

ECONOMICUS

No. 20/ 2021

SCIENTIFIC JOURNAL / FACULTY OF ECONOMICS,
BUSINESS AND DEVELOPMENT

EDITORIAL BOARD

ISSN: 2223-6295

Editor-in-Chief

Prof. Asoc. Dr. Elvin Meka – European University of Tirana, Albania

Members of the Editorial Board

Prof. Dr. Adriana Galvani - Unipomediteranea in Nola-Napoli, Italy

Prof. Dr. Anilda Bozdo - European University of Tirana, Albania

Assoc. Prof. Denisa Abrudan, PhD - West University of Timisoara, Romania

Prof. Dr. Drita Kruja - European University of Tirana, Albania

Prof. Dr. Ermira Qosja - European University of Tirana, Albania

Assoc. Prof. Dr. Ha Huong - Singapore University of Social Sciences, Singapore

Prof. Asoc. Dr. Hysen Muceku - European University of Tirana, Albania

Prof. Asoc. Dr. Kreshnik Bello - European University of Tirana, Albania

Prof. Dr. Mirjeta Beqiri - Gonzaga University, USA

Assoc. Prof. Dr. Monika Garai – Fodor - Obuda University, Hungary

Prof. Asoc. Dr. Selami Xhepa - European University of Tirana, Albania

Web Admin:

Gersi Mirashi, MSc – European University of Tirana

Design

Besnik Frashni

ISSN: 2223-6295

Approved as scientific journal from the Commission of Academic Titles Evaluation at the Ministry of Education and Science no. 153 , date 08. 10. 2010

European University of Tirana / Tirana

www.uet.edu.al/economicus@uet.edu.al

www.uet.edu.al/economicus

EUROPEAN UNIVERSITY OF TIRANA / TIRANA

Rr. “Xhanfize Keko”, Nd 60, Tirana, Albania / www.uet.edu.al / info@uet.edu.al



UETPRESS

Content

Editorial

<i>AGRICULTURE...is back but needs to be driven further forward!</i>	5
Prof. Asoc. Dr. Elvin MEKA	

<i>Albania: The impact of economic and fiscal policy in the agricultural sector</i>	7
Eduart GJOKUTAJ, MSc.	

<i>The Smart Village Approach, a Solid Approach for the Development of the Albanian Agriculture</i> .	28
Prof. Dr. Petraq PAPAJORGJI	

<i>Challenges facing by Micro-Insurance, as a new and unknown concept in the insurance market. Case of Albania</i>	33
Lorena GOSEMI, MSc. & Prof. Asoc. Dr. Elvin MEKA	

<i>Capital structure in Albanian manufacturing corporations-The main factors which determine it..</i>	49
Xhesi SHKRETA, MSc. & Prof. Asoc. Dr. Elvin MEKA	

<i>The impact of social media on local government transparency and citizen engagement: The case of Tirana Municipality</i>	64
Kristi BEGO, MSc. & Prof. Asoc. Dr. Arlinda YMERAJ	

<i>New territorial reform and its effects on the administration and management of local taxes in the Tirana Municipality</i>	83
Xhensila MEÇOLLARI & Prof. Assoc. Dr. Arlinda YMERAJ	

<i>Measuring the Effect of Covid-19 on Bank Lending: Empirical Evidence from Albania</i>	101
Monika KOLLESHI & Anilda BOZDO	

<i>The impact of remittances on Albania's GDP</i>	121
Valentin ÇELA, MSc	

EDITORIAL

AGRICULTURE...is back but needs to be driven further forward! _____

_____ ***Prof. Asoc. Dr. Elvin Meka***¹ _____

EDITOR-IN-CHIEF

Albania is one of the few countries in Europe, and also in the Western Balkan region, whose economy has a strong dependence on agriculture. In fact, it is the most important sector in Albania, in terms of value added and employment. According to data from the Institute of Statistics, INSTAT, its contribution to Gross Domestic Product reached 19.3 percent last year, from 18.9 percent in 2019. The agriculture production has showed continuous increase, during the last five years (some 14.4%), but not enough to be a real game changer in the national economy. Despite the promising development of recent years, it still remains the least advanced and developed sector of the economy, in terms of applied technology, modern management and organizational schemes and financial support.

Given that it constitutes as the main daily activity for almost half of the country's population residing in rural areas, and the fact that, it occupies the largest share of the number of businesses in the economy (with 30% of the total), they speak for the lower living standard it provides for population in rural areas and still-low productivity, but in the same time, for the substantial and unexploited potential, compared to other sectors of the national economy. In this regard, proper policy mechanisms and a revolutionary approach, in terms of its development model, form a fragmented to an integrated value chain model could have a particularly strong impact on reducing poverty and increasing the supply of fresh products in the domestic market, while substituting imports. On the other hand, by increasing employment and income in agriculture we could stimulate demand for non-agricultural goods and services, thus providing a real positive drive for non-agricultural rural income, as well. Last years' figures could serve as a promising starting base for a positive thrust towards a more developed

¹ Dean of Faculty of Economics, Business and Development.

and competitive agricultural sector. However, such thrust could happen following concerted and coordinated efforts and endeavors from all stakeholders of the triple helix: Government, Business and Academia.

Frankly speaking, the agriculture in Albania faces numerous challenges, from property titles, informality, tax incentives, applied modern methods, to financing models, as it is not a usual business, like any other business, but contrary to other businesses, it strongly provides and ensure a sustainable economic development. Such a feature makes agriculture quite unique and highly strategic, in the frame of national economy, because as the first U.S. President, Mr. George Washington, once quoted: **“I know of no pursuit in which more real and important services can be rendered to any country than by improving its agriculture, its breed of useful animals, and other branches of a husbandman’s cares!”**

Albania: The impact of economic and fiscal policy in the agricultural sector _____

_____ **Eduart GJOKUTAJ, MSc.¹** _____

edigjokutaj@altax.al
ALTAX

Abstract

The development of the agricultural and rural sector is and has been throughout the history of the Albanian governments of importance for the economy, employment, but also well-being for Albania, given that this large sector currently contributes 18.4% of the country's Gross Domestic Product and in the labor, market has a share of 36.1% of total employees. Investments in technology and innovative cultivation methods have significantly improved productivity rates over the 30-year period, as well as added value per worker. Growing exports, mainly to the European Union market are constantly increasing and new trade opportunities are emerging for the organized units of the sector. This could make the sector even more attractive for foreign investment. Given the problems that have accompanied the economic model and doing business in the agricultural sector, one of the major challenges for quality development remains the reform of the real estate regime, including agricultural land. This reform process, starting from law 20/2020, which aims

¹ Eduart GJOKUTAJ is a Senior Fiscal Analyst supporting and cofounder of Albanian taxation Center (ALTAX). Eduart is the lead analyst for the "Fiskalisti" hub and Chief Editor of "Fiskalisti" Bulletin. had a long career (20 years) in government, including five years as a political appointee for the fiscal and finance policy in the energy and transportation sector. He as a Senior manager, responsible for supporting Audit, Risk Management, Senior Analysis and Research Director to improve and standardize their models. Mr.Gjokutaj has undertaken numerous research projects, governmental position, and has served as financial, economic and fiscal adviser for several Cabinet of Ministers in Albania. He worked for 4 years as Head of Board of Albanian public power company (KESH sh.a). He has published extensively on international and Albanian tax law, as the author of 7 books and co-author of 20 working papers and research studies; he has written over 500 economic, financial and fiscal analysis, weekly publications and blog.

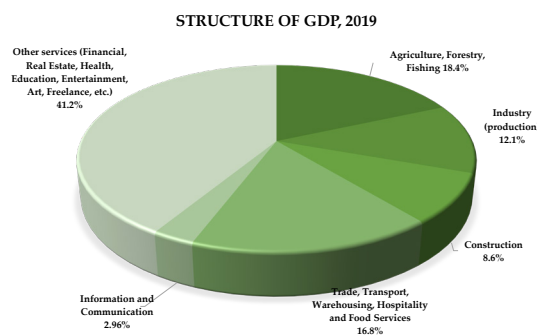
to consolidate the property rights over agricultural land, is foreseen to be finalized at the end of 2028. Tax policy affects agricultural competitiveness through its impact on the levels and variability of farm incomes, agricultural workers, land investments and technology, on labor value and other activities related to the sector. Taxes on income, property and land, and capital transfers may affect structural changes, while differential tax rates on specific activities, resources, or use of inputs may affect sustainability. In this regard, in addition to tax policy, regulatory policies have a parallel impact, related to the adoption of farm regulatory practices. Given the great impact it has agriculture on the economy and the sustainability of the rural population, central government and local government stay focused in encouraging agricultural production through interventions towards higher levels of productivity and quality, as well as regulatory and tax policies.

Keywords: Fiscal Policy, Agricultural Sector, Economic Growth.

1. The Albanian agricultural sector with its size in the economy

Agriculture, as one of the most dominant sectors of the economy with a high contributing potential to the national economy compared to other sectors, together with agro-tourism that has received a growing development in the last decade may not only develop economies of the regions of the country, but also to influence a better harmonization of supply and demand in order to increase quality.

Aquatic crops and products have also seen rapid growth turning year after year into a promising subsector. For instance, during 2019, about 5,300 tons of fish were cultivated in various special reserves and tubs, about 2% more than in 2018.



The value of agricultural exports (2016-2020) has increased by 55% (more ALL 12.6 billion).

Dairy, eggs, honey (+1.4 times), Fruits and live plants (+1.9 times), canned vegetables and fruits (+2 times), vegetables (+ 66%), tea and spices have the highest growth (+3.4 times).

The volume of agricultural exports (2016-2020) has increased by 44% (more 85.8 thousand tons). The highest growth is maintained by dairy, eggs, honey (+2.4 times), Fruits and live plants (+2 times), canned vegetables and fruits (+1.6 times), vegetables (+ 41%), fruits (+ 36%).

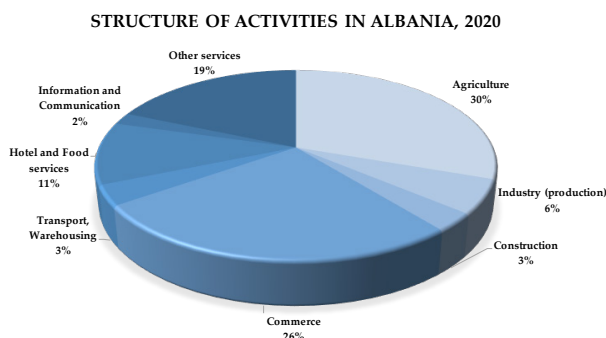
The comparison between growth in value versus volume for the last 5 years, where the value growth is 11 percentage points higher than volume growth shows, both for the change of the conjuncture of product prices, but also for a moderate increase of the value of them after processing.

If we mention the size of the agricultural sector in the early 90s, the statistics of the time present facts of the creation of 400,000 small private farms with an area ranging from 0.6 - 3 ha per household, which accounted for 100% of the market, in stark contrast to the market situation until the last of '80, when public sector activities covered 80% of the total agricultural sector (Bank of Albania, 2000)

According to Instat (2021) after 30 years, at the end of 2020 in the sector of agriculture, fisheries and forests operate 50,411 businesses (8 times less).

In the structure of activities in the Albanian economy, according to the situation we see in the graph below, it seems that agriculture (according to the type of licensing)² holds the largest share of the number of businesses in the economy, which is 30% of the total number. This fact is an indicator of a dominant potential in relation to other sectors.

If we put together all the natures of services in the country, then they equate to the agricultural sector showing that the weight of service activities is very widespread in today's economy. The third sector of the economy, which has more active businesses is wholesale and retail trade (as much as 26% of the total number).



² Any natural or legal person, local or foreign, can conduct business in the agricultural sector in Albania through the establishment and registration in the National Business Center. A business registered with the status of Farmer is obliged for the purposes of the benefits of the given regime. The farmer is an agricultural producer, self-employed, who carries out the activity with his labor force and with the available tools, in the activity of agricultural production, forestry and fishing. Farmers who sell their products to entrepreneurs (traders) are required to register and obtain a NIPT certificate. Other licenses in the Agriculture Sector are a) "Production, processing and wholesale distribution of food", with code II.1.Ab) "Wholesale of food of animal origin (for humans)", with code II.1 .B.

Agricultural production in the last 5 years (2016-2020) has increased 14.4% (1.27 million tons more vegetables, forage, fruits). The production of forage and vegetables increased by 14.9% (1.2 million tons more), while the production of fruits increased by 8% (488 thousand tons more fruits), (Instat, 2020)

The structure of vegetable and forage production includes 75.6% by forage, 16.6% by vegetables and 7.8% by industrial and medicinal plants. The structure of fruit production includes 41.9% by fruit trees, 20.1% by olives, 7.5% by citrus and 30.5% by grapes.

2. The size of the agriculture in the Western Balkans

To see comparatively the productivity of the sector, but also the model of the Albanian economy at a comparative horizontal level with the Western Balkans region³, we have observed that the share of the agricultural sector in Albania is at least 2 times to 3.3 times higher than in rest of Western Balkans.

When we consider the above economic structure, it can be said that economic growth originating from agriculture can have a particularly strong impact on reducing poverty and increasing the supply of fresh produce in the local market. Increasing employment and income in agriculture stimulates demand for non-agricultural goods and services, providing an incentive for non-agricultural rural income as well. However, in conditions when the dependence between agriculture and industry is detached/has big problems, then the raw material from agricultural products does not perform its function of increasing economic productivity in a closed cycle and in order to add value to the economy and to supply the local market chain and for export. On the contrary and in the conditions of an expanded agricultural economic sector in the Albanian economic structure the lack of low-cost industrial products/services, which can be achieved from domestic production (pesticides, chemicals, etc.) for agriculture does not show that the policy economic has followed the appropriate vision to manage the optimization of the productivity of the sector.

In these circumstances, when the factors that determine productivity levels do not act synchronously with each other, such as the supply of raw materials available to industry, land maintenance, the guarantee of low cost of industrial products for the agricultural sector, capital investments and mechanical equipment of different types accompanied by increased skills of people capacities to be prepared for the use of advanced technology, then the whole policy for the qualitative growth of the sector together with fiscal and financial incentives fail to contribute to achieving the goal for which they apply. All these elements, if not linked in the supply chain process, then probably lead to a *fiasco* of the whole sector.

³ <http://zacekorinapred.mk/2018/10/10/analize-e-detajuar-ne-fushen-e-bujqesise/?lang=sq>

Agricultural Indicators in Western Balkans, 2020

Agricultural Indicators	ALB	KOS	N.MK	MNG	SRB	BiH
Agriculture, Value added	18.4%	9.5%	8.5%	6.7%	6.3%	5.9%
Employment in Agriculture sector	36.4%	6.1%	13.9%	7.2%	15.6%	18.0%
Arable Land (ha)	611,346	583,000	418,000	9,200	2,583,000	1,029,000
Crop production index (years 2004 - 2006 = 100%)	95.9%	na	91.6%	86.2%	98.8%	83.5%
Livestock production index (years 2004 - 2006 = 100%)	98.4%	na	101.4%	98.7%	100.5%	99.3%
Food production index (years 2004 - 2006 = 100%)	96.9%	na	93.1%	93.4%	99.3%	88.9%
Rural population (% of total population)	38.8%	61.9%	41.8%	32.9%	43.7%	51.4%
The share of agricultural exports to the EU / Total exports to the EU	15.6%	29.6%	9.4%	17.5%	9.1%	15.0%
The share of agricultural imports to the EU / Total imports to the EU	6.3%	18.2%	6.7%	13.9%	13.8%	4.2%
Annual rate of change of exports from 2010 - 2020	3.8%	10.0%	3.8%	3.2%	10.2%	1.6%
Annual rate of change of imports from 2010 - 2020	13.3%	8.7%	5.3%	0.0%	7.3%	-0.6%

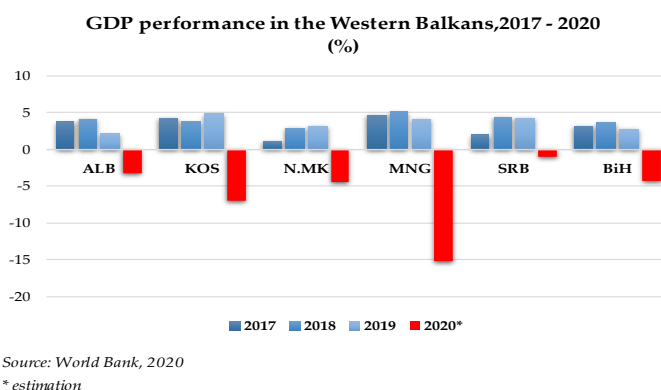
Source: World Bank, 2020

The table above shows that Albania has the highest level of employment in the agricultural sector, and the highest level of contribution to GDP in Western Balkans. In this horizontal comparison for these two indicators it is worth mentioning that the contribution to GDP in the case of 2020, which was the year that conditioned the cessation of the economy dependent on social distance, for Albania case has another impact from agriculture. In this difficult year, agricultural exports increased but with a slightly small impact on total Albanian exports, which explain the necessity of efficacy of total sector processes for an increase of value added in economy.

However, based on the statistical data, the level of Albanian exports is 2.5 times higher compared to imports from EU countries. This indicates an expansion of the market of Albanian agricultural products, with the necessity for high efficiency of the workforce as it is considered that the level of utilization of available resources is still far from optimization.

In the last quarter of 2020, the average gross monthly salary in agriculture was about 32 thousand ALL, or 40% lower than the national average salary. This fact explains one of the problems related to the low remuneration of labor value, which affect the material interest of the workforce for this sector. According to a FAO study, most farms in the country (with an area under 1 hectare), are inefficient and produce only for domestic consumption, giving a low impact on value added, as part of consumption.

However, challenges that affect and maintain a still low level of productivity include the unresolved issue of land titles, parcellation, informality of the economy, low use of new technologies, poor crop quality and non-compliance with standards, as well as higher costs of industrial inputs (those from imports) creating poor competitiveness for the same products as countries in the region. A functioning land market and formalization in a large part of the activities is critical for farmers to have access to sources of financing, as well as to grow in business dimension and invest in competitive technologies.



In the performance of GDP, for at least the last 4 years the added value in the Balkan economies has come mostly from the optimization of available resources, but also from the way they have activated natural resources to increase the economy. In a year-on-year GDP calculation, it turns out that Kosovo and Montenegro have a higher share of agricultural exports in their total exports to the EU. This comes from the higher volume of agricultural products, which mainly come from investments in processed forestry products, fruits, and medicinal plants, but not only from that. The optimization of resources and harmonization of supply chain has the important impact in this efficacy of their agriculture outcome.

3. Capital investments in agriculture

An efficient rural financial market plays an important role in developing and increasing productivity in agriculture.

If we look at the main sources of investment it is noticed that capital investments with domestic funds are the most important source.

Government budgets for each of the years in the period 2010-2020, present that the share of capital investments for the agricultural sector is on average 0.3% of

GDP, where the overall state budget for the agricultural sector is on average between 0.5 % - 0.7% of GDP. Given the fact that private sector investment has increased in the last decade, with the same average annual level of representation (0.2% of GDP), as well as including funds invested by EU funding program (IPARD with 0.1% of GDP) it is seen that the level of capitalization (assets) compared to EU countries is about 1.5 times lower, which is explained by a poor contribution that will naturally increase with the increase in investment, technology and education and innovation skills in the sector.

A serious problem in terms of increasing and strengthening productivity remains the agricultural policy, which is burdened with a large number of measures with complicated procedures, in conditions when most agricultural holdings cultivate less than one hectare of agricultural land, while many farmers are with a low level of education.

Considering the farms, that are specialized in agricultural activities of specific crops, where generally they have lower incomes than farms that aim to have agriculture as a non-core economic activity, then it is necessary that capital investments be oriented towards other interesting forms of organization of their agricultural activity. This means they should focus better with market needs and fill the gaps of supply chain in the sector.

On the other hand, specialization needs significant non-agricultural income that can be used for daily agricultural and household expenses. Problems derived also from lack of financial stock exchange market and lack of credit facilities pushes individual farmers towards combining agricultural business with tourism businesses, Agri processing, as well as oriented towards the supply base with livestock for the food services. But they always continue to lack the right capital investment for the right time and for the right decision-making, including also all the elements mentioned above.

4. Agricultural taxation model in the EU

In most EU countries, agricultural activities are run by family farms. There are around 12 million farms in the European Union with an average size of 14.2 hectares. Most of these farms are family farms which are operated as family-run businesses in which the farm is passed down from generation to generation, and personal income tax is their dominant tax. Current solutions confirm equal treatment of farmers and other taxpayers in fiscal matters.

Given the specific nature of agricultural production and its dependence on natural and climatic conditions, tax systems have preferential tax regimes/ rules, such as the right to deduct the value of losses incurred or capital expenditures from taxable income.

The simplified form of accounting is the most widely used form in the EU tax systems. According to the EU tax structures, support for agriculture is not limited to tax exemptions, but consists of the introduction of certain reliefs and improvements that motivate taxpayers in order, among other things, to increase their economic activity.

While tax policies related to agriculture can take different forms depending on the country, they can generally be classified according to the following typology into:

- income taxes, which include income tax and withholding tax on capital gains.
- personal income tax, which includes payroll tax and labor force related to farm operators as employers.
- property taxes (including property transfer taxes).
- taxes on goods and services (VAT).
- social security contributions (which are a mixture of tax, liability, and insurance).

While the sector has certainly is affected by the establishment of various tax reliefs and exemptions in different EU countries⁴, it nevertheless benefits in relation to other sectors through direct and indirect easing policies through the granting of tax rate reductions, mainly VAT.

5. Albanian Taxation and tax benefits in the agricultural sector

The taxation model of the agricultural sector is applicable in principle, in the same way as for other sectors of the economy, with some exceptions and reduction of tax rates according to specific product and product regimes.

The activities of the agricultural sector are subject to direct and indirect taxes, including certain categories of national fishery taxes. This sector is also subject to local taxes, where exemptions and reductions of tax rates apply as well.

The agricultural sector is taxed in the same way between agricultural activities. Agricultural activities registered in National Business Center office (according NACE). The registration of agricultural businesses for fiscal purposes is done through the online portal e-albania.al. The types of businesses that can be selected to carry out the activity are based on the law on companies and traders. Agricultural businesses are obliged to hold accounts like other traders for tax calculations. The tax year is twelve months and lasts from January 1 to December 31. Farmers have

⁴ A certain tax measure is a “tax relief” for agriculture if it results in differential treatment of the sector in such a way that agriculture is favored, resulting in some less tax revenue compared to other sectors.

the right to pay taxes similarly to others, as well as to claim a refund according to the same criteria as for other businesses.

For national taxes and fees, the only authority is the General Directorate of Taxes with branches. For local taxes and fees, the only authority is the Tax Directorate under the authority of Municipality where the agricultural business has jurisdiction. For duty and Customs fees, the only authority is the General Directorate of Customs with branches.

In the national taxes and fees applicable to the agricultural sector are:

- value added tax, with some reliefs that will see below.
- income tax (includes profit tax, personal income) with some reliefs will see below.
- withholding tax on individual income (included non-registered traders, tax residents and non-residents).
- excises on goods and products defined in specific agricultural products (wine, cigarettes, etc.).
- national fishery tax.
- The local taxes and fees applicable to the agricultural sector are:
- tax on buildings and tax on agricultural land (excluded as defined below).
- agricultural tax.
- tax on the transfer of the right on immovable property.
- infrastructure impact tax (excluding agritourism).
- advertisement tax (billboards, etc.).
- fee for occupying public space.
- fee for cleaning and disposal of waste.
- temporary fees.

Employees engaged in the agricultural sector pay social and health insurance on the gross salary of employees and employers in the same way and rates as for other sectors of economy.

Below are presented all taxes, exempt for the agricultural sector, as well as reliefs from standard tax rates.

Fiscal and investment incentives

In general, the agricultural sector benefits from fiscal and investment (financial) incentives according to the Law and sub law acts for the “Strategic Sectors”, according to the status of “Strategic Investment”. The legislation in these specific cases provides additional incentives from which the investor can benefit in an investment project in the agriculture sector.

The investor status has a specific package of fiscal facilities, the current tax system has adopted for the agricultural sector in particular a category of fiscal facilities affecting various taxes.

Fiscal holidays

Fiscal holidays are divided in this presentation into (a) the category of tax exemptions, as well as (b) the category of reduced tax rates in relation to standard tax rates.

A. Exemptions from taxes and fees

a. Value Added Tax (VAT)

- According to the changes in the law on Value Added Tax, the supplies of agricultural inputs are excluded from the VAT scheme, such as: chemical fertilizers, pesticides, seeds, and seedlings. This exception is defined in article 51, letter “nj.”, of law no. 92/2014, dated 24.07.2014 “On Value Added Tax in the Republic of Albania”, as amended. The exemption from VAT of agricultural inputs creates opportunities for companies importing and trading them to reduce selling prices to farmers to the same extent.
- Another exemption from VAT is applied for the supply of fuel and other necessary supplies of fishing vessels for offshore cruising and international transport of passengers for reward or used for trade, etc.
- Another exemption is for VAT on animal feed and equipment needed during the transport of animals.
- According to DCM 953/2014, there are exemptions in the import of machinery and equipment that are directly related to the investment made by taxable persons who import machinery and equipment in order to implement investment contracts in the agribusiness sector, regardless of the value of the investment.

b. Excise, as well as national taxes (turnover tax and environmental impact tax)

From 2021 tax year, the supply of oil fuel to farmers was exempt from excise tax (37 ALL/liter), turnover tax (27 ALL/liter) and environmental impact tax (ALL 3/liter). The relief from the fiscal burden of oil fuel used for agriculture, actually is applying to the 47,600 farmers, who currently have the NUIS (taxation identification number), automatically benefiting from the exemption scheme, while the rest is expected to be formalized during 2021 and next years.

c. Personal Income Tax

All those farmers, who transfer of ownership of agricultural land from a registered farmer to another farmer or a natural or legal person carrying out agricultural activity, are exempted from income tax.

d. Infrastructure impact tax (local tax)

The exception is applied for investments of businesses that carry out hosting activities certified as agritourism⁵.

e. Agricultural tax (local tax)

Exception is made for all owners of agricultural land from the payment of real estate tax for 5 years, when the agricultural land is planted with fruit trees and vineyards.

B. Tax rate reduction

a. Profit tax (corporate income tax)

- For entities that perform certified hosting activities such as “Agrotourism”, (according to the terms in legislation in force in the field of tourism), the profit tax rate is 5% (standard rate 15%). The maximum duration of this tax incentive is 5 years.
- For businesses that carry out activities certified as “agritourism” is applied from 2019 the profit tax rate of 5% for a period of 10 years
- From 2019, the reduction of profit tax from 15% to 5% is applied for agricultural cooperation companies, which operate according to law no. 38/2012.

b. VAT

- For the structures, which carry out reception activities certified as “agritourism”, the reduced rate of value added tax of 6 percent is applied for the supply of accommodation and restaurant services, except for beverages. The taxable person, who applies the reduced rate of value added tax 6 percent, is the person registered with NUIS, only for the development of the host activity certified as “agritourism”.
- The VAT compensation rate for agricultural producers is 6%.

⁵ Agritourism is classified as an activity, which can be developed in (a) agricultural farms, which must have at least 1 ha of land planted with agricultural crops or, at least, 0.5 hectares of greenhouses, (b) livestock farms, which must give care, minimally, 10 head of cattle or 100 head of sheep / goat or 200 head of poultry (stalls are also classified), (c) fishing farms / aquaculture.

Investment incentive schemes

The investment incentive scheme in the country is oriented in two directions as follows:

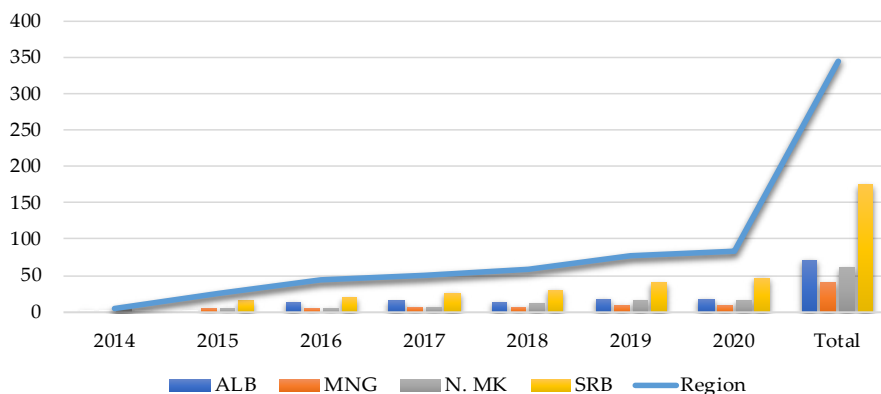
National Agricultural Support Scheme

The National Agricultural Support Scheme 2020 is an investment incentive fund, as a modest financial policy to tackle some of problems in supply chain in agriculture. This scheme addresses a fund of ALL 7 billion from the state budget in support of farmers, which will be used to: (a) increase the competitiveness of livestock products, agricultural products in protected areas and reduce production costs, through the payment of registered animals and plastic price subsidies, (b) increase of areas planted with medicinal and aromatic plants, (c) certification of agricultural products and organic farms, (d) support for the diversification of economic activities in rural areas.

EU funding mechanism with IPARD program

Albania has received the right to access IPARD grants, a program initiated in December 2018 with a funding value of about 17 million Euros per year (including the contribution of the Albanian Government). The intensity of grants for the agricultural sector ranges from 50-70% of the project contracted by the Agricultural and Rural Development Agency. This grant financial support for each public call consists of 75% funding provided by the instrument for assistance to the pre-accession of rural development in the European Union and 25% funding provided by the budget of the Republic of Albania, as part of the agreement of SAA (Albanian Agribusiness Support Facility)

**Funds benefited from IPARD,
Western Balkans, 2014-2020**



Source: EU

The maximum contribution of the EU for Albanian farmers in the last 5 years reaches absolute figure of 71 million Euros, where capital investments reach 57.9 million Euros (as much as 0.45% of GDP). With the opening of pre-accession negotiations for EU accession, a 10-fold increase in these financial resources is expected. Meanwhile, Northern Macedonia has received 60 million Euros, Serbia 175 million Euros and Montenegro 39 million Euros.

The impact of taxes on agriculture

The general analysis of the tax system presents the wide range of tax rates and the diversity of tax incentives in agriculture. It also points to the types of taxes where benefits are most common. An analysis of the impact of tax policy on the agricultural sector is complicated by the fact that some of the tax relief and exemption measures need to be seen in fiscal terms of how informality has not yet been clarified by the government as to what extent it exists by introducing and direct and indirect effect. Whether they are specific to agriculture or not, these tax incentives may have implications for the productivity and sustainability not only of the agricultural sector, but with potential effects and alternative impacts in meeting the tax policy objectives for the economy.

The impact *we first analyze* on the consequences of tax revenues is that related to state accounts. From the calculations of tax exemptions for VAT, profit tax, excise, turnover tax, carbon tax, as well as other facilities for the agricultural sector, all together reach an impact on budget revenues up to ALL 3.2 billion. Whereas the burden of taxes and fees of this sector does not exceed more than 20% of tax revenues. In fact, the burden is affected also due to the numerous exemptions and facilities, which differ from other sectors in the number of exemptions (10 central and local taxes exempt and two central taxes with tax rate reductions).

Macroeconomic Indicators, ALB	2017	2018	2019	2020*
GDP growth	3.8	4.1	2.2	-3.3
Consume	2.1	3.1	2.5	-3
Investments	1.5	0.7	-0.9	-0.7
Net Export	0.2	0.2	0.6	0.5
Inflation rate	2	2.1	1.4	1.6
Tax Revenues (% GDP)	25.7	25.6	25.4	25
Employment rate	58.3	59.4	60.4	59.5
Unemployment rate	13.7	12.3	11.5	11.7

Source: World Bank, MoFE

* estimations

The *second impact* is related to the benefits of the sector, which in addition to the benefits it has received from tax exemptions also has the benefits it benefits from the policy that is generally made for taxpayers.

