is considered as the most crucial tool for competitiveness. However, management seems to be placing too much emphasis on human resources at the expense of nonhuman input in production. How do managed efficiently materials affect marketing performance? Does IT facilitate the contributions of material management to business development in Africa? The study adopts the input-throughput-output model to ascertain the effect of material management on marketing performance. The moderating impact of information technology was also explored. A mixture of descriptive and survey research method was adopted. The sample of 400 respondents was drawn from purchasing and supply, store, production, marketing as well as distribution and logistics sections of four different manufacturing firms. Three different hypotheses were developed, and appropriate statistical techniques were employed for the analyses. Most of the functional areas of material management are likely to have positive effects on marketing Performance. There is the tendency that IT will moderate the relationship between material management and business development in Africa. Effective material management facilitated by IT applications plays significant roles in promoting marketing performance and business development in general.

Keywords: Information Technology, Marketing Performance, Material management, Sustainable business

1. Introduction

The relationship between marketing and development can be described as being bi-directional. In other words, marketing is affected by its environment and environment is also affected by marketing activities. This vital nexus between marketing and development have been captioned as macro marketing (Ellinger, 2000). The concept of evolution connotes merely an expansion of economic opportunities and outcomes. However, the belief is that the functional and structural elements of the marketing system, i.e., the method of distribution, channel structure and of course material management have a significant impact on development (Monczka, et al, 1998),

The output of any business can only be measured regarding customer satisfaction achieved at a profit. Meanwhile, these productions can just be made by cross-functional coordination and cooperation across the organization. These cross-functional connections follow the information and material flow that links the customer with the business and its suppliers (Bailey et al 1998),

It is pertinent at this point to submit that studies have shown that effectiveness of marketing performance is a function of the quality product while the quality product is at the mercy of quality material management (Grønholdt, & Martensen (2006).; Adegbuyi, Akinyele and Akinyele (2015). In other words, customer satisfaction, as well as steady growth and profitability, could easily be attained through the production of quality products. Meanwhile, the input-throughput-output model suggests that keen attention must be given to every stage of the material management thereby resulting in a quality product (Covin & Slevin, 1991).

However, this study proposed that information technology has the significant influence on how material management affects marketing performance which in turn becomes very relevant for sustainable development. In this against this background that the study examined;

- the effect of Material Supply Management on marketing performance
- the impact of Material Inspection and technical tests on marketing performance and
- Whether Information Technology has moderating effect on the relationship between marketing performance and material management

2. Literature Review

2.1 The Concept of Materials Management

Materials management is all about taking good care of non-human production inputs to ensure that they contribute meaningfully to the achievement of the output goal of a manufacturing and marketing organization. The non-human production inputs referred to here include raw materials, component materials, fabricated parts, accessory equipment, supplies (consumables), and semi-finished products (Hardt, et al, 2007). These items have to be sourced and procured by the desired specifications, and quantity, and at the right time, and place that is secured and released in such a way as to minimize the total costs of carrying out these and other related activities. The failure to ensure right materials performance may seriously jeopardize any manufacturer's desire to provide the goods and services needed by the society (Everett et al., 2002).

As a discipline, materials management is not an exact science. Like other management sciences, it is a quasi-science (Melnyk, et al, 2009). However, it employs the necessary tools or principles of the scientific method in its investigations and decision making. It is also multi-disciplinary. It draws contributions from law, management, statistics, mathematics, industrial economics, accounting, purchasing, and supply management, basic engineering, and natural sciences (among others) to solve problems and make decisions that would yield good results (Dewan, and Kraemer, 2000). This means that materials management officials need to be very versatile for them to be able to perform their jobs efficiently.

In 2004, there was a complaint that there was a fault in the very popular fast food Indomie which sold all over the country. This led to the near total abandonment of the product in the market, as some claimed that its consumption led to the death of some consumers. The National Agency for Food and Drug Administration and Control (NAFDAC) waded into the matter and traced the problem to the contamination of some materials during a production process, even though the agency claimed that this could not be linked to the alleged deaths. The producers of the product lost millions of naira in the mandatory withdrawal of the batches concerned. It also had to spend millions of naira in the spirited campaign to regain the confidence of consumers. Better materials management practice would have saved such a company and its customer's such pains (Nelson et al. 2005).

When materials management is carried out as an integrated function in an organization engaged in manufacturing and marketing, according to Adegbuyi and Odularu, (2013), the efforts of all the involved departments and personnel would be geared towards materials availability, cost reduction, waste elimination, and the attainment of the super-ordinate goal of satisfying the needs of customers. This would lead to the achievement of the objectives and goals of materials management.

The benefits of improved efficiency in the performance of materials management activities are inexhaustible. They constitute an essential part of the means through which manufacturing and marketing institutions can achieve their desired market impact at reduced costs.

2.2 Information Technology and the economy

The study carried out by World Bank showed that the utilization of current technology by developing countries has increased beyond measures (Durgamohan, 2014). In the span of 10 year span between the 1990s and 2000s, according to Akubue, (2000) the index was summarized as follows: import of high-technology and capital goods, patents, and scientific papers published, computers and mobile phones per capital and number of hours of electricity per day, etc., showed an increase of 160% in poor countries with less than $900 per capita income to 100% in middle – income countries with $900 – $11,000 per capita income and 77% in industrialised countries with $11,000 above of per capita income. This shows that poor and middle-income countries are fast bridging the technology gap between them and the industrialized nations (Ashworth, 2012). However, it was noted that the adoption of technologies is slow in middle-income and developing countries. The bank is of the opinion that out of sixty-seven samples of adoption of technology solely were able to capture five-hundredths of the national market, against all techniques adopted in industrialized countries reaching five hundredth market share (Gunasekaran, et al, 2004). Emerging economies can access technology, but are slow in putting this technology to use. The capacity to absorb techniques depends on education; R&D; financial system; the quality of Government. (Economist, 2008).

3. Research Approach

A mixture of descriptive and survey research method was adopted. The sample of 400 respondents was drawn from purchasing and supply, store, production, marketing as well as distribution and logistics sections of four different manufacturing firms. Three different hypotheses were developed, and appropriate statistical techniques were employed for the analyses.

4. Data Analysis and Discussion of Findings

4.1 Testing of Hypotheses

H1: Material Supply Management does not have significant effect on marketing performance

H2: Material Inspection and technical tests have no significant effect on marketing performance

H3: Information Technology has no significant moderating effect on the relationship between material management and marketing performance

Table 1: Regression effects of material supply management, material inspection and technical tests on marketing performance.

	Material Supply Management						Material Inspection and technical tests				
	Unstd. coefficient		Std. coeff.				Unstd coefficient		Std. coeff.		
	B	Std Error	B	T	Sig.		B	Std. Error	B	T	Sig.
Constants	1.135	.298		3.814	.000	Constants	2.109	.253		8.339 8.339*	.000
evaluation of supply procedures	-.064	.088	.080	-.939	.350	material inspection during the production process	. 587	.077	.684	7.646*	.000
quality ad long term relationship with her suppliers	.347	.105	.338	3.317	.001	document material rejection and acceptance criteria	. .144	. 087	176	1.656	.100
suppliers service level measurement procedures	. .399 .399	.092	.419	4.354	.000	maintain procedure for the management	. - .277	.080	-.346 -.3.448	.3.446	.001
organization are very strategic	-.002	.012	-.012	-.012	.859						
R	654[a]						. .855				
R2	.427						731				
Adj. R2	. .413						. .719				
F	28.868						62.035				
Overall Sig.	.000						.000				

The table 1 above summarizes the effect of material supply management as well as material inspection and technical tests on marketing performance. Two major dimensions: material supply management and material inspection and technical tests significantly affect marketing performance at 0.01 and 0.05 levels of significance respectively. This reveals that material supply management has a main impact on marketing performance ($R2 = .427$, $p < 0.0001$) while material inspection and technical tests significantly affect marketing performance ($R2 = 0.791$, $p \geq 0.0001$).. It implies that material supply management, material inspection and technical tests contribute significantly to marketing performance.

Table 2 below revealed information technology has a significant moderating effect on the relationship between material management and marketing performance. Information technology explains 71.6% variation in marketing performance based on material management practices.

Table 2: Information Technology

	Information Technology				
	Unstd. coefficient		Std. coeff.		
	B	Std Error	B	T	Sig.
(Constant)	.340	.214		1.588	.115
INFOTEC	.562	.067	.601	8.406	.000
MATMGT	.345	.081	.303	4.240	.000
R	.846[a]				
R2	.716				
Adj. R2	.711				
F change	147.529				
Sig. of F change	.000				

5. Conclusions and Implications for Research

The value of IT regarding business continues to generate debate and stimulate interest among both practitioners and. Academics. In this paper, we assess IT importance in the context of digitally enabled of material management on marketing performance which has emerged as one of the significant areas for companies to leverage IT to improve firm performance in global operations. The moderating effect of information technology was also explored. Factors that impact on material management and marketing performance were reviewed. The result shows that effective material management facilitated by IT applications plays significant roles in promoting marketing performance and business development in general.

References

[1] Adegbuyi, O.A; and Odularu, G.O (2013) *Essentials of Agricultural marketing and Trade in Nigeria*, Lagos: Pumark Nigeria Limited {Educational publisher}

[2] Adegbuyi O.A, Akinyele, F.A and Akinyele,S.T (2015) Effect of Social Media Marketing on Small scale Business Performance in Ota Metropolis *International Journal of Social Sciences and Management* Vol-2, Issue-3 pp14-20

[3] Akubue, A. (2000) 'Appropriate Technology for Socioeconomic Development in Third World

[4] Countries', The Journal of Technology Studies 26:1, pp. 33-43

[5] Ashworth, C.J. (2012). Marketing and Organisational Development in e-SMEs: Understanding Survival and Sustainability in Growth-oriented and Comfort-zone Pure-play Enterprises in the Fashion Retail Industry. *International Entrepreneurship and Management Journal*, 8(2), 165 –201.

[6] Bailey, P., Farmer, D., Jessop, (1998), *Purchasing Principles and Management*, 8thed., Pitman Publishing, London.

[7] Covin, J. G., &Slevin, D. P (1991). A conceptual model of entrepreneurship as firm behaviour. *Entrepreneurship: Theory and Practice*, 16(1), 7-25. http://dx.doi.org/10.1007/BF00382966

[8] Dewan, S., & Kraemer, K. (2000). Information Technology and Productivity: Preliminary Evidence from country-level Data. *Management Science*, 46(4), 548 –562.

[9] Durgamohan M, (2014) Appropriate Technology and Economic Development of Emerging Economies-A Myth or a Reality, *Journal of Technology Management for Growing Economies*, 5(1), pp51-62

[10] Economist (2008) 'Of internet cafes and power cuts', Economist, 7 February, (online) (Retrived 6 November, 2017). Available from (URL: http://www.economist.com/node/10640716)

[11] Ellinger, A.E. (2000). Improving Marketing/Logistics Cross- Functional Collaboration in the Supply Chain. *Industrial Marketing Management*, 29, 85-96.

[12] Everett E. Adam, Jr. Ronald J.Ebert (2002). *Production and Operations Management Concepts, Models and Behaviour,* India: Prentice-Hall of India Pvt. Ltd.

[13] Grønholdt, L., & Martensen, A. (2006). Key marketing performance measures. *Marketing Review*, 6(3), 243-252.http://dx.doi.org/10.1362/146934706778605287

[14] Gunasekaran, A., Ngai, E. W. T., (2004) "Information Systems in Supply Chain Integration and Management*", European Journal of Operational Research*, (155) 269- 295

[15] Hardt, C.W., Reinecke, N., & Spiller, P. (2007). Inventing the 21st-century purchasing organization. *The McKinsey Quarterly* (4) 115-124

[16] Melnyk, S. A., Lummus, R. R., Vokurka, R. J., Burns, L. J., and Sandor, J. (2009). Mapping the future of supply chain management: A Delphi study. *International. Journal of Production Research* 47: 4629 - 4653.

[17] Monczka, Robert, Robert Trent, and Robert Handfield (1998), *Purchasing and Supply Chain Management,* Cincinnati, OH: South-Western College Publishing, Chapter 8.

[18] Nelson, R. R., Todd, P. A., and Wixom, B. H. (2005). "Antecedents of Information and System Quality: An Empirical Examination within the Context of Data Warehousing," *Journal of Management Information Systems* Spring 21(4), pp. 199-235

The Impact of Using Mathematical Models in the Growth of Regional Economic Indicators, Strengthening the Role of the State

Dr Miftar Ramosacaj

Math Faculty University of Vlore, Albania

Prof Dr Vjollca Hasani

University of Sheffield Business and Management, Economy International Faculty,

Thessaloniki, Greece

Prof Dr Alba Robert Dumi

Management Department,

Economy Faculty University of Vlore, Albania

Abstract

The purpose of this paper is the identification of the relationship between exchange rate and inflation directly and indirectly having their factors in the stability and development of the economy. The term "public policy" is not recent. It was introduced in the language of European political and administrative sciences in the 1970's as a literal translation of the term "public policy".Based on the society's viewpoint and its policy and policy relations, politics can be divided into three branches, which according to Anglo-Saxon terminology are called politics, policy and polity.The findings and analysis, conclusions and recommendations which will be part of important scientific studies in this paper that will serve to assist in the preservation of natural resources in our countries. Politics (polity) means consensus by the electoral body for political power and the inter-social cohesion of different groups and strata. Three aspects intertwine and influence each other by implementing complex socio-political dynamics. Another purpose is the direct impact analysis that has the exchange rate of micro economy development, macro economic factors such as economic growth, and the impact of GDP growth, inflation and employment levels. By politics it is meant the activities of various political parties or different groups to enable the possessing and having the political power. By policy are meant the laws or other legal acts implemented by the political power to manage public property.

Keywords: Math models, exchange rate, empirical studies, management public politics, state

1. Introduction

State, whichever is, it is the society functionary form. Charles Maurras

This paper is designed to analyze the role of good governance, the role of public policies that are essential to economic and social development, and how these public policies affect the growth of SME development and progress, with this study has in center the analysis of economic activity and their finances. I have been trying to gather materials, to develop a real analysis and research on the development of SME organizational structures, how they change and how they manage their financial resources, this financial analysis serves to study the strategy and organizational structure of a business.

"The Design and implementation of policies that impact dynamic growth and sustainable development of the industry sector and SME-s, in accordance with the national strategy for development and integration, respect for environmental protection and social development,in order to ensure a sustainable and long-term through the promotion of domestic and foreign investments, exports, the application of new technologies, institutional administraton strengthen, the specialization of the workforce, penetration into the open regional European markets and wider."

1.1 What are public policies?

In the Anglo-Saxon term, the term policy, looks opposite to the term politics, in the mere meaning of party and politicians' reports. In continental Europe, the idea is that politics in terms of politics and politics in the sense of politics are two aspects of the same phenomena.In the Anglo-Saxon approach the two terms recognize not only lexical difference but also an essential one. In Europe, only the UK recognizes the difference between *politics* and *policy* due to the uniformity of language and the traditional cultural exchange with the USA. (Dennis A, 2009)

For all other European countries, terms preserve their imported form, and the distinction between politics and politics is practically in the process. Even in Albanian, differences in terms are not apparent because they are included in the same word: "politics".

1.2 What is good governance?

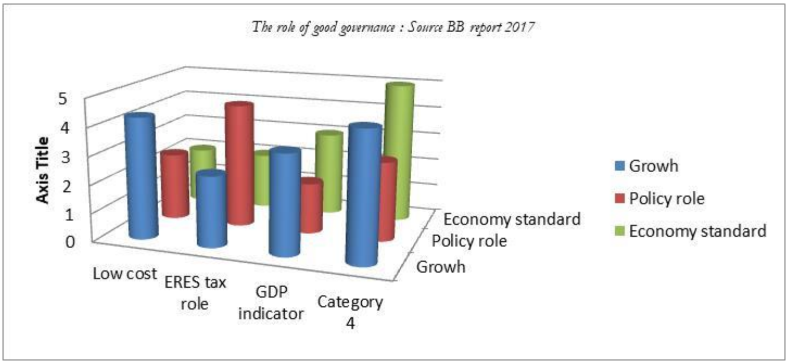
Derivingfrom the New Public Management (Micro-economic theory and administrative science), the notion of "good governance" has spread in the 1990’s by the World Bank as a necessary condition of development policies. For the World Bank, governance includes norms, traditions and institutions through which a country exercises its authority over the common good in the development optics. (Moulis S, 2011)

Governance, according to the IT Governance Institute, "aims to give strategic orientation, to ensure that objectives are achieved and that risks are properly managed and resources are used in most responsible way." It cares with priority to respect the interests of those "having rights" (citizens, public authorities, shareholders, etc.) and to make their voices heard in managing the affairs (ITGI 2012)

The Taylor rule for defining an optimal policy should be modified, taking into account the most direct way in determining exchange rates of monetary policy instruments. (Dumi A, Leadership, 2016) So, good governance is related to the functioning of public powers, in particular the state itself. "The way of exercising power" should respect these principles: Tested empirical did not supported this assumption and consequently it is supposed that this movement of the exchange rate is not fully reflected in price levels.Already there are many models / theories that explain why such disregard is incomplete.Tested math model and ESSP are supported this data of this paper research correctly.

1.3 The aim of this study, data analyze

The aim of this study is to provide empirical evidence on the extent of the contempt of the exchange rate with the rate of inflation in Albania. The study of this connection is motivated by the impact that has the exchange rate in an economy as small and open economy is Albanian. In Western societies regulated by liberal democracy, governance refers to interactions between the state, political bodies and society, including lobbying systems and coalitions of public and private actors. Good governance aims to make the most efficient and closest public action for the public good and the general interest as well as legitimate. It seeks to make the societies more manageable and more balanced, so that they do not over-exploit their resources and will be able to renew them.