Considering the changes in fiscal policies have occurred, at least in the last 4 years, if we look at the table of macroeconomic indicators at the national level, the consumption has fluctuations. All tax exemptions, at least for the part that belongs directly to the agricultural sector, do not turn out to have a valid medium-term impact on problem solving and investment recovery, although their impact would be valid for approximately 1/5 of the economy. Meanwhile, in the growth of exports, of course, in addition to increasing exports of energy products, the export of agricultural products has a significant positive impact. Whereas, when we analyze the share of the labor force of the sector that exceeds over 1/3 of the total employment in the country, the tendency and connection of the economy, newly opened business units, as well as the level of increase of exports, naturally all these indicators reflect an impact on increasing the employment indicator of this sector.

It is also clear that progressive tax instrument on labor value and income tax relief facilities for agriculture improve the income situation of farm households (low and middle incomes), thus reducing the frequency of low incomes. But the poverty that comes from low-income farms, however, can be addressed more effectively using the overall social support system. This would require all a family's current income to be formal, however, many farmers are outside the tax system. Moreover, it is generally observed that households supplement farm incomes with incomes from other sources. This is another argument for the actual income from all activities recorded through the tax system. Another argument against using tax policies to reduce poverty is that these reliefs are not able to reach the poor families of farms with income levels below the tax threshold.

At the same time, the review of tax policies needs to be done annually, to analyze the effects and impacts of the exclusion policy on the economy and possible imbalances with other sectors. Each of these exceptions is ostensibly set with a clear policy goal in mind (in many cases years ago), but with the exception of policies in the area of sustainability, there is extremely little evidence available to the public that the facilities have achieved their objectives. targeted. But the downside of incentive and facilitation policies is clearly, that once launched, their removal is extremely difficult in the political sense.

Moreover, these policies have real costs in terms of the income of other groups and to the detriment of tax morality. As such, it is entirely possible that even if a policy were to be effective in achieving its objective, the cost-effectiveness of the scheme may be unknown — that is, it remains to be seen whether the same objective can have been achieved more freely using different policy instruments.

These policies undoubtedly have different effects, which remain almost completely unexplored. Related effects include: (a) pollution of the environment by relatively cheaper fuel for agricultural activities, (b) increased use of pesticides and fertilizers due to the reduction of value added tax, (c) capitalization of land tax credits, and (d) incentives to purchase agricultural land for inheritance planning or tax evasion purposes.

Recent fiscal incentives may lead farmers, especially those with other off-farm incomes, to have annual farm losses to reduce their income tax and amass wealth from rising land values while benefiting from the lowest profits of untapped capital. Thus, farm tax incentives can reduce incentives to optimize productive use of farm assets, leading to reduced sectoral productivity and reduced production, reduced demand for farm inputs and services, and reduced rural employment.

6. Economic impact of COVID-19 on agriculture

The agricultural sector, in 2020, when the Covid-19 pandemic blocked most of the activities in the country did not interrupt the continuity of the supply chain for the market. But the difficulties and delays in exports were like other economic sectors, due to the blockage of foreign transport.

Imports of some agricultural and industrial raw materials, such as seeds, seedlings, chemical fertilizers, machinery and equipment managed to enter from imports, giving a partial impact (due to high cost by reducing profit margin) on product activity agricultural, secured by imports which were not interrupted. The livestock sub-sector was also partially affected, which was blocked in almost half of the volume of the supply chain for food services in the country.

Meanwhile, blockages and difficulties in liquidity were also created for businesses that export aromatic and medicinal plants, due to the blockade of the global economy and trading partners.

The main negative impact of the pandemic was observed in small and medium-sized businesses, with a turnover of up to ALL 14 million. However, overall, the annual turnover of the activities of the agricultural sector had a decrease in turnover by 20–60% of them and this was accompanied by the results with losses in the financial balance sheets of 2020. According to the survey of Investment Council (2021), the decrease of customers, shortages, and cuts in liquidities, as well as the increase of direct costs are among the biggest elements with an impact on the negative balance sheet of 2020.

Wages of “war” has been the most profitable instrument by businesses in the country, but agriculture is found according to the survey as above that it has not benefited from this financial measure of the government. But agricultural

businesses seem to have partially utilized the financial mechanism of using the sovereign guarantee to avail low-interest loans. Meanwhile, the savings from their activity has been part of the response to the pandemic, as well as the reduction of employees to a moderate extent.

For example, informality (lack of NUIS) has limited the movements of farmers and rural entrepreneurs by physically affecting the inability to perform all necessary work operations in a timely and effective manner. According to official data only 15% of farms are equipped with farmer NUIS, which has prevented farmers and entrepreneurs from moving freely in times of restrictions.

One problem that came to light was the fact that rural areas have low access to social protection programs due to land ownership, when at the same time the population is characterized by low incomes, unsustainable, mostly informal employment. These facts were not considered in time to enable the expansion of groups covered by social protection programs to alleviate poverty and social exclusion, as a positive response to the effects of Covid-19.

New ventures in the sector are also the first to experience the impact of the pandemic, as they are not eligible entities for funding from national agricultural schemes, but also failed to be part of the coverage of the government financial package under Covid -19.

Among the reactions of the agricultural sector is the use of new innovative ideas to increase the range of new products, aiming in this case to use the new market space in the border areas with our country, but also with new agreements in European markets.

However, in the quarterly economic performance of 2020, it was noted that the contribution of the agricultural sector to the real GDP growth rate was 0.7%. In the third and fourth quarter of 2020, the contribution of the sector was respectively 0.01% and - 0.49%.

The first quarter of 2021 resulted in an impact of 0.01%, which in their continuation reflect all the problems of the sector, emphasizing the fact of responsibility in addressing the problems that are under the responsibility of the government, but also aimed at a policy of cloud in support of the post-pandemic change effects on the economy as a whole.

7. Conclusions & Recommendations

Conclusions

This analysis aims to examine the impact of fiscal and economic policy on agricultural sector. If we can see the facts/arguments of such an analysis, it can be ascertained that agriculture is beneficial from economic policies and plays a significant role in the GDP, and looks that agriculture will continue to contribute to the important part of the Gross Domestic Product, for many years to come.

Temporary surtaxes, tax amnesties, sales of public assets, and other measures may give the sector some short-term relief but will do nothing to reduce its underlying deficit. Similarly, postponing essential reforms or politically motivated wage increase will be of only temporary value and may do more harm than good over the medium term. Albania should choose measures that are likely to be durable over the longer term, that do not diminish the efficiency of investments, and that have the least costly effects on growth in the rest of the economy.

Therefore, increasing budgetary allocation to agricultural sector infrastructure to enhance the speed at which the sector grows as well as managing the tax system effectively will take a long time in the development process of Albanian economy. Public investment in physical infrastructural activities has been associated with strong externality effects. Some public consumption expenditures, however, may also have a similar growth-promoting impact, such as spending on elementary education and vocational training to enhance human capital, on infrastructure operations and maintenance, and on targeted research and development activities.

Public expenditure on education has a positive impact on growth and that social protection spending has a significantly adverse impact.

Fiscal policy may have important effects on an economy's long-run growth performance. The degree of fiscal adjustment required depends on the quality of the specific measures chosen for its implementation.

The quality of fiscal measures can significantly shape the process of macroeconomic regulation, economic growth rates and capacity utilization and the account position of agricultural exports.

Among the main economic factors that determine a country's growth over the long term are the efficiency with which any existing stock of resources is utilized, the accumulation of productive resources over time, and technological progress. Each of these factors can be affected by the main instruments of fiscal policy.

First, taxation and economic growth are linked in several ways. Except the distortionary effect of taxes on economic behavior, by affecting capital accumulation, the structure of taxation may have important implications for growth. For a given tax level, a relative shift from income to consumption taxation reduces the disincentive to save, thus boosting capital accumulation. Furthermore, a heavy reliance on trade taxes can prevent an economy from absorbing or developing new technologies, hampering its growth prospects by reducing the exposure of domestic industries to international markets and competition.

Second, tax policy may also have a significant positive impact on both resource accumulation and technological progress if it provides tax incentives that promote investment and research and development activities. Without these incentives, such activities will be below optimal levels.

Third, uncertainty and change of rules about the tax regime can have adverse effects on growth, since uncertainty injects volatility into the returns from investment projects, reducing or postponing investment and impeding growth.

Fourth, a balanced budget may have growth effects that are separate from those related to either taxation or public expenditure. For instance, budget imbalances may trigger a behavioral response from the private sector. If the sector is affected by a fiscal policy to narrow the budget deficit, this could trigger a response to private sector savings, in which case national savings fall, hampering growth. Budget imbalances that affect stability may also affect growth. The non-stabilized tax policy is likely to have an adverse impact on growth in this post pandemic time, because the increased demand from export for agricultural products leads to inflation, because of lack of capacities to fulfill all the demand from local and external market.

This undesired situation can also affect growth. Although the relationship between inflation and growth is complex at the moments we talk, evidence from energy sector suggest that a significant negative correlation exists between high inflation and growth. Thus, there is a compelling case for believing that existing fiscal policy, that generates high rates of inflation will most likely retard growth in long term prospect.

Tax policy in agricultural sector is often used as a lever through which to affect behavior in the agricultural sector, impacting producer income, farmland transfer, investment, innovation, and sustainability outcomes. If we can see all the history of sector development and the contribute to GDP, the tax system is used to complement other policies in achieving economic goals. In other occasions , taxes or tax exemption have not accepted by the informal part of sector to incentive the economic growth of farms and sector that are contrary to the achievement of policy goals in other countries where the level of informality is lower than in Albanian agricultural sector.

Although many Balkan countries (also EU) include provisions in their tax policy designed to influence the agricultural sector, for most of the topics explored in this review, there remains only scant sector-specific analysis that can inform future policymaking efforts. The exception to this has been in tax exemptions, where new tax policies have been implemented alongside monitoring programmes, and analyses have been published. Further analysis is needed on existing tax exemptions that aim to facilitate land transfer, investments, export, costs of input to open the dialog based on transparency about policy recommendations in this sector.

Consequently, such tax and economic policy and measures should be implemented as part of a strategy to achieve medium-term fiscal viability.

Recommendations

From the analyze of the impact of fiscal and economic policy on agricultural sector developments, the following recommendations are made based on the findings of the analysis and the references used to make the tailored presentation.

Fiscal policy should increase aggregate demand directly through an increase in government spending. Since agriculture is very important to the growth process of economy, government should increase the capital budgetary allocation to this sector in a consistent approach and also ensure the effective utilization of such funds so as to achieve the targeted aim of developing agricultural sector and the economy at large.

The government should ensure that the outcome of the agricultural sector is because of an appropriate structure based on functions of an improved supply chain management within the sector (product development, marketing, operations, distribution, finance, and customer service). Improvement in this regard will result in lower costs and a faster production cycle. This would serve as alternative source of revenue generation different from revenues generated by the agricultural sector (i.e. agritourism).

The comprehensive and structural tax reform measures can be viewed as supporting the objectives of macroeconomic adjustment, growth, and sustainable external should be addressed, as follows:

- removing distortions from the income tax system and lowering high marginal tax rates on labour taxes for research and development experts in agricultural sector.
- strengthening and expanding the VAT base.
- integrating the capacities of public agencies to confront the tax evasion and informality, accompanied by money laundering in big projects.
- implementing an elastic policy for import taxes on inputs and agriculture products similar with Albanian crops.
- reforming the tariff structure to reduce anti-export bias and neutralizing of the red tape and administrative costs (technical and customs fees).
- providing sufficient funds for infrastructure operations and maintenance.
- encouraging productive government investment, particularly when combined with policies to correct distortions in relative factors and prices.
- addressing of low productivity of government grants and national schemes.
- using more cost-effective expenditure policies to attain political goals/promises such as income distribution, external or internal security, and self-sufficiency.
- substituting specific tax exemptions for budget subsidies, to highlight

clearly the opportunity cost of government policy objectives and raise the consciousness of policymakers in setting national priorities, reducing government consumption outlays.

8. References

- Agjencia Kombëtare e Punësimit dhe Aftësive (2020). Paketë informuese - Sektori i agrobiznesit.
<http://www.akpa.gov.al/wp-content/uploads/2021/01/PAKETE-INFORMUESE-MBI-SEKTORIN-E-AGROBIZNESIT-NE-SHQIPERI.pdf>
- AIDA (2020). Agriculture, Agritourism and Aquaculture Sector.
<https://aida.gov.al/images/PDF/Publikime/agriculture-FactSheet-.pdf>
- Erjavec, E., & Volk, V., & Rednak, M., & Ciaian, P., & Lazdinis, M. (2021). Agricultural policies and European Union accession processes in the Western Balkans: aspirations versus reality. Taylor and Francis Group.
<https://www.tandfonline.com/doi/pdf/10.1080/15387216.2020.1756886?needAccess=true>
- Euro Speak (2021). Integrimi i Shqipërisë në Bashkimin Europian dhe efektet në ekonominë bujqësore vendase. <https://www.eurospeak.al/news/ekonomia/1506integrimi-i-shqiperise-ne-bashkimin-europian-dhe-efektet-ne-ekonomine-bujqesore-vendase>
- European Commission (2015). Characteristics of farming systems in Albania. file:///C:/Users/User/Downloads/jrc95833%20web%20final%20printed.pdf
- European Commission (2021). Agri-food trade statistical factsheet European Union – Albania. https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/farming/documents/agrifood-albania_en.pdf
- European Commission (2021). Agri-food trade statistical factsheet European Union - Bosnia-Herzegovina.
https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/farming/documents/agrifood-bosnia-herzegovina_en.pdf
- European Commission (2021). Agri-food trade statistical factsheet European Union – Kosovo. https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/farming/documents/agrifood-kosovo_en.pdf
- European Commission (2021). Agri-food trade statistical factsheet European Union - North Macedonia.
https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/farming/documents/agrifood-north-macedonia_en.pdf
- European Commission (2021). Agri-food trade statistical factsheet European Union – Montenegro.
https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/farming/documents/agrifood-montenegro_en.pdf
- European Commission (2021). Agri-food trade statistical factsheet European Union – Serbia. https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/farming/documents/agrifood-serbia_en.pdf
- Eurostat (2020). Enlargement countries - recent economic developments. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Enlargement_countries_-_recent_economic_developments&oldid=532452

- Eurostat (2021). Basic figures on enlargement countries. <https://ec.europa.eu/eurostat/documents/4031688/12749261/KS-08-21-097-EN-N.pdf/5d39c0eb-7f28-7128-0caa-541af1fc67e4?t=1620368086198>
- Eurostat (2021). Crop production in national humidity. https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=apro_cpnh1&lang=en
- Instituti i Statistikave (2020). Regjistri Statistikor i Ndërmarrjeve. <http://www.instat.gov.al/al/temat/industria-tregtia-dhe-sh%C3%ABrbimet/regjistri-statistikor-i-nd%C3%ABrmarrjeve/#tab2>
- Instituti i Statistikave (2021). Regjistri i Ndërmarrjeve. <http://www.instat.gov.al/media/8440/njoftim-per-media-regjistri-i-ndermarrjeve-2020.pdf>
- Keshilli I Ministrave (2021). Economic Reforma Programme 2021-2023. <https://www.financa.gov.al/wp-content/uploads/2021/02/Economic-Reform-Programme-2021-2023.pdf>
- Keshilli I Ministrave (2021). Këshilli i ministrave vendim nr. 7, datë 13.1.2021 për miratimin e kuadrit makroekonomik e fiskal për periudhën 2022 – 2024. <https://www.financa.gov.al/wp-content/uploads/2021/01/Kuadri-Makroekonomik-e-Fiskal-p%C3%ABr-periudh%C3%ABn-2022-2024-VKM-Nr.-7-dt-13.1.2021-.pdf>
- Minsitria e Financve dhe Ekonomise (2021). MAP REA Albania Inventory of Investment Incentives. <https://www.financa.gov.al/wp-content/uploads/2020/06/MAP-REA-inventory-of-Investment-Incentives.pdf>
- Monitor (2021). Numri i bizneseve në bujqësi u rrit me 7.2% më 2020, por kontribuuesit ranë me 24%. <https://www.monitor.al/numri-i-bizneseve-ne-bujqesi-u-rrit-me-7-2-me-2020-por-kontribuuesit-rane-me-24/>
- NOA (2021). Potenciali i bujqësisë shqiptare dhe mundësitë e financimit. <https://www.noafn.al/blog/100/potenciali-i-bujqesise-shqiptare-dhe-mundesite-e-financimit>
- OECD library. *Taxation in Agriculture: Main report*. <https://www.oecd-ilibrary.org/sites/073bdf99-en/index.html?itemId=/content/publication/073bdf99-en>
- Salko, D. (2000). Institucionet financiare rurale dhe financimi i ekonomive fermere. Banka e Shqiperise. https://www.bankofalbania.org/rc/doc/Buletini_ekonomik_Vellimi_4_Nr_1_Institucionet_financiare_rurale_dhe_financimi_i_ekonomive_fermere_1982_1_6407.pdf
- US Department of State (2020). *2020 Investment Climate Statements: Albania*. <https://www.state.gov/reports/2020-investment-climate-statements/albania/>
- World Bank Document (2021). Western Balkans Regular Economic Report No.19. Subdued Recovery. <https://openknowledge.worldbank.org/bitstream/handle/10986/35509/Subdued-Recovery.pdf?sequence=1&isAllowed=y>

The Smart Village Approach, a Solid Approach for the Development of the Albanian Agriculture _____

_____ **Prof. Dr. Petraq Papajorgji¹** _____

petraq.papajorgji@uet.edu.al

DEPARTMENT OF TECHNOLOGY AND INFORMATICS,

EUROPEAN UNIVERSITY OF TIRANA, TIRANA, ALBANIA

Abstract

This paper focuses on the issues facing Albania as a country aiming the membership to the European family. First, European policies for rural areas revitalization are presented and then, the challenges Albania has to overcome to become a EU member and second, to revitalize the rural areas. Small holding size is a major concern as it does not stimulate cooperation amongst farmers. Land legal issues is another problem that needs to be addressed. The revitalization of Albanian rural areas demands investments in ICT and a collaboration between the public and the private sectors.

Keywords: *smart village, IT, economic growth, integrated approach.*

¹ Prof. Petraq Papajorgji is Professor Emeritus at the Faculty of Engineering, Informatics and Architecture of the European University of Tirana. He has a vast and valuable academic, research and professional experience, in Albania and abroad, such as: USA, Canada, Brazil, France, etc. He has been an active researcher in the field of agriculture and Information Technology, has authored numerous research papers, and has been the editor of many international books. Prof. Papajorgji is the Emeritus Editor in Chief off International Journal of Agricultural and Environmental Information Systems (IJAIEIS), Member of the Mediterranean Advisory Board (meconet.me), Associate Editor of Journal of Biomedical Data Mining and Associate Editor of Ibero-American Journal of Applied Computing. He is one of the most highly cited Albanian academic and researcher, in the field of IT..

1. Introduction

As Albania is paving the path to enter Europe, the number and the size of challenges to overcome are of noticeable relevance. One of the most daunting challenges is the revival of Agriculture, as it is one of the most important economic sectors of the country.

Albania does not have to have its original development path of the agricultural sector. Albania must closely follow the European efforts to solve the agricultural economic revival issue as a country is inspiring to be part of the European family.

In September 2016, more than 340 rural stakeholders gathered in Cork, Ireland, intending to develop a vision for the future of EU rural areas (European Commission, 2017). Under the heading “A Better Life in Rural Areas”, the Cork Declaration 2.0 sets out the expectations and aspirations of rural areas (Commission, 2016). The document calls for policymakers to pay particular attention to narrowing the digital divide between rural and urban areas to develop the potential offered by connectivity and digitization of the rural regions. After lengthy discussions, it was agreed to pay particular attention to the need for **integrated approaches** and the interaction between different policy fields in view of increasing complementarity and coherence (European Network for Rural Development, 2016).

Several serious studies have underlined that the most relevant point is providing to rural areas quality utility services like power, water, and sanitation (Aldo et al., 2006). In addition to those services, other essential services such as education, healthcare, transportation, infrastructure (roads, railways, buildings, equipment) must be the priority in the strategy development of every village (Joginder, 2017).

2. ICT and Economic Growth

The impact of Information and Communication Technologies (ICT) on economic growth and development has been the subject of analysis by many authors for quite some time ((Elena et al., 2018), (Qiang & Pitt, 2004), (Jalava & Pohjola, 2007). For many years, there has been considerable debate about whether the IT revolution was paying off in higher productivity,

Studies in the 1980s found no connection between IT investment and productivity in the U.S. economy. Most of the evidence in this area confirms that the positive effect of ICT on economic growth is not apparent before the mid-1990s. Nowadays, it would be difficult to consider prosperity and economic growth without the presence of serious investments in ICT.

Thus, policymakers need to consider that the economic revival of Agriculture is strongly related to ICT use. The European Commission sees the use of ICT as

one of the deciding factors for revitalizing Agriculture (3). From IOT (Internet of Things) concept to Smart Agriculture, the rational use of ICT is one of the most predominant factors for restoring rural areas.

The “ smart cities “ initiative is an example of a successful combination of IT investments and economic growth. This initiative showed that without solid support in IT investments, cannot be achieved economic growth. A smart city is a municipality that uses information and communication technologies to increase operational efficiency, share information with the public, and improve the quality of government services and citizen welfare. The United Nations definition of the Smart City initiative is *“A smart, sustainable city is **an innovative city that uses ICTs and other means to improve quality of life, the efficiency of urban operation and services, and competitiveness while ensuring that it meets the needs of present and future generations concerning economic, social, environmental as well as cultural aspects.**”*

3. Agriculture in Albania

Albania has a total land area of 28,750 square kilometers, of which 24% is agricultural, 36% forest, and 15% pasture or other types of land. While agriculture no longer dominates the Albanian economy, it contributed around 21% to national GDP in 2019. In 2020, imports of agricultural products were slightly more than \$1 billion, almost the same as in the previous year. Exports have continued to rise, reaching about \$365 million in 2022, a 10% increase from 2019 (*Albania – Country Commercial Guide.*, 2021). As of today, Agriculture will remain a main economic activity for Albania.

In its path towards Europe, Albania has to address some issues that are mainly Albanian. One of these issues that need to be addressed sooner rather than later is the minimal size of holdings (average of 1.2 ha - compared to 14 ha in EU-28). The main economic structure is the family-based organization type (family members, one cow, two dogs, and a cat!!) Thus, it isn't easy to apply any substantial form of organization that would be the basis for serious development.

The reminiscence of paranoia of communist cooperatives makes people very uncomfortable trusting each other and cooperating. The typical situation is the distrust among villagers and lack of cooperation of any kind. This issue is a significant obstacle to sustainable development and growth.

In addition to its structural problems, Albania needs to address many severe social issues, such as a massive migration from rural areas towards cities. As a result of this migration, few people are available to work in fields. The most severe human resources-related issue remains the difficulty of finding technologically inclined people. The massive use of ICT in Agriculture will need many savvy people to address the technical problems in front of them.

4. Implementing The Smart Village Approach in Albania

There are discussions about the best way to implement the “smart village approach “. The best, quickest, and most efficient way is to build up from the bottom, as suggested by Mahatma Gandhi. According to this philosophy, every community has to address its own issues to become a self-sufficient unit. To address the philosophy issue does not require brave resolutions; it requires bold, corporate, intelligent work.

Collect community efforts and strength of people from various streams and integrate them with information technology to benefit the rural community. To our best knowledge, there is no Master Plan to address rural revitalization. Government should undertake concrete steps for solving land property problems. The land issue is and will remain a fundamental problem for the country's development.

Another direction where government should focus its attention is education for increasing the trust amongst farmers to cooperate. There is an urgent need to create a smart village ecosystem. An ecosystem requires the coordination of work of several actors of different nature, national and local, and public and private efforts.

Such initiative requires a lot of studying to be undertaken well ahead of the time of implementation. Universities could play an essential role in this effort.

5. Conclusions

The smart village approach has been used by many countries in the world and is becoming the way to revitalize rural areas,

Countries with a huge rural population, such as China and India, have given this approach the right consideration and are using it as the only way to diminish the digital gap among cities and villages,

Serious educational efforts must be put in place. A large number of people must be trained and educated to use technology as an everyday tool. Nowadays, technology is a necessary part of economic growth.

These efforts must be directed by the government and universities.

6. References

- Albania – Country Commercial Guide.* (2021). Official Website of the International Trade Administration,.
- Aldo,B.,William,K.,&Meike,van G.(2006).*CHARACTERISTICS OF WELL PERFORMING PUBLIC WATER UTILITIES.* <http://www.worldbank.org/watsan>

- Commission, E. (2016). *CORK 2.0 DECLARATION "A Better Life in Rural Areas*.
- Elena, T., Bogdan, Narcis Firtescu Angela, R., & Sorin, G. A. (2018). Impact of Information and Communication Technology Infrastructure on Economic Growth: An Empirical Assessment for the EU Countries. *Sustainability, MDPI*.
- European Commission. (2017). *1. EU Action for Smart Villages*.
- European Network for Rural Development. (2016). *Business Models for Rural Services*.
- Jalava, J., & Pohjola, M. (2007). ICT as a source of output and productivity growth in Finland. *Telecommun. Policy, 31*, 463–472.
- Joginder, A. (2017). Smart Villages, Information Communication Technology and Geographical Information System. *International Journal of Current Trends in Science and Technology, 7*(8), 20232–20235.
- Qiang, C. Z. W., & Pitt, A. (2004). *Contribution of information and Communication Technologies to Growth*.

Challenges facing by Micro-Insurance, as a new and unknown concept in the insurance market. Case of Albania¹

Lorena Gosemi, MSc.²

lgosemi2@uet.edu.al

DEPARTMENT OF ECONOMICS & FINANCE,

EUROPEAN UNIVERSITY OF TIRANA, TIRANA, ALBANIA

Prof.Asoc.Dr. Elvin Meka³

elvin.meka@uet.edu.al

DEPARTMENT OF ECONOMICS & FINANCE,

EUROPEAN UNIVERSITY OF TIRANA, TIRANA, ALBANIA

¹ Awarded with the “Best Diploma Thesis”, by winning the 1st Prize at DSSH JUNIOR (Students’ Annual Scientific Conference for Faculty of Economics, Business & Development, UET).

² Lorena Gosemi is a graduate student, Master of Science in Finance, at Department of Economics & Finance, Faculty of Economics, Business and Development, at European University of Tirana. During academic years she has been a member of different student’s clubs and part of Erasmus+ students exchange program twice, in Bologna, Italy. She has been awarded with excellence certificates for five years of studies at European University of Tirana, CAMS Project Management & Project Excellence Certificate (2017), and UET Participation Certificate for “Insurance Market Challenges & Problematics” Essay Competition (2nd place). Lorena Gosemi is the winner of “Interdisciplinary Junior Researcher 2021”, 3rd edition, for the Faculty of Economics, Business and Development. Currently she is working at LocalEyes Ltd, an Irish company located in Tirana, Albania, in the position of Finance Specialist in the Finance Department.

³ Prof.Asoc.Dr. Elvin Meka has more than 16 years of experience in central and commercial banking, capital, and securities markets in Albania, as well as more than 11 years of academic experience as Vice Dean & Head of Department of Finance and Vice Rector for Academic Process, at European University of Tirana (UET). Prof.Asoc.Dr. Elvin Meka has worked for various institutions, such as: Bank of Albania (Issuing Department, Monetary Operations Division, Stock Exchange Department), Tirana Stock Exchange (CEO), Albanian Association of Banks (Secretary General), Emporiki Bank – Albania, - Credit Agricole Group (CFO) and “LUARASI” University College (Administrator). He has been board member of Mountainous Areas Development Agency – MADA, Business Consultative Council, Chairman of Internal Audit Committee for Public Sector at Ministry of Finance, member of “INSIG” Internal Audit Committee and currently he is Editor-in-Chief of “BANKIERI” Magazine, a publication of Albanian Association of Banks (AAB), Chairman of “AK Invest” Supervisory Board and board member of Albanian Securities Exchange - ALSE.

Abstract

Micro-insurance is a form of insurance, not being separated from traditional insurance, but which is mainly aimed at low-income individuals. This form of insurance applies to developing countries, where the level of population income is below the average level and where the low-income individuals occupy the highest percentage. The importance of micro-insurance in these countries applies to the fact that it includes in its packages, individuals who are excluded from traditional insurance schemes. Albania is also one of the developing countries, with low economic levels, where micro-insurance development is very important. This is also the focus of this work, highlighting the main factors that hinder the development of micro-insurance and the readiness of insurance companies or other interest parties in the application of micro-insurance. The analysis will be done through the drafting of a detailed questionnaire, addressed to 12 insurance companies operating in the country. Currently, there is no micro-insurance product in the insurance market and as such the need arises for a market analysis to study factors influencing and at the same time training and practices for insurance companies to get to know more about the term. AFSA, the entity regulatory has the main role in this process, which must undertake the strategy and practice to promote interest parties in the development of micro-insurance and the protection of low-income individuals. The results achieved in this paper support the hypothesis raised, where the factors that hinder the development of micro-insurance in the country are: high premium costs, the non-existence of a group of experts in the design of its products and the non-favourable level of technology and innovation.

Keywords: *Micro-insurance, low-income, premiums, developing country, insurers, AFSA.*

1. Introduction

In a very short time, micro-insurance has advanced far from something strange in the insurance world into a significant business opportunity in the long run. Who would have thought that low-income individuals would be so worthwhile to find, or such premiums that cost 50 cents a month would be profitable? Today more than thirty international intermediaries are offering micro-insurance products in different parts of the world and more others are planning to participate at the moment we are talking (Radermacher, 2011). Although there is no such a recipe for success, the key characteristics that are leading toward that way are differentiation, innovation and partnership. Micro-insurance is a concept whose time has already come (Norton, 2010). But still micro-insurance remains a new

and complex industry, which is still evolving, mostly because of the involvement of some stakeholders and the operations they undertake varies from country to country. The same problem occurs in Albania, related to the restrained initiative of insurance companies, intertwined with the main role played by the government and the regulatory entity, the AFSA.

1.1. Study Objective and Research Questions

The purpose of this paper is to highlight the importance of the application and development of micro-insurance in Albania, by studying in detail various literature specifying micro-insurance, concrete cases and comparable in analysis with our country to focus at all the obstacles and difficulties that are currently being encountered. Among the most important and current issues will be the impact of Covid-19 in the field of insurance.

The paper will be oriented through some research questions that follow as follows:

- Are high premium costs a factor hindering the application of micro-insurance in Albania?
- Is the lack of a group of experts, capable of designing products suitable for micro-insurance and the current situation in the country another obstacle?
- Does the lack of technology and innovation also affect the appearance of problems in the development of micro-insurance?

The null hypothesis that will be raised and intended to be proven in this paper is:

- The application of micro-insurance in Albania encounters problems and difficulties due to high premium costs, the lack of a group of experts capable of designing products appropriate to the situation and at the same time the current not very favourable stage of technology and innovation.

1.2. Methodology

This research is based on the design of a detailed questionnaire, divided into 3 different sections in such a way that each aspect of the study has a conclusion and examines in detail all the problems encountered by insurance companies in the country. First section includes general questions about insurance companies operating in the market, to understand more about the economic profile of Albania, and as well as to see if the market completes all the conditions to allow the development of micro-insurance. Second section includes direct questions about micro-insurance, and this is the most important part that gives the answers

to all our problem spotted since at the beginning. The third and last section is focused more on two of the most important events, that had a major impact in the economy and individuals lives in general terms, such as the earthquake in Albania and the Covid-19 pandemic. In this section we can see more about the importance of micro-insurance in such difficult times.

Despite the questionnaire, to complete the research there have been collected and analyzed information from different books, literatures, experiments, case studies in different countries and as well papers dedicated to micro-insurance.

2. Literature review

The term “micro-insurance” first appeared as a financial service within microfinance and then developed as a separate sector (Insurance Information Industry, 2021).

The concept of insurance dates back to as far back as 3,000 BC in China, where traders and investors shared the risk of losing goods when transporting abroad. A similar concept developed in Babylon, where the Greeks and Romans introduced the origins of life and health insurance around 600 BC, in which they established charitable institutions that took care of the families of deceased individuals. The first fire insurance company in England, was established after the occurrence of the Great Fire of London, around 1666 (Dror, 2019).

In recent years micro-insurance products have become a very important component of risk transfer of life, health, property and agro-culture in developing countries. At the end of 2013, it was estimated that micro-insurance products covered about 500 million people worldwide. (Churchill C. F., 2007) identifies micro-insurance as a form of insurance that is made through periodic payments or not, and that is addressed to individuals who do not have access to the traditional form of insurance. This is one of the reasons why micro-insurance is mistaken as the programs offered by the government or non-profit organizations to a certain part of the population in case of need (Wouter & Ombeline, 2017).