Given the importance of the exchange rate on the main elements of the economy, the Central Bank has not ignored the developments in the exchange rate in Lek, although the conditions were of floating exchange rates. (Ruli G, 2007)

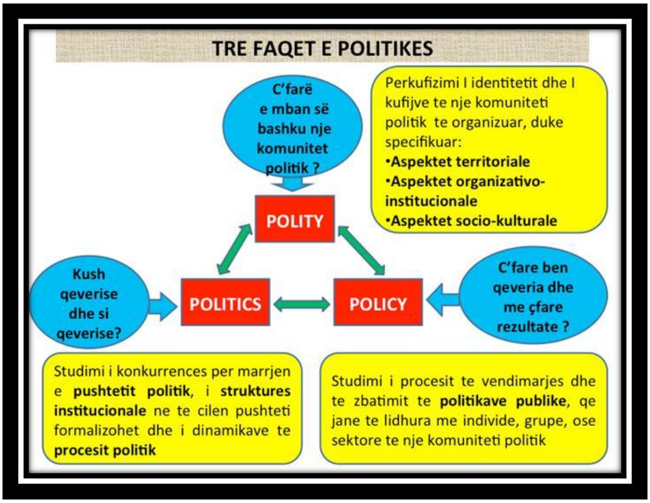
The European Commission has recorded its notion of governance in the White Book of European Governance. Thus, the expression European Governance defines the rules, processes and behaviors that influence the exercise of powers at European level, especially in terms of openness, participation, accountability, efficiency and coherence. These five "principles of good governance" strengthen those of subsidiary and proportionality. This definition also is introduced in the Lisbon Treaty. (EGE Commission 2012)

1.4 Historical Public Policy Changes

The state has historically been built through the production of public policies: it has progressively enriched its fields of action by taking different views over the centuries. There are many stages that correspond to the specific functions of the State:

State action is a direct intervention, made through administrative instruments such as police, army, justice, and through the production of rules of law;

Responsibility is perceived as collective and not just individual, collective insurance systems are set for accidents at work;



Source: State.com. Albania economy development, 2013

- Accountability, which implies the responsibility of decision-makers, controls upon administration, control over public markets, public money management, and so on.

- Empowerment, which means giving all actors the opportunity to participate in the development process.Critics of "good governance" see it as an ideology ofsocial -state disengagement, even a theory of State decomposition, which has started to operate since the neoliberal turn of the 1980’s.

H1: They denounce abandoning the term "government" and the use of the term "governance", explaining that it is about demolition of the state's decision-making power as a guarantee of popular sovereignty, replacing it with participatory of democracy, which has no real political attribute.

H2: But how these policies can be used with inflation targeting?

2. The Purpose of the Study

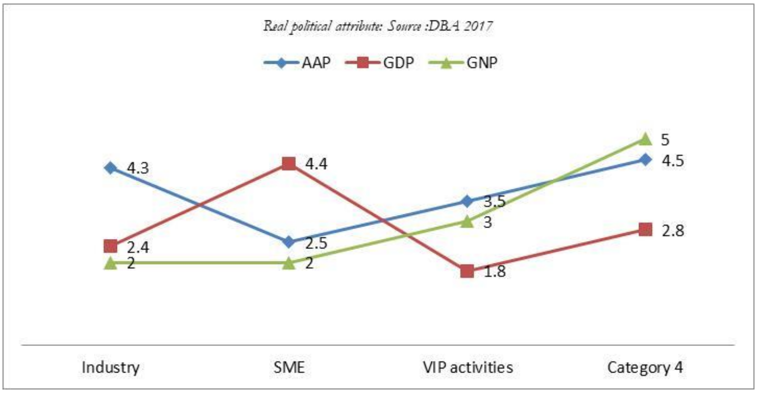
These developments are closely monitored by the Central Bank and in certain moments it has intervened through monetary policy to avoid fluctuations regarded the distorting. This is done because the exchange rate is one of the main variables involved in the process of forecasting inflation.(Guxholli Z, 2009)

According to them, "government" in governance shows that it is passed from a civilization of popular sovereignty embedded in Republican constitutions, the guarantor of the general interest, in a pragmatic, utilitarian society, the guarantor of special economic interests, in which the notion of common good no longer has place.In this very intensive theoretical debate of recent years, many other "good governance" statements take into account the legitimacy and legality of good governance. It can be said that a situation is legitimate when it is accepted by those who are subject to its consequences.

.Albania strengthened access to credit by amending the Albanian Civil Code and the Law on Securing Charges, and by adopting a new Insolvency Law. It is now possible to grant a security interest over any type of movable property – including tangible and intangible assets – and secured creditors are given absolute priority within insolvency proceedings.

Labor Market Regulationin Albania

Albania amended legislation to reduce the maximum number of our, allowed in a workweek and to mandate that women and men be given equal remuneration for work of equal value.Source: DBA, 2017



Dealing with Construction Permits: Albania made dealing with construction permits easier by reintroducing the issuance of building permits and streamlining the process of receiving the final inspection and compliance certificate. *Source: DBA, 2017*

3. Literature Review and Hypotheses

To give an answer as best as possible to this issue will be based the empirical research, due to the different specific factors in economy of the country. In 2012Vlora university and Dumi Professor of economy in management department, has made a research in 13 different countries which have an economy in transition and in developing,this is for the hypothesis that the exchange rate belongs to monetary reaction function.

The indicators are used to analyze economic outcomes and identify what reforms have worked, where and why. This economy profile presents the Doing Business indicators for Albania. To allow useful comparison, it also provides data for other selected economies (comparator economies) for each indicator.

4. Research Goal

In the case of Albania maintaining macroeconomic interior balancing in terms of liberalization of the economy constitutes a major challenge for our economy has a huge deficit of current account and a high trade deficit

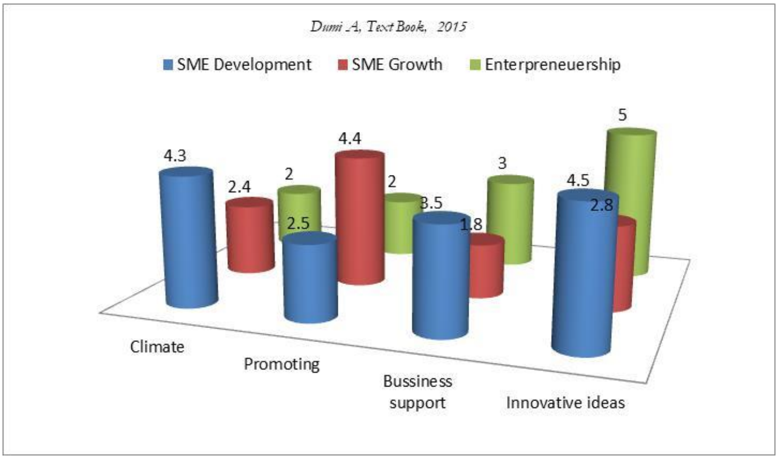
The strategy based on its goals will be oriented according to some specific key directions:

1. The capacity Increasement of local companies need to absorb new knowledge and experience in promoting investment. Improve and establish a network of international cooperation (internationalization) through professional networks between business partners, knowledge exchange, learning and management development, marketing and other business skills such as applying productivity-enhancing methods and preparing qualified employees, etc.

2. Offering products and services based on resource efficiency and clean production as a prerequisite that will lead to the restructuring of non-food industries, aiming at increasing competitiveness with target markets, diversifying export products. The measures and activities undertaken will create the basis for a real position of the country's industry towards the global market, towards the development of new products and services based on a sustainable infrastructure.

3. *Innovative business development*, based on the research and development of knowledge both from the public and private sectors. Encouragement and cooperation between science and industry, cooperation with universities and research centers, technological infrastructure development, creation of industrial parks and parks, increased application of new technologies and protection of industrial property rights.

4. *SME development and Entrepreneurship* will be achieved with the annual increase in the number of innovative enterprises through better funding. The one is by constantly improving the business climate, promoting entrepreneurial spirit, lifelong learning. This development process will be accompanied by the introduction of new financial instruments, for all SME-s, and in particular in support of businesses run by women or in their start-up phase.



5. The Development of industrial clusters through clusters, through the co-operation of public and private institutions, focusing on innovation, marketing, management, technological incubator development, the participation in joint training across the chain of cluster-based actors, developing partnership activities throughout the entire product and service of delivery chain by cluster group.

5. Problems related to the SME sector

5.1 The current development of the SME Sector

According to the Global Competitiveness Report of the World Economic Forum 2013-2014, in the overall ranking, Albania is ranked 95th out of 148 countries / economies with a downturn in the 6-nation overall rankings from last year. Albania is classified in the group of countries that are in the second stage of competitiveness development (also called the "economic efficiency boost stage").

The last part contains the main conclusions drawn from the analysis of the connection that the exchange rate to inflation. Verification of hypotheses and questions that are raised for inflation connection with other elements of macro economic.The development of Albania's economy has gone through this major periods. (Ajis 2016)

a-1991-in this period the country's economy was dominated by a decrease in real GDP social and economic disruption. In this period, we have a higher inflation rate during this period.We have a decrease by two thirds of the level of income and inflation compared with 1989.(Calvo, G.A. 1999)

6. Conclusions

The exchange rate is very important for countries in developmentalso for developed countries too. In the longer term the exchange rate is affected by product of economy sectors between Albania and other countries, remittances and openings and trade agreements. Due to the different economic phenomenal that brings the economic crisis (inflation, rising prices) employees are more sensitive to the level of their salary and wage increases tend to seek or ask for a job that are paid more.(Dumi A, Leadership 2016)

Doing Business for Albania, sheds light on how easy or difficult it is for a local entrepreneur to open and run a small to medium-size business when complying with relevant regulations. It measures and tracks changes in regulations affecting eleven areas in the life cycle of a business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and employing workers.

1. The European Investment Fund (FEI) and ProCredit Group will provide an additional 450m-euro fund for innovative SME businesses, bringing a total of 820m euros to these businesses

2. In June 2017, exports of goods amounted to ALL 23 billion, down 0.3%, compared to the same period a year ago and by 7.1%, as compared to the previous year.

3. The Albanian SME Institute SME Albania held today the closing ceremony of the first edition of the Summer Academy for SMEs, organized in cooperation with Köstinger Consulting. In this ceremony were present participants of the Summer Academy

4. Have good financial management and formulation of strategies that increase sales and profits. These will be the basics that are being followed for entrepreneurs with the launch of the Summer Academy for SMEs

5. 59% of Albanian youth are inclined towards entrepreneurship. However, very few know how to get started. "Shpk, Sha, access to credit: are unknown concepts for most of them

References

[1] Emmett, Boris, and Jeuck, John C. *Catalogues and Counters*; *A History of Sears, Roebuck & Co*. Chicago: University of Chicago, 1950.
[2] Galbraith, John Kenneth. *The New Industrial State*. Boston: Houghton Miffliin, 1967. Landes, David Georg. *Der Weg der Elektrotechnik; Geschichte des Hauses Siemens*. Freiburg: Alber, 1961.
[3] Reader, W.J. Imperial Chemical Industries: A History, vol. 1, 1870-1926. Oxford University Press, 1970.

[4] Nevins, Allan, and Hill, Frank E. Ford: *Decline and Rebirth 1933-1962.* New York: Scribner's, 1962/3.
[5] Schumpeter, Joseph. *The Theory of Economic Development*. Cambridge, Original Edition 2014
[6] S. The Unbound Prometheus; Technological Change and Industrial Development in Western Europe from 1750 to the Present. Cambridge University Press, 1969.
[7] Schumpeter, Joseph. *Capitalism, Socialism and Democracy*. New York: Harper Bros., 1942. Siemens,
[8] Zeninn Mass.: Harvard University Press, 1934; Original German Edition, 1911.

International Instruments Related to Industrial Property: An Empirical Analysis and a Case Study

PhD (candidate) Drita Bejtullahi

Assistant at the University of Tetova,

Faculty of Law, Macedonia

Prof. Dr. Alba Robert Dumi

Management Department, Economy Faculty,

University of Vlora, Albania

Abstract

Along with its independence from the former Yugoslav Federation, the Republic of Macedonia opened a new chapter in reforming herself politically and economically and with the overall reforms in the law system, changes also happened in the field of Industrial Property. Proper measures were taken for its protection by establishing SOIP – the Country's State Office of Industrial Property, firstly known as the Office for the Protection of Industrial Property, within the Macedonian Ministry of Development, to later become an autonomous legal entity under the Government, according to the adopted Law on Industrial Property of 2002. The new Law and Institution further strengthened and enforced legal protection of IP rights by taking care of and handling disputes related to IP protection. Requests for the protection and acquisition of industrial property rights, such as patent requests, registration of trademarks, industrial designs, geographical indications or topographies of integrated circuits can be addressed by the abovementioned laws and Institution. Main functions of the State Office of Industrial Property are implementing the law and regulations, ratification of international agreements, creation of proper conditions for an efficient protection of Industrial Property in accordance with standards set by agreements and international industrial property institutions, such as WIPO and it also appears as a mechanism to help the growth of economic, social and cultural prosperity. The rights derived from a scientific or artistic work are also foreseen and encouraged by the Country's Constitution, in order to promote and help the technological development and a free market for everyone concerned.

Keywords: Industrial Property, TRIPS, Copyright, IP Laws, IP Protection.

1. Introduction

Industrial Property is part of the broader notion, internationally known as Intellectual Property. It refers to intellectual creations or creations of the human mind which are protected by the IP laws. The area of Industrial property, starting to gain its importance and application with the Paris Convention for the Protection of Industrial Property (1883) applies to these main types of industrial creations: Patents for inventions, Industrial designs, Trademarks, Service marks, Layout-designs of integrated circuits, Commercial names and designations, Geographical indications and Protection against unfair competition.[1] In Macedonia, the main source of the law, to be distinguished from other regular laws, that also covers Industrial property law is the Constitution, as the highest legal act, adopted in 1991, as an independent country. The Constitution and IP laws recognize and also guarantee the rights arising from the scientific and artistic work known as: Patents, Industrial designs, Trademarks, Appellations of origin and Geographical indications.

[1] *Understanding Industrial Property: WIPO 2016.*

2. Main Sources of the Law on IP

2.1 IP Laws

Industrial Property issues around the world are mainly defined by their own specific laws on IP, as well as laws or regulations on their respective branches of IP. This kind of legislation serves mainly the purpose and effort to help and protect only a given IP product in a designated country or territory. Nowadays, with the ever-growing globalization there are international IP initiatives and organizations which have created their legislation and guidelines on how to treat and approach issues of IP, which are generally accepted and adopted by the national legislative frameworks. The goal has been for a greater interaction and unification of rules which tend to and actually benefit the overall good of the global market economy and greater development in technology.

The IP legislation of the Republic of Macedonia, Intellectual Property, as a whole consists of these sources:

- The *Constitution*, as the Basic Law;

The Main IP Laws, which are:

- the Law on Industrial Property[1],

- the Law on Copyright and Related Rights,

- the Law on Protection of Topographies of Integrated Circuits[2],

- the Law on Customs Measures for Protection of Intellectual Property Rights,

- the Law on the Breeder's Rights;

The IP-related Laws:

- the Law on Administrative Fees,

- the Customs Code,

- Inserts from the Relevant Provisions referring to Copyright and Related Rights from the Amendments of the Penal Code,

- the Code of the Criminal Procedure,

- the Penal Code;

The Implementing Rules/Regulations:

- Regulation on Trademark,

- Regulation on Industrial Design,

- Regulation on Appellation of Origin of the Product and Geographical Indication,

- Regulation for the Professional Exam of the Industrial Property Representatives and the Register of Representatives,

- Decision on the Amount of the Single Equitable Remuneration of Copying in Private Use,

- Rulebook on the Form and Contents of the Application Form for Action by Customs Authorities and Related Required Documentation and of the Application Form for Extension of the Period for Action by Customs Authority.

2.2 The Customary Law

The Customary Law used to be an important source of the law, especially when there were no written laws to follow and use in the early times. It includes rules which are not a primary source of the law, mainly listed as last by application in our country and many others. But, as it is known, for a certain issue, a court proceeding, etc. first comes the Constitution, to

[1] *Official Gazette of the Republic of Macedonia, No. 21/2009, 24/2011, 12/2014, 41/2014, 152/2015 and 53/2016.*
[2] *Official Gazette of the Republic of Macedonia, No. 05/2008, 33/2006, 136/2011 and 53/2016.*

make sure that the decision brought by the court is not against the Constitution, then the Law concerned is taken into consideration regarding the issue and, if there is no possible legal solution to the issue then, the customary law could come into consideration. In other words, the customary law may be included as a supplementary source to the sources of the law. As it is meant to develop from the bottom and up and be accepted more widely, unlike the usual one, being that of an authoritarian minority, the customary law does find some application, especially in family disputes, cultural issues and issues where parties would see and accept the mutual benefits and also act in accordance with them; meaning that both parties behave so because they expect each-other to do the same.

2.3 The Legal Science

The legal science is considered a source of the law which plays an important role in the shaping of industrial property law, as it has its part in the creation and development of the law and the legal system. It acts through the scientific interpretation, analysis and comparison of legal norms in the given field of the law, for the legal system to become better and more advanced through the possible adoption and application in that field. This kind of help can be given to legal authorities and other institutions concerned in the form of comments and recommendations which would additionally be an impetus to the economy and its general success. Generally, the legal science's influence might not be of a direct nature, but indirectly its role is very important for the legislation and judiciary. Concerning the judiciary, a given judge of a case cannot be referred to a scientific work in order to resolve the case as they would to a law; still such a work can have a very significant role in creating and implementing the legal rules.[1]

2.4 The Judicial Practice

The judicial practice is when a court case is not covered by the law and that case's judge is to look for earlier court decisions for a same court procedure. In our country, this is not considered as a key source, because in the Civil System (the Roman System of the Law) the Law is the source of a law, whereas it is very much emphasized in the Anglo-Saxon System (Common-law) when the judge on the case decides based on an earlier decision brought on a case like the present one concerned, under same circumstances. So, whenever there are gaps in the national legislation in relation to intellectual property, where the judicial practice could influence the decision to be brought and thus play the role of a source of the law for the parties themselves, yes, in this case it is de facto, a source of the law for the intellectual property.[2] This system works in UK, Canada, Australia, US and some other countries that were colonies under the United Kingdom. Even though, the judicial practice is not considered a direct source of the law, because courts only apply the existing written laws, it could be of use for the making of the law and be used indirectly.

3. International Agreements: TRIPS

With the latest trends of freedom of movement for people; educational, scientific, cultural and workforce exchange, with trade and economy liberalization, also comes greater institutional communication and relationships, internationally. There is a great deal of exchange at the political and governmental levels, as it is at the professional level; that of expert exchange. Regardless of the field and level of cooperation, being it cultural, scientific or a mere purchase of goods and services, there is quite a deal of formal implications requiring legal modalities and solutions. Many of these issues find application in the national legislation and norms, while others are based on mutual and multilateral agreements and contracts, between countries or partners, which have to abide by certain general legal provisions, as well as, segments of them which have to follow legislation of the domain of IP rights.

Normally, international documents or agreements related to IP Law are handled by the Country's respective IP Law Office, the State Office of Industrial Property of Macedonia, responsible for the acquisition and protection of Intellectual Property since 1992.[3] With the ratification of international conventions and agreements and by signing the Declaration of Acceptance for them, Macedonia became a member of the World Intellectual Property Organization (WIPO) in 1993. Some international agreements undergo a ratification process by the National Assembly, which then can gain the power of a national source of the law and become an integral part of the national legislation; some others only need to get the approval from the respective institution and/or that of Foreign Affairs in order to get further processing and implementation.

[1] *Dabovic-Anastasovska, Jadranka, Pepeljugoski, Valentin: Intellectual Property Law, Akademik, Skopje 2012, p. 42.*
[2] *Dabovic-Anastasovska, Jadranka, Pepeljugoski, Valentin: Intellectual Property Law, Akademik, Skopje 2012, p. 41.*
[3] *http://www.ippo.gov.mk/en/AboutSOIP.aspx*

The protection of Intellectual Property worldwide recognizes many mechanisms and instruments. The Agreement on Trade Related Aspects of Intellectual Property Rights – TRIPS is considered to be of the most important agreements to set, spread and harmonize the standards for protection of several types of Intellectual Property. These standards are generally accepted and comfortably used, especially by industrialized countries, considering it to be the right tool which helps further development of technologies and the economy in general, through the protection of IP – Patents and Industrial designs, in particular. The system established was based on economic needs and the principle of reciprocity by the industrialized countries, as the largest intellectual property rights providers, the GATT[1] Framework. With the creation of the World Trade Organization (in the course of Uruguay Talks), Intellectual Property Rights found their way to globalization as a smoother way for the development of technologies, trade, etc.

There are many standards which are also being accepted by developing countries, making it to be lawful and respected, especially when it passes the process of approval and ratification by the national legislations of these countries, giving it the necessary recognition and power, at an international level. The overall result is more and more inventions and consequently, growth, but this is not always the case with all the developing countries, or not yet, at least. It is also the goal of this Agreement to promote creation and innovation of wider inclusion, reaching out to, both the producer and the client, through unified and accessible rules and with that create greater equality, sustainability and social wellbeing.

When we talk about developing countries, where Macedonia is included, there have been constant steps taken to, first of all improve the adequate IP and related legislation, in order to create a favorable climate for the businesses, for general investments, especially, Direct Foreign Investments that would be in favor of a sustainable development and hopefully, more capital for further investments in, maybe costly but promising and rewarding innovative researches on new technologies. It is especially important for the investments to be very well planned and standardized and that way of higher competition at a larger scale.

Another way of stimulation is the Transfer of Technology (TRIPS) to developing countries, of course competitive technologies to be used, not only as replacements for existing or outdated ones, but for the adequate efforts leading to the latest advanced inventions of future developments, surely, if all other resources and theoretical knowledge were to be put into action in a given field and area.

The TRIPS Agreement, considered as "the most comprehensive multilateral agreement on intellectual property" is in effect since 1995.[2] Member countries, part of which is the Republic of Macedonia, must implement the Agreement, meaning, the minimum standards for protection and the area of protection and even have the possibility to reinforce the standards with own national laws. This is one of the main features of the Agreement,[3] *standards* which must be followed are the ones from the Paris Convention: Protection of Industrial Property and the Berne Convention: Protection of Literary and Artistic Works (both are WIPO Conventions). The other element is the *enforcement* of Intellectual Property Rights, setting out all main domestic procedures, provisions and measures in detail for the enforcement of these rights. And, the third feature is *dispute settlement* on TRIPS obligations. (WIPO)

The main areas of IP covered by TRIPS are: copyright, trademarks, geographical indications, industrial designs, patents, layout-designs of integrated circuits, and undisclosed information.

Concerning the Copyright, the TRIPS Agreement is based on the Berne Convention, covering its protection of the rights and further extension to expressions, where computer programs and compilations of data are to be taken under protection, and their copyrights be recognized.[4]

A "Trademark is a sign or a combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertakings."[5] So, the unique "trademark" indicates all its values and features which make it to be specific and identifiable for the interested consumers. The goods and services can actually be used and be able to pass the process

[1] *General Agreement on Tariffs and Trade (GATT), Agreement on Trade and Tariffs, created after WWII, which later was replaced by World Trade Organization.*
[2] *World Trade Organization, Overview: The TRIPS Agreement.*
[3] *World Trade Organization, Overview: The TRIPS Agreement.*
[4] *TRIPS: ANNEX 1C, Article 9.*
[5] *TRIPS: ANNEX 1C, Article 15.*

of registration, regardless of where they find an application. For goods and services, the Paris Convention (1967) is applicable. “Trademarks may be one or a combination of words, letters and numerals.”[1]

The other important area of protection is the Patents, where conditions for patenting an invention or discovery are defined. It is stated that every invention shall be patentable, if it is new, inventive and it finds application in industry.[2] Under TRIPS, patent rights and availability are regulated, ensuring non-discrimination as to the place of invention and whether they are imported or from the country of origin. There are also exceptions made regarding the protection of patents when it comes to public order or morality, to include the protection of life and health of humans, flora and fauna in the world.

Under Article 38 of the TRIPS Agreement, the patent holder enjoys exclusive rights, such as:

a) The patent holder has the exclusive right to prohibit the use, exploitation, offer, sale and import of the patented product, without the patent holder’s consent,

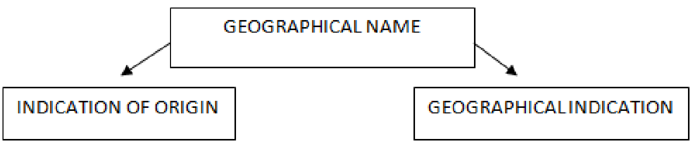
b) In cases when subject to patenting is some work (process) which is patented and it prohibits the other party to use the product used during that process, without authorization.

According to the TRIPS Agreement, WTO Members can terminate patent protection in cases of diagnostic, therapeutic, surgical methods for curing humans and animals, as well as in cases of animal and plant production, not to include microorganisms and non-biological procedures. The WTO member countries will envisage the protection of biodiversity with a patent or a special system, as well as international agreements, such as the Biodiversity Agreement. The use of the patent by government authorities or those authorized by the Government of the Member Country, without the authorization of the patent holder is also regulated, in a state of emergency or other situations of public use, informing the patent holder on the extent and duration of use.

Under the TRIPS Agreement, the patent protection term is 20 years from the date of application with the competent patent authority (in Macedonia, the patent application is filed with the State Office of Industrial Property).

4. The Geographical Name

The geographical name of a country, place or region of certain characteristics and reputation attributed to the geographical origin are identified under the Geographical indication. So, the geographical name identifies the products based on their origin, characterizing the product of special quality on a territorial basis, where the natural conditions and the work of the humans have an impact. The collective right, known as geographical name names a product or products created by a natural or legal person in a specific geographical are.[3] Natural products, agricultural products, industrial products and local handicrafts can be labeled by the geographical name. The geographical name consists of two key parts, which also go through different registration procedures and serve functions, based on their values and the importance of their respective products offered in the market.



So, the geographical name is a distinguishing sign which marks the mentioned products of a given geographical origin for their quality, reputation and other characteristics.

If geographical names don’t qualify for protection based on their designation of origin, they can find protection as geographical indications. Meaning that, geographical indications of products, prepared and produced in the place of origin can be protected (SOIP). It can be used by all persons registered in the directory during the process of registration of the

[1] *What is Intellectual Property? WIPO: www.wipo.int*
[2] *TRIPS: ANNEX 1C, Article 27.*
[3] *State Office of Industrial Property of Macedonia: http://www.ippo.gov.mk/*

geographical name. Regarding ownership, the geographical name cannot be transferred to any other person rather than that defined in the elaboration or specification.

According to TRIPS (Article 22), geographical indications “identify a good originating in the territory of a Member, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin.” With the geographical indication, based on WIPO’s Lisbon Treaty on International Registration, are protected names that mark countries, cities, regions, territories, having nothing to do with the individual holder of the right, but are enjoyed by all resident persons (natural persons) and the headquarters (legal persons) who operate and work in that country. The term itself might indicate a broader area of protection, but it has been mainly used to mark agricultural, food, wine, and beverage products, handicrafts and industrial products. Specific qualities of products, influenced by the origin and producer, using specific production skills and traditions may also be taken as criteria.

The geographical name can be registered with the State Office of Industrial Property, if we deal with the protection of a geographical name for agricultural products, according to the Law on the Quality of Agricultural Products[1] and the application is filed with the Ministry of Agriculture, Forestry and the Economy of Waters as it does for the geographical name. According to the Industrial Property Law of Macedonia, a procedure of registration of a geographical name can be initiated by any natural or legal person, or jointly by two or more, governmental institutions, a local government office, that are capable of undertaking the protection obligation and use of the geographical name. The applicant must also submit a specification for the products bearing the geographical name – geographical indication or, an elaboration instead of a specification if there are wine or alcoholic beverages to be registered. There is also the registration that can be done with the European Union Intellectual Property Office and that of Agricultural and Food Products, Wines and Alcoholic Beverages, based on the Lisbon Treaty on the International Registration of the Geographical Name.

The protection of industrial property rights is explicitly included in the TRIPS Agreement and the European Union Directives[2] for Combating Counterfeiting and Protecting Industrial Property Rights. IP Rights are part of the rights violated the most, at both, national and global levels and with the rising trends, the challenge of protection requires quite greater efforts by everyone concerned, to include WIPO and governments of individual countries. Due to the nature and influence of past democracy issues, social conditions, the market economy, the transition processes, widespread corruption and overall awareness, in the developing countries, to include Macedonia, it is very difficult for the protection of these rights to take place.

References

[1] Dabovic-Anastasovska, Jadranka, Pepeljugoski, Valentin: Intellectual Property Law, Akademik, Skopje 2012.
[2] Dumi A, Intelectual property law in Albania, 2013
[3] Dumi A, SME in Albania, 2015
[4] General Agreement on Tariffs and Trade (GATT), Agreement on Trade and Tariffs, created after WWII, which later was replaced by World Trade Organization.
[5] TRIPS: ANNEX 1C.
[6] Official Gazette, the Republic of Macedonia.
[7] Law on Industrial Property of the Republic of Macedonia, Skopje, 2009.
[8] Law on Copyright and Related Rights,
[9] Law on Protection of Topographies of Integrated Circuits.
[10] Koci, Elina, Intellectual Property: Copyright and Trademarks, 2003.
[11] World Trade Organization, Overview: The TRIPS Agreement.
[12] Understanding Industrial Property: WIPO 2016.
[13] What is Intellectual Property? WIPO: www.wipo.int.
[14] WIPO Intellectual Property Handbook: Policy, Law and Use.
[15] Combating Counterfeiting Directive 2004/48/EC (http://www.europarl.europa.eu/atyourservice/en/display Ftu.html?ftuId=FTU_3.2.4.html).

[1] *Official Gazette of the Republic of Macedonia, No. 100/2012*
[2] *Combating Counterfeiting Directive 2004/48/EC (http://www.europarl.europa.eu/atyourservice/en/display Ftu.html?ftuId=FTU_3.2.4.html).*

[16] Section 3 Provisional Measures of the TRIPS Agreement (https://www.wto.org/english/docs_e/legal_e/27-trips.pdf).
[17] State Office of Industrial Property of Macedonia: http://www.ippo.gov.mk.

The Relationship between Exchange Rate and Inflation, the Consumer Contracts and Auditing for Development of the Albanian Economy

Hava Mucollari

Management Department, Economy Faculty

University of Tirana, Albania

Shejla Dumi

TBU University, Tirana, Albania

Arlind Mucollari

Moscow University

Prof Dr Alba Dumi

Management Department, Economy Faculty

University of Tirana, Albania

Abstract

It is generally recognized that after the collapse of centralized economies, the private sector appears at an impressive speed in all transition economies and the number of small businesses grows by the day. It is also known that the growth of entrepreneurial activity is more oriented towards trade than industry. Albania is one of the transition countries where transition to the market economy is closely linked with the development of the private sector . A business can be created by anyone. In short we can say that a business can be created by any natural or legal person who has the capacity to act. In this category there are undoubtedly foreign and legal entities. In this regard, the main principle of Albanian law is the equality of Albanian citizens' rights with foreign nationals except for those rights that the law recognizes only Albanian citizens. Albania has registered a rapid growth in the number of enterprises, a fact that shows a high degree of entrepreneurial desire within the country.

Keywords: Reform process, development economy, impact, law analyze, exchange rate

1. Introduction

The competitive advantages, its export potentials and the opportunities for new markets for *Made in Albania* products will be re-evaluated. It will work to develop its full potential, benefiting from free trade agreements, mainly with the Western Balkans and the European Union. It is intended that within the year 2020, through the increase of competitiveness, diversification of export products will increase the penetration rate in these markets. The state becomes a state-regulator, indirectly intervening, in coordination with other actors and it does not do everything by itself.If every era is characterized by the dominance of a kind of public policy, it should nevertheless be noted that in practice, modern states combine different types of policies into variable proportions.

2. The Purpose of the Study

Small business is the spinal cord of the national economy, it is the basis of the economic system of the free enterprise. In the last few years, there has been a big stream of small and medium business to the developed world. Establishing a partnership between government and business related to the need to improve technology, innovation.

Promoting and supporting SME's needs to be accompanied by a more balanced sectoral development. The prevalence of trade and some sectors of traditional services need to be regulated in order to provide more investment and economic activity in the productive sector, which uses domestic raw materials to produce good for locals and to export those that will result in savings in foreign currency as a result of the substitution of imports. Successful SME-s can become exporters or preferred partners for foreign investors.

By 2020, Albania aspires to be the main investment destination in the Western Balkans as a key country for international business, at equal levels with other regional competitors. Based on the success stories of the last decade, Albania aspires to high levels of FDI flows in the region. Challenging areas will be improved as well; rule of law, enforcement of contracts, property rights, protection of intellectual property rights and enforcement of trade norms in order to absorb foreign capital both in services and in the technology sector, essential for holding in Albania an educated new elite.

The assistance to small and medium business development is an integral part of all economic reform alongside enterprise restructuring and property reform, investment promotion, and financial reform.Small business development is a key element of economic development. The strategic importance of small and medium business is well-known around the world for the following reasons:

It is the spinal cord of the market economy and for transition economies in the long term, it can secure most of the employment.

a) Manufactures for the domestic market, mainly using national resources.

b) The growing number of small and medium-sized businesses brings flexibility to society and economy, facilitates technological innovation provides opportunities for new ideas and new skills to implement.

c) Uses and develops mainly technology and internal skills.

d) The development of small and medium business is a key factor for regional development of the country.

e) The development of small and medium business is a key factor for the development and promotion of exports.

3. Literature Review and Hypotheses

3.1 Opportunities in business development:

Collective companies are those companies in which the partners have unlimited responsibilities. This means that they respond to the obligations of society in an unlimited manner with all their possessions.Limited Partnerships, may have limited partners or unlimited partners. Limited partners are responsible for the company's liabilities within the assets with which they have contributed to the capital of the company. On the other hand, unlimited partners of the limited partnership are responsible for the obligations of society in an unlimited manner with all their possessions. Limited partnerships with sole partners or founding partners (if the company has more than one partner), are responsible for the company's obligations to a limited extent within the contribution they have in society.

a. Economic policy and liberal legal framework

b. Free Trade Agreements, the Stabilization and Association Agreement with the EU

c. Projects for regional development, especially those of infrastructure

d. Development of banking sector reform

e. Increasing the Responsibility of Private Sector Institutions

f. Considerable natural resources

g. The geographical position of Albania

3.2 What are the procedures for creating a business?

Once you have created a business (you have practically started doing business), the obligation to register your business arises. The legal basis to which we refer to is the provisions of Law No. 9723 "Source: National Registration Center" (Article 22).

Regardless of the type of subject that is required to be registered, you must be drawn to the National Reconnaissance Center, located at the Registry Offices near the former Vlora Officers' House. You can enroll your business and any other registration center, although it is not in your city. The law stipulates that the business must be registered within a specified deadline, which is 15 days. Depending on the subject, which is required to record this time is calculated in different ways. Thus for natural persons, simple companies and foreign companies representation offices, the deadline is calculated from the day of commencement of business activity (within 15 days of the beginning of the business activity) For some special cases, the law extends the deadline in 30 days. This period begins to run from the day when the factual circumstance or the act to be registered has occurred (this is the case for those entities which have a more complex form of organization in relation to the mentioned subjects).

4. Research Goal

4.1 The steps you follow after registering your business.

After you have been provided with the registration certificate issued by the NRC, you must apply to the office of work, located next to the Vlora Court of Appeal, on the Trans Balkan Way (former oil school) to register the number of employees by defining positions relevant ones that will have them in your business. After registering your employees at the office, you should go to the Social Insurance Office located in the former rice market to open your social security and health booklets for your employees.

If you have a small business then taxes and taxes are paid to the City Hall. If you have a large business then you should contact the Vlora Tax Department, located near the Vlora Prefecture, opposite the former medical school. Once you've finished paying taxes (usually once every three months), you can keep quiet about your trading activity.

H1: What role will play the economic diplomacy, and who will be the new perspective of the international cooperation with suitable financial institutions.