2.1. Design of Micro-insurance products

Micro-insurance is seen as the “next revolution” in addressing risk and vulnerability in developing countries (Morduch, 2006). Micro-insurance products differ from one market to another, adapting to the economic situation and needs of individuals, but a good micro-insurance product has at its core the key attributes of SUAVE, according to the study of (McCord, 2012) which are:

Simplicity– Product design, warranty terms and conditions, language of insurance policies and micro-insurance application procedures should be structured in the

simplest way possible so that all individuals can easily understand them.

Understandable- To clearly understand the whole process and if necessary, take additional education or training programs.

Availability- The objective of micro-insurance is for a given segment of the population, those individuals who have low and volatile incomes and as such offers the opportunity for all individuals to be able to access the products that offers in its packages.

Validity- Due to the low and volatile incomes of the very low-income percentage of the population, micro-insurance products require adjustments to meet the requirements of the target group of individuals.

Efficiency- Products and premiums must be kept at a low level for the product to be affordable by the target group.

2.2. Products offered by Micro-insurance and related features

The most common types of coverage that micro-insurance products offer in accordance with insurance principles include life insurance - often related to loans provided by microfinance institutions or MFIs, health insurance and property insurance. agricultural and livestock (Biener, Eling, & Schmit, 2014). Micro-insurance policies provide mandatory and voluntary coverage for the risk ranging from health to death, from theft to fire and from livestock to crops (Biener & Eling, An analysis of Problems and Potential Solution, 2012).

The most common products that micro-insurance offers are given as follows:

Life Micro-insurance and pension savings plans- this type of insurance provides protection the against financial consequences to the death of the head of the household or old age. Although life insurance is normally applied for long periods, the poor generally buy micro-insurance products for a short period, for example: 1 year, with no renewal guarante (ILO/STEP, 2006).

Health Micro-insurance- this type of insurance offers protection against the financial consequences of various diseases and motherhood. The financial consequences are of various natures: 1) direct medical costs for disease prevention, care and treatment, 2) direct non-medical costs and 3) indirect costs or opportunity costs caused by health diseases or motherhood for wasting productive time of both parties.

Micro-insurance of disabilities- this form of insurance provides coverage against the financial consequences of disability, whether temporary or permanent, depending on the contract. Disability will be called temporary when the loss of physical ability is recoverable and lasts for a certain period of time, usually up to 3 years.

Micro-insurance of property– this type of insurance includes assets, home, etc. Micro-insurance of property provides coverage against the financial consequences of damage or loss of personal assets, workplace and tools.

Micro-insurance of agricultural crops– plays a very important role in developing countries as mainly the poor can be completely dependent on the income they receive from agricultural crops. This insurance provides a financial compensation in case of crop failure that comes as a result of unforeseen events or happenings. A specific and innovative case in this part is the indexed insurance of atmospheric conditions (Rebekah Yore, 2019). One of the most successful products that micro-insurance offers, based on the strategies of insurance companies, tends to be life insurance coverage related to loans granted by MFIs (Churchill & McCord, 2012).

2.3. Micro-insurance product distribution models

The scope of financial intermediaries has changed significantly in micro-insurance, moving to a more integrated phase with a diversity of types of product distribution to consumers. Nowadays, technological innovation in financial terms and the growth of partnerships, has caused the distribution of micro-insurance products to change and grow dynamically (Access to Insurance Initiative, 2016). In micro-insurance, simplicity and distribution are the key to all business models. Michael McCord and Craig Churchill identified three distribution models used in micro-insurance (McCord & Churchill, Successful Business Models in Microinsurance, 2014).

Traditional Model– This model uses the power of the company to sell products. Insurance companies possess a great deal of control over the micro-insurance market and maintain customer privacy but due to direct market involvement, distribution, and administration costs increase significantly. Such a model has more disadvantages (Nef, 2012). MFIs and banks are seen as the ideal partners to create these volumes, as they have knowledge and experience in financial transactions with clients. Insurance companies choose their agent based on 3 aspects: the possibilities of achieving a contact with the client, reputation and loyalty. The main challenge in this model is the fact that the financial rewards for the partners are very low and thus creates a low willingness for the latter to sell products.

Community-based model– This model consists in the formation of certain groups, which have as specific: common interest, voluntary membership and not profit maximization. Group members are the owners and beneficiaries of micro-insurance policies. One of the members, who is the leader of the group should manage all the requests and collection of micro-insurance premiums.

2.4. Micro-insurance market and its functioning

Financial inclusion in the micro-insurance market is achieved when all customers can reach and sustainably use these services that have a great importance to their needs. The main purpose of financial inclusion is not only to ensure that low-income individuals are not excluded from the formal sector, but also to ensure that they use financial services regularly (Bester & Chamberlain, 2010).

Micro-insurance demand-side:

The demand for micro-insurance products will refer to all those individuals with incomes below the minimum level, who need micro-insurance products to feel safe and be protected from the innumerable risks that can affect them from the lack of basic needs (Liu, 2016). Jose Luis in an interview with ACCION in 2014 said: "If these individuals lose something, they have lost everything!" Micro-insurance is the right tool to overcome poverty and protect low-income individuals (USAID, 2006).

Micro-insurance supply-side:

The micro-insurance supply refers to all institutions and processes that are involved in the production and distribution of micro-insurance products, which create a distribution chain of micro-insurance products (Microinsurance Business Models, 2009).

Successful interaction of the functions of micro-insurance market participants is the key point to achieve successful results for all participants. **The main and most important reason that hinders the development of micro-insurance in many countries is the fact that insurance companies do not see any additional benefit to take over its application.**

The importance of technology, and innovation in Micro-insurance:

Micro-insurance faces many challenges that hinder industry from growth and development. Lack of quality data prevents efficient underwriting of micro-insurance products. Against the challenges faced in the development of micro-security, many innovative technologies have emerged. Payment in the form of applications and indexed insurance of atmospheric conditions are the innovative methods used (Chow, Biese, & Ng, 2019). Moreover innovation and technology are still at a very low level in various countries, especially in rural areas (Biener & Eling, An analysis of Problems and Potential Solution, 2012).

Supervision and regulation in Micro-insurance:

Insurance, for a long time, has been described as a business "dressed in the public interest" because of the role it plays in economic development and personal

security (Daykin & Cresswell, 2001). While regulators vary over time and in different jurisdictions, their primary purpose is the same: to protect consumers by ensuring safe and transparent insurance practices. (Klein, 1995) identified four regulatory activities: solvency, rates and policy forms, market practices including sales and underwriting, and other functions such as improving customer information (Access to Insurance Initiative, 2016).

2.5. Impact of Covid-19 on Micro-insurance

The COVID-19 crisis took its toll on the insurance industry, but how it affected particularly micro-insurance clients, who were forced to choose between paying premiums or food to live on. From an adage “never let a good crisis go to waste”, MiN at the last forum of experts raised the question of whether the pandemic had strengthened or undermined the micro-insurance business (MiN, 2020). For Peter Gross, COVID-19 has been a wake-up call, forcing insurers to make late changes. He said: “We need to offer valuable products that people know about, understand and stay with. COVID-19 shed light on this. “ Despite all the challenges micro-insurance remains a priority and if COVID-19 has highlighted one more thing, it has been to highlight those low-income individuals who need protection (Microinsurance Network, 2020). The pandemic had both a negative and a positive impact. Among the negative effects can be listed: significant decline in activities and GDP, delays in partnerships and new agreements, increased reputation risk, reduction of tourism due to travel restrictions, numerous suspended services, and many others. On the other hand, there have been positive effects such as: new opportunities to increase digitalization, strengthening solidarity, opportunities for innovation and resistance and, above all, awareness of the current situation in the country (World Bank Group, 2021).

3. Empirical Analysis

This research is focused in the problems facing by micro-insurance as a new concept, in tendency to develop and to has a succesful feedback in the market. In this section the reader will take the answers of every question and problematics raised in the beginning of this paper.

3.1. Economic profile, and the current state of the insurance market in Albania

According to (INSTAT, 2021), the economy in Albania experienced an increase in real terms of 2.11% compared to 2018 and an increase of 4.02% compared

to 2018 and 2017. Data for the first quarter of 2021, show that gross domestic product is estimated with an increase of 5.53% compared to the first quarter of 2020 (INSTAT, 2021) the insurance market holds the largest and at the same time most important weight in the development of the non-banking financial market in our country. The Albanian doctrine actually talks about the existence of insurance since the period before the Second World War (Naqellari, Hoti, & Angjeli, 2014).

FIGURE 1: Main Indicators of the Non-Life Insurance Market in Albania

Year 2021	in thousand ALL				
	January-June 2021	January-June 2020	January-June 2019	January-June 2018	January-June 2017
Gross underwritten premiums	8,187,240	7,052,684	7,445,506	7,128,541	6,821,537
Gross claims paid	3,411,138	3,813,734	2,346,911	2,162,830	2,533,458
Number of contracts signed	419,803	395,166	535,385	503,952	463,229
Number of claims paid	25,700	23,108	20,789	22,444	24,110

Source: (AFSA, 2017 - 2021)

The insurance market in Albania is developing, by making progress in terms of public awareness about the insurance culture, but again it is worth mentioning the fact that a significant percentage of the population does not use traditional insurance products at all. Based on data obtained from (AFSA, 2017 - 2021) during the period January-June, in general terms, the insurance market in Albania has increased by 17.53%, compared to the period January-June 2020. The data of 2020 compared to 2019, show more the effects of pandemic over insurance. Also during 2020 the gross claims paid have increased by 17.45% compared to 2019 and this significant increase came from the fire portfolio and additional risks following claims for damages caused by the two earthquakes that occurred during 2019.

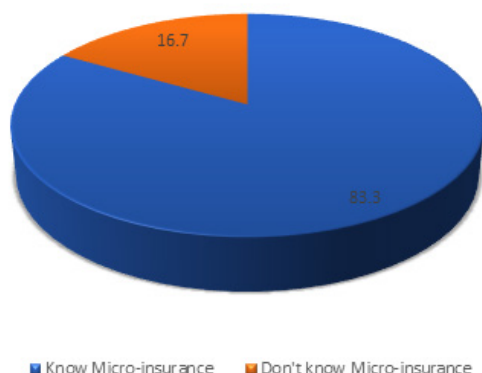
3.2. General analysis of insurance companies in Albania

Based on data collected by (AFSA, 2021), in Albania, are currently 12 insurance companies operating, of which 8 are non-life insurance companies and 4 are life insurance companies. Although it is obvious that Life insurance occupies 33% of the market, from the answers to the questionnaire it was noticed that life insurance packages such as health insurance for travel or accidents, are among the most requested by customers. The first insurance company received the authorization to operate in the market in 1999 and this year marks the beginning of insurance in the Albanian market. Most companies are characterized by the predominance of domestic capital, exactly 8 of them and the rest have more foreign capital than domestic. From the results of scientific research, it was noted that the insurance products that occupy the highest percentage are travel health insurance and compulsory motor insurance, which have the highest demand. Among other insurance products for which the demand is significant is agro-cultural insurance. From the latest data, it is worth mentioning that in Albania the first steps are being taken towards the development of the insurance market and this comes from the AFSA. The latter in collaboration with several local partners has undertaken the project for comprehensive voluntary insurance. The project is funded and supported by the Insurance Access Initiative, which together with the GIZ Global Leadership Academy is trying to make the necessary changes in our country. GIZ Regional Director, Mr. Hans-Jürgen Cassens, has emphasized “...*the big potential that micro-insurance will have in this place, if all the interested parties will join together in such a way to bring innovative solutions that are necessary and fundamental*” (AFSA, 2017).

3.3. Market research and results achieved in relation to Micro-insurance

“Micro-insurance”, from the word itself offers something smaller than what is normal and in Albania these needs must be met that no matter how small, they are vital and necessary for individuals. Vicki Vrint has an expression of hers that says: “All you need is a little!” From the data collected to the questionnaire 16.7% of the insurance companies did not know at all micro-insurance and the conditions of its operation. From the 83.3% of companies that are currently familiar with micro-insurance, 66.7% of them admitted that they have received training related to micro-insurance and are very familiar with the terms and conditions. Meanwhile the remaining 33.3% admitted that they know micro-insurance, but their staff has not done any training related to insurance.

FIGURE 2: Recognition of “Micro-insurance” by insurance companies



Source: Authors, 2021

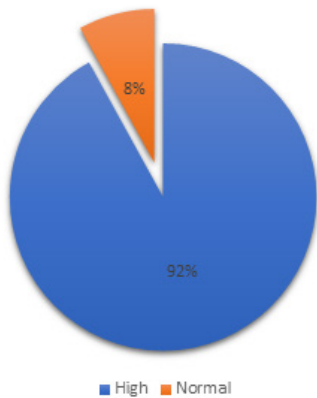
From companies that know micro-insurance and have done training, it turned out that after that they conducted a market study to analyze and understand the requirements of low-income customers in the country. Of the companies that conducted the market study, 40% of them said that low-income individuals have no information about micro-insurance and the remaining 60% said that low-income individuals are interested in insurance products. In addition, 33.3% say that the application will not be of interest to them and 25% of them remain neutral.

3.4. The main factors influencing the application of Micro-insurance

Among the key factors related to the application of micro-insurance we can mention: the economic situation, financial policies, and product design. From the answers received, we note that 45.5% of insurance companies claim that financial policies are favorable in the country to develop micro-insurance, while 27.3% of them deny this and do not see it as reasonable. The remaining 27.2% remains neutral. In reviewing the economic situation, we note that 63.6% of companies agree that the economic situation is favorable and suitable for micro-insurance to be applied in the near future, while 18.3% of them say that they do not find it favorable the economic situation to take on such an initiative. Again 18.3% of them remain neutral in response. Product design will play a very important role, as in most cases they penalize the application of micro-insurance. From the questionnaire data, more than 80% of insurance companies say they have support from the reinsurer. The rest of less than 20% somewhat agree with this statement. Among all these points mentioned, the main problem in this part and almost in

the whole paper lies in the calculation of the premium for such products, in which the very high cost of the premium hinders the market application of such products and for this reason fell agree over 90% of insurance companies, who do not see additional benefits.

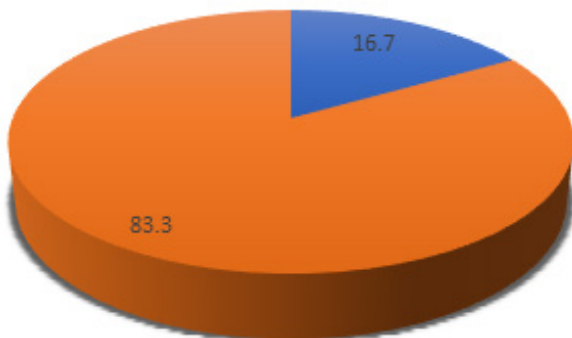
FIGURE 3: Calculation of premium of micro-insurance products



Source: Authors, 2021

The problem here is much more emphasized, perhaps and as much as could be expected and the need arises to create some strategies that can positively impact and can avoid this problem that hinders the development of micro-security. One of the fastest solutions suggested by the insurance companies themselves is to offer the products as “group” packages, in such a way that the costs are reduced and there is a marginal benefit from the package being offered.

FIGURE 4: Existence of a group of experts



Source: Authors, 2021

Finding a group of experts is another problem, in which about 83.3% of insurance companies agree, that in our country there is no such group that enables such efficiency. The remaining 16.7% say that current experts who design insurance products may be able to make such products for micro-insurance, but by analyzing in detail the economic situation and in relation to financial policies. Micro-insurance is a novelty itself and as such requires procedures that often need a considerable level of technology and innovation.

Product offering and distribution channels need new methods applicable in different countries. From the data collected, 67% of insurance companies say that the technology is not at the right level to promote the development of insurance and obstacles are expected in the future, while the remaining 25% say that it is favorable and 8% of them remain neutral. Moreover, Micro-insurance needs support, cooperation and above all a well-organized market.

AFSA is a regulatory body and plays a very important role in the insurance market. In the opinion of insurance companies, the AFSA should:

- (1) Launch a market study, involving all interests' parties, to have a look at market development opportunities.
- (2) Ensure that every insurance company offers reasonable premiums to clients who do not have high solvency.
- (3) Set price ceiling and floors, to avoid abuses in the market.
- (4) Identify insurance needs for low-income individuals.
- (5) Take steps to increase competition, to allow the development of the micro-insurance market and the products it offers.
- (6) Raise awareness of low-income individuals about the benefits of micro-insurance.

Meanwhile they emphasized the actions that them as an insurance company should do:

- (1) To develop as much training as possible regarding micro-insurance and its practices.
- (2) To design products specifically in the field of Agri-culture.
- (3) Create a balance between current market conditions, their interests, and the economic opportunities of individuals to provide quality services.
- (4) Participate in meetings with interests' parties, to develop a joint strategy.

3.5. Impact of the earthquake and Covid-19 on insurance and the poor population

According to the data collected from the questionnaire, all insurance companies agree on the point that the earthquake and Covid-19 were waking up call to pay more attention to the insurance market. During the earthquake period it

was noticed that insurance companies have successfully coped with the influx of damages left behind and moreover have indemnified their customers in record time. After the earthquake damage in total about 1900 cases have been reported, of which 270 are in the process of treatment. On the other hand, it was Covid-19 that focused not only on the insurance culture in general, but the insurance of low-income individuals in particular. Both events together showed that today more than ever this part of the population needs insurance and at this point all the insurance companies agreed.

4. Results and Recommendations

In this research the focus was on identifying the main factors that affect the development of micro-insurance in Albania, especially the negative aspects that hinder it. On the other hand, the impact of micro-insurance on the insurance companies themselves, their benefits and advantages, in addition to the obstacles to the creation of its products. During the study it was concluded that the key factors hindering the development of micro-insurance are: high premium costs, lack of a group of experts to design micro-insurance products and the level of technology and innovation not very favourable. This is because in these three factors, it was noticed by the data collected from the questionnaire that more than 80% of insurance companies expressed the same opinion regarding the not at all favourable aspect of these factors to develop micro-insurance in Albania. So we say that, *our null hypothesis cannot be rejected*.

At the end of the analysis of this research we are able to give some necessary recommendations as follows:

- (1) On the one hand the regulatory entity by name itself has the greatest responsibility where it must regulate and supervise every process from beginning to end.
- (2) On the other hand, insurance companies should be willing to join in the actions that the regulator undertakes to implement and give their opinions / suggestions regarding the situation to have a successful outcome.
- (3) They should also participate in the trainings that AFSA conducts.
- (4) After reaching a point of common interest between the regulator and the insurance companies, a group of specialists should be defined to design the products that micro-insurance offers.
- (5) If the feedback is positive, it is processed in the further steps of micro-insurance market development and if a satisfactory result is not achieved, the situation is analysed to understand the negative factors that have influenced.

5. References

- Access to Insurance Initiative. (2016). Lessons from a Decade of Microinsurance Regulation. *Proportionate Regulatory Framework in Microinsurance*.
- AFSA. (2017 - 2021). *Statistical Bulletin: January-June (2017-2021)*. Tirana: Financial Supervision Authority.
- AFSA. (2017). *Supervision Reports*. Tirana: AFSA.
- AFSA. (2021). *INFORMATION ABOUT INSURANCE COMPANIES*. TIRANA: AFSA.
- Beqiri, A., Shyti, A., & Mani, E. (2018). *Insurance Market in Albania*. Tirana: Albas.
- Biener, C., & Eling, M. (2012). An analysis of Problems and Potential Solution. *Insurability in Microinsurance Markets*, 77-107.
- Biener, C., Eling, M., & Schmit, J. T. (2014). Regulation in Microinsurance Markets: Principles, Practice, and Directions for Future Development. *World Development*, 21-40.
- Bingzheng, C., Frank Y, F., Michael R, P., & Joseph, Q. (2019). Risk-revealing contracts for government-sponsored microinsurance. *Pacific-Basin Finance Journal*, 57. Retrieved August 19, 2019
- Bocke, L. (2008). Lessons Learned from Experiences in India and Madagascar. 12-20.
- Chow, Q., Biese, K., & Ng, J. M. (2019). Technology In Microinsurance. *How New Developments Affect the Work of Actuaries*.
- Churchill, C. F. (2007). *Protecting the Poor: A Microinsurance Compendium* (Vol. 1). Munchen: International Labour Organization.
- Churchill, C., & McCord, M. (2012). Protecting the poor: A microinsurance compendium. 8-39.
- Daykin, C., & Cresswell, C. (2001). The regulation of non-life insurance in the United Kingdom.
- Dean Karlan, J. M. (2010). Chapter 71- Access to Finance. *Handbook of Development Economics*, 4703-4784.
- Dror, D. M. (2019). Microinsurance: A short history. 8-12.
- Eling, M. (2014). "The Determinants of Microinsurance Demand." *The Geneva Papers on Risk and Insurance. Issues and Practice*, 224-263.
- Greene, M. R. (2019). Historical development of insurance. *Encyclopedia Britannica*, 3-9.
- ILO/STEP. (2006). THE ROLE OF MICRO-INSURANCE AS A TOOL TO FACE RISKS IN THE CONTEXT OF SOCIAL PROTECTION. 24-28.
- INSTAT. (2021). *Gross Domestic Product, 2019*. Tirana: INSTAT.
- INSTAT. (2021). *Gross Domestic Product, T1-2021*. Tirana: INSTAT.
- Insurance Information Industry. (2021). Background on: microinsurance and emerging markets. 2-4.
- Klein, R. (1995). Insurance regulation in transition. *Journal of Risk and Insurance*, 363-404.
- Liu, Y. a. (2016). "The Dynamics of Microinsurance Demand in Developing Countries Under Liquidity Constraints and Insurer Default Risk." *The Journal of Risk and Insurance*, 121-138.
- McCord, M. J. (2012). Microinsurance product development for Microfinance providers. 43-49.
- McCord, M. J., & Churchill, C. (2014). Successful Business Models in Microinsurance. *Report of the 6th A2ii - LAIS Consultation Call*, 2-9.
- Microinsurance Center. (2012). Microinsurance Product Development. 12-20.
- Microinsurance Network. (2020). COVID-19: A moment of truth for microinsurance.

- MiN. (2020, July 16). The Scope for Hope. *Response to COVID-19*.
- Morduch, J. (2006). Micro-insurance: the next revolution? *Understanding poverty*.
- Naqellari, A., Hoti, A., & Angjeli, G. (2014). Insurance market in Albania. *Seventh International Conference*, 260-264.
- Nef, S. (2012). MICROINSURANCE DELIVERY MODELS. *Building social protection floors and comprehensive social security systems*, 30-35.
- Norton, M. (2010). "Microinsurance, Brick by Brick." *World Policy Journal*, 78-79.
- Radermacher, R. a. (2011). "Insurance for the Poor? First Thoughts About Microinsurance Business Ethics." *Journal of Business Ethics*, 63-76.
- Rebekah Yore, J. F. (2019). Microinsurance for disaster recovery: Business venture or humanitarian intervention? *An analysis of potential success and failure factors of microinsurance case studies*, 16-32.
- THE WORLD BANK. (2020). *Beaten or Broken? Informality and COVID-19*. Washington, DC : International Bank for Reconstruction and Development.
- Thorburn, C. (2017). What is Microinsurance? 11-15.
- USAID. (2006). *What is Microinsurance?* USA: USAID.
- World Bank Group. (2021). COVID-19 Outbreak: Insurance Implications and Response. *Finance Series*, 4-26.
- Wouter, G. J.-P., & Ombeline, D. B. (2017). The Demand for Microinsurance: A Literature Review. *World Development*, 139-156.
- Yao, Y. (. (2013). "Development and Sustainability of Emerging Health Insurance Markets." *The Geneva Papers on Risk and Insurance. Issues and Practice*, 160-180.
- Yunus, M. (2010). *Building Social Bussines*. New York : Perseus.

Capital structure in Albanian manufacturing corporations– The main factors which determine it_____

Xhesi Shkreta, MSc.¹

xshkreta2@uet.edu.al

Prof.Asoc.Dr. Elvin Meka²

elvin.meka@uet.edu.al

DEPARTMENT OF ECONOMICS & FINANCE, _____
EUROPEAN UNIVERSITY OF TIRANA, TIRANA, ALBANIA

¹ Xhesi Shkreta is a graduate student for Master of Science in Finance, at Department of Economics & Finance, Faculty of Economics, Business and Development, at European University of Tirana. During academic years she has been part of Erasmus+ students exchange program twice, in Ludwigshafen, Germany. She has been awarded with excellence certificates for five years of studies at European University of Tirana, Rebus Project (2019) and UET Participation Certificate for the Best Business Idea Competition (2nd place). Xhesi Shkreta was part of “Interdisciplinary Junior Researcher 2021”, 3rd edition, for the Faculty of Economics, Business and Development. Currently she is working at “Loci Trading Center”, an Albanian company, located in Fushe- Kruje, Albania, in the position of Economist in the Finance Department.

² Prof.Asoc.Dr. Elvin Meka has more than 16 years of experience in central and commercial banking, capital, and securities markets in Albania, as well as more than 11 years of academic experience as Vice Dean & Head of Department of Finance and Vice Rector for Academic Process, at European University of Tirana (UET). Prof.Asoc.Dr. Elvin Meka has worked for various institutions, such as: Bank of Albania (Issuing Department, Monetary Operations Division, Stock Exchange Department), Tirana Stock Exchange (CEO), Albanian Association of Banks (Secretary General), Emporiki Bank – Albania, - Credit Agricole Group (CFO) and “LUARASI” University College (Administrator). He has been board member of Mountainous Areas Development Agency – MADA, Business Consultative Council, Chairman of Internal Audit Committee for Public Sector at Ministry of Finance, member of “INSIG” Internal Audit Committee and currently he is Editor-in-Chief of “BANKIERI” Magazine, a publication of Albanian Association of Banks (AAB), Chairman of “AK Invest” Supervisory Board and board member of Albanian Securities Exchange - ALSE.

Abstract

For every company, decisions made on achieving an optimal capital structure are important for its life cycle and economic profitability. Properly funded investments contribute to the creation of new wealth, which reflects a high added value in the market. A number of theories have been developed by specialists, in the field of finance and economics about the capital structure and its optimal level. In general, these theories came up to conflicting conclusions. One of these theories, developed by Myers and Majluf in 1984, is the "Pecking Order Theory", which states that companies choose to finance their activity in a certain hierarchical order, preferring domestic financing at first and if it is not possible, they will prefer to be financed through debt, and ultimately through new equity. This paper tends to analyze in which extent this theory of capital structure is applied in the Albanian reality of large manufacturing corporations. Through empirical analysis of the sample, it is analyzed to what extent manufacturing corporations taken in the study, choose to apply this preferential order in decision making between different financing alternatives. Through the inductive method used in the argument, it is concluded that "Pecking Order Theory" is widely applicable to large manufacturing corporations operating in Albania. They prefer domestic and debt financing rather than new equity. Based on the results, in the end are given some recommendations for large corporations, in order to see as an effective way of financing the issuance of new equity, or even debt securities, such as corporate bonds.

Keywords: *capital structure, pecking order theory, Albanian business financing.*

1. Introduction

The process of corporate decisions on making various investments consists of comparing the present value of future cashflows with the actual cost of the investment, or comparing the expected return with the return required by the investment. Expressed simply, the investment process requires an estimation of the funds' cost used to finance it.

This cost is related to the cost of capital and depends on the cost of different sources of funding. A corporation can borrow from a variety of sources and may issue preferred or common stock to raise its funds.

All sources of financing have a certain cost, so the question that naturally arises is: What is the best combination of debt and equity financing that minimizes the cost of corporate capital? This cost-minimizing combination of resources is recognized in the financial literature as the optimal corporate capital structure.

Defining and evaluating this optimal structure helps senior corporate management decide between long-term profitable investments. These decisions

are important for corporate's life cycle and profitability. The right investments contribute to the creation of new wealth, which translates into a higher value of the corporate in the market.

Effective financial management of funding sources and the factors that determine the capital structure are important for achieving a good operational performance. Practically, capital structure has turned out to be an important influential factor in the corporate's market value. A wrong decision that can be made regarding the capital structure can lead to financial difficulties and even to the bankruptcy of the company (Çekrezi, 2015).

"Capital structure describes the proportionate relationship between debt and equity" (Owolabi and Inyang, 2012). Debt consists mainly of long-term loans and bonds, while equity in the balance sheet includes share capital, stock dividends, reserves and retained earnings. Thus, a company has the opportunity to finance its activity through debts and / or through equity.

The cost of debt is lower than the costs of other sources of financing (cost of shares), because the company's lenders face a lower level of risk than its shareholders. This cost depends on factors such as: interest rate, corporate income tax and risk (Mayo, 2012).

The cost of the company's preferred stock depends on its dividend and the price that investors are willing to pay per share. From the company's point of view, the cost of preferred stock is higher than the cost of debt securities, as interest is a deductible expense for tax purposes, while preferred dividend payments are not (Ciceri and Xhafa, 2005).

The cost of common stock refers to the return required by potential investors, to encourage them to invest in the company (Cakolli, 2010). It is an opportunity cost, the return that investors demand from the company, to satisfy the potential uses of their money. Common stock is the most expensive form of equity.

Objectives

The objectives of this research paper are:

- Description of theories of capital structure, focusing on "Theory of Financing Hierarchy",
- General description of the way Albanian businesses finance their activity over the years,
- Analysis of the applicability of the "Pecking order theory" in Albanian manufacturing companies,
- Evidence of the causal link between funding sources, which confirms the application of the "Pecking order theory".

Research question

The main question raised in this paper is: Is there a practical application of “Pecking order theory” in the way Albanian manufacturing corporations finance their activity?

Hypothesis

The hypothesis of this paper is: The “Pecking Order Theory” finds practical application in the way Albanian manufacturing corporations are financed.

Methodology

The methodology used to validate the hypothesis is empirical, argumentative and inductive analysis. Empirical analysis was used to prove the relationship between various sources of funding. Through this method, the performance of financing indicators is analyzed over a period of time, for a sample of about 30 large companies operating in the manufacturing sector in our country.

The data of the sample is secondary statistical data, obtained from Monitor magazine, in an article listing the 200 largest companies (based on turnover achieved in 2019), in Albania.

Argumentative analysis was used to identify whether the theory has practical application in our study case.

Inductive method is the way of making broad generalizations from specific observations. From statistical analysis (regression model OLS) of the selected sample, I aim to reach a comprehensive conclusion for all manufacturing corporations operating in Albania.

For the collection and analysis of secondary data, I have relied on various scientific articles of the way large corporations in Albania are financed, in annual reports of the Bank of Albania, and in the data processed by the Albanian Association of Banks.

2. Literature Review

Capital structure remains an important research topic for corporate finance (Çekrezi, 2015). The pioneering work of Franco Modigliani and Merton Miller (1958) commonly known as the MM theory, on capital structure led to the development of several other theories bent on explaining the basic determinants of the capital structure in firms.

Modigliani Theory – Miller

This theory developed by economists Franco Modigliani and Merton Miller, first published in 1958, proposes that the market value of a company is irrelevant to its capital structure in a world where there are no taxes, bankruptcy costs and expenses related with the problem of agency costs or information asymmetries (Modigliani and Miller, 1958). The theory also concludes that, in a perfect ideal capital market, company is equally indifferent to choose between internal or external sources of financing. The market value of the company depends on the ability of its assets to generate profits and is independent of the policies it chooses to finance investments or to give dividends (Modigliani and Miller, 1958).

In the second proposition of the theory (Modigliani and Miller, 1963), in order to get closer to the economic reality, Modigliani and Miller considered taxes and proposed that companies should use as much debt as possible to increase their level of profits. The company has the opportunity to benefit from the use of debt, as interest is a deductible expense before taxes. Consequently, it will pay less tax when it uses debt as an alternative of financing, rather than its own capital (Modigliani and Miller, 1963).

This consequence of the MM theory (1963), was further developed and elaborated by the compensation theory or the “Trade off” theory (1977), which is described as follows.

Theory of compensation (“Trade-off”)

Among all theories, the “Trade-off” theory, which is derived from the Modigliani-Miller (1963) theory (Iqbal et al., 2012) was the earliest and best known in explaining capital structure. This theory took into consideration the impact that taxes have, based on the MM study (1963), bankruptcy costs and financial difficulties (Warner, 1977), as well as knowledge from the agency costs literature (Jensen and Meckling, 1976).