5. Sample and Data Collections

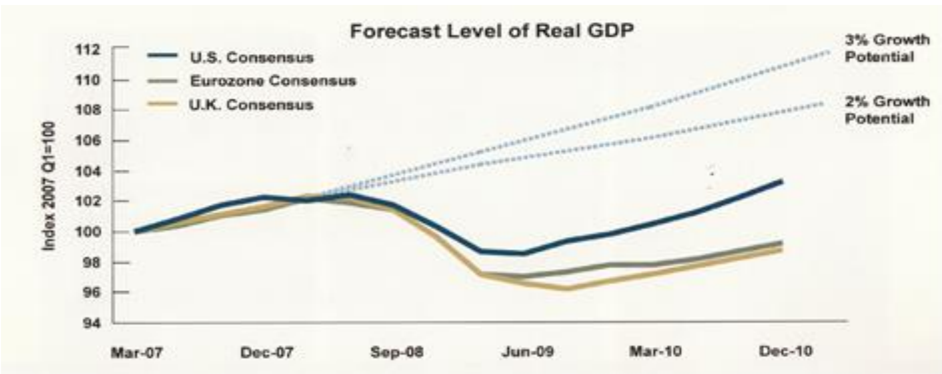


Fig.1.

Source: GDP leveland Financial planning (2007-2010)

1. *Obligation element*: The state exercises the obligation. A public policy should exercise an obligation on the conduct of the actors, whatever they are, either public or private.

2. *Social Competence*: an expression that defines the entirety of public or private actors that participate more or less in the production and implementation of public policies.

5.1 Who are the people who can register a business?

The business can be registered by the person concerned of the person (it is about the person who started on his behalf a commercial activity), or by his authorized representative.

6. What are the Documents Required to do the Regjistration?

In this regard, the current law simplifies many registration procedures. Generally, you must be provided with an identification document recognized by the Albanian Legislation, the statute and the founding act (if you register a company), and the special proxy if the registration is performed by the legal

The current law stipulates that to register a subject practicing the merchant, you have to pay only 100 ALL at the NRC. Once this payment has been made, the registration process lasts only 24 hours. This means that after this deadline has passed, you can contact the NRC to withdraw the special certificate that records your registration.Note: The above steps are actually met by the NRC office in your city, but it is advisable to apply yourself to your workplace, social security, and tax office so that you do not have delays in the establishment and activity of your business .

6.1 When can a business could be closed?

If your business has not been going on as you wanted, or for subjective reasons you want to close it, you must unsubscribe at NRC offices by completing the relevant form.

Commercial activity is closed and if the person who has declared the bankruptcy procedure.

In all cases, the steps that are explained for registering your business are as following;

7. What is Public Policy Assessment?

Public Policy Evaluation has emerged in the United States in the 1960's before it took place in the UK, Scandinavian countries, and then in other Western democracies twenty years later. Starting from 1990, with the European Union initiative, systemic rules have been established within the funding it gives to member states. Strongly linked to the rationalization of public action, public policy assessment aims at determining to what extent a public policy has achieved the set of objectives and has produced the expected public impacts.

In Europe, assessment generally consists in analyzing the results of a public intervention to know if the set objectives are achieved. In a broader sense, the assessment aims at building a judgment on the value of public intervention, based on its "outcomes, its impacts and the needs that this intervention intends to replenish" and relying on empirical data collected and specifically analyzed for this purpose. In France, in a decree of 1990, it was stated: "to evaluate a policy means to ask whether the legal, administrative or financial means can produce the expected effects of this policy and meet the fixed objectives."

When an assessment is made by an institution, it generally answers the precise questions (for example, "In which case did X intervene allowed the unemployed to find a stable job and why?"). The recipients of the conclusions and the recommendations of the evaluation are mainly public authorities, but also democratic institutions, their public or private partners, the scientific community or more generally the citizens. Evaluation is called "ex ante" if it is performed prior to the commencement of the research intervention; intermediate or final if it is developed during or at the end of the intervention; "Ex post" when it is performed after the end of the estimated intervention. Know, describe, and measure (without judging) the reality of a program or of an intervention, how he met the need, the achievement of his objectives and their effects.

a) This is the goal of the cognitive appraisal. Judge; the assessment helps political leaders make a judgment on the achievements and failures of interventions; the evaluation is based on empirical data and explicit criteria, as well as a supported analysis (normative purpose).

b) Improve and decide what to do: Evaluation serves to help in order to make a decision, for examplethe strategic re-orientation or operational adaptation of public policies (instrumental purpose).

8. Conclusions and Recommendations

When economies are transferred to the efficiency stage, their competitiveness relies on low prices but in the quality of goods and services. Generally from the 12 pillars of GCR analysis, Albania ranked best in the health and primary education pillar (5.9 points), the macroeconomic environment (4.4 pts) followed by the pillars of the market efficiency of goods (4.1) and the efficiency of labor market (4.3).While in the three dimensions of development (Basic Requirements, Efficiency Promoters and Innovation and Sophistication Factors), Albania has scored the highest in the first (4.2 points) and ranks as 94-th. Albania has declined in all three dimensions and in most indicators.

The most problematic factors to do business according to the report are: access to finance, tax rates, corruption, and tax regulation.

References

[1] Bowen, H. R. The Social Responsibility of the Businessman. New York: Harper & Row, 1953.
[2] Homans, J.C. *The Human Group*. New York: Harcourt, Brace, 1951. Likert, Rensis. *The Human Organization*. New York: McGraw-Hill, 1967.
[3] Joan. Industrial Organization; Theory and Practice. Oxford University Press, 1965.
[4] Joan. Industrial Organization; Theory and Practice. Oxford University Press, 1967.
[5] Maslow, A.H. *Motivation and Personality*. New York: Harper & Row, 1954.
[6] Mayo, Elton. The *Social Problems of an Industrial Civilization.* Boston: Harvard Business School, 1945.
[7] Mayo, Elton. *The Human Problems of an Industrial Civilization*. Boston: Harvard Business School, 1946.
[8] McGregor, Douglas. *The Human Side of Enterprise*. New York: McGraw-Hill, 1960.
[9] McGuire, J.W. *Business and Society*. New York: McGraw-Hill, 1963.
[10] Taylor, F.W. *The Principles of Scientific Management*. New York: Harper's, 1912, and many editions since.
[11] Steiner, George A. *Business and Society*. New York: Random House, 1971.
[12] Wiener, Norbert. The Human Use of Human Beings. Boston: Houghton Mifflin, 1950. Woodward, VI. Social Impacts and Social Responsibilities

The Determinants of Capital Structure: The Case of Moroccan Firms

Réda Louziri

Ph.D Candidate at the Mohammed V University of Rabat,

Faculty of Legal, Economic and Social Sciences- Souissi

Abstract

This article explores the different determinants of the capital structure in the Moroccan stock market. Panel data regressions were used to investigate the capital structure determinants in Casablanca stock market during the period 2009 to 2013. All the regressions incorporated four major variables that have led to significant results. These variables are size, profitability, dummy variable for financials and growth. Moreover, a new variable related to ownership structure has been considered in this article. By introducing the ownership variable, we would test if firms hold by parent groups, which control bank subsidiaries, profit from easier access to debt. Different proxies will be defined for ownership such as continuous and dummy variables. The main finding is that the ownership variable is insignificant while using continuous or dummy variables. We observe that even by using several proxies, we still find insignificant levels. Moreover, all the coefficients for this variable present a negative sign. This means that the Moroccan firms owned by parents companies, that control bank subsidiaries, do not benefit from the easier access to debt. These results can be interpreted as a good signal of the governance of the Moroccan firms.

Keywords: capital structure, ownership structure, pecking order theory, trade off theory

1. Introduction

The capital structure choice has always been one of the main theoretical and empirical subjects in the field of finance since Modigliani and Miller (1958) published their article: "the cost of capital, corporate finance and the theory of investment". This paper questioned the relevance of the capital structure decisions. Their main finding is the irrelevance of the capital structure in determining the firm value. From this point, several papers have been published to investigate empirically the main theories using different methods in various markets.

The four main theories that shape the capital structure are the pecking order, the trade off, the market timing theory and the agency theory. Empirically, every one of these theories presents some evidence but also has its own limits.

This paper will begin by the literature review section in order to give the basis to debate the results found in this paper. Then, the model and the hypothesis will be described. After this section, the data and its measurements will be discussed. The following section is the methodology, which will be followed by the analysis and the results section.

2. Literature Review

2.1 Modigliani and Miller's proposition

Modigliani and Miller (1958) have written the basis of any debate about the capital structure. According to them, the capital structure of a firm is irrelevant, as it does not have any impact on the value of the firm. However, once they have included the taxation in 1963, they found that the firm value is indeed sensitive to the level of debt if the interest payments are deductible. Therefore, they made a new proposition, which suggests that the firm value is equal to itself, if it is entirely financed by equity, plus the present value of the tax shield. In other words, the firm value would be maximized when the financing is all by debt.

2.2 The tradeoff theory

The idea of the tradeoff theory has been introduced by Kraus and Litzenberger (1973) and has been further developed by Myers (2001). The main idea of this model is that profitable firms should increase their leverage until the marginal profit from debt is equal to bankruptcy marginal cost. Indeed, firms would raise their benefits by issuing more debt because of the deductibility of the interest expenses. On the other hand, using equity funds does not provide this advantage because dividends are not deductible. However, increasing the leverage ratio would lead to raise the probability of financial distress because of the compulsory monthly payments of debt. Therefore, firms would have to find the optimal level of leverage. This theoretical level is reached when marginal benefit from debt is equal to the marginal cost of bankruptcy.

2.3 The pecking order theory

Myers and Majluf (1984) introduced the pecking order theory to explain the capital structure decision. The main basis of this theory is the problem of asymmetric information. Indeed, the managers would normally prefer to use the internal cash to avoid any adverse signal. Therefore, the pecking order theory conceptualizes a ranking of the use of funds. The most preferable funding is internal cash. Then debt funding is considered secondly. The least resort would be funding through equity.

2.4 The agency theory and empirical evidence

Debt might be viewed as a mean to control managerial investment decisions. Indeed, the monthly payment of debt should decrease the agency costs by diminishing the misuse of cash as indicated by Jensen and Meckling (1976). However, the conflict of interest would rise between shareholder and debtholders when the firm is distressed as presented by Flannery and Rangan (2006). In this case, the managers might gamble because they know that they could lose all the remaining value for the debtors. Besides, the shareholders might refuse to issue equity to finance safe projects that would increase the firm and bondholders' values instead of the shareholders' value.

2.5 The market timing theory

Baker and Wurgler (2002) suggested the market timing theory to explain the managerial decisions relative to the capital structure choices. The main point of this model is to understand if the capital structure depends on the stock returns of the firm rather than the firm's characteristics.

3. The Sample Choice and the Variables

The sample includes 73 firms observed over a 5 years period ranging from 2009 to 2013, which gives more than 354 observations. All the data has been gathered from Bloomberg except the ownership variable, which was not available in the databases. Therefore, I have used the data provided by the official website of the Moroccan market: www.casablanca-bourse.com. Moreover, because the available data about ownership structure is provided for 2013 only, we have assumed that this ownership structure is the same for the rest of the 5 years period knowing that the floating capital in the Casablanca stock market is less than 20% and the principal owners do not vary significantly.

The Moroccan market is under studies. It is my contribution to investigate which are the main capital structure determinants in this market.

The following table presents the variables, their measurements and the predictions.

Table 1: Summary of the different variables, their measures and the predictions of their relationship with leverage

Variable	Proxies	Predictions of the correlation between each variable and leverage ratio			
		Trade off	Pecking Order	Agency Theory	Market Timing
Leverage	Total Debt / (Total Debt + Market Capitalisation) ; Total Debt / (Total Debt + Equity Book);				
Industry median	The industry median leverage	+			
Size	Log of Total Assets	+	+	+	
Profitability	EBITDA / Total Assets	+	-		
Tangibility	Net Plant Property and Equipment / Total Assets	+	+	-	
Financials	Dummy variable: 1 for financials and 0 otherwise				

Returns	Total return yearly return in the Moroccan stock market				-
Taxation	The effective tax rate	+			
Ownership	Continuous variable for ownership: total percentage of ownership; Dummy variable for ownership using a minimum for ownership: 50%, 15%, 10%, and 8%: - 1 if is higher than the minimum level of ownership and 0 otherwise				
Growth Opportunities	Price to Book ratio	-	+	-	-

4. Methodology

The first regression is conducted by using the first debt ratio: Debt1 = Total Debt / (Total Debt + Market Capitalization) and the continuous variable for ownership. Then, four regressions were run using the same debt ratio and four proxies for the ownership variable. Indeed, I used four dummy variables for ownership with 1 for more than X% of ownership and 0 for less (X = 50%; 15%; 10%; 8%).

I conducted then a robustness tests to corroborate the findings, by first using first a regression with a second leverage ratio: Debt2 = Total Debt / (Total Debt + Book Equity) and continuous variable of ownership. Then, four other regressions were run using the same leverage ratio and four dummy variables for ownership with 1 for more than X% of ownership and 0 for less (X = 50%; 15%; 10%; 8%).

5. Empirical Results

5.1 Regression results

Table 2: Regression results using the first proxy of debt (Total Debt / (Total Debt + Market Capitalisation))

Dependent variable: Debt1 Independent variables:	Coefficients (Betas)	z	P>z
Industry_Median	0.1253	1	0.317
Size	0.0945	3.64**	0.000
Profitability	-0.5811	-3.64**	0.000
Tangibility	0.14208	2.61**	0.009
Dummy_Financials	0.2218	3.56**	0.000
Return	-0.00003	-0.23	0.818
Tax	0.00008	0.41	0.683
Ownership	-0.1630	-1.75	0.081
Growth	-0.0309	-6.19**	0.000
Constant	-0.5641	-2.4*	0.016
R-2 Overall	0.4722	F-Test	150.20**
		Prob (F-Test)	0,0000

This regression is conducted by using random effect model (GLS). The significant results are followed by one star * if it significant with α = 5% error and two stars ** if it is significant with α = 1%.

In this regression, the dependent variable is calculated as leverage ratio = Total Debt / (Total Debt + Market Capitalisation). The independent variables are the industry median, size (Log of total assets), profitability (EBITDA / Total Assets), tangibility ((Net Property, Plant and Equipment) / Total Assets), Dummy for financials, return (yearly total stock return), tax (effective tax rate), growth opportunities (price to book ratio) and continuous variable for ownership.

The first significant variable is size that presents a positive significant relationship with leverage. The tradeoff theory, based on Myers (2001), argues that big firms have low possibility of default and low volatility because they are more diversified and mature than smaller firms. Besides, the agency theory would expect larger firms to have less adverse signal issues than smaller firms as indicated by Fama and French (2002). The pecking order model explained by Myers and Majluf (1984) supports that larger firms are more mature and well followed by the analysts, which reduces the adverse selection problem.

The second significant variable is profitability. These results are predicted by the pecking order theory presented by Myers and Majluf (1984) because most profitable firms would prefer to use internal cash before using any external resources due to the problem of asymmetric information. However, the tradeoff theory presented by Myers (2001) expects the opposite relationship because profitable firms would tend to issue more debt in order to benefit from the tax shield. Several studies have already criticized this weakness about the tradeoff theory because of the negative relationship between profitability and leverage as indicated by Myers (1984), Wald (1999) and Fama and French (2002).

Tangibility variable is also significant. The trade off and the pecking order theories did both expect a positive correlation. Based on the tradeoff model by Myers (2001), firms in an industry with higher level of tangible assets would be able to issue more debt as they can use these assets as collateral for loans. The pecking order theory predicts also a positive relationship between tangibility and leverage. Firms with higher level of tangible assets will suffer less from asymmetric information and might use it as collateral to issue debt before equity as revealed by Myers and Majluf (1984). On the other hand, the agency theory presented by Jensen and Meckling (1976) and Jensen (1986) is the theory that expects a negative correlation.

The dummy variable for the financial firms provided significant results. I have introduced this variable to control for the financials because I did not exclude them from my sample.

The ownership variable presents insignificant results (with α = 5% or α = 1%). I have used a continuous variable for the ownership variable in this first case. This could be an indicator about the good governance of the Moroccan firms. Indeed, firms held by parent groups, that control banks, do not benefit from an easy access to debt compared to the other firms in the stock market.

Alternative explanations might be provided to explain this finding. As a matter of fact, firms that belong to powerful holding firms might follow the strategy defined by the group to use equity and internal cash first. Indeed, these groups, that hold also bank subsidiaries, might follow the pecking order theory or the signaling model to avoid any adverse signal.

The growth (P/B) is a significant variable with a negative relationship. The tradeoff model presented by Myers (2001) has predicted this negative correlation between growth and leverage, because firms with high growth tend to have lower level of tangibility, which reduces the use of debt. Furthermore, the agency theory, as explained by Jensen (1986), supports this result as shareholders have more opportunities to invest when they control growth firms, which allows them to make investments that could increase their value and decrease the value of debtholders. This conflict of interest might explain the negative correlation between P/B and leverage.

On the other hand, the pecking order theory expects the opposite relationship. Myers and Majluf (1984) support the fact that firms with higher price to book ratios present less adverse selection problem. Therefore, managers would issue equity first then debt to avoid the problem of asymmetric information.

5.2 Regressions results using different measures of ownership

Table 3: Regression results of debt, using various measures of ownership

Dependent variable Debt1	Ownership (>50%)			Ownership (>15%)			Ownership (>10%)			Ownership (>8%)		
Independent variables:	Betas	z	P>z	Betas	z	P>z	Betas	z	P>z	Betas	z	P>z
Industry_Median	0.1450	1.17	0.242	0.1471	1.16	0.245	0.1444	1.15	0.251	0.1525	1.23	0.218
Size	0.0899	3.49**	0.000	0.0947	3.59**	0.000	0.0950	3.61**	0.000	0.0950	3.64**	0.000
Profitability	-0.5733	-3.59**	0.000	-0.5871	-3.68**	0.000	-0.5880	-3.68**	0.000	-0.5856	-3.67**	0.000
Tangibility	0.1401	2.58*	0.01	0.1350	2.48*	0.013	0.1367	2.51*	0.012	0.1395	2.57*	0.01
Dummy_Financials	0.2273	3.6**	0.000	0.2095	3.34**	0.001	0.2163	3.43**	0.001	0.2188	3.51**	0.000
Return	-0.00004	-0.29	0.772	-0.00004	-0.28	0.783	-0.00004	-0.25	0.803	-0.00003	-0.23	0.815
Tax	0.00007	0.4	0.689	0.00007	0.4	0.689	0.00007	0.4	0.689	0.00008	0.41	0.682
Ownership	-0.1134	-1.73	0.084	-0.0583	-1.08	0.281	-0.0645	-1.25	0.211	-0.0781	-1.6	0.11

Growth	-0.0308	-6.17**	0.000	-0.0309	-6.17**	0	-0.0310	-6.21**	0.000	-0.0310	-6.21**	0.000
Constant	-0.5366	-2.29*	0.022	-0.5766	-2.42*	0.016	-0.5751	-2.42*	0.015	-0.5724	-2.43*	0.015
R-2 Overall	0.4762			0.4591			0.4617			0.4685		
F-Test	149.99**			146.44**			147.35**			149.27**		
Prob (F-Test)	0.0000			0.0000			0.0000			0.0000		

This regression is conducted by using random effect model (GLS). The significant results are followed by one star * if it significant with α = 5% error and two stars ** if it is significant with α = 1%.

The dependent variable is calculated as leverage ratio = Total Debt / (Total Debt + Market Capitalisation). The independent variables are the industry median, size (Log of total assets), profitability (EBITDA / Total Assets), tangibility ((Net Property, Plant and Equipment) / Total Assets), Dummy for financials, return (yearly total stock return), tax (effective tax rate), growth opportunities (price to book ratio) and dummy variable for ownership with 1 for more than X% (>50%; 15%, 10%, 8%) of ownership and 0 for less.

The results obtained from table 2 provide the same significant and insignificant variables as in the first regression (table 5). Indeed, all the significant variables in the first regression remain significant in these four regressions. These variables are: size, profitability, tangibility, dummy for financials and growth. Moreover, the signs remain the same in all regressions.

For the ownership variable, we observe that even when we used several measures, we find again insignificant levels. This finding could mean that the Moroccan firms, owned by parent groups that control bank subsidiaries, do not take advantage of easy access to bank debt. These results can be interpreted as a good signal of the governance of the Moroccan firm as stated before.

6. Robustness Tests

When I used the book values for equity to calculate the debt ratio (Total Debt / (Total debt + Book Equity)), I have found approximately the same significant variables as in the previous regressions that used Debt1 proxy for leverage except for the tangibility variable. Indeed, the significant variables are size, profitability, dummy for financials and growth. Besides, the ownership variable is still insignificant in all regressions.

Nevertheless, as far as the growth variable is concerned, the relationship changes to a positive correlation. The only theory that supports this result is the pecking order theory. Indeed, Myers and Majluf (1984) suggest that firms with higher price to book ratios present less adverse selection problem. Therefore, managers would issue more equity than debt to avoid asymmetric information problem. Moreover, this change in the relationship can be explained by the fact that when we use market values for debt ratio, the market value of equity is in the denominator of the Y variable and in the nominator of the market to book ratio. On the other hand, when we use book value for debt ratio, the book value of equity is in the denominator of the Y variable, and in the denominator of the market to book ratio.

7. Conclusion

Through this research, we tried to investigate the principal determinants of capital structure in the Moroccan stock market.

The first finding is the insignificant results of the ownership variable. Thus, by using different variables for ownership and two proxies for leverage, we found that there is not enough statistical evidence to think that firms, held by groups which control banks, benefit from an easier access to debt. Indeed, I used a continuous variable for ownership to begin with, then, I conducted four other regressions using four dummy variables for the ownership. In addition to that, we found a negative correlation instead of the predicted positive relationship. Thus, we might interpret this result as a good signal of the governance of the Moroccan firms.

Besides, four independent variables present significant results in all the regressions. These variables are size, profitability, dummy for financials and growth.

To investigate even more the capital structure determinants in the Moroccan market, further studies could be conducted. Indeed, the future papers might examine this research question by using a sample that does not include the financial firms.

To summarize, we can suggest that there is no evidence that one theory is the predominant among all the theories. Indeed, the tradeoff model, the pecking order model and the agency theory present some significant evidence and limits. On the other hand, the market timing theory did not provide significant results in all regressions.

References

[1] Baker, M. and Wurgler, J. (2002). Market timing and capital structure. The journal of finance, 57(1), 1-32.
[2] Fama, Eugene, and Kennett R. Frenc (2002). Testing trade-off and pecking order predictions about dividends and debt. Review of Financial Studies, 15, 1-33.
[3] Fama, E. and French, K. (2012). Capital Structure Choices. Critical Finance Review, 1, 59-101.
[4] Flannery, M. and Rangan, K. (2006). Partial adjustment toward target capital structures. Journal of Financial Economics, 79(3), 469-506.
[5] Jensen, M. and Meckling, W. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of financial economics, 3(4), 305-360.
[6] Jensen, M. (1986). Agency costs of free cash flow, corporate finance, and takeovers. The American economic review, 323-329.
[7] Kraus, Alan, and Robert H. Litzenberger (1973). A state-preference model of optimal financial leverage. Journal of Finance, 33, 911-922.
[8] Miller, M.H. (1977). Debt and Taxes. Journal of Finance, 32, 261-276.
[9] Modigliani, F. and M. Millar (1958). The cost of Capital, Corporate Finance and the theory of Investment. American Economic Review, 48, 261-297.
[10] Modigliani, F. and M. Millar (1963). Corporate Income taxes and the Cost of Capital: A Correction. American Economic Review, 53, 433-443.
[11] Myers, S. C. (1984). The Capital Structure Puzzle. Journal of Finance, 39, 575-592.
[12] Myers, S. C. and N. S. Majluf (1984). Corporate Financing and Investment Decisions when Firms Have Information the Investors Do Not Have. Journal of Financial Economics, 13, 187–221.
[13] Myers, S. (2001). Capital Structure. The Journal of Economic Perspectives, 15(2), 81-102.
[14] Noe, T. (1988). Capital structure and signaling game equilibria. Review of Financial Studies, 1(4), 331-355.
[15] Wald John K. (1999). How firm characteristics affect capital structure: an international comparison. Journal of Financial Research 22(2), 161-187.

Remittance Analysis and their Economic Aspect, Kosovo Case

Ylber Prekazi

PhD Candidate, European University of Tirana, Albania

Abstract

The role of remittances as an external source of funding is considered to be extremely beneficial for many countries, especially for those facing with large number of unemployed and a slow pace of economic development. As Kosovo faces an unfavourable economic situation, remittances from abroad have been a great support, contributing to the well-being of Kosovar families. Kosovo's economy heavily relies on the remittances of immigrants living in Diaspora, but the data and analysis regarding the extent of the remittances in Kosovo have been scarce. In this paper, an analysis will be conducted on the remittances received so far in Kosovo, focusing on their effects on the economy, and especially their impact on GDP and exports and FDI. As a conclusion, this study is expected to yield results that will reflect more in detail and more precisely as to what is the real impact of remittances in emerging economies and which have a high percentage of remittances received in general in these countries, and in particular more insights will be provided as to where Kosovo stands at this level of remittance impact on the economy.

Keywords: remittances; investments; economic development; Kosovo

1. Introduction

Emigrant remittances represent the most important and lasting source of external financing for developing countries, since in recent years, they exceed FDI, and in many countries, they are larger than foreign aid. Their importance adds even more if we consider that they significantly cover trade deficits, which are inevitable when production in the country is very low and most of the products have to be imported.

As in many developing countries, for the Kosovo economy remittances are of great importance, as they are one of the important financial resources for the consumption of many Kosovo families, while maintaining the social stability in the country.

Remittances effects on the domestic economy should be seen in relation to GDP, exports and FDI, and from the data it is seen that they are at a percentage of 10-15 percent, while they exceed export and FDI values, i.e. double the number and in a few years even four times FDI and exports. The role of remittances at the macro level has had positive effects on improving development, maintaining economic stability, security from various economic shocks and reducing poverty level (Maimbo, S.M., & Ratha, D. 2005).

2. The Importance of Remittances

The importance of remittances is easily noticeable by the large amounts entering in Kosovo, which are pretty steady and almost only increased in recent years, and their share in many Kosovo families is very high, as it may be the only income they receive, and with which they cover the basic living needs.

Their role in the economy is very high, as they represent a high percentage of GDP, they go far beyond FDI and exports, and almost fully cover imports that are made within a year.

From many countries that have no opportunities and capacities to generate jobs for the active working population, it faces immigration, which aims at finding employment in another country for a better economic life for himself and his family.

In many studies that have been conducted, one of the main reasons for emigration are economic reasons, and then comes the importance and impact of emigration has a bearing and effects on not only the sending country but also for the recipient country, as the birth rate problems and lack of workforce in many areas and professions are faced by many nations.

3. Economic Dimension

Remittances and their impact can be multidimensional but the economic dimension is most important since the direct effects are huge and vital for many Kosovo families which regularly receive remittances and improve their socio-economic status.

3.1 The Impact of Remittances on GDP

The economy of Kosovo during all these years after the war has recorded continuous economic growth, which has mainly come from public investment and consumption, and less from investments and net exports. However, it should be taken into account that the bearer of economic growth is consumption by households, but the problem of Kosovo's case here is that there is a high trade deficit and a large amount of money is out of the domestic economy as a result of higher imports, compared to a low volume of exports.

So there is a continuous increase in imports, and this directly mitigates any economic growth so that instead of Kosovo having a higher GDP, it is usually lower because economic growth in nominal terms "disappears" by payments for imported goods.

Remittances are an integral part of the revenue and indirectly also of the GDP, and the share of remittances in the GDP is between 10-15% over the period 2008-2016, so the importance of remittances is very important in terms of economic aspect and their impact is almost constant.

Table 1: Remittance to GDP ratio (in million Euros)

Year	Remittances	GDP	% that remittances occupy on GDP
2008	609	3,883	15.68 %
2009	586	4,070	14.40 %
2010	584	4,402	13.27 %
2011	493	4,815	10.24 %
2012	516	5,059	10.20 %
2013	573	5,327	10.76 %
2014	622	5,567	11.17 %
2015	665	5,807	11.45 %
2016	691	6,070	11.38 %

Source: KAS; Calculations: The author

Remittances impact indirectly on GDP through consumption increased by emigrants when they come to vacation in their country of origin as well as through the small scale investments they make. In the first years after the war, everything was almost entirely destroyed, both in residential buildings, in construction and agricultural machinery, in workshops and small businesses, and almost to a large extent, it was the Diaspora's contribution to restore the normal situation, as well as it should be noted that visits of migrants to the country of origin were more frequent in that period.

Table 2: Frequency of Immigrants Visits to Kosovo

Frequency of visits in Kosovo	% of immigrants
Once a year	19.9 %

Twice a year	4.3 %
Three to four times a year	63.9 %
Several times a year	11.9 %

Source: Kosovo Remittance Studies 2013 (KAS)

From the table above, it can be seen that in 2012 when the surveys were conducted, most immigrants visit Kosovo more than three times a year, and the effect of their visits reflects on expenditures and in this context through increased consumption of goods and services even in GDP growth.

While looking at the data in the table below, it is noticeable that the annual expenditures of immigrants are higher than cash remittances and goods and services, hence their impact may be higher in the GDP indirectly. Here it should be borne in mind that a large part of the expenses they make during their stay in Kosovo is difficult to be measured, as they usually stay more than four weeks and incur great expenditures.

The expenses of immigrants during the holidays in their country of origin is different, such as food and beverages, clothing, transport (including diesel and gasoline products), gifts, household appliances, health services, etc.

Table 3: Remittance Revenues in Kosovo over the years

Year	Average remittances in cash and goods and services	Average Expenditure of immigrants	Total annual remittances in cash and goods and services	Total annual expenditure of immigrants	Total annual revenue of remittances
2010	3.331 €	2.757 €	174.3 million €	272.4 million €	446.7 million €
2011	2.136 €	2.352 €	157.5 million €	214.1 million €	371.6 million €
2012	2.829 €	2.715 €	186.9 million €	270.1 million €	457 million €

Source: Kosovo Remittance Studies 2013 (KAS)

From the table, it is clear that the annual expenditures of immigrants are pretty high over 200 million Euros each year, or over 2 thousand Euros the average expenditure for each migrant. Mostly this money is spent on consumer goods, and considering the high levels of imports in most of the goods, then this money goes out of Kosovo for a short time.

The impact of remittances on GDP would be much greater if they were channelled into more productive uses, as by the form of remittance income we see that the most of them go into consumption, while very little for investment. No empirical study has been found for Kosovo, which has only investigated the impact of remittances on GDP, but from other countries' researches it has been found that remittances have a positive impact on GDP. Umar et al. al. (2012) in their study of Pakistan found that the growth of one million dollar remittances, GDP has increased by eleven million dollars.

Moreover, another finding of their study for Pakistan, is that the country's government can increase remittances by immigrants from sending out of the country's unemployed young people to earn income for their lives, and this will have a double impact: first, unemployment, disappointment and crime rate fall, and secondly: most of remittances sent by the Diaspora will result in a higher GDP.

Fayissa and Nsiah (2008) used a linear function, Cobb-Douglas production to analyze panel data for 37 African countries for the period 1980-2004. They conducted research on the contribution of remittances to economic growth compared to other factors that impact on economic growth such as FDI, external aid, human and physical capital, the opening of a place, the policies and the remaining income. They found that the impact of remittances on economic growth was positive and important. Thus, a 10 percent increase in remittances led to 0.3 percent GDP growth per capita.

Ziesemer (2011) analyzed the impact of remittances on GDP per capita, savings, public spending on education, tax revenue and emigration. In this study, he used data for 52 countries with GDP less than $ 1200 (base year 2000). The results of this study showed that remittances have a strong positive relationship with GDP per capita, savings rate and public spending on education.

Ratha and Mohapatra (2007) note that when a recipient country experiences an economic decline due to the financial crisis, natural disasters or political conflicts, remittances tend to increase.

In many countries, remittances, together with foreign direct investment, represent two of the most important sources of external funding. By making a comparative analysis of the participation of remittances and FDI in GDP, we can see and note how important remittances are to the country's economy.

In Table 8 and 9 we see how remittances are much higher than FDI for every quarter or even year in the framework of this period presented in the tables, and accordingly we can conclude that even the weight of remittances in the country's economy is significantly higher than FDI, although both are seen to contribute a lot to the economy. From Table 9 we see that GDP in 2015 has been higher in the period 2010-2015, as well as remittances in this year reached the highest amount throughout this period.

3.2 Remittance relation to FDI and Exports

Remittances are an important source of external funding for many developing countries, and in many cases, countries with a large Diaspora also exceed Foreign Direct Investments (FDI). To see the role of remittances in the country's economy, another important and weighty indicator is their relation with the export of goods and services of the country.

As shown in the tables and graphs below, two indicators of importance to the country's economy, FDIs have a decrease, unlike remittances that increase and represent a sustainability, implying that the economy and the level of living and consumption in Kosovo is more affected by remittances than by foreign investments.

Table 4: Foreign Direct Investment and Remittances in Kosovo 2007-2014

Value in Million Euros

Year	2007	2008	2009	2010	2011	2012	2013	2014
FDI	440.74	369.86	295.45	368.51	384.39	229.06	280.23	151.30
Remittances	515.61	608.72	585.70	584.33	584.81	605.63	620.83	693.68

Table 5: Percentage Weight Occupied by Remittances in FDI

Year	2007	2008	2009	2010	2011	2012	2013	2014
Remittances /FDI	117%	165%	198%	159%	152%	264%	222%	458%

Source: Central Bank of the Republic of Kosovo

Remittances in most countries have had a positive impact on economic growth and represent an important source in creating the economic and social sustainability of such countries, and undoubtedly they have had an impact on living conditions and have generally increased the welfare of families that are recipients of remittances.

The impact of remittances should be seen from a positive but also negative point of view; both sides should be analyzed concretely about the impact of remittances on household income and expenditure, labour market, access to education, health care services, etc. According to the UN Development Program (UNDP 2010), remittances from the Diaspora contribute about 40 percent of the total monthly income of the families receiving them.

Thus, the remittances' weight in remittance-receiving households is quite large and without their participation, the overall income may have direct effects on many basic needs such as health services, education, clothing and especially in food.

Although, according to the 2010 World Bank report, remittances have helped members and families to buy basic things, but it remains unclear whether remittances have contributed to investment in business and education (WB, 2010).

Remittances by CBK reports from 2004 to 2014 in most years have been on the rise, notably, in 2014 they were even higher, reaching 693.7 million Euros, with the tendency to be even higher in 2015, based on statistics from January to May 2015, always comparing with the same period of 2014, respectively January to May 2014.

Given the amount of money received through remittances over a year, their role and impact is great and very important, so decision-making and policy-making institutions need to prepare concrete strategies to channel these amounts into investment projects for economic development.

The role and impact of remittances depends largely on the host country and the policies it implements, especially in terms of monetary and credit policy applied by the country, then in fiscal policy, pricing policy, competitiveness and economic liberalisation, social policy, and first of all, to what extent there is a harmonization between these policies. Policy alignment should take place within a country because only then the necessary prerequisites are established for the realization of economic activity by economic entities and in this context the use of remittances in investment will give the appropriate results in terms of growth and economic development.

3.3 The impact of migration and remittances on the economy (in microeconomic and macroeconomic terms)

Migration is a dynamic process, as in most cases an immigrant attracts one or more to migrate, especially those who are close or have a family or friendly relationship. The large migration and remittances that immigrants send to their country of origin are extremely important, especially when economic development is slow and the country faces difficulties of different natures, so the impact of remittances is noticed both at the microeconomic and macroeconomic levels. The World Bank reports that remittances have significantly reduced poverty in different countries, such as Bangladesh, Guatemala, and Uganda (Todaro, M.P. & Smith, S.C. 2012).

From a microeconomic point of view, remittances are an important monetary source for the family of origin, helping families with this source to have basic living conditions and to meet the existential needs of living as food, shelter, clothing, and so on. Also, in this aspect, even in households with other incomes, and remittances constitute an additional source of income, they have an important role in enabling a better economic and social life, they can use additional financial resources in higher education, more advanced health care, or savings or investment to raise family capital.