Bankruptcy cost is a cost incurred when the expected probability of failure is greater than zero. Based on the “Trade off” theory, companies tend to require debt (Jalilvand and Harris, 1984), as they aim to maximize their return by “compensating” the disadvantages of debt with its advantages.

According to (DeAngelo and Masulis, 1980), among the advantages of debt, except tax benefit, can be mentioned as follows:

- Debt is a valuable signaling instrument by companies. Increasing the financial leverage ratio increases the value of the company in the market.
- Agency costs related to share capital are reduced by the use of debt.

- Debt reduces the management costs of the management team, by disciplining and supervising the company's managers.

Debt disadvantages (Warner, 1977), except bankruptcy costs, include:

- Managers, acting in the interests of shareholders, can shift investments to more risky assets and pass the costs to creditors.
- Managers can borrow even more and pay for shareholders' dividends.
- Excess debt leads to low investment.

The theory concludes that the capital structure is based on a compromise between tax savings and debt costs.

This theory also suggests that higher profitable firms have higher target debt ratio, because they would ensure higher tax savings from debt (Niu, 2008, p. 134).

Agency theory

Jensen and Meckling (1976) identified the existence of the agency costs problem. They argued that there are two types of agency costs: debt agency costs and capital costs. The conflict between managers and shareholders is related to the costs of the capital agency, while the conflict between managers and creditors is related to the costs of the debt agency. Agency theory concludes that capital structure is influenced by the company's managers, as they can act in their own interest, abusing with the company's resources, rather than working to maximize its value (Jensen, 1986).

Theory of signals

Following studies (Ross, 1977) have shown that companies with satisfactory market performance prefer to finance their activity using debt rather than issuing stock. Meanwhile, equity finance is interpreted by investors as a signal of management expectations for the future (Ryan and Winton, 1995). The management of a company issues new stock only when there is no other financing alternative, or when the stock is overvalued in the market (John and William, 1985). This fact is noticed by investors, who see the new stock prices as negative signals. As a result, stock prices begin to fall. In order not to have deflation nor to be financed by issuing equity, the top management of the company always tries to maintain an unused level of loans (John and William, 1985).

Indirectly, the work of these analysts (John and William, 1985; Ryan and Winton, 1995) supports the conclusions of the Pecking Order Theory, according to which, companies prefer internal sources of financing rather than external ones.

Pecking Order Theory- Financing Hierarchy

The first traces of the theory can be found in the empirical work of Donaldson (1961), who studied the financing practices of a sample of large corporations. He observed that the management strongly favored internal generation as a source of new funds even to the exclusion of external funds except when there is a great need for external financing (Donaldson, 1961). Even in this case, managers prefer financing through debt, rather than through the issuance of equity instruments such as preferred or common stock.

Pecking Order Theory suggests that firms have a certain preferential order for financing their activity (Myers, 1984).

According to Myers and Majluf (1984), the two main elements that explain Pecking Order Theory are:

1. Information asymmetry,
2. Transaction costs, related to external financing.

Because of the information asymmetry that may exist between the firm and potential investors, firms will prefer to be financed by retained earnings rather than debt, prefer short-term debt over long-term debt, and debt over equity (Myers, 1984). If information asymmetry increases, issuing new stock would be more expensive. Consequently, companies with high information asymmetry must borrow to avoid selling undervalued securities.

Myers (1984) in his paper emphasizes that transaction costs play an important role in capital structure decisions. The costs of transactions related to external financing are higher than the costs of internal financing (Baskin, 1989). Internal financing does not have any transaction costs. Therefore, the theory suggests that an optimal capital structure will not be achieved by the companies, but they will follow a certain preferential order in terms of the way of financing and will choose external financing through equity when the debt capacity is reached (Myers, 1984; Myers and Majluf, 1984).

Conclusions of the Theory of Financing Hierarchy (“Pecking Order”), analyzed by researchers around the world

To prove the consequences of the theory of financing hierarchy in practice, a number of works have been carried out by many researchers around the world. In the beginning, in most scientific researches, is argued the relationship between profitability and financial leverage and then the second conclusion of the theory, the relationship between debt and equity.

One research paper, which argues with statistical methods the inverse relationship between leverage and profitability is the one of Greek professors in the field of economics, published in June 2009 (Vasiliou, Daskalakis, Eriotis; 2009). This paper, entitled “Testing the pecking order theory: The importance of methodology”, uses financial data from a sample of 107 companies quoted on the Greek stock exchange (ATHEX), and analyzes them through an empirical model.

The model has as a dependent variable the leverage ratio and as an independent variable the profitability ratio. Through the OLS regression model combined with cross-sectional and time-series data, the authors conclude that the independent variable (profitability) has a statistically significant effect on leverage and the relationship between them is inverse.

Another study, conducted by researchers and professors at the University of Taiwan (Li-Ju Chen, Shun-Yu Chen; 2010), entitled “How the Pecking-Order Theory Explain Capital Structure”, examines the determinants of debt decisions for 305 Taiwan electronic companies that are quoted on the Taiwan Stock Exchange of 2009. The model used is multiple linear regression, which indicates that profitability and growth opportunities are two variables that affect the capital structure of companies operating in this industry.

According to the model, profitability negatively affects the capital structure, as companies prefer domestic financing to external financing (Chen et al., 2010). They use internal sources of financing to carry out their investment projects, and in case of shortage of internal funds, they turn to external sources.

3. Overview of business financing in Albania

The economic context of the country after the 90s until today

After the period of the 90s, our country went through the transition period throughout it experienced a series of major economic and social changes. With the transition from a centralized economy to a free market economy, the first private companies in the country began to establish (Çekrezi, 2015).

Significant developments in the period 1991-2000 were marked by the reforms taken in the finance sector, related with the privatization process of state-owned banks and the entry of new private banks into the market, which had a positive impact on the intermediation process.

For the period 2000-2015, the potential growth in the country slowed down significantly, especially after 2009, as a result of the decline in the contribution of all production factors. The reduction of investments in the country and the decline in the use of operating capacities in economy, transmitted negative signals in the labor market (Çeliku and Kodheli, 2016).

In recent years (2015-2020), our country has tried to undertake important structural reforms, which support equal economic growth, increase productivity and competitiveness, increase new jobs and improve governance (Baliqi, 2017).

On November 26, 2019, Albania was hit by an earthquake with devastating consequences. Among the efforts made to regulate the economic situation in the country, the COVID-19 pandemic further aggravated it. The World Bank and other international partners are working together to support the Albanian government in overcoming these challenges and implementing the country's long-term development objectives (World Bank Albania, 2021).

4. Empirical Analysis

As mentioned above, the purpose of this paper is to analyze through an empirical analysis, how applicable is the theory of financing hierarchy in the financing practices of Albanian manufacturing companies. To test or disprove the hypothesis raised in this paper, we will first analyze the relationship between the financial leverage ratio (debt / equity) and the profitability ratio (EBIT / Sales).

Relationship between profitability and leverage in Albanian manufacturing corporations

To test the relationship that potentially exists between profitability and financial leverage of Albanian manufacturing companies, these two ratios are analyzed through regressive analysis of panel data.

Presentation of the sample

The sample of manufacturing companies, taken in the study, consists of a number of 30 companies, due to the reliability of their economic data presented in the financial statements published over the years in the commercial register in QKB.

Sample examination

It is important to prove that we are not in terms of heteroskedasticity, as the OLS method would not be efficient in estimating the beta (β) coefficient, an important parameter to see the relationship between the variables taken in the analysis.

The Breusch-Pagan model was used for the heteroskedasticity test. From its results, the sample taken in analyses is with zero heteroskedasticity, so there are no significant differences between the sample data. Under these conditions, we can

proceed further with the OLS regression analysis to test the relationship between the leverage ratio and profitability.

OLS regression analysis

Panel data analysis is performed through the OLS regression model. The model is a combination of cross-sectional and time series data to analyze the variables taken in the study (Deari, 2020).

The model hypotheses are given as follows:

H0: Profitability has no effect on financial leverage.

Ha: Profitability has an effect on financial leverage.

The model includes the independent variable, which is firm profitability at time t and the dependent variable, financial leverage at time t .

The regression equation of the whole population (all manufacturing companies operating in Albania), has the form:

$$\text{Leverage} = \beta_0 + \beta_1 * \text{Profitability} + \varepsilon$$

This equation has parameters β_0 and β_1 , which are the real parameters of the population.

From processing the data obtained from the sample of 30 production companies, we generate the estimated linear regression equation, which is given as follows:

Leverage = $b_0 + b_1 * \text{Profitability} + \varepsilon$, where coefficients b_0 and b_1 are parameters of the selected sample. If we manage to find their values we can draw conclusions about the parameters of the population (β_0 and β_1).

Regression analysis of this data was processed through the Eviews software:

Dependent Variable: LEVA				
Method: Least Squares				
Date: 08/16/21 Time: 15:26				
Sample (adjusted): 1 179				
Included observations: 150 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.431475	4.403238	0.552202	0.5816
PERFITUESHMERIA	-1.480002	13.28129	-0.111435	0.9114
R-squared	0.000084	Mean dependent var	2.400796	
Adjusted R-squared	-0.006672	S.D. dependent var	53.64425	
S.E. of regression	53.82292	Akaike info criterion	10.82252	
Sum squared resid	428742.1	Schwarz criterion	10.86266	
Log likelihood	-809.6889	Hannan-Quinn criter.	10.83883	
F-statistic	2.512418	Durbin-Watson stat	1.739678	
Prob(F-statistic)	0.001914			

Resource: Data processed by the authors, through the eViews software.

As we can see, the coefficient of determination is 84%, which means that about 84% of the leverage variation is explained by the profitability variation. Also, the Fisher test (F-statistic) is high enough (2,512) to reject the null hypothesis (H0).

The estimated regression equation takes the values: **Leverage = 2.431 - 1.48 * Profitability + ϵ**

$\beta = -1.48$, means that an increase / decrease of the independent variable (profitability of manufacturing companies) by 1 unit, decreases / increases the dependent variable (leverage ratio) by 1.48 units.

Model results

The null hypothesis (H0) raised in this model is rejected, as the results of the regression analysis show that profitability affects leverage ratio, and the relationship between them is negative, inverse.

Since the inverse relationship between the variables is confirmed for the sample taken in the analysis, we can reach comprehensive conclusions for the entire population (all manufacturing companies operating in Albania).

However, although one implication of the theory of financing hierarchy has been proven for the sample of manufacturing companies, the “debt-equity” relationship remains to be analyzed to reach a general conclusion on the applicability of the theory in albanian reality.

Analysis of the “debt-equity” relationship in Albania

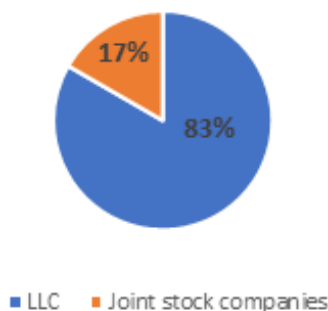
Another implication of the Pecking Order Theory has to do with the fact that companies prefer debt financing rather than issuing equity (Myers and Majluf, 1984). To test this implication, further in this paper we will analyze the main aspects of business financing in Albania, which affect the “debt-equity” relationship.

The organizational structure of corporations

According to the statistics of the form of organization, most of the companies included in the sample are organized as limited liability companies (LLC). More specifically, about 83% of them are organized as LLC and 17% as joint stock companies (data are presented in the diagram below).

Even if we make an analysis of the organizational structure of all companies operating in Albania, we will notice that most of them are organized as LLC.

Organizational structure of manufacturing companies



Resource: Data obtained from QKB, processed by the authors.

Quotation of manufacturing corporations on Tirana Stock Exchange

The capital market in Albania has not had the proper development to enable trading various securities, including companies stock.

Until now there is no company operating in the manufacturing sector quoted on the stock exchange. This is related to the current situation of the manufacturing firms and the economic context they operate (Bank of Albania, 2020). As a result, we have not had stock issues as an alternative for manufacturing companies to be funded and to invest in various projects.

General aspects of the business

General aspects are related to the existence of a vision / mission, strategy, business plan, observation structure as well as the prestige of the company (percentage of the market it occupies, age in the market, etc.).

The business development culture in Albania has lead to problems identified in business' plans and strategies. Companies organized with one or few owners are preferred over the cooperation of many shareholders (Deloitte, 2020).

Poor financial culture of administrators and management staff

Based on assessments conducted in the country (Deloitte, 2020), administrators and management staff of Albanian companies have little knowledge about the capital market, financial instruments and the use of this market as a way of financing their economic activity.

Financial reporting

Financial reporting analysis is one of the most important aspects for quoting companies on the Stock Exchange (Deloitte, 2020).

Potential investors are interested in having information on the long-term profit potential, growth rate and ability of the company to pay dividends. Therefore, it is very important to get the information correctly from the financial statements.

Companies that do not meet this criteria find it almost impossible to be quoted on the Stock Exchange (Zaloshnja, 2018).

What economic experts have identified in their analysis and research papers (Zaloshnja, 2018; Gjergji, 2015; Soko, 2013, etc.), is the work with “two balance sheets” of most Albanian companies that operate in our country. Trying to avoid tax liabilities, many firms end up with artificially inflated liabilities in their financial statements.

Lack of social capital

The actual conditions of our country reflect a low level of social capital, which further increases the difficulty of creating a large company, where co-owners are hundreds or thousands of shareholders (Zaloshnja, 2018). In general, Albanians who own a business, in the form of a limited liability company or a joint stock company, tend to cooperate with their relatives, cousins, or family members and not to collaborate with people outside their social circle.

Low competition level of companies within the manufacturing sector in Albania

Competition is an incentive that influences the decision made by companies to finance their activity through capital markets (Stock Exchange). But, in Albania the competition within the sectors of economy is not at those levels that companies feel the need to seek financing through it. Consequently, they prefer debt financing rather than issuing new equity.

5. Conclusions

Based on the above analysis, conducted in this paper, I come to the main conclusion that the “Pecking Order Theory” finds practical application in the way Albanian manufacturing corporations are financed. So, null hypothesis raised in this study is accepted.

The conclusions reached in the research paper are:

1. Albanian manufacturing corporations that have high level of profitability, have lower ratios of financial leverage (use less debt capital than those that are not very profitable). This means that highly profitable manufacturing corporations will generally choose to be financed with internal funds rather than external ones.
2. In cases where the manufacturing company does not have sufficient internal funds, it tends to use debt rather than new equity.

6. Recommendations

Based on the above conclusions I would suggest some recommendations, which, in my opinion should be implemented in order for businesses to see as an effective way of financing, issuing new equity or even debt securities.

Firstly, the improvement of the quality of financial reporting would increase the confidence of the investors and creditors towards corporations and their economic performance.

Secondly, in order to achieve a balance in the capital structure of Albanian companies, especially for medium and big companies, an efficient solution would be the development of the debt securities market, such as: medium and long term corporate bonds.

Moreover, large corporations, which have capacities to become part of the capital market, should consider hiring a more qualified, serious staff with full knowledge of the principles of modern finance.

Finally, the tax administration office from its part, should create a well-managed system where it can analyze and control in every time the activity of companies, imports, turnover achieved, and their financial statements, such as balance sheets and statements of income and expenses.

7. References

- Baliqi, B., (2017): Politikat publike dhe qeverisja. Prishtinë: Fondacioni Konrad-Adenauer, 2017. Retrieved from: https://www.kas.de/c/document_library/get_file?uuid=eac7e031-f7c5-3c26-f5f0-a3f9aa9bf7e4&groupId=252038
- Baskin, J. (1989). An Empirical Investigation of the Pecking Order Hypothesis. *Financial Management*, 18(1), 26-35.
- Cakolli, N. (2010). Pasqyrat Financiare, *Fakulteti i Biznesit dhe Ekonomisë*, fq. 35. <https://knowledgecenter.ubtuni.net/cgi/viewcontent.cgi?article=3284&context=etd>
- Çekrezi, A., (2015): Përcaktuesit e strukturës së kapitalit: Rast studimi i kompanive të palistuara

- në Shqipëri. Retrieved from: <https://www.uamd.edu.al/new/wp-content/uploads/2015/01/Anila-%C3%87ekrezi-disertacion.pdf>
- Çeliku, E., & Kodheli, M. (2016). The Drivers of Economic Growth in Albania: Decomposition from the Sectorial and Factors side.
- Ciceri, B., & Xhafa, H. (2005). "Drejtimi financiar 1&2". Tiranë, 33-40.
- DeAngelo, H., Masulis, R.W., (1980): Optimal Capital Structure under Corporate and Personal Taxation. *Journal of Financial Economics*, 1980, Vol (8): 3-29.
- Deari, F., Alija, S., Lakshina, V. Determinants of profitability: Evidence from russian agricultural firms. In *Bulletin of the Transilvania University of Braşov, Series V: Economic Sciences, Vol. 13 (62) No. 2, pp. 167-176*. 2020.
- Deloitte. (2020). "Oferta Fillestare Publike: Rasti i Shqipërisë"
- Donaldson, C., (1961): Corporate Debt Capacity: A Study of Corporate Debt Policy and the Determinants of Corporate Debt Capacity. *Division of Research, Harvard University*.
- Iqbal, et al. (2012) Relationship between Exports and Economic Growth of Pakistan. *European Journal of Social Sciences*, 32, 453-460.
- Jalilvand A. and Harris R. (1984). Corporate behavior in adjusting to capital structure and dividend targets: An econometric study, *Journal of Finance*, 39(1), 127-145.
- Jensen M.C. and Meckling W.H. (1976). Theory of the firm: managerial behavior, agency costs and ownership structure, *Journal of Financial Economics*, 3, 350-360.
- Jensen, M. C. (1986). Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers. *The American Economic Review*, 76(2), 323-329.
- John, K., William, J., (1985). Dividends, Dilution, and Taxes: A Signalling Equilibrium. *The Journal of Finance*, 1985, Vol (40(4)): 1053-1070.
- Mayo B. Herbert, (2012). Bazat e financës. Hyrje në institucionet financiare, investime dhe drejtim. Tiranë: UET Press, 391-400.
- Modigliani, F., Miller, M., (1958): The Cost of Capital, Corporate Finance and the Theory of Investment. *American Economic Review*, 1958, Vol (48): 261-297.
- Myers S.C. and Majluf N., (1984): Corporate financing and investment decisions when firms have information that investors do not have, *Journal of Financial Economics*, 13, 187-221.
- Myers, S., (1984): The Capital Structure Puzzle. *Journal of Finance*, 1984, Vol (39): 575-592.
- Niu, X. (2008), "Theoretical and practical review of capital structure and its determinants", *International Journal of Business and Management March*, Vol. 3 No. 3, pp. 133-139.
- Owolabi, S., Inyang, U., (2012): Determinants of Capital Structure in Nigerian Firms: A Theoretical Review. *Canadian Journal of Accounting and Finance*, 2012, Vol (1(1)): 7-15.
- Rajan, R., Winton, A., (1995): Covenants and Collateral as Incentives to Monitor. *Journal of Finance*, 1995, Vol (50(4)): 1113-1146.
- Ross, S. A., (1977): The Determination of Financial Structure: The Incentive- Signaling Approach. *Bell Journal of Economics*, 1977, Vol (8), 23-40.
- Vasiliou, et al. (2008) Testing the pecking order theory: The importance of methodology. *ResearchGate*. Retrieved from: <https://doi.org/10.1108/V17554170910975900>
- Warner, J. B. (1977). Bankruptcy Costs: Some Evidence. *The Journal of Finance*, 32(2), 337-347, retrieved form: <https://doi.org/10.2307/2326766>
- Zaloshnja, E. (2018). Kompanitë aksionare dhe Bursa e Tiranës. *Gazeta Tema*. Retrieved from: <http://www.gazetatema.net/2018/03/07/kompanite-aksionere-dhe-bursa-e-tiranes/>

The impact of social media on local government transparency and citizen engagement: The case of Tirana Municipality

Kristi Bego, MSc.¹

kristibego1993@gmail.com

Prof. Asoc. Dr. Arlinda Ymeraj²

arlinda.ymeraj@uet.edu.al

DEPARTMENT OF MANAGEMENT & MARKETING
EUROPEAN UNIVERSITY OF TIRANA, ALBANIA

¹ Kristi Bego has graduated at bachelor studies in Banking & Finance, at Department of Economics & Finance, Faculty of Economics, Business and Development, at European University of Tirana, UET. She is a graduate student in Marketing (2016-2018) and returned to the European University of Tirana to pursue a second Master of Science in Management, at Department of Management and Marketing, Faculty of Economics, Business and Development. During academic years she has been a member of different student's clubs and has attended trainings, national and international certificates for "Leadership", "Business Management" (at Ministry of Social Welfare and Youth), "Federation Of Civil Defense Work Unions", Brussels, "E-Learner" E-Viva, and has already received: "Internal auditor" position at Ministry of Finance and Economy. Ms. Bego works for more than five years at Directorate of Local Taxes and Tariffs, Tirana Municipality, in the position of Internal Auditor at the Audit Directorate.

² Prof. Asoc. Dr. Arlinda Ymeraj has been Head of Department of Management & Marketing at Faculty of Economics, Business & Development, at European University of Tirana, UET (September 2021). She has a vast and diverse experience, spanning over 40 years in various fields, including decision-making at the highest level. Particularly, she has 18 years of experience in lecturing at (post) university level and 20 years of experience in research. During 2011-2019 period she has mentored 10 degrees in BA programs, 55 degrees in MSc + MP programs and 5 doctoral degrees at UET. Prof. Ymeraj has participated with lectures and presentations in 7 international congresses of Public Policy, Social and Good Governance and in 9 scientific conferences, with international attendance in Tirana. She is the author of 1 monograph, 2 academic textbooks, 25 scientific articles (5 with impact factor), 18 policy papers, published in scientific journals at home and abroad.

Abstract

Over the last few decades, a decline on the trust of the citizens towards their government has been documented, leading to a fundamental concern in public administration (Denhardt & Denhardt, 2014). The perception of transparency has been identified as an important source of trust in government (Curtin & Meijer, 2006). Various authors have highlighted the potential contribution of social media in transforming the public administration towards a new and open format characterized by a) growth of the opportunity of citizens to participate in decision-making; b) improvement of public services; as well as c) promoting new forms of responsibilities. Taking advantage of the opportunities offered by social media, is not limited to the central government. Literature suggests that local governments can achieve many advantages by using social media in the communications with their citizens, and in participatory engagement strategies (Cohen, 2016; Belle, 2013; Tucker, 2011). Although local governments currently use social media to communicate, studies on how they use their platform are missing. In this context, this thesis aims to analyse the communication strategies of local governments through social media usage, and the effectiveness of these strategy in relation to transparency and citizen engagement. More specifically, this thesis examines the impact of Facebook on local government transparency and citizen engagement, focusing on the Tirana Municipality. The field of study addresses two types of different data; one consisting of an analysis of all the Facebook content posts made by Tirana Municipality for a period between June 2020–May 2021, and the other one consists of a qualitative analysis, from semi-structured interviews of the responses of Directorate of Digital Communication employees in Tirana Municipality. Finally, the conclusions of this thesis contribute towards the debate on local government transparency and citizen engagement, and provide important direction in developing suitable strategies and policies of social media activities.

1. Intro

1.1 Purpose of the Study

Nowadays, Information and Communication Technologies are widely used by people, not only for professional purposes, but also in their social life, and consequently they seek to interact with their governments by similar means. As a result, citizens' expectations for open and interactive public sector institutions are increasing. On the other hand, governmental institutions, are faced with austerity measures and intensive budget control, forcing them to seek new forms of innovation for their services (Lagos & Kutsikos, 2011). In this context, this thesis

aims to analyze the communication strategies used by local governments through social media and the effectiveness of these strategies on increasing transparency and citizen engagement.

1.2 Study Limitations

Social media is constantly evolving, and this study is a picture of local government practices at a specific point in time, so the results of this study will not be valid for long. Another possible limitation is related to the exploration through analytical methods of the impact of social media on increasing transparency and citizen engagement, by *taking as a sample of analysis only the case of the Tirana Municipality*, and the findings cannot be generalized to other local government institutions. Future studies may also expand the number of Municipalities studied in Albania or other geographical areas different from the region and Europe. These findings are only a first step towards an understanding of the use of social media by local governments.

1.3 Potential and Challenges of Social Media on Local Government

The term ‘Social media’ is referred to “a set of Internet-based applications that are built on the ideological and technological foundations of Web 2.0 and that allow the creation and sharing of User Generated Content” (Kaplan & Haenlein, 2014). Nowadays, there are hundreds of different social media platforms, which vary greatly in their goals (Lee & Kwak, 2016): some forms of social media enable people to express themselves by sharing text, photos, videos and music (e.g., Facebook, Twitter, YouTube, Instagram), while others enable people to work towards common goals (e.g., Wiki and Google Docs). Many researchers have highlighted the opportunities offered by Web 2.0 applications to government, such as improved transparency and accountability, through the dissemination of information to citizens (Bertot et al., 2014; Chun, Shulman, Sandoval-Almazan, & Hovy, 2014); improving policy-making, increasing opportunities to participate and collaborate in decision-making (Chun et al., 2014; Bonsón et al., 2016); or improving public services.

2. Transparency of Local Government

The importance of transparency is acknowledged by practitioners in many policy areas. Transparency is an essential component for political control and the monitoring of the public sector (Harrison et al. 2017). Transparency of the public sector derives from policies, institutions and practices that provide information

in methods that improve the understanding of public policies, increase political effectiveness and reduce the uncertainty of these policies (Guillamón, Bastida, & Benito, 2014). Transparency seeks to reveal all the necessary information in a timely and systematic manner. Thus, transparency assists societies on increasing the positive contributions of their government, on solving the problems of government activity. Policy information is a contribution to public sector policy control, for the daily responses, and for the monitoring and evaluation of public services (OECD, 2015). New technologies promote the link between government and citizens, companies, employees, and others, and also encourage transparency, decentralization, and internal and external accountability (La Porte, Demchak, & De Jong, 2002; Currie & Guah, 2006).

This study is conducted in a narrative and reporting method. It serves as a narrative for the key theoretical concepts treated in the theoretical part, for which the participants on the study are directly asked, because it shows the relationship two or more variables have with each other. The study aims to analyse the communication strategy used by local governments on Facebook as well as their effectiveness on citizens' engagement and transparency increase. In fulfillment of this purpose, semi-structured interviews were conducted with high-level representatives of social media management within the Tirana Municipality, as well as an analysis of the content of Facebook posts.

Towards achieving this goal, the study will address the researching questions as follows:

Research Question 1. What are the main communication strategies used by local government on Facebook? Do local governments use Facebook to increase their transparency and encourage civic participation or simply to promote the municipality?

Research Question 2. How successful are the various Facebook communication strategies used by local governments in relation to citizens' engagement on Facebook? What are the most successful strategies in promoting engagement on Facebook?

The proposed hypotheses are as follows:

Hypothesis 1. Local governments mainly use one-way strategies of elaboration, such as, image creation and management, promotion of activities, providing news and information related to citizens, transparency and to a lesser extent networking / co-drafting strategies, also.

Hypothesis 2. Communication strategies that promote transparency, inform the public about community news, and include multimedia, result in higher levels of online citizen engagement.

This study tends to present a qualitative and analytical framework on the topic, and consequently secondary and primary data are used to secure the necessary information. Primary data are collected specifically for the researching project, while the method used for their collection, is content analysis and semi-structured interviews. The realization of this paper goes through these steps:

- i. Finding, studying, and analysing the achievements made so far through the existing literature, and the attempt of creating a theoretical basis for further research.
- ii. Finding data that are directly related to the study, by using the analysis of Facebook content posts and that of semi-structured interviews.

2.1 Sample selection

The field of study includes two types of different groups of data, one consisting of the content analysis of Facebook posts made by the Tirana Municipality for the period between June 2020-May 2021, and the other one consists of a qualitative analysis of the responses of employees of the Directorate of Digital Communication gathered from semi-structured interviews.

Tirana Municipality was selected for this study as it is the largest municipality in Albania (INSTAT, 2021), and the latter are more innovators in using new technology (based on the number of posts made on Facebook social media, compared to others municipalities, such as the Municipality of Durrës with 57 posts, the Municipality of Elbasan with 29 posts and the Municipality of Korça with 42 posts), who have a greater need of information publishing, regarding the high numbers of citizens compared to other cities (INSTAT, 2021) and relatively lower costs in using these new tools.

For the elaboration of semi-structured interviews, three employees were selected from the Directorate of Digital Communication, the department which administers the social media presence of Tirana Municipality. All participants involved in these semi-structured interviews accomplish the following criteria: (a) at least three month of work experience on local government social media usage, and (b) currently having high responsibility within Tirana Municipality, for social media usage. These interviews were conducted with the “face to face” method, as the number of interviews was low and this method contributed in gathering more complete data, since further questions were directed to the participants to secure more fulfilling information.

Monitoring of Facebook posts: This study uses content analysis to study and categorize Facebook posts made by Tirana Municipality for the period June 2020-

May 2021. The purpose of this content analysis is to describe a phenomenon (Hsieh and Shannon, 2005). 695 Facebook posts were analysed to generate valuable data to perform the full analysis of these posts. Firstly, the posts were classified based on five categories representing the overall communication strategies used by the local government (transparency, activity promotion, information provision, impression management, and co-modelling) and 22 (twenty-two) sub- categories.

In particular, transparency refers to the dissemination of information regarding key activities and decisions taken by local authorities. This strategy includes posts related to the services provided by the municipality, cooperation with other institutions / agencies, activities and decisions of the mayor, the program and important decisions of council meetings, procurements, announcements, objectives and projects of the municipality.

Promotion of activities is about posts that promote organized activities, or activities that take place in the municipality, where citizens are informed about the activities programs and are invited to participate.

Dissemination of information refers to the exchange of information about less critical municipal issues such as weather information, citizens' actions, congratulations from the mayor and council, as well as general announcements and press releases.

Co-direction is a set of strategies aimed at increasing citizen participation outside the social media environment through calls to participate in council meetings and volunteer requests.

Image creation and management strategies create a positive image for the municipality by including multimedia features in the posts, such as photos and videos about the municipality, as well as the mayor and council members.

The post coding scheme is presented in Table 1.1. Data on the number of likes, comments and distributions were also collected for each post.

TABLE NO.1.1: Post coding scheme

Category	Sub- Category	Comments
Transaperncy	Services	Care for the past, adult care, libraries, education, health care, animal protection, scholarships, free services, public transport, theater and cinema, requirements and application documents
	Activities with other institutions	Police, schools, organizations, regional authorities
	Mayor's activities	Visits to schools and care centers for the elderly, interviews, messages, speeches
	Mayor's decisions	Decisions of the Chairman
	Meetings' program and Council's decisions	Schedule of future meetings and council sales
	Procurements	Procurement related to vehicles, cleaning products, fuels, area supplies and various consumables
	Announcements dheTenders	Employment announcements, tenders
	Objectives dhe Projects of the Municipality	Projects, airplane, completed projects

Category	Sub- Category	Comments
Activities' promotion	Activities of the Municipality	Celebrations, ceremonies, seminars, festivals, experiences, awards, charitable activities related to music, education, sports, poetry, theater, art, cinema
	Program/ Calendar of Activities	Municipality activity program
	Call for participation in activities	Invitation to participate in the activities of the municipality
Dissemination of information	Announcements	Issues and news related to the municipality, results of announcements
	Press releases	News in a press release
	Other types of informations	Weather information, article will be distributed on the best link, link to my site link in this community, contests, information about closing routes, public transport timetables, strikes, etc...
	congratulations from the mayor and council	Congratulations made by the mayor or members of the municipal council committee on anniversaries, national days and celebrations, Christmas and Easter greetings, congratulations, good evening-morning
	Citizens' activities	Citizens' activities related to schools, youth, organizations, food distribution, campaigns, volunteers, cleaning, recycling
Image creation and management	Photoes of the Municipality	City Hall, landscapes, attractions
	Photoes of activities	Photos related to the activities of the Municipality
	Photoes of the Mayor	Photos of the mayor's activities
	Videos	Videos about the Municipality, the mayor, etc.
Co-direction	Annouements for participation	Invitations and invitations to attend council meetings
	Annouements for volunteers	Calls for volunteers in activities such as blood donations, recycling, cleaning, marathons and philanthropic events

Semi-structured interview is one of the most popular methods in qualitative research that seeks to discover, explain and generate ideas or theories about the phenomenon under study; as well as serves to understand and explain social patterns, the “How” questions (Hesse-Biber & Leavey 2006). To conduct semi-structured interviews (Appendix A of this paper) with local government employees of the Directorate of Digital Communication in Tirana Municipality, there is a list of questions covering the categories related to the use of social media, transparency and citizen engagement is compiled, discussed in the literature review.