The improvement of key macroeconomic indicators weakens migration, while the worsening of macroeconomic indicators promotes new wave of massive migration. Generally speaking, remittances in Kosovo have positively impacted macroeconomic stabilization, allowing for the financing of imports, covering trade deficits that are inevitable during this period that Kosovo's economy is going through, stimulated the development of the construction sector.

The microeconomic and macroeconomic impacts of remittances are diverse, depending on the context of the sending country, the selection of migrants and their use by recipient households. A common and extremely important feature in the context of human development is countercyclical nature: the ability to protect families in countries of origin / timely delivery of economic downturn, political conflicts or natural disasters (de Haas, 2009).

At the macroeconomic level, migration and remittances contribute to the country's economy by participating in GDP growth in Kosovo, which has been steadily increasing in recent years, and remittances have also played a major role here. In a macroeconomic context, remittances increase consumption, cover trade deficit and contribute to exchange rate stability (Kireyev 2006).

Furthermore, migration and remittances to a certain extent have helped to stabilize employment, compensating for some of the income that would come from regular employment in the domestic market. According to Pant (2008), remittances other than those used for consumption and capital investment have a positive impact on the economy in stimulating demand for goods and other services. (B.Dietz, "Migration and Remittances in Macedonia: A Review", Working Paper, no. 281, 210 pg. 3).

In any aspect of remittances, both microeconomic and macroeconomic, their impact is enormous given the sum of over 600 million Euros coming to Kosovo each year, most of which are used for consumption. But besides these, many immigrants visit Kosovo on average 1-2 times a year and make expenses by causing that many businesses in Kosovo during this period when immigrants stay increase turnover and generate greater revenues, and of course, new temporary jobs are generated in certain sectors, especially in the trade and hotel services sector.

3.4 Contribution of remittances to the economic development of the country

Decision-making bodies of Kosovo, by creating appropriate policies can stimulate investments from the Albanian Diaspora, as through these investments a greater economic growth would occur.

The readiness of many Diaspora members who have high human and financial capital potential, which they have created for many years in their current state, is to invest their capital in their country of origin. But, in advance, the state of Kosovo should create favourable conditions for absorbing these investments by compatriots because considering that we are living in a time of great globalization, where even renowned companies have shifted equipment and technology to produce their own traditional products in another country at a cheaper cost, such as labour force, in some cases even raw materials, and thus remain competitive in the market.

Once the main and only goal of every company was profit and profit only, while today the company, besides aiming for profit, they have added to this goal their maximization, so they demand for each year more profits than the previous period.

Therefore, policies should focus on attracting as much investment as possible, and in this regard, cooperation should be intensified and more frequent contacts with members of the Diaspora who are already part of the giant world companies in different production areas, trade and services. Thus, encouraging the Albanian Diaspora to invest in Kosovo would increase the opportunities of bringing co-operation with foreign investors as well.

Through cooperation that could be realized between the Diaspora and foreign investors, the image of Diaspora would improve in the countries where they live but this would also have an effect on improving the image of Kosovo in other countries.

Already, it has almost become a phenomenon that many markets are no longer attractive to investors because they simply are not very attractive, so these circumstances should be used to attract as much investment as possible and a good opportunity is through our Diaspora, which is in most developed countries and who have gained different experiences and in most cases are successful. This experience along with their financial capital that they have created for several years, could have been used to raise companies in certain sectors where we could be more competitive than companies of other countries.

From the statistics, we can now see that remittances have a stability regarding their arrival, especially when we consider the recent financial crises in many economies of countries where our Diaspora lives and operates, but does not mean that this trend of remittances will remain for a long time, as immigrant generations are changing age and in the future a disconnection of close family ties will occur. So this may be the golden time to use our Diaspora to invest the capital created by them, to preserve and deepen even more the family ties between the members that live in Kosovo and those who may be living in other countries.

However, the crises in the economies of countries where our Diaspora is can affect the reduction of remittances in addition to other reasons. According to the World Bank, the pace of the remittance flow began to slow down by the second half of 2008 as a result of the crisis that appeared in several countries such as Greece, Ireland, Spain, Italy, etc. (World Bank Report, 2012).

4. Conclusion

The importance of remittances from an economic point of view for the underdeveloped and developing countries is very high and vital considering that in most of the countries, they represent a high percentage of incomes compared to GDP. From statistics it can be seen that in many countries, but also in Kosovo, they exceed FDI and foreign aid largely cover trade deficits and are a very important source of well-being for Kosovo's families. How important are remittances is also shown by their relation to the GDP, FDI and exports.

Given that the percentage of remittances in relation to GDP is almost every year over 10 percent, while FDI and exports exceed almost double, respectively quadruple over a few years.

Remittances in Kosovo come in different forms, such as cash, various goods and products, services, and a large part of the expense when immigrants visit their home country. Regarding the frequency of visits, immigrants visit Kosovo several times a year, according to statistics, the largest percentage, with over 60 percent, visits three to four, so in each visit they spend or better say contribute to the increase of consumption, and so on GDP growth.

Most of the remittances brought by immigrants in Kosovo over the past 10 to 15 years have been steadily increasing, and therefore their role has been great. They have not stopped and have not declined even in the recent financial crisis that was in many countries of the world, such as the countries or states where the immigrants from Kosovo are concentrated and the powerful economies of those countries that have easier coped with the crisis compared to some other countries where the percentage of immigrants from Kosovo is very small.

Kosovo possesses a really advanced legislation and in line with European legislation in many areas, but the practice and enforcement of laws is still far from European standards and practices.

Ultimately, regarding remittance analysis and their economic impact, it can be said that Kosovo remains far to do from the practical aspect of law enforcement, implementation of strategies, and the provision of the opportunity to channel remittances from consumption to investment, since their impact may be greater and for longer time.

Adequate business environment needs to be created, information should be provided about the potential and opportunities that Kosovo provides for investment, the need to harmonize and join the interests of immigrants with financial potential and ready to invest in their country of origin, and objectives that the state of Kosovo has to develop the economy and raise the well-being of its citizens.

References

[1] B.Dietz, (2010) "Migration and Remittances in Macedonia: A review", Working Paper, no.281, 2010 pg.3
[2] CBK (Central Bank of the Republic of Kosovo)
[3] de Haas, H. 2009. "Mobility and Human Development", Research Paper, No. 2009/01. United Nations Development Programme, Human Development Reports, April 2009.
[4] Fayissa B., & Nsiah, C. (2008). "The Impact of Remittances on Economic Growth and Development in Africa", WB Policy Research Working Paper 2008 02.
[5] KAS (Kosovo Agency of Statistics). (2013) "Study on remittance in kosovo – 2013".
[6] Kireyev, A. (2006). The Macroeconomics of Remittances:The Case of Tajikistan. IMF.
[7] Maimbo, S.M., & Ratha, D. (2005). Remittances development impact and future prospects. World Bank publications.
[8] Muhammad Umar, Abdul Razzaq Azad, & Mazhar Abbas (2012). Remittances, GDP and Youth Unemployment: Do Remittances have Positive Impact on GDP of Pakistan? I fyes, how can the Government Increase them?. American Journal of Scientific Reseach, ISSN 2301-2005
[9] Ratha D., and Mohapatra S., (2007) "Increasing macroeconomic impact of remittances on development" World Bank, Development Prospects Group, November, 2007.
[10] UNDP (United Nations Development Programme) Kosovo. (2010). "Kosovo Remittance Study 2010"
[11] World Bank "Kosovo Remittance Study 2012"
[12] Ziesemer, T. H.W. (2011). "Worker Remittances, Migration, Accumulation and Growth in Poor Developing Countries: Survey and Analysis of Direct and Indirect Effects", Economic Modeling, Vol. 29 No. 2, pp. 103–118.

Understanding the Foreign Direct Investment in Order to Benefit from Them: A Theoretical and Empirical Review

Lorena Çakërri

PhD Candidate, University "Ismail Qemali", Vlorë, Albania

Filloreta Madani

Prof.Assoc.Dr., University "Ismail Qemali", Vlorë, Albania

Abstract

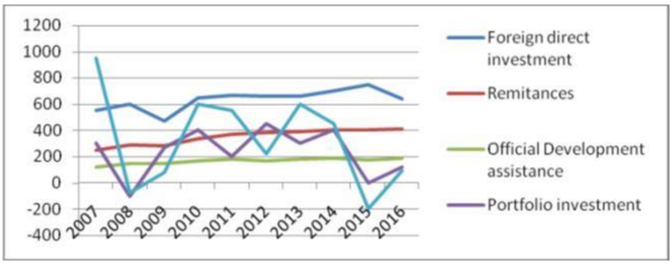
The attraction of foreign direct investment for years has been on focus of many governments around the world. These governments try to draft their policies in order to compete in attracting this important source to their development. The design of successful policies requires good understanding of the motives that a foreign investor would bring to the host country. Using different literature on Foreign Direct Investments, this paper analyzes multinational theories, which explain why a company decides to serve the foreign market and does not prefer export or licensing. The paper also reviews broad literature on the determining factors of host countries, which constitute an important moment in the decision of multinational companies for the host country of their direct investment.

Keywords: foreign direct investment; Economic Growth; Literature review, theories of MNC, country's absorption capacity

5. Introduction

Nowadays, foreign direct investments are being paid more attention. Different scholars highlight the importance of foreign direct investment as a source of funding. This feature of foreign direct investment is mainly important for so-called developing countries. These countries have major problems with needs of capital, which outweigh their domestic savings. Therefore, the main reason for the host country's efforts to attract foreign direct investment is to be able to access new funding sources for their economic development. At that moment, foreign capital is recognized as an important way to overcome this shortcoming (Liu and Agbola , 2014).

Financial inflows to emerging economies were estimated at $ 1.4 billion in 2016, down by more than $ 2 trillion compared to year 2010. These external sources consist of foreign direct investment flows, flows categorized as portfolio investment and other flows such as official development aid. Generally, their performance reflects the pace of economic growth and their impact depends precisely on the economic growth of different countries. An important feature of these flows is their instability, especially during the years of the world financial crisis, in the years 2008-2009. However, not all of their constituent elements represent the same behavior. Foreign investment flows represent a higher sustainability than other elements. This can be explained by the characteristics of this flow in contrast to portfolio investment and development aid.(Unctad 2017)



Graph 1: International financial flows in developing countries. **Source:** Unctad . Graphics processed by the author

As we can see from the above chart, foreign direct investment, besides taking the bulk of international financial flows, also represents a more stable performance.[1] They are therefore important for host countries.

6. Understanding Foreign Direct Investment

We see in two steps how a company chooses to invest a foreign direct investment in another country. The first step focuses on the motives of multinational companies. The motives of the multinational companies can be explained by theories of multinationals. The second step gives us an overview of the factors that the different countries of expectation exhibit and which play a major role in the investment decisions of the multinational companies. Both of these approaches are discussed in the following sections.

7. Theories of MNC to Explain Motives for Foreign Direct Investment

Through this section, we present briefly the various theories that explain the outcomes of companies to internationalize. These theories explain which factors determine the making of such a decision by a company.

7.1 Theories that suppose perfect markets

In this category we can group those theories that try to explain the investment behavior of different firms under the supposed conditions of perfect markets. The theories are explained as follows.

7.1.1 The Return Rate Theory

This is one of the earliest theories that explains the FDI flows. This theory explains the flows of foreign direct investments through the differences shown in different countries at rates of return from capital. The capital flow movement should according to this theory go from those countries with low rates to countries that have the higher returns from capital. But according to this assumption cannot be explained the phenomenon that in a given country there are also inflows and outflows of capital. This fact makes this theory unable to explain the movements of international capital flows in the form of foreign direct investment.

7.1.2 Market Size Theory

This theory points out that FDI inflows relate positively to the sales of foreign firms in the host country. The “Growth-driven FDI” theory focuses on domestic factors, such as market size (often defined by GDP) as one of the most important factors in attracting FDIs. (Demirhan and Masca, 2008; Economou, Hassapis, Philippas, Tsionas 2016).

Some foreign investors invest in developing countries mainly to serve the host market; these are the market-driven IHDs. Domestic market size may be the main determinans in attracting such a type of FDI (Unctad 2000). The size of the domestic market enables foreign investors to reduce production costs in order to supply the host market (Shatz and Venables, 2000, Lim, 2001).The size of a country's market grows with economic growth, encouraging foreign firms to increase their investment. The sooner the economy grows, the more demand for investment will be stimulated , also for foreign investment. High economic growth provides incentives for foreign investors because host countries can offer more facilities to investors (Zhang, 2001).

There are some disadvantages about this hypothesis. This theory explains the behavior of those types of foreign investment that are oriented towards market research, and cannot explain the behavior foreign direct investments that requires efficiency.

7.1.3 Portfolio diversification theory

This theory explains companies' decisions to become multinational through a simultaneous return and risk analysis. Investment has a positive relationship with the return rate and negative with the perceived risk. For this reason, investors try to diversify their investment portfolio in order to increase return on equity and reduce risk. This hypothesis also presents some shortcomings. It fails to explain the advantage of FDI to portfolio investment. Another disadvantage is the use of the use of an inadequate profit indicator in risk analysis .

---

[1] Kirabaeva and Razin 2010 in their paper show that foreign direct investment is more stable compared to other flows, because they also imply aspects of physical investment in host countries.

7.2 Theories that suppose Imperfect Markets

These theories seek to explain company decisions about the alternatives they have to serve a foreign market, or the decision to become international, assuming markets are imperfect. Theories of this category are explained below.

7.2.1 Hymer-Kindleberger approach

This theory was created by Hymer and Kindleberger. CPKindleberger, the supervisor for Hymer theses, in expanding Hymer's work, introduced his theory of FDI and points out that "in a world of perfect competition in goods and markets, FDI cannot exist" (Kindleberger, 1969).

According to this theory, firms will choose to internationalize by taking a foreign investment in another country if they are already producing at minimal cost in the home country. The export alternative to serve the foreign market would cause increased spending as a result of the growth of production. According to this theory foreign direct investment enables the reduction of production costs by some advantages that these firms possess , as a consolidated distribution network, the most advanced management skills, the possession of a suitable technology, etc. Possessing these advantages made it possible for foreign firms to overcome some of the shortcomings they may face in the host country, such as the lack of knowledge of the domestic market, the necessary adaptation to the domestic legal and political framework etc.

Kindleberger in his theory showed why a foreign firm has advantages to firms in a host country, but the drawback of his theory lies in the fact that he did not show what advantages a firm should invest in a foreign country. Furthermore, it does not indicate what competitive advantages there is for a hosting country vis-à-vis another host country.

7.2.2 Vernon theory

Vernon (1966)[1] was the first to introduce the product life cycle theory in international trade. According to Vernon, a product cannot qualitatively develop into an underdeveloped or developing country, where per capita income is low. According to this theory, as the product develops qualitatively in a high-income country the demand for this product will grow in foreign markets. Through export, this product will penetrate the economies of developing countries. Consequently, following the securing of the market share in these foreign countries, the conditions for the opening of production lines will be created in foreign markets of developing economies, which have generally lower production costs. But Vernon's theory fails to explain the large flows of FDI between developed countrys.

7.2.3 The Internalization theory[2]

The main representatives of this theory are Buckley and Casson[3]. Their theory seeks to explain the reasons for a company to undertake a foreign investment in another country. According to them are the multinational companies themselves which enable a reorganization of their activities within the organization. This reorganization enables the companys to develop specific advantages. These specific advantages will enable them to be superior to domestic firms once in the host country. The basic idea of the internationalization theory emphasizes that the production and other processes of a company are more effectively dealt within the multinational enterprise to better exploit the knowledge-based assets of the company (Johansson, 2009).

This is especially true when the host countries have weak laws in the protection of intellectual property rights. But according to Buckley and Stranger (2011), the theory of internationalization focused heavily on the imperfections in external markets for the transfer of knowledge and not enough attention was paid to the nature and importance of transaction costs related to the internal transfer of knowledge."

Even the United Nations Conference on Trade and Development (UNCTAD) supports this theory when it intends to persuade developing countries to intensify their efforts for attracting foreign direct investment, seeing these investments as important sources for new technologies.

7.2.4 The OLI paradigm

---

[1] Vernon (1966) integrates trade and investment into a model
[2] The theory of internationalization was used by John Harry Dunning to build the OLI model.
[3] Buckley and Casson 1976

This theory has been described by many scholars as the theory that is able to explain more clearly the international behavior of multinational firms. This theory was formulated by Dunning. The theory itself embodies the combination of some of the theories discussed above. The novelty element that Dunning adds is that of the location. A firm would take production in a foreign country when three conditions are met, namely the advantages of ownership, the advantages of internationalization and the advantages of location, OLI paradigm (Denisia 2010.)

- Advantages of ownership relate to holding specific tangible and intangible assets, such as technology, specific knowledge, or management skills, which give multinational companies substantial advantages over local firms.

- Location advantages refer to all those factors that a location possesses and make it more attractive to foreign investment.

- Internalization advantages are those kinds of advantages that are more profitable for a firm to transact internally (ie through a wholly-owned subsidiary) than through licensing(Montolio , Camarero and Tamarit 2017).

7.3 Theories explaining foreign direct investment by international trade.

Another explanation for foreign direct investment focuses on the concept of international trade, supporting the idea that multinationals themselves realize a significant part of international trade.

Nayak and Choudhury, 2014 explained the Hirsch theory. Hirsch (1976) created an international theory of both elements of trade and investment, trying to clarify two moments. First, the theory explains the moment when a company decides to enter a foreign economyy and secondly, what are the factors that determine the form of entry, which means determining whether to decide to export to other countries or to produce directly in these countries . According to this foreign investment theory foreign direct investments enables the creation of competitive advantages. (Nayak and Choudhury, 2014).