Initial contact was established through telephone communication to determine whether the identified employees met the participation criteria and whether they were interested and willing to participate in the study. During the initial contact, an appropriate time was set for the interview.

3. Data Analysis

The field of study includes two different sets of data, one consists of an analysis of the content of all Facebook posts by Tirana Municipality for the period June 2020-May 2021, and the other consists of a qualitative analysis of the responses

of employees of the Directorate of Digital Communication from semi-structured interviews.

3.1 Descriptive Statistics of Facebook Posts

In this paper, the Facebook page of Tirana Municipality is used as a case study. The Tirana Municipality is the largest municipality, the capital of Albania, with a population of about 757,361 citizens (INSTAT, 2021). On January 24, 2013, the Tirana Municipality opened its Facebook page which currently has 31,691 (thirty-one-thousand-six-hundred-and-ninety-one) followers.

In May 2021, Tirana Municipality posted a photo of Tirana ladies taking care of the external environment. This post gained 154 (one hundred and fifty four) likes in less than 24 hours. Six (6) people commented and twenty others shared the post. Citizens engaged in this post congratulating the cleaning.

Table 2.1 shows that there are changes in the number of posts from month to month during the period June 2020 - May 2021. The number of posts varies from a minimum of 20 (twenty) to a maximum of 87 (eighty seven) posts per month. With Average Number of posts is 57.9 (fifty seven points nine) posts per month.

TABLE NO.2.1: Total number of Facebook posts by months

	Number of Facebook posts			Cumulative Percent
	Frequency	Percent	Valid Percent	
Valid	84	12.0	12.0	12.0
JUNE	79	11.4	11.4	23.4
July	52	07.5	07.5	30.9
August	86	12.4	12.4	43.3
Septem- ber	74	10.7	10.7	54
October	54	07.8	07.8	61.8
Novem- ber	73	10.6	10.6	72.4
December	45	06.5	06.5	78.9
January	31	04.4	04.4	83.3
February	49	07.0	07.0	90.3
March	20	02.8	02.8	93.1
APRIL	48	06.9	06.9	100.0
Total	695	100.0	100.0	

Source: Processing of data by the author in SPSS program

His section presents the results of the study. As shown in Table 2.3, the most frequently used strategy is information dissemination (31.58%), followed by image creation and management (22.66%) and transparency (22.6%).

Marketing and promotion of municipal activities is also a common strategy used by Tirana Municipality on Facebook (19.17%). Analyzing the sub-categories, it can be seen that Tirana Municipality provides information mainly about the least important news of the municipality and issues such as weather information, articles about the municipality, competitions, information on closed roads, timetables and public transport, etc., (24.7%). Photos of the municipality (12.2%) are often used in Facebook posts by Tirana Municipality as tools to impress citizens and cultivate a positive image of the municipality. The other most widely used content is related to the services provided by the municipality (11.2%) and calls to participate in the activities of the municipality (11.1%). These types of content aim to increase the transparency and credibility of the municipality as well as to promote activities organized by local administrations. Therefore, the findings suggest that Tirana Municipality mainly uses Facebook in a top-down way to simply push one-way information to citizens, improve the image of the municipality and increase transparency. To a lesser extent, Tirana Municipality is investing in the interactive features of Facebook in order to increase citizen participation.

TABLE NUMBER. 2.2: Facebook strategies used by the Tirana Municipality

Category	Sub-Category	Number of posts	
Transparency (22.6%)	service	78	11.2%
	Activities with other institutions	6	0.8%
	Activities of the Mayor	26	3.8%
	Decisions of the Chairman	2	0.2%
	Schedule of meetings and decisions of the Council	0	0.0%
	procurement	4	0.6%
	Announcements and Tenders	15	2.2%
	Objectives and projects of the municipality	26	3.8%

Category	Sub-Category	Number of posts	
Promotion of Activities (19.17%).	Municipal activities	44	6.4%
	Program / Calendar of Activities	12	1.7%
	Call for participation in activities	77	11.1%
Dissemination of information (31.58%)	notifications	16	2.4%
	Press releases	20	2.9%
	Other information	171	24.7%
	Congratulations to the Chairman and / or the Council	11	1.5%
	Activities of citizens	2	0.2%
	Photos of the Municipality	85	12.2%
	Photos of Activities	44	6.3%
	Photos of the Mayor	19	2.7%
	Video	10	1.5%
Image creation and management (22.66%)	Call for participation	15	2.3%
	Call for volunteers	12	1.7%

To measure the effectiveness of Facebook strategies used by Tirana Municipality, the effectiveness index (IE) has been created. The Effectiveness Index consists of the following components: (a) attitude statement (number of likes per post), (b) commitment (number of comments per post) and (c) support (number of distributions per post). In order to compare the effects of Facebook strategies on the expression of attitude, commitment and support of citizens as well as to identify the most effective strategy, analysis of variance (ANOVA) was used. The results are presented in Table 2.3.

As Table 2.3 shows, there is a discrepancy between the average results of the three dimensions of effectiveness. Attitude expression has higher average scores (range: 7.55 to 34.82) compared to commitment (range: 0.30 to 0.53) and support (range: 1.68 to 4.08). These findings suggest that citizens click more “like” on the post than write a comment or share.

In terms of attitude expression, it can be argued that strategies such as image creation and management and information delivery have high average scores. ANOVA results show that there are significant differences in the mean attitude expression scores at level $p < 0.01$ between the five Facebook strategies [$F(19.73)$, $p = 0.000$].

Table 2.4 shows the results of comparisons using the Tukey HSD test between different strategies for expressing attitude.

TABLE NO.2.4: Results of Post-Hoc Comparisons - Expression of Attitude

Category	Transpar- ency	Promotion of Activities	Dissemi- nation of informa- tion	Co-direc- tion	Image crea- tion and man- agement
Transparent	-	-1.28 (0.995)	-4.38 (0.616)	-0.169 (1.000)	-27.27 (0.000)*
Promotion of Activities	1.28 (0.995)	-	-3.10 (0.910)	1.11 (0.999)	-25.98 (0.000)*
Dissemination of information	4.38 (0.616)	3.10 (0.910)	-	4.22 (0.890)	-22.88 (0.000)*
Co-direction	0.16 (1.000)	-1.11 (0.999)	-4.22 (0.890)	-	-
Image creation and management	27.27 (0.000)*	25.98 (0.000)*	22.88 (0.000)*	27.10 (0.000)*	-27.10 (0.000)*

Source: Processing of data by the author in SPSS program

Post-hoc comparisons using the Tukey HSD test show that the average score for image creation and management ($M = 34.82$, $SD = 83.91$) is significantly different from transparency ($M = 7.55$, $SD = 9.72$), promotion of activities ($M = 8.84$, $SD = 10.36$), provision of information ($M = 11.94$, $SD = 20.87$), and co-direction ($M = 7.72$, $SD = 12.23$). In contrast, no significant differences were found in any of the average outcomes of transparency, information provision, activity promotion, and co-direction. These findings indicate that citizens will like the strategies of creating and managing the image and as a result, also the municipal posts that contain multimedia such as photos and videos. No significant differences are observed

(level $p > 0.01$) between the five strategies in the average results of the engagement dimension [$F = 2.39$, $p = 0.049$].

Therefore, the Facebook strategy used by the Municipality does not affect the engagement of citizens on Facebook, in the behavior to comment.

Table No.2.5, the most distributed posts by citizens are related to image creation and management, promotion of activities and co-direction.

ANOVA results show that there are significant differences in the mean results of the support index between different strategies [$F = 5.42$, $p = 0.000$].

TABLE NO.4.5: Results of Post-Hoc Comparisons - Support

Category	Transpar- ency	Promo- tion of Activities	Dissemi- nation of informa- tion	Co-direc- tion	Image creation and manage- ment
Transparent	-	-1.01 (0.377)	-0.22 (0.993)	-1.22 (0.463)	-2.40 (0.000)*
Promotion of Activities	1.01 (0.377)	-	0.79 (0.678)	-0.21 (0.999)	-1.39 (0.175)
Dissemination of information	0.22 (0.993)	-0.79 (0.678)	-	-1.00 (0.686)	-2.18 (0.002)*
Co-direction	-1.22 (0.463)	0.21 (0.999)	1.00 (0.686)	-	-1.18 (0.565)
Image creation and manage- ment	2.40 (0.000)*	1.39 (0.175)	2.18 (0.002)*	1.18 (0.565)	-

Source: Processing of data by the author in SPSS program

Based on Table 2.5 image creation and management ($M = 4.08$, $SD = 6.41$) has significantly ($p < 0.01$) higher support scores compared to transparency ($M = 1.68$, $SD = 3.59$) and information delivery ($M = 1.89$, $SD = 3.72$). However, the average results of image management do not differ significantly ($p > 0.01$) from that of activity promotion ($M = 2.68$, $SD = 4.57$) and co-direction ($M = 2.89$, $SD = 5.28$). Moreover, no conidial changes were observed

4.2 Qualitative Analysis of Semi-Structured Interviews

The online interactions of the institutions are very visible in the form of news on social media, however the basic strategy, daily management, tactics, interpretation and changes in existing tactics can only be achieved by extracting perceptions through the interview.

Types of social media roles include day-to-day management of social media sites, social media strategy development, senior management of all social media staff, and / or communication and support for all departments using media social throughout the institution.

The main reason for getting involved in social media spaces can be summarized in one main goal: Representation of the institution in all channels available on the Internet.

“Why are we on Facebook: to be where people are. “When people search on Facebook, they find us.”

Respectively, to find out if citizens actually find the information on social media channels, the interviewees noted that an important indicator is the number of followers and viewers of the content:

“We look at raw numbers: how many followers did you have when you started the site and how many followers did you have now.” [...]

Respondents recognize the need to reach audiences that do not routinely interact with the Municipality and are therefore excluded from the information. They see the use of additional channels on social networking sites as a way to institutionalize their interactions and bring government information to citizens.

However, most social media respondents are not sure if they are reaching the audiences that their mission statement claims. A detailed analysis of the target audience has not been conducted; even social media directors do not know how representative their social media followers are.

The second most frequently mentioned objective of maintaining Facebook accounts is engaging citizens in recognizing the added value of social networking services: two-way interaction and active networking with the public. Citizens are invited to co-produce content that is then copied on websites and citizens are asked to provide additional opinions and information. As an example, social media channels are used to attract citizens to respond to surveys regarding the content provided:

“We do a survey and ask a lot of Yes / No questions, 1 to 10, and allow open answers to that. And we get a good amount of feedback from our audience.” [...]

Interactions focus mainly on lower levels of engagement and participation.

4. Conclusions

Social media offers governments a new approach to improving transparency and accountability, involving more and more citizens to participate and collaborate in decision-making to improve information management and access as a public service. This study contributes to a better understanding of the use of social media tools to increase the level of transparency of local governments.

A high level of Facebook use means that local governments tend to increase the level of transparency and openness by making information and data about processes accessible publicly and easily to citizens.

An analysis of the strategies used shows that Tirana Municipality is using Facebook as “another traditional communication channel” to provide one-time messages to the public about less critical information, to promote their services and to promote the image of the Municipality. Co-management strategies were the least used strategies by Tirana Municipality. This suggests that the Municipality is not taking steps towards open government by (a) improving transparency and accountability through the exchange of information related to critical information such as decisions made by local authorities, operations, objectives and projects related to the Municipality, and by encourage (b) citizens to attend policy co-creation council meetings.

The type of strategy proved to be an important factor influencing the effectiveness of the posts in terms of expressing attitude and support. In particular, image management was the most “liked” strategy compared to the other four types.

Moreover, transparency and co-direction strategies also performed well in bringing in support from citizens, but this effect was marginal. On the contrary, the engagement of citizens in the form of comments was not influenced by the type of strategy used on Facebook. This non-strategy effect on engagement can be attributed to two factors: low levels of citizen engagement with the municipality and non-use of “attractive strategies” by local governments such as seeking feedback and ideas.

As the use of social media by Municipalities is significantly increasing, they should pay special attention to their relationship with citizens through social media.

The use of social media is beneficial for participants as they increase the immediate interaction between citizens and governments. The Municipality’s Facebook page is considered a symbol of modernity and reaction, perceived as a necessity for political legitimacy (Ma, 2013). To summarize, local governments tend to promote transparency and accountability through the use of social media, increasing citizens to oversee the work of governments and to express their concerns about these functions.

Social media applications need to be managed by qualified people to prevent the misuse of these tools, so there is a need to identify new organizational roles in the Municipality, such as the social media manager.

The main limitation of the current study is the specific nature of the data context as only Facebook posts have been examined. Communication strategies can vary across different social media platforms and different content can affect the effectiveness of other social media posts differently compared to Facebook. Thus, future research can compare the content posted and its effectiveness across different municipal social media accounts. In this way, local governments can better design their social media strategies to better reflect citizens' preferences and engage in dialogue with them.

5. Recommendations

Most local governments are using social media to increase transparency, but in general, the concept of dialogue and the use of social media to promote participation are still in their infancy at the local level, with very low levels of real-time broadcasting, or an active presence on social networks most often used by citizens.

We recommend that Tirana Municipality should continue to use impression management techniques in order to increase the popularity and virality of their content in order to encourage and increase the number of people who interact on their social site.

Knowing that the posts are generally informative in nature about the plans or decisions of Tirana Municipality, I recommend that it should also decide:

- a) A well-thought-out strategy of social media networks to identify the target audience, other departments and stakeholders to cooperate;
- b) Clear guidelines for the use of social media should be established and determine the response, acceptance and moderation of comments, code of conduct
- c) Establish coordination between different departments, for effective communication and obtaining information or photos in a short time in order to quickly inform citizens,
- d) To appoint social media staff with clear duties and responsibilities such as social media managers, experts, analysts, moderators, etc.

It is important that the social network managers of public institutions be serious by having a clear communication strategy and taking steps to determine how social

media is incorporated into this strategy, taking into account when determining whether posting is the use of social media. convenient. Politicians need to focus on managing content on the Facebook page and providing information that properly addresses the needs of different users.

A review of the literature for this paper suggests that social media is a way to engage citizens' input, but as a strategy or tool in its own right, there are many unanswered questions about effectiveness.

Monitoring and evaluation

Early assessment of institutional capacity and the needs and interests of citizens contributes to successful social media strategies. Monitoring the reaction that every citizen has conducted and verifying which post has had the most impact through climates, likes or comments is a good sample to monitor and evaluate.

Attitude towards hypotheses

This study provides a first assessment of the Facebook strategies used by local governments in Albania and provides insights from a managerial perspective regarding the effective management of Facebook content.

The findings support Hypothesis 1 (one) which suggests that local governments mainly use Facebook in a top-down way to simply push one-way information to citizens, improve the image of the municipality and increase transparency. To a lesser extent, local authorities in Albania are investing in Facebook interactive features in order to increase citizen participation.

Based on the data analysis, it can be argued that impression management techniques are more widely disseminated by citizens compared to one-way strategies such as transparency and information delivery. However, impression management, activity marketing and co-creation strategies are just as effective in terms of online citizen support, which means that citizens are more likely to share posts that include multimedia, promote municipal activities and include calls for citizen participation. Thus, Hypothesis 2 (two) is based in part and only on the effect of impression management strategies on effectiveness.

Local governments in Albania have performed well in expressing and defending the attitude of citizens as they often posted content such as photos of the municipality that were "liked" and "shared" by citizens. Furthermore, local administrations should begin to use "attractive" mechanisms such as requesting information and presenting ideas about municipal issues and policies. In this way citizen engagement (commentary behavior) can be increased.

References

- Albalade, D. (2017). The institutional, economic and social determinants of local government transparency. *Journal of Economic Policy Reform*, 16(1), 90–107.
- Anttiroiko, A. V. (2014). Innovation in democratic e-governance: Benefitting from Web 2.0 applications in the public sector. *International Journal of Electronic Government Research*, 6(2), 18–36.
- Berthon, P.R., Pitt, L.F., Plangger, K. & Shapiro, D., (2019). Marketing Meets Web 2.0, Social Media, and Creative Consumers: Implications for International Marketing Strategy. *Business Horizons*, 55(3), 261–271.
- Bertot, J. C., Jaeger, P. T., & Grimes, J. M. (2016). Using ICTs to create a culture of transparency: E-government and social media as openness and anti-corruption tools for societies, *Government Information Quarterly*, 27(3), 264–71. ha
- Bertot, J. C., Jaeger, P. T., & Hansen, D. (2016). The impact of polices on government social media usage: Issues, challenges, and recommendations. *Government Information Quarterly*, 29(1), 30–40.
- Beynon-Davies, P. (2017). Models for e-government, *Transforming Government: People, Process and Policy*, Vol. 1 No. 1, pp. 7–28.
- Bingham, L. B., Nabatchi, T., & O’Leary, R. (2005). The new governance: Practices and processes for stakeholder and citizen participation in the work of government. *Public administration review*, 65(5), 547–558.
- Bonsón, E., Torres, L., Rayo, S., & Flores, F. (2016). Local e-government 2.0: Social media and corporate transparency in municipalities. *Government Information Quarterly*, 29(12), 123–132.
- Brewer, G. A., Neubauer, B. J., & Geiselhart, K. (2010). Designing and implementing e-government systems critical implications for public administration and democracy. *Administration & Society*, 38(4), 472–499.
- Bryer, T. (2010). Across the great divide: Social media and networking for citizen engagement. In J. H. Svara & J. Denhardt (Eds.), *The connected community: Local governments as partners in citizen engagement and community building*, (pp. 73–79).
- Bryer, T. A., & Zavattaro, S. M. (2011). Social media and public administration: Theoretical dimensions and introduction to the symposium. *Administrative theory & praxis*, 33(3), 325–340.
- Cárcaba, A., & García-García, J. (2014). Determinants of online reporting of accounting information by Spanish local government authorities. *Local Government Studies*, 36(5), 679–695.
- Chadwick, A., & May, C. (2007). Interaction between States and Citizens in the Age of the Internet: “E-government” in the United States, Britain, and the European Union. *Governance*, 16(2), 271–300.
- Chun, S., Shulman, S., Sandoval-Almazan, R., & Hovy, E. (2014). Government 2.0: Marking connections between citizens, data and government. *Information Polity*, 15(1/2), 1–9.
- Criado, J.I., Sandoval-Almazan, R. & Gil-Garcia, J. R., (2013). Government Innovation through Social Media. *Government Information Quarterly*, 30(4), 319–326.
- Cromer, C. (2014). Understanding Web 2.0’s influences on public e-services: A protection motivation perspective. *Innovation: Management, Policy & Practice*, 12(2), 192–205.
- Curtin, Deirdre M. and Meijer, Albert, Does Transparency Strengthen Legitimacy? A Critical Analysis of European Union Policy Documents (2006). *Information Polity*, 2006, Available

- at SSRN: <https://ssrn.com/abstract=1434862> or <http://dx.doi.org/10.2139/ssrn.1434862>
- Da Cruz, N. F., Tavares, A. F., Marques, R. C., Jorge, S., & De Sousa, L. (2016). Measuring local government transparency. *Public Management Review*, 18(6), 866-893.
- Debreceeny, R., Gray, G. L., & Rahman, A. (2006). The determinants of Internet financial reporting. *Journal of Accounting and Public Policy*, 21(4/5), 371-394.
- Demchak, C. C., Friis, C., & La Porte, T. M. (2016). Webbing governance: National differences in constructing the public face. In G. D. Garson (Ed.), *Handbook of public information systems* (pp. 179-196). New York: Marcel Dekker.
- Denhardt, R. B., Denhardt, J. V., & Blanc, T. A. (2014). Public administration: An action orientation.
- Drüke, H. (2015). Can e-government make public governance more accountable? Performance accountability and combating corruption (pp. 59-87).
- Evans, D., & Yen, D. C. (2009). E-government: An analysis for implementation: Framework for understanding cultural and social impact. *Government Information Quarterly*, 22(3), 354-373.
- Falco, E., & Kleinhans, R. (2018). Beyond technology: Identifying local government challenges for using digital platforms for citizen engagement. *International Journal of Information Management*, 40, 17-20.
- Ferejohn, J. (2003). Accountability and authority: Towards a model of political accountability. In A. Przeworski, S. C. Stokes, & B. Manin (Eds.), *Democracy, accountability and representation* (pp. 131-153). New York: Cambridge University Press.
- Gallego-Álvarez, I., Rodríguez-Domínguez, L., & García-Sánchez, I. M. (2014). Are determining factors of municipal E-government common to a worldwide municipal view? An intra-country comparison. *Government Information Quarterly*, 27(4), 423-430.
- Gandía, J. L., & Archidona, C. (2012). Determinants of web site information by Spanish city councils. *Online information Review*, 32(1), 35-57.
- García-Sánchez, I. M., Frías-Aceituno, J. V., & Rodríguez-Domínguez, L. (2017). Determinants of corporate social disclosure in Spanish local governments. *Journal of Cleaner Production*, 39, 60-72.
- Gibby, A., Smith, S., Pang, V., & Toorn, C. V. (2018). The impact of Web 2.0 (Gov 2.0) and social media technologies on engagement in local government. PACIS 2014 Proceedings.
- Grimmelikhuijsen, S. G., & Meijer, A. J. (2015). Does Twitter Increase Perceived Police Legitimacy? *Public Administration Review*, 75(4), 598-607. <https://doi.org/10.1111/puar.12378>
- Jaeger, P. T., & Bertot, J. C. (2014). Transparency and technological change: Ensuring equal and sustained public access. *Government Information Quarterly*, 27(4), 371-376.
- Johannessen, M. R., Johannessen, M. R., Sæbø, Ø., Sæbø, Ø., Flak, L. S. and Flak, L. S. (2016), "Social media as public sphere: a stakeholder perspective", *Transforming Government: People, Process and Policy*, Vol. 10 No. 2, pp. 212-238.
- Jorge, S., Sá, P. M., Pattaro, A. F., & Lourenço, R. P. (2015). Local Government financial transparency in Portugal and Italy: A comparative exploratory study on its determinants. Paper presented at 13th Biennial CIGAR Conference, Ghent, Belgium, 4-5 June.
- Mergel, I. (2013), "Social media adoption and resulting tactics in the US federal government", *Government Information Quarterly*, Vol. 30 No. 2, pp. 123-130, available at: <http://dx.doi.org/10.1016/j.giq.2012.12.004>
- Mergel, I. (2015). Designing social media strategies and policies. *Handbook of public administration*, 456-468.

- Mergel, I., (2016). Social Media Institutionalization in the U.S. Federal Government. *Government Information Quarterly*, 33(1), 142–148.
- Moon, M. J. (2006). The evolution of E-government among municipalities: Rhetoric or reality? *Public Administration Review*, 62(4), 424–433.
- Mossberger, K., Wu, Y., & Crawford, J. (2017). Connecting citizens and local governments? Social media and interactivity in major US cities. *Government Information Quarterly*, 30(4), 351–358.
- Tellier, G. (2010). Public expenditures in Canadian provinces: An empirical study of politico-economic interactions. *Public Choice*, 126(3/4), 367–385.
- The Tirana Municipality. <https://www.facebook.com/bashkia.tirane.al/>
- Tolbert, C. J., & Mossberger, K. (2006). The effects of e-government on trust and confidence in government. *Public Administration Review*, 66(3), 354–369
- Waheduzzaman, W. & As-Saber, S., (2015). Community Participation and Local Governance in Bangladesh. *Australian Journal of Political Science*, 50(1), 128–147.

New territorial reform and its effects on the administration and management of local taxes in the Tirana Municipality —

Xhensila Meçollari¹

xmecollari@uet.edu.al

Prof. Assoc. Dr. Arlinda Ymeraj²

arlinda.ymeraj@uet.edu.al

DEPARTMENT OF MANAGEMENT & MARKETING

EUROPEAN UNIVERSITY OF TIRANA, ALBANIA

Abstract

Local government has an enormous role in a country's economy. They practice functions and competencies through which they regulate and administer their proper functioning in accordance with law, national and regional politics. In Albania have been a lot of

¹ Xhensila Meçollari is a graduate student for Master of Science in Business Administration, at Department of Management and Marketing, Faculty of Economics, Business and Development, at European University of Tirana, UET. She completed a Bachelor's degree and a Master's Degree in Faculty of Social Sciences, University of Tirana. After graduation, she started work as Assistant Lecturer in Sports University of Tirana for 2 years. Currently, she is working at Directorate of Local Taxes and Fees, Tirana Municipality, in the position of Specialist of Tax liability assessment.

² Prof. Assoc. Dr. Arlinda Ymeraj has been Head of Department of Management & Marketing at Faculty of Economics, Business & Development, at European University of Tirana, UET (September 2021). She has a vast and diverse experience, spanning over 40 years in various fields, including decision-making at the highest level. Particularly, she has 18 years of experience in lecturing at (post) university level and 20 years of experience in research. During 2011-2019 period she has mentored 10 degrees in BA programs, 55 degrees in MSc + MP programs and 5 doctoral degrees at UET. Prof. Ymeraj has participated with lectures and presentations in 7 international congresses of Public Policy, Social and Good Governance and in 9 scientific conferences, with international attendance in Tirana. She is the author of 1 monograph, 2 academic textbooks, 25 scientific articles (5 with impact factor), 18 policy papers, published in scientific journals at home and abroad.

reforms and administrative-territorial divisions, which have failed to make a real decentralization of service delivery to citizens. The new territorial reform approved by law 115/2014 "For the administrative-territorial division of local units in the Republic of Albania" aimed to increase the managerial skills of local government units, to increase capacity for a qualified staff, to increase local revenues and to provide better services to citizens and coverage of necessary services. Reforms needs time and involve a process that cant be carried out without the consultation and consensus of all parties included. In the Albanian context, territorial reform is an advantage because through good organization and management, increase the opportunities to integrate into the European Union. This study aims to analyze the effects brought by the new territorial reform in the administration and management of Local Taxes, and Fees in the Municipality of Tirana, the way how unification of data in a single tax system influenced the fulfillment of this goal and the role of human resources in the process of reform implementation. The methodology of this study is based of data collected from semi-structured interviews with the directors of Human Resources and IT department in Directorate of Local Taxes and Fees in the Municipality of Tirana and also focus groups with employees of two departments.

Keywords: *Administrative-territorial reform, local revenues, data unification, human resources.*

1. Introduction

The need for administrative-territorial reform was based on the analysis of several key factors such as demographic movements in Albania, the need for efficiency in the realization of local revenues and also in the performance of local public services.

To implement a new administrative-territorial division, the consultation processes should be done with local communities, but also with representatives of local government, because it is a constitutional obligation but also to bring positive results to the population.

The fragmentation of the territory, as well as the small local government units are listed as the main reasons for the inefficiency in the provision of services and the failure to achieve the objectives of the reform.

As a result of the need for new territorial reform automatically comes the need to adopt and change the legal framework such as. Law no. 139/2015 "On Local Self-Government" as well as other necessary bylaws. This law regulates the organization and functions of local government, thus eliminating the previous communes' existence, which were transformed into administrative units, as an

integral part of the newly created municipalities, leading to the division into 12 regions and 61 municipalities.

Changes in the legal framework at the municipal level consisted in the changing of the Municipal Council decisions, initially with VKB 59, dated 30.12.2015 through which changed the organization of local taxes and fees, including the new administrative units. Then at the beginning of 2018 was approved VKB 132, dt 07.03.2018 which emphasized on the building tax and calculation according to the reference price based on the location of the building, thus aiming at differentiated charging for each taxpayer.

By being part of Directorate of Local Taxes and Fees staff and moreover part of implementation process of the Territorial Administrative Reform in this directorate, the idea to make this study, came naturally.

This paper analyzes the importance of good governance local system, and moreover the effectiveness in maximum quality providing services for the community. During the analysis, we studied the effectiveness of the new territorial reform and its effects on good administration and collection of revenues from local taxes and fees, the effects on the provided services centralization and the reduction of operational costs.

2. Literature review

Local tax system in Albania

Municipalities and tax authorities apply their fiscal rights and responsibilities for local taxes, in accordance with the Law no. 9632 “On tax procedures in the Republic of Albania”, as amended, and any other act for tax system in the Republic of Albania insofar as the latter do not contradict this law and the law “On local self-government”.³

The procedure of collection and administration of local taxes and fees is based on Law no. 9632, dated 30.10.2006, “On the local tax system”, with relevant amendments, as well as in Law no. 9920, dated 19.05.2008 “On tax procedures in the Republic of Albania”.

Planning revenues from local taxes and fees

The revenues of municipalities/communes are generated mainly by local taxes and fees, for which local units have full legal authority to set the tax level above the indicative or indicator which is determined by law. The modalities for changing

³ Law no. 9632 dated 30.10.2006 On the local tax system as amended

the tax level, determining the manner of collection, etc., are defined in Law no. 9632, dated 30.10.2006, “On the local tax system” with relevant amendments and in Law no. 9920, dated 19.5.2008 “On tax procedures in the Republic of Albania”.

Local tax revenues include revenues from:

- building tax
- tax on agricultural land;
- land tax
- hotel accommodation tax;
- infrastructure impact tax from new constructions
- advertising tax
- temporary tax on educational infrastructure

Revenues from local fees include:

- cleaning fee
- fee for occupying public space

Collection and administration of local taxes and fees

The steps for the collection and administration of local taxes and fees are defined in Law no. 9632, dated 30.10.2006, “On the local tax system”, as amended “, Law no. 9920, dated 19.05.2008, “On tax procedures in the Republic of Albania”, Joint Instruction (Minister of Finance and Minister of Interior) no. 655/1, dated 06.02.2007 “On determining the uniformity of procedural standards and reporting of the local tax system”, Instruction of the Minister of Finance, no. 1, dated 12.1.2007 “On determining the activities that are treated as activities, trade or service, outpatient and procedures for their registration in the tax authority”, Instruction of the Minister of Finance no. 24, dated 02.09.2008, “On tax procedures in the Republic of Albania”, etc.

Central and local government in Albania

In the Constitution of the Republic of Albania, adopted in 1998, it is said that “Albania is a unitary state, whose government is organized at two levels, central and local”. There is an interdependence relationship between the two levels of government. In general, it is the central government bodies that make strategic decisions, which are then implemented by the local government bodies.

The organization of these powers is clearly defined in the Constitution of the Republic of Albania as well as in the relevant legal and regulatory framework

in Albania. The relations between the bodies of local government units and their relations with bodies of central government are based on the principle of subsidiarity and cooperation for solution of common problems⁴.

The executive power is divided into two levels: the central level or central government (government or council of ministers) and the peripheral level or local government which means governance according to territorial units of the state. In order to achieve successful governance, it is important to create a spirit of cooperation between two levels of government, the purpose of which is to provide better services to citizens.

This can be achieved by clearly defining their functions and responsibilities, ensuring autonomy and at the same time interdependence between the central and local level of government. Each of levels must be organized in such a way to ensure a government as close as possible to citizens. The realization of this relationship requires the implementation of several principles, among which is also the local autonomy. Through it, intended that the services pass from the central level to the local level, in order to provide services from the level closest to citizens.

Relations between central and local government

The relationships between central and local government are a key factor in local and national development, because ensures a synergy of efforts and brings successful decentralization. But this cooperation is achieved only when local units are strongly connected in political dialogue with the central government and cooperate with each other from one side, and from other side when central government is open for cooperation, builds reciprocal and fair relations, based on the principle of subsidiarity, in respect to the institutions' independence.

Although very necessary, cooperation and coordination between central and local government, remains problematic and oriented by political divisions. The years 2016 and 2017 have been years where the fund from the Regional Development Committee has been distributed unbalanced not only politically, but also in the relationship between large municipalities and small municipalities. Intergovernmental relations need to be improved through the establishment of institutional mechanisms for dialogue and decision-making, especially in the area of local finance.

Definitions of territorial reform

The Constitution of the Republic of Albania in article no. 8 point 2 stipulates that:

⁴ Law no. 8652, dated 30.07.2000 "On the Organization and Functioning of Local Government", Article no.4

“Administrative-territorial divisions of local government units are determined by law on the basis of common economic needs, interests and historical tradition. “Their borders cannot be changed without taking the opinion of the population living in them.”

Also, the European Charter of Local Autonomy in article no. 5 stipulates that:

“The protection of the territorial boundaries of local communities for any change of local territorial boundaries, the respective local communities should be consulted in advance, if necessary, through a referendum, where allowed by law.”