Kojima also explained theories of trade and direct investment theories assembling them together. He concluded that foreign direct investment ëas needed to increase competitiveness and productivity, as ëell as to improve production processes (Chaëla, et al. 2015). Kojima identified the resources , labor force and market in host countries as the three main motives for international investment. But his theory fails to explain ëhy companies cannot increase competition in the domestic market (Nayak and Choudhury, 2014)

Other academics conclude that the creation of an integrated theory that explains foreign direct investment and international depends of FDI types, namely FDI classifications in horizontal or vertical FDI. Traditional FDI models claim that a parent company establishes a branch to replicate its business and sell products to the host country and the region, while vertical FDI models assume that a parent company creates an affiliate company in order to carry out several production stages in the host country. The incorporation of the concept of multinational companies into the standard of international trade theory shows that the link between capital movements and trade depends on whether multinational companies are horizontally integrated or vertically and types of integration are conditioned by factors such as transport costs and economies of scale(Carr et al, 2011).

8. Host Country Macroeconomic Determinants for Foreign Direct Investments

Different macroeconomic factors that represent the "health" of different host countries are defined as determining factors in attracting as much foreign direct investment flows as possible. These factors important in attracting foreign direct investors help us to understand FDIs, especially the relationship that exists between the economic, political, financial factors of the host countries and the inflows of foreign capital in the form of foreign direct investments in that economy.

A country's ability to benefit from FDI inflows is recognized as the absorption capacity of a host country.

Massoud (2008), in explaining absorption capacity, mainly identifies several key factors: the quality of human capital, technological development and more specifically what is called technological gap, financial development, trade openness, current account deficit and inflation.

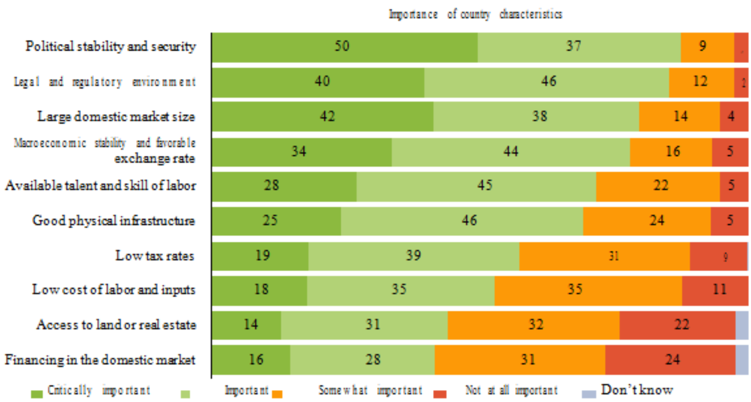
- Human capital in the host country is important. In order for the host country firms to implement the transfer of skills from the MNC to their employees, a certain level of development of this human capital is required in the host country (Michie, 2001, Dorozynska and Dorozynski, 2015).

• Different scholars have different views on the role of technological gap in the ability of the host country to benefit from foreign investment. Spreading externalities is conditioned by the size of this technological gap. Baltabaev 2014 thinks a major technological gap hurt the spread. An opposite view brings Xu, 2000. According to him, a big technological gap would be more productive.

• The significance of the financial system for the development of the financial system is attributed to the various functions it plays in the economy. A more developed financial system allows foreign investors to finance their activities through loans provided by the host country. An efficient financial system can alleviate the information's imperfections through providing systematic information on investment opportunities and capital returns, which are more important for foreign investors than for domestic investors. The more developed the financial system, the more it can help the business to develop. (Alfaro et al., 2009; Shah, 2016; Alfaro et al., 2017

• Trade openness is another element that affects the effect of FDI on economic growth. The strong positive impact of trade opening on FDI is evident in most empirical studies. These findings confirm that the foreign direct investments are strongly influenced by the degree of openness, with other unchanging factors. (Jadhav, 2012; Sala and Trivin, 2014, Shah and Khan, 2016).

In Global Competitiviness Investment Report 2017-2018 we see that investors consider a wide range of factors in their decision to invest in another country. All factors are of significant importance in the analysis to select a host country for their investment. According to this report, the most important element in decision-making is political stability and perceived security.



Source: Global Investment Competitiveness Report 2017/2018

Investment decision, whether they are in the form of foreign direct investment are based on a return and risk perceived investor analysis. One of the major risks of investment analysis are political risk. Governments can reduce this climate risk and ensure good governance. Political risks are numerous and include expropriation, transfer restrictions and convertibility, breach of contract, unpredictable arbitrary actions, discrimination, and lack of transparency. This could be due to the fact that many foreign direct investment fails, thus wiping the economic development of the country.[1]

Governments, like in developing countries and in developed countries, use tax incentives and other incentives to lower the relative cost or perceived risk by foreign investors in order to attract more FDIs. However, the effect of these incentives depends on the types different FDIs. When it comes to foreign direct investments that are looking for a market or are oriented towards the primary sectors, tax incentives are not very effective. If foreign direct investments are oriented towards efficiency-seeking, tax incentives may be relevant to investment decisions.[2]

[1] *Global Investment Competitiveness Report 2017/2018*
[2] *Global Investment Competitiveness Report 2017/2018*

Also another determinant of the decision of the host country selection by foreign investors directly is the country's infrastructure. A qualitative element of infrastructure becomes determinant in absorbing FDIs and prolonging their stay in time. Lack of a regular and quality infrastructure can present an obstacle for investors. Therefore, the governments of the host countries have begun to pay attention to improving the quality of infrastructure (Easterly 2001, Shah, 2014.)

9. Conclusion

Based on the literature examined in the paper, different theories point to the motives of the movement of international capital flows. The theories selected in this paper explain the motives that lead multinational companies towards direct investment in developing countries. These theories are based on the international business perspective. Through these theories we can understand the decisions of multinational companies to become part of a foreign market by deciding to export, licensing, or by undertaking a direct investment in the host country. We see that this decision is influenced by many factors such as the possession of some competitive advantages from multinational companies; the presence of transaction costs; the market size of the host country in the case of horizontal direct foreign investments: the lowest cost of resources in the host country if it is a direct foreign direct investment.

On the other hand, the business climate in the host country is important in absorbing foreign direct investment and may increase the impact on the development of this investment. An economy with a poor investment climate attracts less foreign direct investment and often it is useless. The size and potential of market growth - are so far the strongest determinants of FDI. But the investment climate characteristics such as strong institutions and friendly legislation for investors also matter to emerging and transition economies that seek to attract additional FDI. And other factors like human capital, a developed financial system, infrastructure quality and economic and political stability are an important element in the selection of the host country by foreign investors. Trade agreements and investment agreements also play an important role in absorbing FDI.

So we can conclude that there is no single theory that can fully explain the decisions to be internationalized for a company. This should be seen in two ways, distinguishing driving forces and attractive forces in this decision. Driving forces are those related to the specific advantages of the most productive companies, which are generally those that choose foreign direct investment as a form to serve in an external market. While attractive forces are the key policy makers of different countries in competition to attract as much foreign direct investment as possible.

References

[1] Agarwal, J.P. (1980) .Determinants of Foreign Direct Investment: A Survey, Weltwirtschaftliches Archiv, 116, pp. 739-773
[2] Alfaro L. and Chauvin J. (2017). Foreign Direct Investment, Finance, and Economic Development. Chapter for Encyclopedia of International Economics and Global Trade. September 2017
[3] Alfaro, Laura & Kalemli-Ozcan, Sebnem & Sayek, Selin. (2009). FDI, Productivity and Financial Development. The World Economy. 32. 111-135. 10.1111/j.1467-9701.2009.01159.x.
[4] Baltabaev B. (2014) Foreign Direct Investment and Total Factor Productivity Growth: New Macro-Evidence. The World Economy 2014, vol. 37, issue 2, 311-334
[5] Bilbao-Osorio B. and Rodríguez-Pose A. (2004) .From R&D to innovation and economic growth in the EU, Growth and Change 35, 434-55.
[6] Brooks, D.H.; Hasan, R.; Lee, J.-W.; Son, H.H.; Zhuang, J. (2010). "Closing development gaps: challenges and policy options", ADB Economics Working Paper Series 209, Manila: Asian Development Bank.
[7] Buckley P. J., and Casson M. (1976). The Future of the Multinational Enterprise. London: The Macmillan Press
[8] Buckley, P J. & Strange, R. (2011). The Governance of the Multinational Enterprise: Insights from Internalisation Theory. Journal of Management Studies, 48(2):460-470.
[9] Carr, D. L., Markusen, J. R., Maskus, K. E. (2001), "Estimating the Knowledge-Capital Model of the Multinational Enterprise." American Economic Review, Vol. 91, No. 3, pp. 693–708
[10] Chawla, K. and Rohra, N. (2015) "Determinants of FDI: A Literature Review". The International Journal of Business and Management, 227 Vol 3 Issue 3.
[11] Cuza, A. Laura, D. (2015) "The dynamics of the FDI inflows during the last three decades. A comparative analysis between developing and developed countries". University of Iasi, Romania.

[12] Demirhan, E., Masca, M., (2008) .Determinants of Foreign Direct Investment Flows to Developing Countries: A Cross-Sectional Analysis", Prague Economic Papers, 4, 2008
[13] Dorozynska A. and Dorozynski T. (2015). Human Capital and fdi in Central and Eastern Europe. Managing Global Transitions 13 (2): 151–170
[14] Dunning, J. (1977) .Trade, location of economic activity and the MNE: A search for an eclectic approach.Macmillan, London395-418
[15] Dunning, J. (1988). The eclectic paradigm of international production: a restatement and some possible extensions. Journal of International Business Studies, 19(1): 1-31.
[16] Dunning, J. (1993a). Multinational enterprises and the global economy. Reading, Mass, and Wokingham, England: Addisson-Wesley
[17] Dunning, J.(2000) The eclectic paradigm as an envelope for economic and business theories of MNE activity. International Business Review 9 (2000) 163–190
[18] Easterly, W. (2001). The Lost Decades: Developing Countries' Stagnation in Spite of Policy Reform 1980-1998," Journal of Economic Growth Vol. 6, pp. 135-157.
[19] Economou, F. and Hassapis, Ch. and Philippas, N.& Tsionas, M. (2016). Foreign Direct Investment Determinants in OECD and Developing Countries. Review of Development Economics. 21. 10.1111/rode.12269.
[20] Findlay, R. (1978). Relative Backwardness, Direct Foreign Investment and the Transfer of Technology: A Simple Dynamic Model." Quarterly Journal of Economics 92: 1-16.
[21] Global Competitiveness Investment 2017-2018.
[22] Hirsch, S. (1976). "An international trade and investment theory of the firm", Oxford Economic Papers, New Series, vol. 28, No. 2
[23] Hufbauer G.C., (1975). The multinational corporation and direct investment, in: P.B. Kenen (ed.), International Trade and Finance: Frontiers for Research, Cambridge University Press, Cambridge
[24] Hymer, S., 1976 (1960 dissertation): The International Operations of Nation Firms: A Study of Foreign Direct Investment", Cambridge, MLT Press
[25] Jadhav P. (2012) Determinants of foreign direct investment in BRICS economies: Analysis of economic, institutional and political factor. International Conference on Emerging Economies - Prospects and Challenges (ICEE- 2012)
[26] Jonathan dhe Colin, (2006). Foreign Direct Investment and the Regional Economy, Published 2016 by Routledge
[27] Kindleberger C.P. (1969): American Business Abroad", The International Executive 11, p.11–12.
[28] Kindleberger, C. P. (1971), American Business Abroad: Six Lectures on Direct Investment, Third Edition, Yale University Press.
[29] Kirabaeva, K., Razin A. (2010). Composition of capital flows: a survey. NBER working paper series, 16492.
[30] Kojima, K. and Ozawa T. (1985). "Towards a theory of industrial restructuring and dynamic comparative advantage", Hitotsubashi Journal of Economics, vol. 26, No. 2
[31] Kojima, K. and T. Ozawa (1973). "A macroeconomic approach to foreign direct investment", Hitotsubashi Journal of Economics, vol. 14, No. 1.
[32] Kojima, K. and T. Ozawa (1975). "International trade and foreign investment: Substitutes or complements", Hitotsubashi Journal of Economics, vol. 16, No. 1.
[33] Lim, E. G. (2001). Determinants of, and the relation between, foreign direct investment and growth: A summary of the recent literature. IMF Working Paper, No. WP/01/175
[34] Liu W. and Agbola F. (2014). Regional analysis of the impact of inward foreign direct investment on economic growth in the Chinese electronic industry. Applied Economics, 46:22, 2576-2592.
[35] Mah, J. (2010). Foreign direct investment inflows and economic growth of China. Journal of Policy Modeling 32, pp. 155–158
[36] Massoudi (2008). Assessing the Employment Effect of FDI Inflows to Egypt: Does the Mode of Entry Matter?"
[37] Montolio .L , Camarero M. and Cecilio T. July 26, 2017. Determinants of FDI for Spanish regions: Evidence using stock data.∗
[38] Moosa, A. Imad (2002). Foreign Direct Investment-Theory, evidence and practice, PALGRAVE

[39] Nayak, D.and Choudhury, R.N.(2014) A selective review of foreign direct investment theories, (No. 143), ARTNeT Working Paper Series.
[40] Sala H. and Trivin, P, (2014). Openness, Investment and Growth in Sub-Saharan Africa. Journal of African Economies. 23. 257-289. 10.1093/jae/ejt027.
[41] Shah, M. H. (2014). The significance of infrastructure for FDI inflow in developing countries. Journal of Life Economics, 2, 1-16.
[42] Shah, M. H. (2016): The Effect of Macroeconomic Stability on Inward FDI in African Developing Countries. Published in: International Journal of Business Studies Review , Vol. 1, No. 1 (30 December 2016): pp. 1-11.
[43] Shatz, H. J., & Venables, A. J. (2000). The geography of international investment. Policy Research Working Paper 2338, The World Bank
[44] Shen C.-H., C.-C. Lee, C.-C. Lee. 2010. "What makes international capital flows promote economic growth? An international cross-country analysis". Scottish Journal of Political Economy, vol. 57, pp. 515-546
[45] UNCTAD, (2000)
[46] UNCTAD, (2017).
[47] Vernon, Raymond. 1971. Sovereignty at Bay: The Multinational Spread of US Enterprises. New York: Basic Books.
[48] Vernon, Raymond.1966 .International Investment and International Trade in the Product Cycle." Quarterly Journal of Economics, 1966, 80(2), pp. 190 –207.
[49] Zhang, L. F. (2001b). Do styles of thinking matter among Hong Kong secondary school students? Personality and Individual Differences, 31(3), 289–301.

Measuring the Impact of Exchange Rate on Industrial Output in Nigeria

Ogunmuyiwa Micheal Segun (Ph.D)

Department of Business Administration,

Olabisi Onabanjo University, Ago-Iwoye, Ogun State. Nigeria

Adelowokan, Oluwaseyi Adedayo (Ph.D)

Department of Economics,

Olabisi Onabanjo University, Ago-Iwoye, Ogun State. Nigeria

Abstract

The role exchange rate plays in the determination of industrial output has long been addressed by various scholars in developed and developing countries alike. However, because of its continuous relevance and importance in the determination of the output of the industrial sector, this paper contributes to the body of literatures by investigating the impact of exchange rate on industrial output in Nigeria. Various econometric methods such as the Augmented Dickey Fuller unit root test, the Box Jenkins O.L.S methodology and the Chow break point test were employed on time series data from 1986 to 2016. The empirical findings reveal that albeit, no long run relationship exist between exchange rate and industrial output, the Box Jenkins O.L.S results reveal a positive and significant effect of exchange rate on industrial output in Nigeria. In addition, the Chow break point test affirms that a structural shift actually occurred in the pattern and direction of exchange rate and industrial output in Nigeria from the beginning of the 4th republic in 1999. The study recommends that although, exchange rate drives industrial output in Nigeria but this should be carefully managed to prevent inflationary spiral in prices of goods and services through contagious effect.

Keywords: Exchange Rate, Industrial Output, Fluctuation, Box Jenkins, , O.L.S.

1. Introduction

The role of exchange rate in any economy is very significant as it directly and indirectly affects domestic price level, profitability of traded goods and services, allocation of resources and investment decisions. Exchange rate movement and exchange rate uncertainty is an important factor which investors take into consideration in their decision to invest abroad (Unugbro, 2007). Foreign capital inflows are generally perceived as something desirable to the industrialized and developing countries. It can eliminate foreign exchange shortages, improve standard of living, deepen and broaden the financial markets. Capital inflows have also helped individual countries to absorb shocks either internal such as harvest failures to external such as fluctuations in commodity prices or recessions in industrial economies (Unugbro, 2007). Considering the major determinants of foreign investment, exchange rate risk is possibly seen as the most important determinant of foreign investment flows (Aranyarat, 2010).

Fluctuation in exchange rate often times tends to increase the risk and the uncertainty of transactions (internal and external) and predisposes a country to exchange rate related risks. In theory, it is generally agreed that exchange rate fluctuation affects output negatively or positively. It is believed that the negative impact of exchange rate fluctuation may come directly through uncertainty and adjustment costs, and indirectly through its effect on allocation of resources and government policies (Aliyu, Yakub, Sanni, and Duke, 2013).

In Nigeria and indeed many developing countries, the price of foreign exchange plays a critical role in the ability of the economy to attain optimal levels in production activities. In the wake of policy change, occasioned by the introduction of structural adjustment programs (SAP) in July, 1986, which led to the emergence of the flexible exchange rate as oppose to fixed exchange rate as a regime that was in place before the policy change. During the fixed exchange rate regime, the supply of foreign exchange was highly subsidized through the overvaluation of domestic currency. The essence of the policy was to maintain a relatively cheaper cost of importation of industrial raw-material and equipment, so as to sustain the policy of import substitution industrialization strategy.

Fluctuation in exchange rate is an important factor that affects economic performance, due to its impact on macroeconomic variables like outputs, imports, export prices, interest rate and inflation rate (Adeniran, Yusuf and Adeyemi, 2014). Despite the fact that the Nigeria government has embarked on several strategies aimed at improving industrial production and capacity utilization, in recent times the sector is still experiencing a decline in output. The unimpressive performance of the sector in Nigeria is mainly due to massive importation of finished goods with severe implication on exchange rate and inadequate financial support for industrial activities, which ultimately has contributed to the reduction in capacity utilization in the country (Obamuyi, Edun and Kayode, 2013). The persistent depreciation in the exchange rate has led to a shortage of foreign exchange for the importation of the essential inputs for the industrial sector which has led to high costs of production in the country.

2. Review of Past Studies

Serve´n (2003) examined empirically the link between real exchange- rate uncertainty and private investment in developing countries, using a large cross-country time series data set. The paper builds a GARCH-based measure of real-exchange-rate volatility and finds that it has a strong negative effect on investment, after controlling for other standard investment determinants and taking into account their potential endogeneity. Rohan (2001) also found similar result on the effect of real exchange rate changes on multinational "firms and incorporates the effect of intra-industry competition on the relation between exchange rates and "firm value. Consistent with theoretical predictions, there is significant exposure to exchange rate shocks. Moreover, there is evidence of time-variation in exchange rate exposure, which is consistent with changes in the competitive environment within the industry.

Polodoo, Seetanah and Padachi (2011) examine the impact of exchange rate volatility on the macroeconomic performance of Small Island Developing States (SIDS). Taking a sample of 15 SIDS, the study analyzes econometrically the impact of exchange rate volatility on major macroeconomic variables, namely economic growth, external trade and foreign direct investment on the SIDS. The OLS with robust standard errors results indicate that, exchange rate volatility impacts negatively on current account balance but positively on the growth rate of the economies studied. In a dynamic setting, however, exchange rate volatility does not influence the macroeconomic variables.

In Nigeria, Jonathan and Kenneth (2016) analyze the link between exchange rate fluctuations and private domestic investment in Nigeria. The descriptive statistics of the variables included in the model show the existence of wide variations in the variables as depicted by the standard deviation of the exchange rate variable that was unusually high. The findings suggest that, the depreciation of the currency and interest rate does not stimulate private domestic investment activities in Nigeria.

Ikechukwu (2016) investigates the effects of volatility clustering in exchange rate on firm's performance in Nigeria, examining cross sectional data for the most active 20 companies listed on the Nigerian Stock Exchange. The results show that exchange rate fluctuation has significant negative impacts on the rate of return on assets, asset turnover ratio and the portfolio activity and resilience, thus, showing the significant negative impact of exchange rate fluctuation on firm performance in Nigeria between 2004 and 2013. Omorokunwa and Ikponmwosa (2014) investigate the dynamic relationship between exchange rate volatility and foreign private investment in Nigeria from 1980 to 2011. The finding include among other things that; exchange rate volatility has a very weak effect on the inflow of Foreign Direct Investment (FDI) to Nigeria, both in the long run and in the short run and that exchange rate volatility has a weak effect on foreign portfolio investment in the short run but a strong positive effect in the long run.

Osinubi and Amaghionyeodiwe (2009) investigate the empirical evidence on the effect of exchange rate volatility on Foreign Direct Investment (FDI) in Nigeria, using secondary time series data from 1970 to 2004.The study utilized the error correction model as well as OLS method of estimation. The results suggest, among others, that exchange rate volatility need not be a source of worry by foreign investors. Also, the study further reveals a significant positive relationship between real inward FDI and exchange rate.

Taiwo and Adesola (2013) investigate the impact of unstable exchange rate on bank performance in Nigeria using two proxies for bank performance, namely loan loss to total advances ratio and capital deposit ratio. Government expenditure, interest rate, real gross domestic product were added to exchange rate as independent variables. The two models specified show that the impact of exchange rate on bank performance is sensitive to the type of proxy used for bank performance. Loan loss to total advance ratio shows that fluctuating exchange rate may affect the ability of lenders to manage loans resulting into high level of bad loans while capital deposit ratio does not have significant relationship with exchange rate.

Jongbo (2014) examines the impact of real exchange rate fluctuation on industrial output by investigating the effect of misalignment of real exchange rate on the output of the Nigeria industrial sector. The result shows that real exchange rate play a significant role in determining the industrial output. The study further reveals that the capacity utilization ratio is low, the case of which may not be too far away from, partly epileptic power supply, lack of adequate and appropriate technology and so on. Adelowokan, Adesoye and Osisanwo (2015) examine the effect of exchange rate volatility on investment and growth in Nigeria over the period of 1986 to 2014. The results confirm the existence of long run relationship between exchange rate, investment, interest rate, inflation and growth. Finally the results show that exchange rate volatility has a negative effect with investment and growth while exchange rate volatility has a positive relationship with inflation and interest rate in Nigeria.

Other relevant empirical studies on the relationship between exchange rate and industrial output as well as the impact of exchange rate fluctuations on manufacturing/industrial output include Owoeye and Ogunmakin (2013), Ayeyemi (2013) and Igue and Ogunleye (2014). Others are Ilechukwu and Nwokoye (2013), Ikechukwu (2016), Lawal (2016) and Abdallah (2016) among others.

3. Methodology and Empirical Findings

3.1 Sources of Data

The data for the study is culled from the Central Bank of Nigeria (CBN) Statistical Bulletin (various issues). The annual time series data spanned through the period 1986 which marks the advent of exchange rate liberalization in Nigeria to 2016.

3.2 The Model

The theoretical foundation for this study is the traditional flow model as further extended by Campa and Goldberg (1999). The model states that exchange uncertainty affects firm's output and investment behavior. The firm's production function is given as:

$Q_t^s = A_1 L_1 \propto K_t^{1-\propto}$ -- (1)

$Q_t^s = Q^T + Q^N$ ---. (2)

Q represents goods produced which can be divided into tradable and non-tradable goods, K and L are capital and labour inputs respectively, A is an arbitrary function representing managerial skills. It is further assumed that exchange rate is the source of uncertainty in the model, Exchange rate affected non tradable goods through the procurement of input from abroad while its effect on tradable is through import of raw materials and export. In addition, the representative firm faces product demand curve given as:

$Q_1^d = A_2(P_T/P_N)^{-N}$ --- (3)

Where Q_1^d denote goods demanded and P_T and P_N denote the prices of traded and non-traded goods respectively. A_2 is a function of internal and external functions (such as firm size, government policy and exchange rate policy). The parameter –N stands for the price elasticity of demand for traded goods. Since this study is interested in examining the impact of exchange rate fluctuation on industrial output in Nigeria.

Arising from the above, the empirical equation for this study is stated thus.

$$IDO = \gamma_0 + \gamma_{1t} EXR + \mu \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (4)$$

Where IDO = Industrial Output procied by annual manufacturing output data; EXR = Exchange Rate of the naira to the US dollars. γ_0 = Intercept of the equation; γ_{1t}= the slope of the equation and μ = the stochastic error term.

In a-priori terms, γ_0 is expected to be positive, while γ_{1t} is expected to be negative i.e $\gamma_0 > 0 \,.\, \gamma_{1t} < 0.$

3.3 Empirical Results

Before proceeding to analyzing the data, it is customary to subject the series to unit root test to affirm their stationarity because time series data are more often than not unstable and un-stationary in their present form. The reason being that, the mean and variance of time series data are non- constant overtime. To this end, we subjected the series to both the Augmented Dickey Fuller unit root test by Dickey and Fuller (1981) and the Phillips Perron (PP) test by Phllips and Perron (1988) as presented in table 1 below.

Table 1: ADF and PP Unit Root Test (1986-2016)

Vars	ADF (Level)	ADF(1st D)	PP (Level)	PP (1st D)	Order of Integration
IDO	1.5789(0.96)	-3.5277(0.00}***	1.1275(0.92)	-3.5225(0.00)***	I(1)
EXR	1.6511(0.97)	-4.6970(0.00)***	1.6677(0.97)	-4.7525(0.00)***	I(1)

***, ** and * indicate significance at 1, 5 and 10 percent respectively

Source: Authors' Computation, 2017.

From the results in table (1) above, it is vivid that both series (IDO and EXR) contain unit roots at levels and are therefore not stationary in their present form. However, they became stationary after subjecting them to 1st difference test are therefore I(1) series.

Having confirmed the order of integration to be I(1), we then proceeded to finding the long run relationship between the variables. We employed the one-step Johansen co-integration technique and the results of the both the Trace and Max-Elgen statistics show no co-integrating equation at 5 percent. In addition, the result of the co-integration test conducted from the error correction test also confirms that no co-integrating relationship exist between the variables.

Applying the Engel and Granger two-step methodology of testing for co-integration between variables, we obtained the O.L.S residuals of the series and subjected it to a stationary test using the Augmented Dickey Fuller (ADF) test for stationarity. The result is presented in table 2 below.

Table 2: ADF Unit Root Test for Co-Integration

Variable	ADF @ Levels	Order of Integration
RESID01	*-1.5401(0.11)*	No co-integration

***, ** and * indicate significance at 1, 5 and 10 percent respectively

Source: Authors' Computation, 2017.

The two-step Engel and Granger methodology also confirms that no-integration exist between and among the variables since the residual series is not stationary at levels. Hence, there is no co-movement between industrial output and exchange rate. The existence of no co-integration via both the two co-integrating methods made to adopt the Box Jenkins (methodology to determine the short run relationship between the variable (Box and Jenkins, 1976). Thus, equation (4) is now re-stated in first difference form as enunciated in the Box Jenkins methodology below.

$$FDLIDO_t = \gamma_0 + \gamma_{1t}FDLEXR_t + AR(1) + \varepsilon_t \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (5)$$

Where FDIDO= is the 1st difference of Industrial Output, FDEXR = the 1st difference of exchange rate and $AR(1)$ is the autoregressive component. Equation (5) can be estimated with or without the $AR(1)$ component. The overparameterized models of equation (5) revealed an unnecessarily high R^2 and this led us into the parsimonius model with a moderate R^2 as shown in table (3).

Table 3: Box Jenkins O.L.S Results (1986-2016); Dependent Variable: FDLIDO.

Variable(s)	Coeff	t-statistics	Prob
C	-1450862	-1.34	0.1902
FDLEXR	77770.47	7.83	0.0000***
R^2	0.6792	DW stat 0.3050	
Adjusted R^2	0.6681	Akaike 33.1020	
F-statistics	61.4011	Scwartz 33.1945	
Prob (f-stat)	0.0000		

***, ** and * indicate significance at 1, 5 and 10 percent respectively

Source: Authors' Computation, 2017.

The results show that exchange rate is positively related to industrial output and is found significant at 1 percent, albeit the exchange rate sign is not in line with a-priori expectation. The R^2 of 0.6792 is indicative of approximately 68 percent variation in industrial output being explained by exchange rate. The significance of f-statistics at 1 percent confirms the significance of the parameter estimates and the overall regression. The DW statistics of 0.30 shows no serious auto-correlation problem in the model and the Akaike and Schwartz criteria are at their lowest ebb.

In addition, we conducted a Chow breakpoint test to ascertain whether there exist a structural break in the pattern and direction of exchange rate in relation to industrial output in Nigeria using year 1999 as the break point. The significance of the Chow statistics of 9.8079 (see appendix 1) at the 1 percent level confirms the presence of a structural shift in pattern of exchange and industrial output since the beginning of the present democratic dispensation (4th republic) in Nigeria. The exchange rate increased astronomically from N21.88 in 1988 to N92.34 in 1999 against the US dollar while industrial output also jumped from N1053408.06m to N1314286.14m during the same period (see appendix 2 and 3).

4. Conclusion and Policy Implications

From the foregoing analysis, the impact of exchange rate has been proved not only to be positive but has been found to be a significant factor influencing the level of industrial output in the Nigerian economy. The policy implication of the direct relationship between exchange rate and output of the Industrial sector is that the fall in exchange rate of the Nigerian naira to the US dollar drives the industrial sector output in Nigeria particularly from the beginning of the 4th republic in 1999. This however should be managed with caution, as unabated fall in a country's currency can have serious contagious and inimical effects on the economy as it's presently being witnessed via inflationary spiral in prices of goods and services in Nigeria.

References

[1] Abdallah, A (2016) Exchange Rate Variability and Manufacturing Sector Performance in Ghana: Evidence from Co-integration Analysis, *International Economics and Business*, 2(1)

[2] Adelowokan, O.A., Adesoye A. B. and Balogun, O.D (2015) Exchange Rate Fluctuation on Investment and Growth in Nigeria, an Empirical Analysis, Global Journal of Management and Business Research: B Economics and Commerce, 15 (10)

[3] Adeniran, J. O., Yusuf, S. A. & Adeyemi, O. A. (2014). The impact of Exchange Rate Fluctuation on the Nigerian economic growth: An empirical Investigation. [online]. *International journal of Academic Research in Business and Social sciences*, 4 (8), 224-233. http://econpapers.repec.org

[4] Aliyu, S., Yakub, M., Sanni, G., and Duke, O. (2013). Exchange Rate Pass-through in Nigeria : Evidence from a Vector Error Correction Model. *Econ Paper*, 1071–1084.

[5] Aranyarat, C. (2010). The Effect of Exchange Rate Volatility on Foreign Direct Investment and Portfolio Flows to Thailand

[6] Ayeyemi, L.O (2013) Industrial Development in Developing Nations: A case study of Nigerian Small and Medium Business Enterprises, Degree Programme in Industrial Management, Savonia University of Applied Sciences,

[7] Box GEP, Jenkins GM (1976). 'Time Series Analysis: Forecasting and Control', 2nd ed, SanFrancisco, Holden-day. Cambridge University Press

[8] Campa J and Goldberg L.S (1999). Investment, Pass-Through and Exchange Rates: A Cross- Country Comparison *NBER Working Paper* No. 5139

[9] Dickey, D.A and Fuller, W.A (1981). Likelihood Ratio Statistics for Autoregressive Time Series with a Unit Root. *Econometrica* 49, pp 1057-1072.

[10] Goldberg, L.S. (1993) Exchange Rates and Investment in United States Industry, The Review of Economics and Statistics, Vol. 75, No. 4 (Nov., 1993), pp. 575-588

[11] Igue, N.N and Ogunleye, T.S (2014) Impact of Real Exchange Rate on Trade Balance in Nigeria, *African Development Review, Vol. 26, No. 2, 2014, 347–358.*

[12] Ikechukwu, K.(2016) Exchange Rate Fluctuation and Firm Performance in Nigeria: A Dynamic Panel Regression Approach, Proceedings of the Australia-Middle East Conference on Business and Social Sciences 2016, Dubai (in partnership with *The Journal of Developing Areas*, Tennessee State University,

[13] Ilechukwu, I.N and Nwokoye, E.S (2015). Long Run Impact of Exchange Rate on Nigeria's Industrial Output, *Journal of Economics and Finance, 6(5), PP 75-86*

[14] Jonathan O. E and Kenneth U (2016) The Impact of Exchange Rate Fluctuations on Private Domestic Investment Performance in Nigeria, *Journal of Economics and Finance, 7(3), PP 07-15*

[15] Jonathan O.E, Kenneth U.O and Gyang, N. (2013) The Impact of Exchange Rate Fluctuations on Private Domestic Investment Performance in Nigeria, *Journal of Economics and Finance 7, Issue(3), 07-15*

[16] Jongbo, O C (2014). The Impact of Real Exchange Rate Fluctuations on Industrial Output in Nigeria. *Journal of Policy and Development Studies* 9(1), pp 268-278

[17] Lawal, E.O (2016) Effect of Exchange Rate Fluctuations on Manufacturing Sector Output in Nigeria, *Journal of Research in Business and Management, 4(10): 32-39*

[18] Omorokunwa O.G and N. Ikponmwosa. (2014). Exchange Rate Volatility and Foreign Private Investment in Nigeria. *Asian Journal of Business Management* , 146-154.

[19] Osinubi, T S. Amaghionyeodiwe, L.A (2009). Foreign Direct Investment and Exchange Rate Volatility in Nigeria. *International Journal of Applied Econometrics and Quantitative Studies* 6(2) (2009)

[20] Owoeye, T. and Ogunmakin, A.A (2013) Exchange Rate Fluctuation and Bank Performance in Nigeria, *Asian Economic and Financial Review,* 2013, 3(2):178-185 178

[21] Phillips P.C.B and Perron .P (1988) Testing for a unit root in time series Regression. *Boimetrica.* 75(2) pp 335-346

[22] Polodoo, V, Padachi, K and Seetanah, B (2011). Exchange Rate Volatility and Macroeconomic Performance in Small Island Developing States. *Conference Paper, ICITI 2011*. Researchgate, https://www.researchgate.net/publication/263925488.

[23] Rohan, W. (2001) Exchange rate exposure and competition: evidence from the automotive industry, Journal of Financial Economics 59 (2001) 441} 475

[24] Serve´n, L (2003) Real-Exchange-Rate Uncertainty and Private Investment in LDCS, *The Review of Economics and Statistics,* February 2003, 85(1): 212–218

[25] Unugbro, A.O (2007) "The impact of exchange rate fluctuation on capital inflow: the Nigerian Experience 1980 – 2003" The Nigerian Academic forum13(2): 12 - 18.

Appendix 1

Chow Breakpoint Test: 1999

Null Hypothesis: No breaks at specified breakpoints

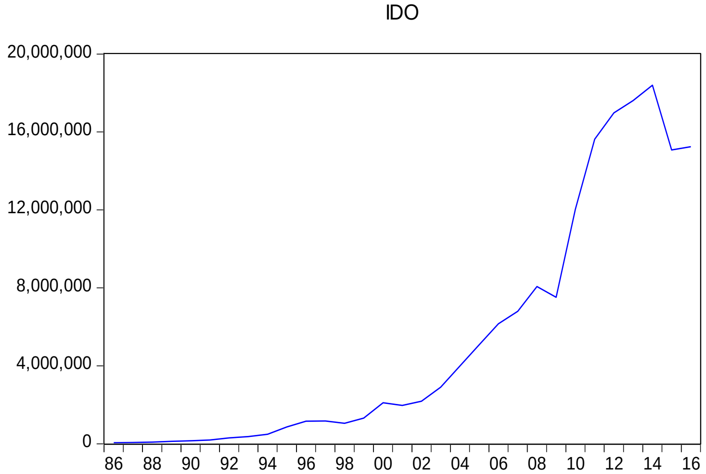
Varying regressors: All equation variables

Equation Sample: 1986 2016

F-statistic	9.807951	Prob. F(2,27)	0.0006
Log likelihood ratio	16.92925	Prob. Chi-Square(2)	0.0002

Wald Statistic	19.61590	Prob. Chi-Square(2)	0.0001

Appendix 2



Appendix 3