As noticed both of them decide the accent on the importance that should be given to the opinion of people because any change or reform has its direct impact on people.

Legal framework of administrative-territorial reform

The Intersectoral Strategy for Decentralization and Local Governance was approved by the Council of Ministers in 2015 and revised in 2018 and set the objectives of the decentralization process in Albania.

The Law no. 139/2015 “On Local Self-Government” regulated the organization and functioning of local government by eliminating municipalities which became administrative units like an integral part of newly created municipalities.

The Law no. 139/2015 essentially does not bring radical changes in terms of the internal organization of municipalities because the role and the relationship between the council and chairman remains the same. The Law no. 115/2014 “On the administrative and territorial division of local government units in Albania” stipulated the administrative division into 12 regions and 61 municipalities. This law was supplemented by VKM no. 510, dated 10.6.2015 “On the procedures of rights and obligations transfer, assets, personnel, archives and other official documents for local government units affected by territorial administrative reorganization”. The new territorial reform brought changes in the decisions of the Municipal Council, for example VKB no. 59, dated 30.12.2015 was replaced by VKB 158, dated 26.12.2019 as a need to adapt to new territorial changes.

History of administrative-territorial division of Albania 1

912 - 1924

After the independence of Albania from Ottoman Empire, the Albanian government accepted the administrative organization sanctioned in “Appropriate

Canon of Civil Administration of Albania” promulgated on 22 November 1913, according to which the country was divided in prefectures headed by the prefect. Next were the sub-prefectures headed by the deputy prefect and the province led by the provincial. There were eight prefectures: Berati, Dibra, Durrësi, Elbasani, Gjirokastra, Korça, Shkodra and Vlora.

1925 – 1945

The organization and functioning of the local administration were determined according to the “Organic Law of the municipality” adopted in 1921 and later, with the Civil Code adopted in February 1928. The initial unit was the village headed by the mayor, who was generally elected by people of the village. The municipality was set up in cities or rural residential centers with over 200 families. The municipality was headed by a municipal council elected by the people every three years. The municipality was headed by a mayor elected by the people.

In 1928, the municipality was added as a unit of local administration. It included several villages and was headed by the mayor, next to whom stood the municipal council composed of village elders. The sub-prefecture was the administrative-territorial unit with civil administrative functions. In special periods the sub-prefecture received in some cases the name “district”. The prefecture was the largest local government unit headed by the prefect, who was appointed by Minister of Interior and approved by the President and then by the King. The prefect had executive functions.

The Administrative Council of the prefecture consisted of chiefs of offices and several members elected by the people for two years. The Administrative Council was decreed by the Minister of Interior. In 1927 Albania had 10 prefectures, 39 sub-prefectures, and 69 provinces with 2351 villages. In 1934 there were 10 prefectures, 30 sub-prefectures, 160 communes with 2351 villages. In 1940 there were 10 prefectures, 30 sub-prefectures, 23 municipalities, 136 communes and 2551 villages.

1945 - 1992

After the year 1945, many changes were made in the structure of administrative division .

In 1945 was preserved the administrative division with 10 prefectures and 61 sub-prefectures, but communes and municipalities were abolished.

In 1946 was made a new administrative division with 10 prefectures, 39 sub-prefectures and the locality was partially introduced.

In 1947 the locality took precedence by replacing the municipality. Thus, the division consisted by prefecture, district, locality with villages and towns.

In 1953 the county replaced the prefecture. This new division included ten regions: Shkodra, Tirana, Durrës, Elbasan, Vlora, Berat, Korça, Gjirokastra, Dibra and Kukës. The law stipulated the election of the County People's Council. Some 26 districts were assigned within the counties and each district had three or more localities.

In the middle of the '50s, the administrative-territorial division was reorganized into four regions: Elbasan, Gjirokastra, Korça, and Shkodra, with 3-4 districts in each region. Berat, Durrës, Fier, Kukës, Kruja, Lushnja, Mati, Peshkopia, Skrapari, Tirana, Tropoja, Vlora and Tirana came out separately at district level. The division continues with localities, villages and towns.

In July 1958, the county was abolished and 26 districts were created. The city of Tirana maintained district level. According to this division, there were 26 districts, 203 localities, 2655 villages, 39 cities and some of these had neighborhoods. After the year 1967 appears the new name of the united village. In addition to united villages that had territorial compactness, emerged united villages with territorial secession. This was related to economic organization of agricultural enterprises.

In 1968, there were 26 districts, 437 united villages, 2641 villages, 65 towns and 178 city neighborhoods. In 1990 there were 26 districts, 539 united villages, 2848 villages, 67 cities, 306 city neighborhoods. The city of Tirana consisted of 3 regions, which included several neighborhoods.

Starting from 1945, at the levels of organization of administrative-territorial division in the village, united village, localities, cities, districts and regions, popular councils were established that were elected by people with a 3-year mandate. Also, in each unit there were executive structures under the auspices of the councils.

1992 - 2003

In 1992, based on article no.1 of Law no. 7572, dated 10.06.1992 "On organization and functioning of local government", the Council of Ministers made, in June 1992, changes in administrative-territorial division and identified 36 districts, 44 municipalities and 313 communes. At the district municipality and commune level were set up local councils elected by people and mayors and communes. Then based on Law no. 7608, dated 22.09.1992 "For prefectures", were created 12 prefectures, as units headed by the prefect appointed by Council of Ministers. Each prefecture included 2-4 districts.

From 1992 to 2000 were made some partial changes in administrative-territorial division without structural changes. After 1992, municipalities were established on a basis city. In special cases they include a town and villages. Municipalities usually include villages. In special cases there are municipalities that include a city.

In 2000, Albania had 36 districts, 65 municipalities and 309 communes. In 2000, with law no. 8653, dated 31.07.2000, the districts were abolished, as administrative

units. The Law Administrative-Territorial Division of Local Units of July 2000 brought the amalgamation of 36 districts created 12 districts.

2014

The year 2014 marked a historic turning point in the administrative-territorial organization of Albania. On 31 July 2014, the Assembly of Albania approved the Law no. 115/2014 “On the administrative-territorial division of local government units in Republic of Albania”. New territorial division put an end to extreme administrative fragmentation of country, already organizing territory and local government in only 61 municipalities.

Stages of Territorial Administrative Reform development

Short term phase (2015-2016) includes some immediate actions and measures, which can be achieved in e short term. The main focus of reform at this stage is placed on the review of entire existing legal framework, especially the Law on Organization and Functioning of Local Government, as well as adoption of Law on Local Finance. This phase also includes 16 key priority actions of both legislative and institutional nature.

Medium term phase (2017-2018)

At this stage, related important issues to implementation of new territorial-administrative reform, consolidation of new local units and consolidation of local government capacities.

Long-term phase (2019 -2020)

Policies and actions at this stage will be guided by the implementation of the legal framework and reforms drafted in the previous stages and the medium-term review of the strategy. At this stage, actions are aimed fulfilling and verifying final goal of the strategy for increasing efficiency at the local level and strengthening local government.

The positive and negative sides of territorial reform

Each reform addresses different issues in a specific sector, but administrative-territorial reform aims to reform a governing power, in this case local government, including the budget, investments and public services, reconstruction of roads, schools, hospitals, or highest priority public services.

In the case of Albania, the first and publicly identified shortcoming of administrative-territorial reform is firstly that it did not derive from an extensive

consultation process and extended in time, and secondly, it did not follow the criteria affirmed by European practices.

Defining elections as the starting point for reform to take effect led to a political implementation of reform (lack of cooperation between the majority and the opposition) rather than a managerial and administrative implementation. This is reflected in fact that Law “On Local Self-Government” and Law “On Local Self-Government Finance” entered into force on January 30, 2016 and June 2017, respectively, while new municipalities were constituted in September 2015, after the local elections.

For example, in Hungary, Poland or Czech Republic, territorial reforms have followed a decentralizing line to break away from the centralist tradition deeply ingrained in the state administrative system. (Swianiewicz, 2010)

In Albania, the Commission for Territorial Reform conducted its activity in a period of 3 months, from January 20 to April 20, 2014, while Law no. 115/2014 “On the administrative-territorial division of local government units in the Republic of Albania” was approved on 31.07.2014 to be effective after the local elections of June 2015.

In European countries, the process lasted approximately 10-20 years and the starting point of process was the establishment of a Commission on Administrative Structure, which had primarily task of analyzing whether or not a territorial reform was necessary, which was necessary.

Another feature of reform is guarantee for the citizens that territorial administrative reform will not result in taxes increase, but in performance of services increase. Based on the report “On the administrative-territorial division of local government units in the Republic of Albania”, results that the new configuration of administrative boundaries in municipality is not based on clear and specific criteria.

Another element that has been overlooked is geo-cultural criterion. In terms of the principle local autonomy respecting, the territorial administrative reform was done regardless citizens volition, violating Article no. 5 of European Charter of Local Self-Government “Protection of Territorial Borders of Local Communities”.

In this new configuration, Municipalities face two main challenges:

- *First*, with a new and unknown territory that turns out to be outside the administrative extension of the municipalities, due to the rugged terrain in the northern areas (Shkodra). In the case of Tirana (residents of former municipalities of Tirana cross territory of the Municipality of Kamza to reach Municipality of Tirana).
- *Secondly*, with new and problematic competencies, because the allocated funds are not in proportion to budget that municipalities really need to exercise their functions.

Another factor that has affected the incomplete implementation of reform is the lack of monitoring and non-performance of duties by the Agency for Implementation of Administrative Reform, established by VKM no. 83, dated 28.1.2015.

Methodology

In order to determine the most appropriate research method, were taken into consideration research objectives, time period available for study realization as well as the possibilities to provide accurate and valid data. Given that the new territorial reform has been implemented in a few years, there are no studies to refer. Occurring in this situation, this research work is based on the legal framework, assessment reports and articles.

The research method used is *qualitative research*.

The instruments used for data collection are *semi-structured interviews* and *focus groups*. Focus groups gave me the opportunity as a researcher to study the ways used by Directorate of Local Taxes and Fees in the Municipality of Tirana to implement the government policies. Through focus groups was possible also to understand the role of each employee involved in the process of new territorial reform implementation.

The research was done with employees and directors of General Directorate of Local Taxes and Fees in Municipality of Tirana. Data were collected through semi-structured interviews with the Director of Statistics and IT Department and also with Director of Human Resources Department. After realization of these interviews, it was deemed necessary to establish focus groups with employees of two different Departments, concretely with 10 members of Field Verification Inspectors and with 10 members of Tax Liability Assessment Specialists.

Semi-structured interview questions were open and contained 8 questions, but during the interview, in addition to the set of prepared questions, arise new questions which were not foreseen.

The focus groups had a set of basic questions and further the conversation came naturally. During the interviews and focus groups, were kept notes which were transcribed and then analyzed.

Limitations of the study

The limitation of this study is lack of studies because since the new territorial reform has been created and till now can't find studies in this field which can be referred.

Data collection

Territorial reform, referring to the principles and guidelines of the Constitution and the European Charter of Local Autonomy, has aimed at creating material opportunities and financial means to carry out the functions and competencies transferred from them. Timely implementation of local revenue collection while respecting the legal framework of the local government revenue and expenditure plan promotes the economic development of a country.

TABLE 1. Structure of revenues from local taxes and fees

Kind of taxes and fees	2015	2016	2017
Small Business Tax	805,108,700	295,725,890	163,949,158
Hotel tax	49,521,180	68,922,730	82,017,654
Infrastructure Impact Tax	600,756,790	1,357,787,100	3,466,070,090
Building tax	1,132,201,700	1,509,565,970	1,694,585,956
Tax of agricultural land	12,982,640	16,233,090	23,893,749
Tax of ad	237,553,410	343,960,750	352,682,264
Fee for administrative services	689,493,040	842,414,150	1,250,590,439
Fee for occupying public space	122,445,250	300,581,530	357,226,712
Fee for local public services (waste, greenery)	881,074,650	1,595,036,000	1,731,547,286
TOTAL	4,531,139,375	6,330,229,226	9,122,565,325
Reference: www.financatvendore.al			

Table no. 1 presents the realization of local revenues from local taxes and fees for the years 2015-2016-2017. If we refer to the data reflected in this table and make an analysis of the realization of local revenues from local taxes and fees for 2016, it is noticed that they have increased 1.79 billion ALL or 39.7% compared to the year 2015. While for 2017 they have increased 2.78 billion ALL or 44.1% compared to 2016.

Local revenues have been increased from year to year as a result of the implementation of the new territorial reform and the ways that have been used for the administration and collection of these revenues by the Directorate of Local Taxes and Fee.

If we make an analysis of which tax has influenced the increase of revenues, we will notice that the infrastructure impact tax marks the highest level of realization of revenues from local taxes and fees.

Revenues from this tax contributed 3.4 billion ALL to the local budget in 2017, a significant increase compared to the level of this tax in 2016 and even

more if we compare it before the reform. The performance in the revenues from this tax shows a revival of the construction activity as a result of the increase in the number of construction permits issued by the municipalities nationwide. Taxes for buildings, fees for public services provided by the municipality (cleaning, greenery, public lighting) and fees for administrative services occupy a significant place in the realization of total revenues.

TABLE 2. Number of employees

	2015	2016
Old municipalities	59	-
Directorate of Taxes and Fees	152	250
Reference : Database of Directorate of Taxes and Fees + Database of Old local units		

Administrative and Territorial Reform was expected to be accompanied with a reduction in administrative costs as a result of the consolidation of 373 administrative units in only 61 municipalities and an increase in public investment spending. The new administrative division changed the way of organization local government institutions.

Table no. 2 reflects the number of old municipalities employees in 2015, and the number of Directorate of Local Taxes and Fees employees compared to 2016.

The number of old municipal units for local taxes employees in 2015 was 59 employees in total. These employees in 2016 were transferred to the Directorate of Local Taxes and Fees, by increasing the total number of employees from 152 in 2015 to 250 employees in 2016, which means that the number of employees has increased cause of the expansion of the administration territory but also to improve the quality of service to citizens.

TABLE 3. Salary of employees

	Kashar	Directorate of Taxes and Fees
Salary	37,000 all	57,000 all
Reference: Database of Directorate of Taxes and Fees + Database of Old local units		

Table no. 3 reflects the monthly salary for an employee of the Kashar local unit before the territorial reform and after employment in the Directorate of Local Taxes and Fees. If we make a analyze of level salary, for these employees, it has increased 54% compared to the monthly salary that these employees have received in the Kashar local unit.

In conclusion, the new administrative-territorial reform brought an increase employees number, and consequently an increase in expenditures for employees' salaries. Meanwhile, the increase in the number of employees bring an increase quality of service delivery to citizens as problems are solved in a shorter time and service is better, and the revenue collection is higher. The realization of more revenue collection from Directorate of Local Taxes and Fees reflects a lower debt value.

Prior to the territorial reform, the deadline for resolving taxpayer problems was 30 days from the date of request submission. After the territorial reform due to the improvement of the quality of service by Directorate of Local Taxes and Fees, the subjects have the opportunity to send a request to the portal <https://taksat.dpttv.gov.al/> and receive a response within 5 days.

TABLE 4. Collection of Old local units
DEBT VALUE from Directorate of Taxes and Fees

Old local units	Number of debtors	Debt value in 2015	Debt value in 2016
Ndroq	1	20,120 all	0
Petrelë	56	5,383,790 all	3,338,730.78 all
Baldushk	1	5,376 all	0
Zall Herr	1	7,440 all	0
Bërzhitë	12	833,330 all	558,010 all
Farkë	48	1,885,820 all	656,743.64 all
Kashar	1269	128,132,116.50 all	82,583,416.09 all
Vaqarr	935	7,828,203 all	5,468,157.89 all
Pezë	5	42,238 all	40,688 all
Dajt	5	395,843 all	256,383 all
Total	2333	144,534,276.50 all	92,902,129.40 all
Reference: Database of Directorate of Taxes and Fees + Database of Old local units			

In the initial stage of the territorial reform implementation process, all of Old local units submitted to the Directorate of Taxes and Fees the lists of debtors with the value of debit accumulated over the years until 2015. After the registration of Old local units subjects in the *Directorate of Taxes and Fees* system, for each one was registered the debit value accumulated to old local units.

As it can be seen in table no. 4, the Commune of Kashar the highest debt value, while the lowest value was the Commune of Baldushk. At the end of 2016, the General Directorate of Local Taxes and Fees collected about 36% of the total debt value. This debt value has been collected as a result of the work of verification

inspectors but also from austerity measures imposed by the Debt Management Sector at General Directorate of Local Taxes and Fees.

Table 5. Unreported taxpayers from old local units

Old local units	Number of reported taxpayer by old local units	Number of taxpayer identified by Directorate of Taxes and Fees
Petrelë	357	14
Farkë	1,397	33
Pezë	1,348	5
Vaqarr	2,262	9
Dajt	3,034	27
Krrabë	135	0
Kashar	6,925	70
Zall-Herr	787	1
Shëngjergj	888	0
Ndroq	310	0
Zall-Bastar	1,309	4
Total	18,752	163
Reference : Database of Directorate of Taxes and Fees + Database of Old local units		

Table no. 5 presents the total number of active Taxpayer reported by each old local units that must be registered by Directorate of Local Taxes and Fees. For the identification of unreported taxpayers from the old local units, the Directorate of Local Taxes and Fees has reconciled with the National Business Center. The registration of these taxpayers in the system of the Directorate of Local Taxes and Fee was efficient in terms of revenue collection and administration.

4. Conclusions

The need for administrative-territorial reform was based on the analysis of several key factors including demographic movements, the need for efficiency in the realization of local revenues, including local taxes and fees, and the need to provide services efficiently for the citizens, which remains the biggest challenge of the municipalities in this reform. To realize a correct and efficient provision of these services, had to be done a reorganization of the administrative units, which had to cover with services the territory of one or more local units, and its depends from the needs of community.

Based on this, it is necessary to apply information technology to facilitate the provision of administrative services to citizens in a shorter time and better quality of service. From the beginning of the implementation process until now, a series of steps have been taken to set up the appropriate structures and enable a transparent and acceptable process for its organization. Territorial administrative reform should be seen as an instrument to improve governance, full and quality access of citizens to public services, local democracy and local economic development.

The purpose of study was to describe and evaluate the effects of the new territorial administrative reform to the good management and administration of the collection and revenues from local taxes and fees. This study helps to make an assessment of the strategies used by the Directorate of Local Taxes and Fees, to collect and administrate local taxes after the territorial administrative reform.

The contribution of human resources is very important in the process of revenue collection, but at the same time to provide quality and transparent service to taxpayers.

The employees' recruitment from old local units has brought its benefits in the whole process of revenue collection because these employees have had information about organization and operation of local taxes, and they have helped staff for data entry process and have been intermediaries in cases of lack of information from old local units. Inspectors recruited from old local units, had an important role in the process of identifying unreported taxpayers.

The increase of employees' number by 18.4% and the salaries by 54% led to the increase in salaries costs and operational costs for staff but in the same time avoided delays of taxpayers and increase the kind of services.

Despite the difficulties encountered, the new territorial administrative reform brought reduction of operational costs as result of staff reductions, but also the provision of more efficient and transparent services.

Recommendations

Although have passed 6 years since the beginning of implementation of the territorial reform there is still space for improvement in the provision of high quality and transparent services to citizens. Attention should also be paid to the local revenue collection process.

At the end of this paper I suggest some recommendations for the central government and for the General Directorate of Local Taxes and Tariffs Municipality of Tirana.

Recommendations for the central government

1. The progress of the implementation of the administrative-territorial reform should be analyzed in order to assess the access of the citizens of the former municipalities, peripheral and rural areas and based on the identified problems to examine the possibilities for a reorganization with or without changing the existing borders of the units. local self-government.
2. To review the legal acts that affect the new competencies of the municipalities as well as to undertake legal changes to strengthen the autonomy of the local government.
3. Extension of categorization according to areas and territorial units to other taxes for a fairer and more equal taxation as currently it is applied only to some taxes such as: Real Estate Tax, Advertising Tax, Occupancy Tax Public Space.
4. More efficient management of local finances: strengthening the technical and human capacities of the local administration for human resource planning, ensuring transparent and effective financial management as well as good administration of local revenues.
5. Development of technical skills of employees for designing new projects.
6. Provide a consolidated system for the training of administration employees.

Recommendations for the General Directorate of Local Taxes and Tariffs Municipality of Tirana

1. Online information exchange should be provided between institutions such as the State Cadastre Agency and the Tirana Regional Tax Directorate, in order to provide service to citizens in a shorter time and avoid bureaucracies.
2. Creating a digital archive to facilitate access to data for taxpayers.

5. References

PRIMARY SOURCES

The Constitution of the Republic of Albania, Law No. 8417, dated 21/10/1998

Law no. 8548, dated 11/11/1999 “On the Ratification of the European Charter of Local Autonomy”

Law no. 8652, dated 31/07/2000 “On the organization and functioning of local government”

Law No. 139/2015 “On Local Self-Government”

Law No. 8653, dated 31/07/2000 “On the administrative-territorial division of local government units in the Republic of Albania”

Law No. 8654, dated 31/07/2000 “On the organization and functioning of the Municipality of Tirana”

Law no. 9632, dated 30/10/2006 “On the local tax system”

Law 107/2014 “On territorial planning and development”

VKB 59, dated 30/12/2015 “On the System of Local Taxes and Tariffs in the City of Tirana”

SECONDARY SOURCES

Association of Albanian Municipalities (2019). Local government in Albania. Report on the current situation, retrieved from <https://aam.org.al/Qeverisja-vendore-ne-Shqiperi>

Bedalli, E (2014), Questions of territorial reform, <https://www.monitor.al/pikepyetjet-e-reformes-territoriale/>

Commissioner for Civil Service Oversight (2017). Final Report on the oversight of legality in relation to the process of declaring the Employment Status of Employees who were found in working positions part of the Civil Service, retrieved from <http://www.kmshc.al/wp-content/uploads/2019/05/Bashkia-Tirane.pdf>

European Movement in Albania (Ema) (2014). Information Manual on Administrative-Territorial Reform in Albania, retrieved from <http://em-al.org/sq/manual-informues-reforma-administrativo-territoriale-rat-ne-shqiperi/>

INSTAT (2017). Employment and unemployment, <http://www.instat.gov.al/al/temat/tregu-i-pun%C3%ABs-dhe-arsimi/pun%C3%ABsimi-dhe-papun%C3%ABsia/#tab2>

Këshilli i Ministrave (2016). Strategjia ndërsektoriale për decentralizimin dhe qeverisjen vendore, retrieved from <https://www.bpe.al/sites/default/files/publications/Strategjia-ndersektoriale-per-decentralizimin-dhe-qeverisjen-vendore.pdf>

KLSH (2018), Performance Audit Report: Functioning of Municipalities, in the framework of administrative-territorial reform, http://www.klsh.org.al/raporti_reforma_territoriale

Krasniqi, A (2015), The new territorial reform in Albania, <https://www.networkdimprese.com/reforma-e-re-territoriale-ne-shqiperi-29-05-2015.html>

Ministry of State for Local Affairs (2014). Brief History of the Administrative-Territorial Division of Albania, <https://web.archive.org/web/20150919160131/http://www.reformaterritoriale.al/reforma/pse>

Swianiewicz, P. (2021). If Territorial Fragmentation is a Problem, is Amalgamation a Solution? An East European Perspective. Retrieved from <https://www.tandfonline.com/doi/full/10.1080/03003930903560547>

The People’s Advocate (2016), Special Report: Local Government after the Administrative-Territorial Administrative Reform and Regulation of Labor Relations, <https://www.avokatipopullit.gov.al/reports/Raporti%20Pushtetit%20Vendor>

USAID (2017). Local Planning and Governance Project in Albania, retrieved from https://pdf.usaid.gov/pdf_docs/PA00N6D4.pdf

Voice of America (2016), Tirana, territorial administrative reform, retrieved from <https://www.zeriamerikes.com/a/ecuria-e-reformes-administrative/3361843.html>

Measuring the Effect of Covid-19 on Bank Lending: Empirical Evidence from Albania

Monika Kolleshi¹

mkolleshi@uet.edu.al

Anilda Bozdo²

anilda.bozdo@uet.edu.al

DEPARTMENT OF ECONOMICS & FINANCE,

EUROPEAN UNIVERSITY OF TIRANA, TIRANA, ALBANIA

Abstract

This study aims to empirically contribute to the identification and evaluation of microeconomic and macroeconomic indicators at the level of lending in Albania. It identifies a number of important factors, such as the level of gross domestic product, return on assets, unemployment rate, inflation rate, non-performing loans rate, capital adequacy, liabilities and regulatory capital to assets risk weighted. Quantitative analysis and econometric models will study the quantitative impact of each of these factors on both the level of net credit stock and the level of new credit. The creation of these 2 econometric

¹ Monika Kolleshi is a graduate student, Master of Science in Finance, at Department of Economics & Finance, Faculty of Economics, Business and Development, at European University of Tirana. She has been awarded with excellence certificates for two years of studies at European University of Tirana. Currently she is working at EB Service Ltd, located in Tirana, Albania, in the position of Accounting Specialist in the Accounting Department.

² Anilda Bozdo has worked as a lecturer at the Tirana Agricultural University. She has been advisor to the Governor of the Bank of Albania, Head of Monetary Policy Division, Chief Inspector at Supervision Department, Bank of Albania, Head of Credit Risk Management Sector, MIS Sector, Financial Management Sector, at Societe Generale, and also head of Department of Banking & Finance, UET. Currently she is working as a lecturer at the European University of Tirana. She is member of ACER Board of Directors and member of SME Board of Directors.

models will serve us to measure and evaluate the changes encountered in the dependent variable over a given period of time, as a result of shocks from other variables. Also, a current and important contribution to this thesis relates to the impact assessment of COVID-19. In order to maintain the simplicity and usefulness of the model, some realistic features of the current economy have been left out, such as the level of loan repayment etc. The study period is from the first quarter of 2009 to the fourth quarter of 2020. The data used were obtained from the Bank of Albania and the Albanian Association of Banks, which were presented in the form of a time series. Despite the limited number of data considered regarding the impact of COVID-19 as well as their temporal distribution, this study with the work it performs, serves as a good starting point for further studies in this field.

Keywords: COVID-19, Inflation, Lending, NPL, Unemployment, GDP.

1. Introduction

At the beginning of the first quarter of last year no one would have imagined the long ordeal of coping to date with an emergency situation like the COVID-19 pandemic.

The main challenges facing policymakers recently are related to measuring the effect caused by the COVID-19 pandemic (not only) as well as finding solutions to mitigate the effects of undesirable situations on the real economies of states. The question posed in the case of this study is related to the fact of the impact of the COVID-19 pandemic on the banking system and mainly on lending in Albania.

In this paper, a deductive approach of a scientific research has been developed, where first the research questions and hypotheses have been raised and then models have been built to test and empirically verify how much they stand. This study conducted in such a way aims to achieve a high level of objectivity in research.

Research questions

- 1) How has COVID-19 affected the level of lending in our country and how strong has this impact been?
- 2) Is there an increase in the level of net credit stock as a result of measures taken to mitigate the impacts of COVID-19?

Study Hypotheses

- 1) In the conditions of the crisis caused by the COVID-19 pandemic, the

biggest negative impact on the pace of the net credit stock level was given by inflation

- 2) In the conditions of the crisis caused by the COVID-19 pandemic, the most impact The positive level in increasing the level of new credit in the country was given by the level of deposits.

Objective of the study

The most important objective in this paper is to create a theoretical and empirical framework where the relevant studies of factors affecting the level of lending in our country can be conducted and based on their results to draw the appropriate conclusions from which we can give relevant recommendations or suggestions.

2. Literature review and related contributions

Identifying, measuring and evaluating the impact of COVID-19 on lending is a very important issue for various researchers. The literature on this issue is growing rapidly. Ari et al. (2020) reviewed a database that included 88 banking crises since 1990 to learn lessons for resolving non-performing loans after COVID-19. Çolak and Öztekin (2020) used and analyzed the banking data of 125 different countries and concluded that the growth of bank lending has declined globally in response to the pandemic shock.

Beck and Keil (2021) concluded that there has been an increase in lending as a result of the easing of regulatory requirements for credit classification and provisioning. As a result the impact of COVID-19 was not so noticeable on banks' balance sheets. This increase in borrowing was used as an instrument by government programs to support the economy. Baker, Bloom, Davis and Terry (2020) in contrast to the researchers above used the same indicators in order to document and quantify the large increase in economic uncertainty in recent weeks. Christensen, Maravalle and Rawdanowicz (2020) studied the growth of bank deposits during COVID-19, potential drivers and impacts. Among the factors that have caused this increase are thought to be the control measures taken, blocking movements, closing bars, restaurants, etc.

Impact of COVID-19 on lending, at national, regional and global level

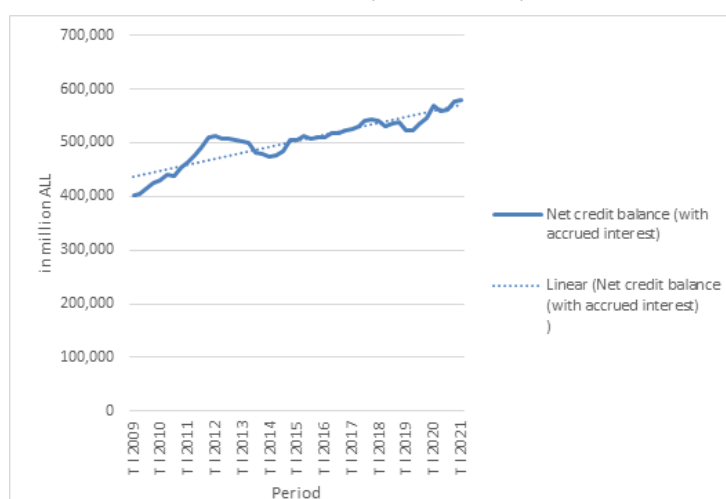
COVID-19 spread rapidly throughout the world causing severe consequences in a very short time. His rise to pandemic proportions prompted a series of extraordinary measures to be taken to mitigate further spread and the consequences of the future.

In almost all countries travel was banned, movements, rallies, manifestations or various organizations were restricted in order to limit the spread, businesses were closed. There were also reductions in interest rates, liquidity support, timely deferral of taxes and loan payments, mitigation of consequences on economic activity and avoidance of financial market turmoil. During this period we faced a new reality, where social distance, lack of staff in financial institutions and regulatory bodies, were and continue to be obstacles that affect the provision of financial services and reduce their quality. In an uncertain and constantly changing reality, there is a lack of desire to take risks and this can increase the cost of financing in the domestic and foreign capital markets.

Central banks created stimulating monetary policies in response to growing concerns about the solvency and liquidity of nonfinancial corporate firms. Many countries introduced unprecedented loan guarantee programs and other forms of credit support for their businesses (Bennedsen, 2020). Loan guarantees, sometimes supplemented by government purchases of corporate bonds, have been key policy instruments to inject liquidity into affected businesses (Alstadsaeter, 2020).

Chart 1 shows the trend of net credit surplus of the banking system, which clearly shows that despite the dynamic fluctuations has been increasing. If we compare Albania with other countries in the region, we understand that our country has the lowest lending rate to the private sector in relation to Gross Domestic Product. The liquidity of this sector has been consistently above the regulatory liquidity adequacy ratio, at a value of 20%, thus consolidating confidence in the banking sector.

CHART 1. Reflection of the net credit surplus trend of the banking system, Q1 2009 - Q4 2020 (in millionALL)

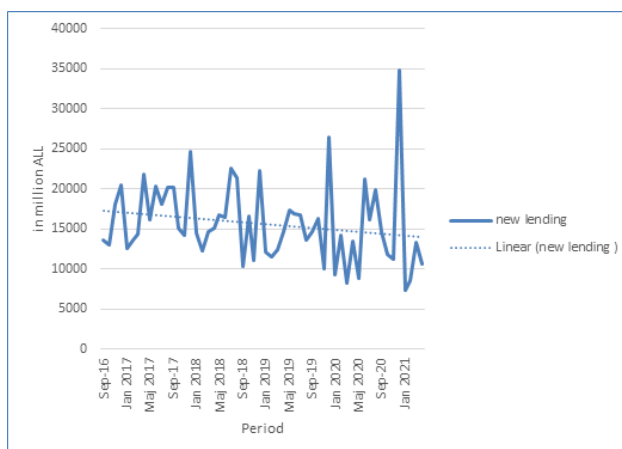


Source: Bank of Albania

The banking sector in Albania is the main and almost the only source of lending to the economy, compared to other countries in the region. Loans are the basic elements in the total assets of each bank. In 2019, loans decreased by 0.85% or ALL 4.94 billion, especially in Q1 with an amount of ALL 17.43 billion, this is claimed to be due to the separation of B.K.T in Kosovo from the reporting of the branch in Albania. In Q3 2019 we had a large increase of ALL 11.23 billion, this expansion has come as a result of the increase in business loans, lek loans, AAGJ loans. Then we see that we have had fluctuations but always in an upward trend. This is as a result of measures taken in connection with the postponement of installment payments, interest expenses or repayment. Deposits remain the main source of financing, covering almost twice the volume of loans in this sector.

Despite the financial and sovereign debt crises affecting neighboring countries, and severe shocks such as earthquakes and pandemics, the Albanian banking sector has managed to maintain a positive profitability. Undoubtedly, the negative effects of these shocks were transmitted to the economy, but through various policies pursued, the impacts on the overall health and stability of the banking sector have been mitigated. Credit to businesses grew 11,8 percent year on year. This increase has come as a result of high lending to big business. For small and medium-sized businesses, banks have shown reluctance to finance, as a result of the uncertainties and the greater risk they carry especially in this difficult period of pandemic. This contraction of lending in this segment at a rate of about 5 percent has been compared to the end of 2020 and is considered among the lowest annual growth rates of the last 5 years. Chart 2 shows the trend of new lending to the banking system, which clearly shows that despite the dynamic fluctuations it has decreased.

CHART 2. Reflection of the new lending trend of the banking system, Q3 2016 - Q1 2021 (in million ALL)



Source: Bank of Albania

Graphically looking at the performance of the new credit over the years, there is a dynamic movement with occasional fluctuations, but always with a downward trend. This is a result of the policies and measures taken by central bank and the level 2 banks that sometimes have given and sometimes are more cautious. According to the data, long-term loans accounted for the largest share of the total loan portfolio, followed by short-term and medium-term loans. Credit to businesses has been favored, shifting the SME portfolio towards long-term loans, state guarantee schemes have been established, loans to small businesses have shrunk, and wholesale and retail trade led the new loans. During 2020, the sectors that suffered the most shocks were trade, services, tourism, construction, and it was precisely these sectors that led to the expansion of the business loan portfolio in Q3 2020. With the contraction experienced by the industry, the credit weight that this sector had to the total fell significantly by 25.1%. The decline in January 2021 was due to the increase in interest rates on ALL loans and especially on new loans from 5.3% in the third quarter to 5.4% in Q4 2020.

From global data, an increase in the ratio of credit costs and non-performing assets was reported, as a result of large job losses, wage cuts and the severe liquidity crisis. Technology played an important role during this period, coming to the aid of lenders through:

























- Re-imagining the product portfolio, creating new products, which are the target group and distributing them to micro segments of customers.
- Building a digital backbone utilizing the technological architecture of microservices, automating new processes to introduce contactless transaction options, virtual cards and Card-Not-Present transactions {CNP}.
- Increasing digital financial inclusion by adopting an ecosystem approach to establishing partnerships with telephone companies, which through tools and platforms make it possible to provide more advanced choices to customers.
- Mitigation of cyber security risks through key platforms
- Further expansion of the electronic payment system 'e-banking'.

Over time, countries' economies are showing signs of recovery even though pandemic effects are still present in economic activities.

The Western Balkans represents a region composed of small and open economies, where foreign capital predominates in the banking sector. It is this feature that makes the banking financial system of this region vulnerable to external crises. Below are statistically presented percentage data on financial health indicators for the region. These data are based on the state of financial systems at the end of 2019. Graphs alongside the values show the changes of the historical standard deviation from the averages of the last three years.

In a study conducted by a number of researchers, among others Ruvejda, Keler, Blerta Qerimi and others at the request of the Albanian Banking Association on the impact of Covid 19 on the banking system in this graph are presented data in % of indicators of financial health for the region. These data are based on the state of financial systems at the end of 2019. Graphs along the values show the change of the historical standard deviation from the averages of the last 3 years. Report of capitalism at the end of 2019 was on average 18.3% much higher than the regulatory minimum. The ratio of liquid assets to total assets was on average 29% Credit report to deposits is below 100 in each case. ROA, profitability measured as return on assets ratio have decreased slightly to 1.6%. ROE or return on equity has been and continues to be in an upward trend with an average of 12.82%. The ratio of substandard loans has decreased in all countries with an average level of 5.3% where Kosovo has the lowest level and Albania the highest.

TABLE 1. Trend of financial health indicators of the banking system in the Western Balkans, compared to the averages of the last three years (%).

The economy	Report of Capitalism	Liquid assets / total assets	Credit / Deposit Report	Return on assets	Return on equity	Sub-standard loan ratio
Albania	 18.3	 35.7	 54.0	 1.5	 13.4	 8.4
Bosnia and Herzegovina	 18.1	 29.6	 88.7	 1.4	 11.1	 7.4
Kosovo	 15.9	 28.9	 77.6	 2.1	 18.4	 2.0
Montenegro	 17.7	 20.8	 88.1	 1.3	 10.0	 5.1
Northern Macedonia	 16.3	 24.0	 83.8	 1.3	 13.5	 4.6
Serbia	 23.4	 36	 91.6	 1.8	 10.5	 4.1

Source: Albanian Association of Banks

As a result, our country is writing-off loans from balance sheets or selling old substandard loans. It also adopted a framework for the voluntary out-of-court restructuring of large substandard loans. During 2020, total outstanding loans increased by an average of 9.4% for households and 7% for businesses. In general, we say that the banks of the region have sufficient capital and the indicators have been improving over time. However, although the national banking financial sectors of the region enjoy stability, it is necessary to closely monitor lending and liquidity developments as COVID 19 poses the greatest risk since 2008.

The banking system faced with several risks, among them it is worth mentioning the problems with the cash flows of firms affected by the pandemic and the change in public demand for cash led to tightening of financing and liquidity conditions for banks, thus affecting lending to the private sector. The increase in demand for foreign currency instruments could cause a real liquidity crisis. Transitional financing from the banking system and the restructuring of loans to borrowers who have experienced liquidity shortages have mitigated the effects of the crisis and contributed to the recovery. Public partial credit schemes, credit lines provide a recovery of credit flows to strengthen investment.

In a reflection of the latest developments in our country, prevail two events that have hit the economy hard, the devastating earthquake of 2019 and the pandemic COVID-19. At a time when Albania had begun the reconstruction phase, the outbreak of the virus forced the government to decide to close key sectors of the economy, causing a strong contraction of the economy by 10.2% in the second quarter of 2020. Among the first to be hit by this situation were the travel and tourism services sectors. Sales, profit and loss of jobs disproportionately affect small and medium enterprises (SME). It is too early to feel the effects of this pandemic emergency but over time, declining profitability, declining asset quality and slowing credit growth may have a second-round effect on the real economy and may jeopardize the financial stability.

This pandemic emergency expected to bring a prolonged financial stress; its escalation constitutes a crisis, both in supply and demand. The duration of this pandemic, the extent of the shocks it may cause, and the financial, budgetary and social consequences are not yet clear, hence the need to develop preventive policies.

Private and public enterprises here are excluded those businesses that provide vital basic services such as pharmacies, have suffered damage to the chain of trade relations and have experienced on average a sharp decline in sales of goods and services, and consequently a decline in revenue and difficulty in meeting the financial liabilities of the activity related to fixed and variable costs.

The very serious situation is also reflected in the employees and in general on the income of the families, as the reduction of the income or the interruption of the salary, weakens their consumption and brings difficulties in fulfilling the financial obligations. Precisely these consequences lead to difficulties in repaying

loans taken in financial institutions, leading to a decline in credit quality and a negative impact on the financial result.

During the recovery phase, the financial sector measures to support the real economy, the more comprehensive, flexible and transparent they are, the more they will maintain balance with concerns about financial stability. It is very important that governments undertake clear and efficient strategic plans to deal successfully and get out of this difficult situation as quickly as possible. Among the strategies that can be followed are: the creation of capital space for banks to resume lending, the release of countercyclical capital shock absorbers, through the temporary suspension of additional bonuses given to executives, the release of conservative shock absorbers, allocation of dividends and repurchase of shares. Another strategy that can be undertaken is to allow banking institutions to carry out their activity below the levels of capital adequacy. This can be achieved, for example, by approving temporary moratoriums on loan repayments, which should be clearly defined.

A number of other measures that the government or relevant entities should monitor on a case-by-case basis are the suspension of credit classification and provisioning. These measures can pose a serious risk to both banks and customers. Crisis management by central banks and supervisory authorities will mitigate the consequences and relieve financial stress by ensuring continued lending in support of the economy and preventing the accumulation of financial stability risks.

By closely monitoring liquidity and lending developments, based on growing concerns about financial stability, oversight agencies in Albania have suspended dividend distribution and remuneration. In terms of monetary policy, the central bank has lowered rates, removing the ceiling on loans to second banks. It has stated that it could use quantitative easing, for example through the purchase of government securities and the use of reserves within legal limits, if there are further liquidity constraints.

It has also announced direct financial support to businesses through loan and credit schemes, which will be distributed through development financial institutions, new guarantee funds and the banking system.

Based on the data so far, we see that the measures taken by the relevant entities have given a positive effect in dealing with the severe consequences of COVID-19, thus leading to the mitigation of negative impacts on lending activity.

3. Econometric methods and models

Model 1

The study period for the first model is from the first quarter of 2009 to the fourth quarter of 2020. Normally the impact of COVID-19 is only these last two years,

but the reason for the expansion in time is firstly the more surveys taken in the study the smaller the error in the results, secondly looking at the performance of the level of lending across years as after the 2008 crisis, during the earthquake and most recently COVID-19, i created a clearer picture of the behavior of indicators and their impact on the level of lending. Classical econometric analysis is largely based on regression models. Model 1 is presented as follows:

- Description of the variables to be used in the first model

Table 2. Variables of the first model:

Variables	Description	Symbols:
Net credit stock	dependent variable	
Gross domestic product level	independent variable, is expected to have a positive impact on the performance of the lending level.	
Inflation	independent variable, is considered a problem of concern for any economy, the objective of any macroeconomic policy is to achieve sustainable economic growth with a low inflation rate.	
Unemployment	independent variable, is expected to have a negative impact on the performance of the lending level.	
Return on assets	independent variable, is expected to have a positive impact on the performance of the lending level.	
Capitalization	independent variable, is expected to have a positive impact on the performance of the lending level.	
Non-performing loan rate	independent variable, is expected to have a negative impact on the performance of the lending level	

COVID-19	<p>Dummy variable indicating the impact of the pandemic crisis on the level of lending. The inclusion of this variable will serve the purpose of comparing the economic situation between periods.</p> <p>This variable takes two values</p> <ul style="list-style-type: none"> o 0 = period before the crisis o 1 = period during the crisis 	DUMMY
----------	---	-------

Source: Author

TABLE 3. Submission via e-views of the multiple evaluated model:

Dependent Variable: LOGKN				
Method: Least Squares				
Sample: 1 48				
Included observations: 48				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOGPBB	0.325986	0.053079	6.141508	0.0000
INF	-2.078303	0.672670	-3.089632	0.0036
NPL	0.008562	0.001482	5.779210	0.0000
PAP	-1.976650	0.456908	-4.326140	0.0001
RMK	-0.015910	0.005272	-3.017966	0.0044
ROA	0.030295	0.011979	2.528932	0.0155
DUMMY	0.124274	0.020503	6.061385	0.0000
C	9.369419	0.692963	13.52081	0.0000
Mean dependent				
R-squared	0.891632	var		13.12220

Adjusted R-squared	0.872667	S.D. dependent var	0.087888
S.E. of regression	0.031362	Akaike info criterion	-3.935437
Sum squared resid	0.039343	Schwarz criterion	-3.623570
		Hannan-Quinn crit-	
Log likelihood	102.4505	er.	-3.817582
F-statistic	47.01600	Durbin-Watson stat	1.469916
Prob(F-statistic)	0.000000		

Source:Authors

The equation of the econometric model is presented in the following form:

$$\log_{KN} = 9.3694 + 0.32598 \cdot \log_{PBB} + 0.008562 \cdot NPL - 2.078303 \cdot INF - 1.97665 \cdot PAP + 0.030295 ROA - 0.0159 \cdot RMK + 0.12427 \cdot DUMMY$$

Determinability coefficient:

From table 3 we find that $r^2 = 0.891632$. This coefficient is close to one so the equation found expresses well the relationship between the variables. 89.16% of the variance of the net credit stock level is explained by the model, ie by the variables GDP, inflation, NPL, RMK, ROA, unemployment and the impact of the financial crisis COVID-19.

Testing the significance of the model:

Hypotheses are formulated:

$H_0 : \beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = \beta_6 = 0$ (the model is not important)

H_a :at least one of the coefficients $\neq 0$ (the model is important)

H_0 rejected if

From the table I find that $F = 47.016$

I find from Fisher distribution

Because , H_0 drops down with an alpha security level 0.10 . So the model is important.

Model 2

In the second model we study the new loan 'flow-n' as a dependent variable and as independent variables are taken the total liabilities, regulatory capital to risk weighted assets (in%) and the variable Dummy, the crisis of COVID- 19.

The relationship between these variables in this study are treated based on a

sample of time series data from T4_2016 to T4_2020, provided by the Central Bank of Albania.

TABLE 4. Second model variables

Variables	Description	Symbols
New loan	dependent variable	
Gross domestic product level	independent variable	
Total liabilities	independent variable	
Regulatory capital on risk weighted assets (in %)	independent variable, indicator of the financial health of the banking system	<i>KAPR</i>
COVID-19	<ul style="list-style-type: none"> ○ Dummy variable indicating the impact of the pandemic crisis on the level of lending. This variable takes on two values ○ 0 = pre-crisis period ○ 1 = periods during the crisis 	DUMMY

Source: Authors

The reason why the total liabilities is taken, as a whole variable in itself, is that based on data from recent years there is an increase. The two most basic elements of this variable are the level of deposits and 'equity funds'. The latter usually account for about 8-10% of total liabilities, while deposits occupy the largest share over the years.

Based on the studies conducted, an increase in the level of deposits during the pandemic period has been confirmed because of measures taken by governments and central banks. In these conditions, it is thought that even in Albania the increase in total liabilities is a result of the increase in the level of deposits.

TABLE 5. Submission via e-views of the second multiple evaluated model

Dependent Variable: LOGKR				
Method: Least Squares				
Sample: 1 17				
Included observations: 17				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOGPBB	2.529960	0.326931	7.738505	0.0000
KAPR	-0.178364	0.023456	-7.604332	0.0000
DUMMY	-0.246332	0.103063	-2.390101	0.0341
LOGTP	4.016565	1.301935	3.085074	0.0094
C	-76.76856	18.15915	-4.227543	0.0012
Mean dependent				
R-squared	0.880393	var		9.674613
Adjusted R-squared	0.840524	S.D. dependent var		0.173104
S.E. of regression	0.069128	Akaike info criterion		-2.265784
Sum squared resid	0.057344	Schwarz criterion		-2.020721
		Hannan-Quinn crit-		
Log likelihood	24.25916	er.		-2.241424
F-statistic	22.08211	Durbin-Watson stat		2.491324
Prob(F-statistic)	0.000018			

Source:Author

The equation of the econometric model is presented in the following form:

$$\log_{KR} = -76.76856 + 4.016565 \cdot \log_{TP} + 2.529960 \cdot \log_{PBB} - 0.178364 \cdot KAPR - 0.246332 \cdot DUMMY$$

Determinability coefficient:

From table 5 we find that $r^2 = 0.880393$. This coefficient is close to one so the equation found expresses well the relationship between the variables. 88.04% of the variance of the level of new credit is explained by the model, ie by the variables GDP growth, regulatory capital to risk weighted assets, the level of liabilities and the impact of the financial crisis COVID-19.

Model significance testing:

Hypotheses are formulated:

$H_0 : \beta_1 = \beta_2 = \beta_3 = \beta_4 = 0$ (the model is not important)

H_a : at least one of the coefficients $\neq 0$ (the model is important)

Ho rejected if $F_f > F_{kr}$

From the table I find that $F_f = 22.08211$

Find from the Fisher distribution

Because, H_0 drops down with an alpha security level 0.10 . So the model is important.

Based on the tests performed we conclude that these models are not good models for predicting the behavior of variables in other time periods, except in the periods in which they are taken into study.

Working restrictions

This study is limited due to several factors listed below:

- 1) Disadvantages of the multiple linear regression method. Like any statistical model, this model is limited by:
 - Analysis of only linear relationship between variables, while there are links in other forms;
 - Data abnormality negatively affects regression analysis;
 - Abstraction from reality, data are assumed to be independent of each other, while in reality there is a reciprocal relationship between independent variables especially in the economic field.
- 2) Limited number of independent variables. This study examines a limited number of independent variables and a dummy variable, which should explain the dependent variable. But logically it is known that there are a number of other variables, which are not included in this study that have an impact on the level of lending.
- 3) The small number of surveys to consider in the second model, as a result of the scant data that have been published in official sources regarding the level of new credit.

Despite the modest results and recommendations of this study, where there is always room for improvement and change, I hope it will serve as an impetus for the development of more in-depth empirical studies in this regard.

4. Conclusions and Recommendations

Until the completion of the worldwide vaccination process, restrictions on tourism and travel are thought to be likely to continue. Gross Domestic Product is projected to grow by 4.4% during 2021 as a result of the partial recovery of exports, consumption and investment.

Factors that are considered key to economic recovery are the services sector, led by tourism, and construction, where investments in the reconstruction process will predominate. Among the important efforts to improve the business climate is the undertaking of reforms to encourage the making of as much private investment as possible, as the latter are a key factor in economic growth. Government spending is projected to decline next year due to limited fiscal space. During this year we are expected to have a narrowing in the current account deficit by 8.8% GDP. This contraction is expected to continue to decrease to 6.5%, as a result of the improvements that are foreseen in the trade balance. We can say that these forecasts are a line of pre-crisis trends. The narrowing of the trade deficit in the medium term is a result of the rapid growth of exports of services, including business processes and tourism. But also on the other hand, the level of imports is projected to increase to 13% during 2021, as a result of numerous investments in infrastructure in a short period.

If everything goes as planned and economic activity will resume, it is expected that in the period from 2022 to 2025, revenues will have an increase of up to 27.6% of GDP and the country's public debt will continue to gradually decrease in the period medium term.

From many studies conducted, various analysts have always tried to link the level of lending directly with microeconomic and macroeconomic factors as well as banking factors. For this reason I took the initiative to study these relationships of variables for our country. In relation to the studies conducted on the basis of the two models these conclusions were reached:

- 1) COVID-19 has had a positive impact on the level of net credit stock. The stock of net credit has increased during the pandemic as a result of deferral of payments but this growth is at a lower rate compared to a year ago.
- 2) The largest positive impact among the variables taken in the study was given by GDP but this impact is a bit significant as the growth rate has been declining.

- 3) The biggest negative impact was given by inflation. Fiscal and monetary policies as well as the continued growth of national debt has produced and will continue to produce significant inflation.
- 4) Adjusted = 0.891632 of first model, implies that 89,16 % of the variance of the net credit stock level is explained by the model, ie by the independent variables GDP, inflation, NPL, RMK, ROA, unemployment and the impact of the financial crisis COVID-19.
- 5) COVID-19 has negatively affected the level of new credit. Uncertainty and increased control measures by the banking system have made them more cautious in granting new loans.
- 6) Adjusted = 0.880393 of the second model, means that 88.04% of the variance of the new credit level is explained by the model, ie by the independent variables GDP growth, regulatory capital to risk weighted assets, the level of liabilities and the impact of the financial crisis COVID-19.
- 7) Based on the analysis of multiple linear regression, it is concluded that since $F_f > F_k$, consequently the models turn out to be significant at the level of 10%.
- 8) Banks have managed through their good management to make it possible to maintain satisfactory levels and the level of non-performing loans. The forced off-balance sheet, sales and their out-of-court settlements enabled the reduction of the NPL.
- 9) The Bank of Albania as a regulatory authority has monitored, analyzed and adapted in a very timely manner the regulatory framework enabling commercial banks to better manage the situation in which the entire banking system found itself.

Recommendations:

- 1) Improving lending conditions would serve as a powerful mechanism of structural adjustments that have a direct impact on the economic development of the country. Lending to the economy is considered as a key factor in improving macroeconomic indicators.
- 2) To support the production and services sector as a whole because here our economy is more concentrated. Through supportive policies in these sectors, without excluding others, would give a positive impact on the economy.
- 3) Risk Management means identifying, classifying, measuring and minimizing the risk of a loan. Thus, priority and great importance is given to bank executives, who must constantly create and review all policies and strategies to protect themselves from unwanted risks.

- 4) In the conditions of a global crisis caused by the pandemic and a continuous increase that could lead to the growth of bad loans, the Bank of Albania should orient the commercial banks to implement combined technology systems with human resources, which enable the identification and analysis of credit risk before this turns into a weakness for the banking system.
- 5) To improve the quality of the loan portfolio, through re-imagining the loan portfolio by enriching them with new and sound products. Make a good distribution of them to the target groups of customers according to clear criteria. Banks also need to spend more on increasing the training of credit employees to increase their professional level and performance at work.
- 6) In order to increase the level of lending and reduce the level of non-performing loans, the establishment of collective guarantee companies can be effective. The establishment of these companies can increase the level of credit by helping those firms, which present a high credit risk, and which find it impossible to lend to banks.
- 7) Another strategy that can be undertaken is to allow banking institutions to carry out their activity below the levels of capital adequacy. This can be achieved, for example, by adopting temporary moratoriums on loan repayments which should be clearly defined.

What we can say is that banks need to review strategies and improve lending policies. Despite the negative situations that the country may face, lending activity in banks should not be curbed.

References

- Albanian Investment Development Agency (AIDA, 2020). The impact of Covid-19 on businesses in Albania.
https://www.aida.gov.al/images/PDF/AL_AIDA_Raport_analize_permbledhes_mbi_impaktin_e_COVID-19_mbi_bizneset_ne_Shqiperi.pdf
- Altig, D., Baker, S.R., Barrero, J.M., Bloom, N., Bunn, P., Chen, S., ... Thwaites, G. (2020). Economic Uncertainty Before and During the COVID-19 Pandemic. *NBER Working Paper Series*, Retrieved from: <https://www.nber.org/papers/w27418>
- Altavilla, C., Barbiero, F., Boucinha, M., Burlon, L. (2020). Large isolation policy response to pandemic and bank lending conditions. Retrieved from:
https://www.bankofalbania.org/rc/doc/Te_reja_shkencore_Periodha_korrik_dhjetor_2020_Nr_25_shqip_18376.pdf
- Aliefendic, R., Berg, G., Gjika, K., Jaeger, J., Kantarovich, A., Oguz, A.A., Qerimi, B., & Zhou, N. (2020). Raporti i Rregullt Ekonomik – Dokument për sektorin financiar: pikat e dobëta, mundësitë e zbutjes së pasojave dhe opsionet për politikat, Institute of International Finance Capital Flow Tracker. Retrieved from: <chrome-extension://efaidnbmnnnibpcjpcglclefindmkaj/viewer.html?pdfurl=https%3A%2F%2Fthedocs.>

- worldbank.org%2Fen%2Fdoc%2F215271591706523337-0080022020%2Foriginal%2FWRERFinancialSectorSectionALB.pdf&chunk=true
- Ari, A., Chen, S., Ratnovski, L. (2020). COVID-19 and non-performing loans. *Research Bulletin No. 71*, Retrieved from: Thee European Central Bank: Retrieved from: <https://www.ecb.europa.eu/pub/economic-research/resbull/2020/html/ecb.rb200527~3fe177d27d.en.html>
- Bank of Albania (2018). Studies on the banking system and economic development. Retrieved from: https://www.bankofalbania.org/rc/doc/Studime_mbi_sistemin_bankar_dhe_zhvillimin_ekonomik_WEB_12486.pdf
- Bank of Albania (2016-2020), Economic Magazines. Retrieved from: https://www.bankofalbania.org/rc/doc/Revista_Ekonomike_
- Bank of Albania (2016-2020). *Financial Stability Reports*. Retrieved from: https://www.bankofalbania.org/Botime/Botime_Periodike/Raporti_i_Stabilitetit_Financiar/Raporti_i_Stabilitetit_Financiar_per_gjashtemujorin_e_dyte_te_vitit_2019.html
- Baker, S.R., Bloom, N., Davis, S.J., Terry, S.J. (2020). COVID-Induced Economic Uncertainty, *NBER Working Paper Series*. Retrieved from: <https://www.nber.org/papers/w26983>
- Beck, Th., Keil, J. (2021). Bank performance in the time of COVID-19: Evidence from the US. Research-based policy analysis and commentary from leading economists, <https://voxeu.org/article/bank-performance-time-covid-19>
- Cani, Sh., Hadëri S. (2003). Financial System in Transition Progress or Fragility, *Bank of Albania in the second decade of transition*, pp.1-24.
- Çolak, G. Öztekin, Ö. (2020). The Impact of COVID-19 Pandemic on Bank Lending Around the World, . *Journal of Banking and Finance*. Retrieved from: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3712668
- Christensen, A.K., Maravalle, A., Rawdanowicz, L. (2020). The increase in bank deposits during the COVID-19 crisis: Possible drivers and implications. OECD Economics Department. <https://oecdcope.blog/2020/12/10/the-increase-in-bank-deposits-during-the-covid-19-crisis-possible-drivers-and-implications/>
- Deposit Insurance Agency (2015-2020), *Annual Reports*, <https://asd.gov.al/sq/raporte-vjetore/>
- De Santis, R, Van der Veken, W. (2020). Real-time macroeconomic forecasts The Great Recession and Covid-19, *European Central Bank Working Paper Series*. Retrieved from: <https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2436~df6319728a.en.pdf>
- Eickmeier, S., Hofmann, B., Worms, A. (2006). Macroeconomic fluctuations and bank lending: evidence for Germany, *Deutsche Bundesbank Economic Studies*. Retrieved from: <https://www.bundesbank.de/resource/blob/703326/a9c6e26f77708f8e9c46c935a2eeb876/mL/2006-10-30-dkp-34-data.pdf>
- Guinigundo, D.C. (2020). Uncertainty and economic recovery. *BusinessWorld*. Retrieved from: <https://www.bworldonline.com/uncertainty-and-economic-recovery/>
- Hasan, I., Politsidis, P., Sharma, Z. (2020). Bank lending during the COVID-19 pandemic. LMU Munich <https://mpr.ub.uni-muenchen.de/103885/>
- Hoda (2020). Impact of Covid-19 closure on economic activity, Research Department, Bank of Albania https://www.bankofalbania.org/Botime/Botime_Kerkimore/Te_reja_shkencore/Te_reja_shkencore_ne_Banken_e_Shqiperise_nr_24.html
- INSTAT (2021). Quarterly Unemployment Rate Surveys, <http://www.instat.gov.al/al/temat/>

- regu-i-pun%C3%ABs-dhe-arsimi/pun%C3%ABsimi-dhe-papun%C3%ABsia/#tab2
- Kalluci, I. (2012), Lending behavior in Albania - A sign of convergence or deviation from the long-term trend. *Bank of Albania, study material* p. 58.
- Kalluci, I., Kodra, O. (2010). Macroeconomic Credit Risk Factors: The Case of Albania, *Economic Policies in Southeastern Countries*, pp. 73 – 87.
- Koka, M. Mazniku, L. & Resuli, M. (2018). The global crises and the Albanian banking system situation,
http://ajas.ubt.edu.al/wp-content/uploads/2018/05/Koka_et_al.pdf
- Garo, O. (2020). The link between unemployment and economic growth in Albania, and the impact of Covid-19, Research Department, Bank of Albania.
https://www.bankofalbania.org/rc/doc/Te_reja_shkencore_Periudha_korrik_dhjetor_2020_Nr_25_shqip_18376.pdf
- OECD (2020-2021). The Covid-19 Crisis in Albania, <https://www.oecd.org/south-east-europe/COVID-19-Crisis-in-Albania.pdf>
- INSTAT (2021). Credit Surplus Neto; ROA; NPL; PBB; RMK; Unemployment, Inflation, Level of new credit, quarterly data for the period 2009-2021, https://www.bankofalbania.org/Statistikat/Seri_Kohore/
- Rees, D. (2020). What comes next? *BIS Working Papers*, No. 898, Retrieved from:
https://www.bankofalbania.org/rc/doc/Te_reja_shkencore_Periudha_korrik_dhjetor_2020_Nr_25_shqip_18376.pdf
- Segal, S. (2020). The Global Economic Impacts of Covid-19, CSIS, <https://www.csis.org/analysis/global-economic-impacts-covid-19>
- Szmigiera, M. (2021). Impact of the coronavirus pandemic on the global economy - Statistics & Facts
<https://www.statista.com/topics/6139/covid-19-impact-on-the-global-economy/>
- Vika, I. (2007). Role of banks in the monetary policy transmission in Albania. *Working Paper*, Bank of Albania.
- Yeyati & Filippini (2021) Social and economic impact of COVID-19, *Global Working Papers*, The Brookings Institution. Retrieved from: <https://www.brookings.edu/research/social-and-economic-impact-of-covid-19/>
- World Bank (2021). Statistics, Inflation Rate, Gross Domestic Product and Deposit Level, annual data for the period 2009 – 2020. Retrieved from: <https://data.worldbank.org/country/albania>

The impact of remittances on Albania's GDP

Valentin Çela, MSc¹

valentin.cela@uet.edu.al

DEPARTMENT OF ECONOMICS & FINANCE

EUROPEAN UNIVERSITY OF TIRANA, ALBANIA

Abstract

The article will discuss the impact of remittances on Albania's GDP it is organized in four sections. The positive and negative theories of remittances, their distribution methods, kinds, and their theoretical link to GDP will be discussed in the first section. The second section will discuss the results of the VAR model's investigation of the influence of remittances on GDP, as well as a summary of their conclusions. The other segment will look at the micro impact of remittances, by conducting a survey of remittance's recipients and summarizing their findings. The last part will discuss the study's findings, as well as pertinent references. Official statistics is expected to record more remittances, even though the real number of remittances may drop, because digital transfers are better documented than cash remittances, especially those made by hand or transferred through other informal channels. Between 1992, when the first emigrant inflows began, until the end of 2019, some USD 29 billion in migrant inflows have entered the Albanian

¹ Valentin Çela is a young entrepreneur with excellent academic background. In 2019, he completed his Master of Science in Accounting and Auditing at the University of Tirana's Faculty of Economics, where he also works as external assistant professor. He also works as an assistant lecturer for economics at the Faculty of Economics, Business, and Development of European University of Tirana, UET. Mr. Çela is a co-founder of OZZO, a technological business that is young and active. He is an expert in Albania's startup environment, and thus one of the key players in its development. Valentin has 31 certified approved economics and entrepreneurship trainings under his belt. Valentin Cela has been named the winner of two scientific research conferences in Croatia and Albania early 2019. Research has been his driving force in becoming an academic, and he has demonstrated practical answers and possibilities by elaborating with students not only academic approaches but also practical solutions and options.

economy. During the last ten years, the average yearly inflow has been around 10% of GDP. They have provided revenue for 13% of the family's budget. The money was split half and half between food and education and other programs. As banks have curtailed services for migrants to 10 years, the current wave of migration has recovered the growth in remittances. What is the economic impact of remittances?

Keywords: *Remittances, Transfers. VAR model, Annual GDP.*

1. The features of immigration and remittances

1.1 Immigration's effect and hypotheses

There are several studies and ideas that explain and assess the consequences of immigration in either the nation of origin or the host country. As a result, there are theories that describe this phenomenon in a favorable light and theories that show it in a negative one.

1.1.1 Theories of optimism

Optimistic theories on immigration are also those that perceive its influence on the global economy. Immigration alleviates unemployment, assists abandoned families, and offers a fresh energy to the country from more developed countries. Immigration also results in a transfer of capital investment and increases traditional societies' exposure to liberal, rational, democratic principles and contemporary knowledge. From this vantage point, immigrants (particularly those returning home) are viewed as vital change agents, inventors of change, and prospective investors with immense potential.

Another good point in this regard is the influence of immigration on the public sector. There is a heated dispute about whether the money that the state receives through taxes is larger than the expense that the state incurs on them. Smith and Edmonton (1997) find that the net impact on the state budget is favorable based on research conducted in the United States.

1.1.2 Theories that are harmful

In addition to hopeful notions, there is widespread disagreement among academics about the detrimental consequences of immigration. The following are some of the hypotheses that are thought to be the most typical. The following are the negative repercussions of emigration to the nations of final destination (Meles, 2006):

- Increased criminality, as a result of growing population, diverse cultures, and beliefs.

- Overcrowding causes speculation in the real estate market.
- As a result of receiving free labor, companies have reduced their investment in technology and productivity.
- Increased unfair competition in the labor market, as well as the exclusion of a large number of immigrants from trade unions, etc.

Another detrimental consequence of migration on the nation of origin is the problem of “brain drain.” The Royal Society of London first mentioned this phenomenon after World War II. In addition to the phrase “brain drain,” there is also “brain abuse.” This term refers to the situation in which highly qualified people in their home country are unable to adjust and find job with the same qualification status in the nation to which they emigrate.

Rivera-Batiz makes an intriguing point on the detrimental impacts of immigration (1982). The issue with remittances in this regard is that if they are just utilized for consumption rather than investment or improving the manufacturing process, the economy may endure constant inflation. Remittance inflows, according to Barajas et al. (2016), are also a possible contribution to monetary transmission inefficiency.

1.2 The connection between immigration and remittances

Most academics of the topic of economic emigration see it as a rather negative phenomena for the economy of the nation of origin. Scholars’ writings up till the early 1980s contain such a thought. We recall the research done by Grubel and Scott (1966), as well as the work of Bhagwati and Hamada in 1974 and Knock and Leland’s in 1980.

As a result, it happened that suffered a revenue loss. In reality, such a loss of revenue is only temporary, because once migrants begin working in the host nation, they usually begin sending money back to their home country. This monetary flow, which included remittances as well as the effect of so-called technological transfer, outweighed the initial negative impact on the Labour market of the nation of origin.

The initial revenue pinch in the origin nations was also resolved. Only the relative contraction of the economy in the nations of origin was detected by these researchers, not the beneficial benefits of remittances at a later stage. In many situations, the remittance effect was accompanied with technological transfer. In many cases, the remittance impact was accompanied by technological transfers from the host nation to the emigrants’ home countries.

1.3 Remittance types and the factors that impact them throughout the world

- Potential remittance, which reflects the emigrant's total savings. This can be estimated by subtracting the emigrant's essential personal costs in the nation of departure from his or her income.
- Constant remittance, which is the minimal amount of money that an emigrant sends home to support the family's basic necessities.
- Increased remittance, which represents the emigrant's additional income in addition to the constant amount sent. It is supposed to be utilized to invest in productive or financial activities rather than to support the family's basic requirements.
- Funds remittance, which indicates the amount of savings that the emigrant wants to invest in the nation of emigration rather than send as remittances.

Marking with:

- Y = income of the emigrant in the country of migration;
 - C = necessary emigrant consumption;
 - c = essential needs of the immigrant family;
 - S = emigrant savings
- We can write: $Y = C + c + S$

The quantity of remittances sent by immigrants to their home country is governed by a number of variables, including:

- (1) The number of employees who have travelled to and worked in other countries.
- (2) The organization of emigrants according to age groups, civil status and family reunification, degree of qualification, proximity to the location of migration, legality, and so on.
- (3) Working circumstances have a significant influence on remittances. The key factors influencing this issue are the amount of income, which differs according to migratory nations, the nature of employment, the facilities offered by local businesses for migrant employees, and so on.
- (4) The volume of remittances also depends on the security, speed, and ease with which monetary values are sent to the place of origin.
- (5) Political, economic, and social developments in both the origin and destination countries have a significant influence on the volume of remittances transmitted.

1.4 Channels for transferring remittances

1.4.1 Banks

The majority of remittances entering Albania are directed through unofficial physical routes, such as family or acquaintances. Because of the enormous volume of remittances flowing through informal channels, effort is needed to make official routes more appealing in terms of efficiency, cost, and anonymity. Despite the geographical development of commercial banks in recent years, immigrant households utilize banks at a suboptimal level.

High charges for money transfers charged by banks are sometimes used as a disincentive for individuals to avoid using this service.

Microcredit schemes, as well as upgrades to the bank's infrastructure and the launch of new financial products, will assist to attract additional remittances. Microfinance institutions currently make modest loans to the low-income population.

1.4.2 Money transfer operators

Western Union (WU) and Money Gram are the two biggest OTPs in Albania, with a total of 800 locations. WU has the benefit of an extensive network, which includes post offices. WU also has arrangements with banks to provide a competitive service to the banks' own transfer services.

There are three key reasons to assess OTPs' performance in conquering such a vast market:

- (1) Quick service. In many circumstances, the time it takes to transfer money from overseas to Albania is less than an hour.
- (2) Usability. The OTP service is considered as simple to use, especially for those who have little experience with the official banking system. Working with papers is restricted and straightforward.
- (3) For undocumented immigrants, it is sometimes the sole option for personal money transit. Documents are frequently required by banks to facilitate the transfer. OTPs, on the other hand, do not require any papers for modest sums.

1.4.3 Personal Transfer

Personal transportation accounts for 60% of all transmitted remittances. Because the two host nations are so close, most legal migrants may visit them once or twice a year, allowing them to convey the money themselves in cash.

Personal transportation is thought to be more dependable and less expensive than bank transfers. Illegal immigrants who are unable to travel alone charge

others to act as couriers, bringing their money home. Personal transportation, on the other hand, is neither safe nor inexpensive.

Furthermore, there is anecdotal evidence that money delivered by couriers did not arrive at its destination. Personal transportation, on the other hand, is the only alternative for illegal migrants. Banks in both Italy and Greece need documents to complete the transfer, preventing illegal immigrants from efficiently using banks for these services.

1.5 Annual remittances, equal to one-tenth of GDP

According to the World Bank, remittances have a significant impact on the Albanian economy. According to their projections, remittances totaled \$ 1.47 billion in 2019, equivalent to 9.6 percent of GDP.

Although it has increased in value, the ratio with BP has increased owing to the rise of the economy. Prior to 2011, remittances exceeded 13-14 percent of GDP. This proportion peaked in 1993, when remittances accounted for 28% of GDP. They have contributed significantly to world economic riches, accounting for over 13-16 percent of BP.

1.6 Food consumes half of the money, accounting for 13% of the family's budget

The majority of remittances are spent on “food and non-alcoholic drinks” as well as “housing, water, and electricity.” According to the Bank of Albania’s statistics, food and non-alcoholic drinks account for about half of all emigrant inflows, accounting for around 48 percent of all emigrant inflows. 3 percent of the inputs are anticipated to be spent on furnishing and renovating residences, 4.5 percent on tires to purchase garments, and 5 percent on health services, 4.8 percent on sports, 3.3 percent on education, and 3.2 percent in bars and restaurants from relatives in Albania.

According to Bank of Albania studies, remittances account for around 13% of the yearly household budget in Albania. A portion of the tire is given to the beneficiary family, which varies according on where you live in the country. Furthermore, remittances sent to rural regions may have a higher impact than those sent to metropolitan areas since they are more likely to be spent on local products and services.

1.7 Unrestricted streams account for 39% of all streams.

Albania is primarily a recipient of remittances. According to the Bank of Albania’s research of the sending method, 39 percent of the flows are directed through

unregulated channels, 57 percent through non-bank financial institutions, and just 4 percent through banks. It has also been observed that remittances in Albania, even when funnelled through formal delivery channels, are given in cash, adding to the promotion of cash use in the Albanian economy. Cash is a costly tool for the Albanian economy, according to Bank of Albania measurements, costing payment service providers roughly 0.68 percent of GDP, while payment service customers pay up to 0.8 percent of GDP.

1.8 Formalization and Its Consequences.

Remittances are projected to have a direct influence on the population's level of financial inclusion. Despite considerable remittance inflows, Albania's financial inclusion percentage is assessed at 40%, a low level compared to the worldwide average of 69 percent, according to the Bank of Albania.

Using official channels for remittances, for example, boosts the intermediary activity of financial institutions, which contributes to the country's financial development. According to the Bank of Albania, promoting the use of the financial system for remittances has been a focus of attention in the context of minimizing the usage of cash in the economy. In 2017, the Bank of Albania, in collaboration with the World Bank, conducted a comprehensive assessment of the remittance industry with the goal of finding infrastructural and regulatory shortcomings in comparison to best practices.

Remittances must be channeled through formal channels in order for host families of emigrants to have access to basic banking services. Establishing such a connection with banks and non-bank financial organizations allows access to even more complex finance and investment solutions, while also assisting in the development of a client history.

1.9 Remittances and their Economic Impact.

According to the Bank of Albania, remittances contributed around 11.8 percent of Albania's GDP throughout the study period (2008–2017). Estimates, on the other hand, suggest that the extent of this contribution has been gradually falling, from 14.4 percent in 2008 to under 10 percent in 2017. A similar pattern may be seen in the contribution of remittances to Albania's nominal economic development. The contribution was negative in 2010–2013, averaging -0.3 percentage points, due to a decline in inflows, but it increased in subsequent years. According to the Bank of Albania, the impact of remittances on economic development was 0.2 percentage points from 2014 to 2017. In 2014, a considerable impact (0.7 percentage points) was found, while in 2015, a little contribution was observed (0.2 percentage points).

The nominal rate of economic growth in 2014 was reported to be 3.4 percent, with remittances accounting for around 20 percentage points of this pace. Cases when remittances have had a negative contribution correspond to periods when flows have been declining.

Remittances are a significant component of Albania's balance of payments data. This is reflected in the relative importance of this item in terms of GDP and other macroeconomic metrics. In recent years, the remittances-to-GDP ratio has averaged 9.1 percent. This weight has only marginally diminished since the global crisis, without jeopardizing the item's considerable contribution to the country's macroeconomic framework.

The Table shows that expenditures are concentrated in the categories of "food and non-alcoholic drinks" and "housing, water, energy, and so on." Remittances in Albania have increased household spending, causing the country's economy to thrive in the near term. Despite having an influence on GDP, remittances would have a bigger impact if families had spent more on capital investment or education.

1.9.1 Microeconomics contributions

Remittances have a huge influence in Albania since they provide an additional source of income for host families. According to a World Bank study¹¹ on families receiving remittances, remittances account for around 13% of the yearly household budget in Albania. The influence of remittances is seen not just at the home level; a sizable portion of them is sent to recipient families residing in rural regions. Furthermore, remittances sent to rural regions may have a higher impact than those sent to metropolitan areas since they are more likely to be spent on local products and services.

According to the Living Standards Measurement Survey (the Kuks area has the greatest poverty rate at 22.5 percent, and remittances have a beneficial impact on poverty reduction in this region. The accurate identification of the use of additional family income in a remittance, as well as the ban of other revenue, is a difficulty. However, when wages rise, remittances in their homes shift toward investment and savings. Measuring empirically (INSTAT, Household Budget Survey, 2016).

2. Methodology

This portion of the study will go through the empirical analysis that was utilized and how it was applied. This part attempts to address the research issues posed at the beginning of the study about the relationship between remittances and GDP. The literature review is a crucial aspect of any study since it familiarizes you with the most widely used analyses and helps you identify the most accurate approach

to apply them. The analysis of the VAR (vector auto regressive) model will be employed in this study. This analysis will be used to determine if there is a positive, negative, or no link between remittances given to Albania and the country's GDP.

For statistical reasons such as heteroskedasticity, serial correlation, parameter stability, and establishing the model's normal residual distribution, both variables will be changed to logarithmic form. The return in logarithmic form of variables, according to Sims, the professor who envisioned the formation of VAR-VECM models, does not impact the outcomes of a research but provides a stable VAR-VECM model for its statistical side (Sims 1980). This section will be separated into two sections, with the first dealing with the Granger test of causality between variables, the second with the test for selecting acceptable lag-delays of the model, and the third with stability tests (graphic test-AR Root and graphical test - CUSUM of parameter stability). The VAR model will be generated with the corresponding lag-delays in the second part, the generation of probability values for each coefficient of variables will be treated through OLS to determine their importance, and the statistical consistency of the equation that is the focus of this paper will be examined (because two equations will be generated).

2.1 Granger causality of selection of lag-delay

The following are the two assumptions that emerge:

- *GDP is caused by remittances.*
- *H0: Remittances have no effect on GDP.*

We can see the probability value, where prob = 0.0035 is less than 5%, implying that H0 holds, implying that the variable Remittances drives GDP.

The selection of lag-delays based on AIC, FPE, SC, and HQ criteria is another critical step before developing the VAR model. Table 4 shows the outcomes for two lag-delays for each metric. Based on the criterion answers, AIC and HQ recommend using two lag-delays for the VAR model, hence two lag-delays will be utilized to produce the VAR model.

2.2 CUSUM test and model stability

Model stability tests are highly significant since they demonstrate whether or not the stated model is stable. This is the graphical representation-AR of unitary roots, where all points of the graph must be situated within the circle (+1: -1) and the test-CUSUM, which offers the graphical representation of the parameters used with a 5% significance to determine whether or not this model holds. According

to the graph's presentation, all points are positioned within the circle with values +1, -1, showing that the model is stable and fully describe.

Observing graph 8 of the CUSUM test with 5% significance, the blue line representing the VAR model is positioned inside the two red lines of 5% significance, suggesting that the parameters are stable and the VAR model may be constructed

2.3 Development of VAR models.

GDP and remittances will be the two variables in the VAR model that will be constructed. Each variable will be designated as a dependent variable, while the other will be designated as an independent variable. So, with GDP as a dependent variable and remittances as an independent variable, the first equation, which is the equation of interest in this research, may be used to examine the influence of remittances on GDP.

Then the second equation will be generated, with Remittances as the dependent variable and GDP as the independent variable; however, this equation is irrelevant to this paper because it is not the purpose of this paper to examine the impact of GDP on Remittances, so the analysis will focus on the first equation.

So the two equations that will be generated are:

- (1) $GDP = C(1) * GDP(-1) + C(2) * GDP(-2) + C(3) * R(-1) + C(4) * R(-2) + C(5)$
- (2) $R = C(6) * GDP(-1) + C(7) * GDP(-2) + C(8) * R(-1) + C(9) * R(-2) + C(10)$

The coefficients, standard deviation, and t-statistical value for each dependent variable are shown.

The explanatory value (R²) and other statistical statistics for each equation are provided. According to Table 5, the first equation relevant to this study is created in the first column, with the dependent variable GDP and the independent variable Remittances with two lag-delays. It has a solubility of 96.52 percent, however each of the variable coefficients must be considered for its relevance, as well as for the model as a whole. The significance of each dependent variable, followed by the overall significance of the model, will be addressed first.

Because the findings derived by the OLS technique yield for both equations, the OLS method described in Table 5 will create the probability values of the VAR model and then execute the WALT test for the individual significance of the coefficients and the model as a whole.

As observed in the table 6 presentation, they are connected with one another. Table 6 displays the ten coefficients of the VAR model, where the WALT test is

done for the first five coefficients (C (1), C (2), C (3), C (4), C (5)) of equation (1) to determine their significance using the two hypotheses shown in the table.

$$H_0: C(1) = C(2) = 0$$

Ha: The coefficients are not equal to zero.

The value of Chi-square where prob = 0.0026 0.05 indicates that hypothesis H0 fails, indicating that the coefficients C (1), C (2) deviate from zero. This demonstrates that GDP (-1) and GDP (-2) have a positive effect on GDP of 23.44 and 28.25 percent, respectively. Given that Albania had only positive economic growth from 2008 to 2017, this can potentially act as a control variable for the model.

Similarly, we can observe the significance of the coefficients C (3) and C (4) for the independent variable Remittances in table 8.

$$H_0: C(3) = C(4) = 0$$

Ha: The coefficients are not equal to zero.

Table 8 shows that **Prob=0.0001<0.05**, indicating that hypothesis H0 fails, and that the coefficients C (3) and C (4) deviate from zero. demonstrating that remittances from a prior period and remittances from two previous periods may have an influence on GDP, with a positive effect of 16.25 percent and 7.85 percent, respectively.

Through the WALT test the global significance of equation (1) can be seen by raising again the following two hypotheses

$$H_0: C(1) = C(2) = C(3) = C(4) = C(5) = 0 \text{ statistically insignificant}$$

Ha: statistically significant

From table 9 the chi-square value of the probability is probb = 0.0000 <0.05 which means that H0 falls down and equation (1) of VAR stands.

Equation (1) conclusions:

- (1) GDP from the previous period (GDP-1) and GDP from the two preceding periods (GDP-2) are statistically significant, with positive effects on GDP of +23.44 percent and +28.25 percent, respectively.
- (2) The preceding period's remittances (R-1) and two previous periods' remittances (R-2) are statistically significant, having positive effects on GDP of + 16.25 percent and + 7.85 percent, respectively.

2.4 Additional VAR model testing

Other tests used to determine whether the model is valid include normal waste distribution and heteroskedasticity.

Waste analysis, which shows us whether or not the VAR approach is effective. Because, according to this technique, the residues must be white noise, or their sum of squares must be equal to zero, or their average must be equal to zero.

In graph 9, we can examine the histogram result to illustrate the normal distribution of waste.

Again, in this test there are two hypotheses that arise:

H0: Waste has normal distribution

Ha: Waste has no normal distribution

From the histogram data we see that $\text{prob} = 0.680307 > 0.05$, which means that hypothesis H0 stands and the residues have normal distribution. Other indicators such as Skewness = -0.2, Kurtosis = 1.71 can also be seen around the values 0, 2 while the indicator JB = 0.77 is located away from the value 0 explaining why the histograms do not give a completely perfect normal presentation.

One of the VAR model's assumptions is that the residual variance is a limited number. The heteroskedasticity assumption is another name for this assumption. The Breusch-Pagan-Godfrey test is used to put this assumption to the test in practice. We get the following result from the model's data:

The following are the two assumptions that emerge:

H0: The residual variance has a fixed value.

Ha: Waste variance is not a fixed number.

From the data in Table 10 we see that $\text{prob Chi-Square} = 0.1703 > 0.05$, which means that H0 stands, which means that the variance is a finite number and the model does not suffer from heteroskedasticity.

3. Remittance's survey

In addition to the macroeconomic examination of GDP, I did a brief survey on the micro impact on household budgets. The poll is aimed at family members who have at least one emigrant relative who gives you monetary money at least once a year. The survey was performed online using Google forms, but in order to cover as many age groups as possible, a field survey was undertaken, mostly for those over the age of 35.

3.1. Empirical analysis of results.

- (1) The age of the respondents prevails from the age of 18–24 years with 35% and less <18 years with 5%.
- (2) 100% of respondents have at least one individual in emigration who sends you money at least once a year.
- (3) The question regarding the years in emigration and how long they have been receiving money from emigrants is presented as follows:

According to the findings, immigrants transmit money for at least a year after they arrive in the place of emigration. This is due to factors such as a change in lifestyle, difficulty at work or with their employment contract if they have one (if they are legal), debt payback for illegal immigrants who have been unemployed for a long time, and so on.

Looking at the two figures above, we can see that the UK has a high proportion of transfers and that OTP, along with personal transportation, accounts for 80 percent of the delivery channels. This is due to the fact that the majority of immigrants to this nation are illegal, and these two methods of sending are simpler, and the work with paperwork is restricted and straightforward.

3.1.1 Individuals who gain from remittances and their relationships with emigrants.

According to the study results, the bulk of remittances (70 percent) provide money for 3–5 persons for each emigrant. In addition, 70 percent of them have a girl/boy or sister/brother relationship with immigrants. This demonstrates that the major source of remittances is youth, which not only contributes to an aging population, but also demonstrates the extent of unemployment for young people who have no alternative but to emigrate.

This is corroborated by the other question about the reasons for leaving Albania, in which 75% departed for a better job and only 15% for school. This 15% represents 15–22-year-olds, when young people go for school while both working and sending money home to their family with the following data:

- 25% of them claim they put money aside for their children's education, and these are the examples where remittances assist 3–5 persons per emigrant.
- They spend 30% in small businesses and 25% in purchasing a home or land on which to build a home, which is also considered an investment because the property's value never decreases.

4. Conclusions

Immigrant families and the economy benefit directly and immediately from remittances.

Immigration alleviates unemployment, assists abandoned families, and instills a new spirit in the country by bringing people from more developed countries. Immigration also facilitates the transfer of money and increases traditional cultures' exposure to liberal, rational, democratic beliefs and modern knowledge.

Immigration has both positive and bad effects, in addition to positive ideas. As the population grows, so does the diversity of cultures and beliefs, resulting in an increase in crime.

There are 4 types of remittances: Potential Remittances, Constant Remittances, Additional and Savings Remittances.

Banks, Money Transfer Operators (OTPs), and Personal Transport are the three types of remittance procedures.

Remittances have decreased, especially as the Eurozone's economic crisis has worsened. 2008 was the best year for remittances, with \$ 1867 million. Remittances into the Albanian economy have begun to climb again in the previous two years, 2016 and 2017, when compared to 2015.

For the study period, 2008-2019, the value of FDI has always been higher than the value of remittances. The gap between FDI and remittances, which was relatively minor in the first five years, has grown due to increased investment on the one hand and decreased remittances on the other.

Remittances have been crucial in financing imports and bridging the trade deficit. They have played a crucial role in preserving the national currency's exchange rate as well as the rapid development of the construction and service sectors. As a result, they have had a favorable impact on the country's macroeconomic stabilization.

The Bank of Albania estimates that during the analysis period, remittances have contributed to about 11.8% of Albania's GDP. On the other hand, estimates show that the size of this contribution has been slightly declining from 14.4% in 2008, to about 10% in 2017. However, remittance contributions have increased in recent years, compared to performance during 2010-2013.

The impact of remittances in Albania is significant because they constitute an additional source of income for host families.

Remittances represent about 13% of the annual family budget in Albania. The impact of remittances is not only felt at the household level, a significant part of them goes to beneficiary families living in rural areas. Moreover, remittances spent in rural areas may have a greater effect than those spent in urban areas, as they tend more towards the consumption of local goods and services.

5. Conclusions on VAR Analysis

- GDP from the preceding period (GDP-1) and the two prior periods (GDP-2) had statistically significant positive effects on GDP of +23.44 percent and +28.25 percent, respectively.
- The preceding period's remittances (R-1) and two previous periods' remittances (R-2) are statistically significant, having positive effects on GDP of + 16.25 percent and + 7.85 percent, respectively.

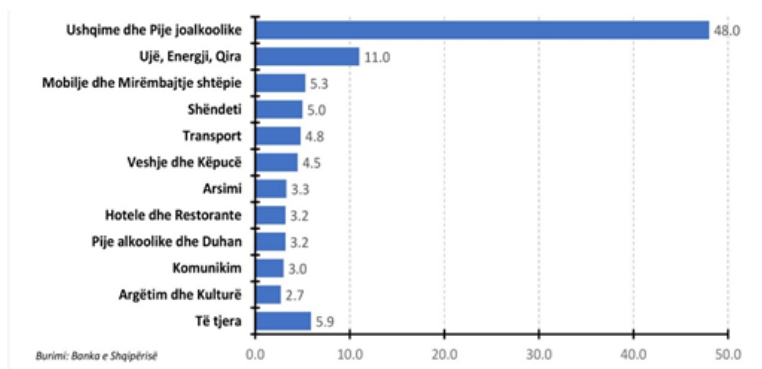
6. References

- Bhagwati, J., Hamada, K. (1974), Monetary flow in immigration process, *Journal of Development Economics*, vol. 1, issue 1.
- Bank of Albania (2017). Remittances, a support for development - Scientific research on Remittances' market in Albania - Current situation and needs for intervention, pp.24-36. https://www.bankofalbania.org/rc/doc/Remitancat_Revista_eng_12103.pdf
- Barajas, A., Chami, R., Ebeke, C., Oeking, A. (2016). Remittance inflows, Monetary transmission inefficiency, pp. 112A.
- Bendixen, S., Amandi, F. (2018). Survey about remittances in Ethiopia, Economic Indicators. <http://microdata.worldbank.org/index.php/catalog/595/download/15622>
- EVIEWS (2010) Tutorial, Know How on data collection and processing. Methodical application. <http://www.eviews.com/Learning/seriesgroups.html>
- EVIEWS (2019), Vector Autoregressions Model Generation (VAR), Statistical analysis on database for immigration remittances in Albania. [http://www.eviews.com/help/helpintro.html#page/content/VAR-Vector_Autoregressions_\(VARs\).html](http://www.eviews.com/help/helpintro.html#page/content/VAR-Vector_Autoregressions_(VARs).html)
- Grubel, H. Scott, A. (1966). Economic negative emigration effects. The remittance impact, Working Paper: No. 11.
- INSTAT, (2017), Structure of the budget of families according to prefectures from Albanian officials Government reports. Analytical data on spread of budget in portions. http://databaza.instat.gov.al/pxweb/sq/DST/START__HBS__CE/CE0012/?rxid=a2c5bb24-487c-4985-99da-aac875927dc7
- Kapoor, P. (2016). The economic times journal leading with Remittances: Easy options for transferring money, *Top three methods applied to poor development countries*. <https://economictimes.indiatimes.com/slideshows/nri/remittances-easy-options-for-transferring-money/slide/show/8342446.cms>
- Knox, L. Leland, H. (1980). Potential remittance in new world trades. Relative contraction of the economy, in the nations of origin, pp. 12-23.
- Mohr, F. (2018). r-econometrics. An introduction to vector autoregression (VAR) and its understandable comparing models. <https://www.r-econometrics.com/timeseries/varintro/>
- Monitor (2019). Pandemia, BB: Remitancat në Shqipëri në 2020 arritën 1.5 mld dollarë, më të ulëta në rajon. <https://www.monitor.al/pandemia-bb-remitancat-ne-shqiperi-ne-2020-arriten-1-5-mld-dollar-me-te-uletat-ne-rajon>
- Nickell, S., Saleheen, J. (2008). The impact of immigration on occupational wages, Direct and

- indirect impact. <https://www.nuffield.ox.ac.uk/users/nickell/papers/ImpactofImmigration-Apr08.pdf>
- Niimi, Y., Özden, Ç. (2006). Migration and Remittances: Causes and Linkages. Policy Research *Working Paper* No. 4087. World Bank, Washington, DC. <https://openknowledge.worldbank.org/handle/10986/8839>
- Open Data Albania (2017), Remittances and the country of origin. Most frequented countries that are applied by Albanian citizens. <http://open.data.al/sq/lajme/lajm/id/2352/titull/Remitancat-2002-2017-origjina-dhe-destinacioni-sipas-vendeve->
- Rivera Rodriguez, M., Baits, A. (1982). Detrimental impacts of immigration, The issue with remittances in immigration. *Working Paper*: No. 1.
- Smith, J., Edmonton, B. (1997). Net impact on the state budget. Disputation about whether the money that the state receives through taxes, Public Report at CNN, <https://edition.cnn.com/2021/10/28/financial/net-impact-on-state-budget-1997/index.html>.
- Tavanxhiu, M. (2016). Remittances: Determinants and their importance - The case of Albania, Immigrants do not spend their money, which keeps them isolated and away from banks, pp.145-150.
- Thanasi, T. (2015). Remittances' analysis in Albania, Economic impact of immigration in remittances, and its effect on Albanian macroeconomy, pp. 211-253.
- Unioni Financiar Tiranë (2019), Remitancat dhe Ndikimi madhor në Shqipëri - Efekti i parave të sjella në mikroekonomi dhe sistemi bankar në Shqipëri. <https://uft.al/remitancat-ndikimi-madhor-ne-ekonomine-shqiptare/>
- World Bank (2019). Estimates based on IMF balance of payments data, License: CC BY-4.0, Personal Remittances, received (current \$). <https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?locations=AL&view=chart>
- World Bank national accounts data, and OECD National Accounts data files (2019), Current GDP of Albania, License: CCBY-4.0. <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=AL&view=chart>
- Yaseen, H. (2012). The Positive and Negative Impact of Remittances on Economic Growth in MENA Countries, The positive effects of remittances in terms of economic development, pp.9-39. <http://www.jimsjournal.org/2%20Hadeel%20S.%20Yaseen.pdf>
- Zenawi, M. (2006). Consequences of Immigration. Negative repercussions of emigration to the nations of final destination. pp.no 14/1

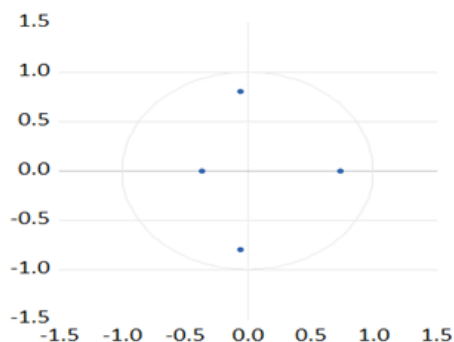
Extension (List of Graphs and Tables)

GRAPH 1. Structure of Remittance expenses (In%/total)

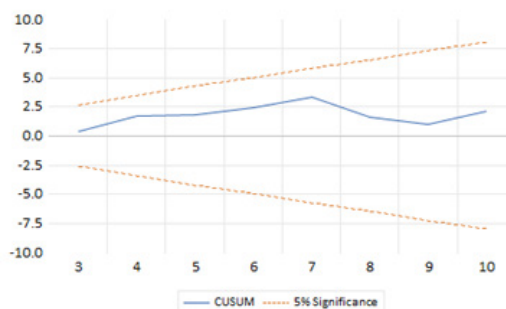


GRAPH 7. Stability of the VAR model

Inverse Roots of AR Characteristic Polynomial



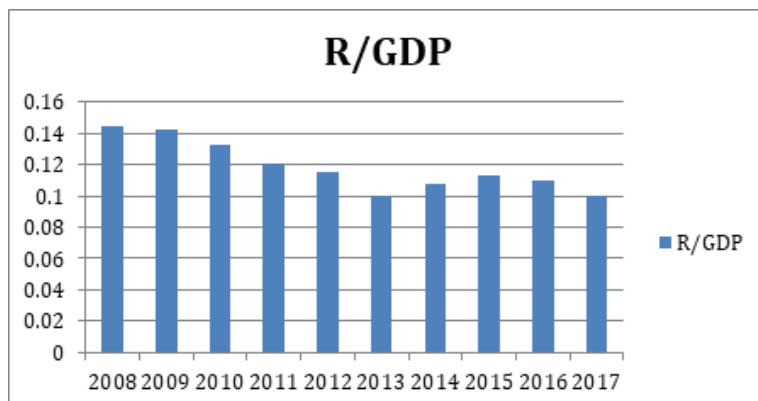
GRAPH 8. CUSUM stability test with 5% of parameters



GRAPH 9. Graphic presentation of the histogram



GRAPH 5. Weight of remittances in GDP in the years 2008-2017



GRAPH 6. Monthly expenses of households that receive and those that do not receive remittances

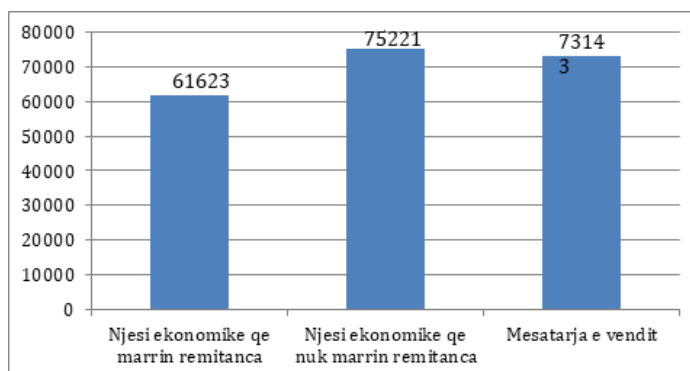


TABLE 2. Consumer expenditure by remittance-receiving families is segmented.

Grupet kryesore të konsumit	% ndaj totalit
Ushqime dhe pije jo-alkoolike	48
Pije alkoolike, duhan	3.2
Veshje dhe Këpucë	4.5
Shpenzime për banesën, ujë, energji elektrike, qira të paguar	11
Mobilim, pajisje shtëpiake dhe mirëmbajtje të zakonshme të banesës	5.3
Shëndet	5
Transport	4.8
Komunikim	3
Argëtim dhe kulturë	2.7
Arsim	3.3
Restorante dhe hotele	3.2
Të tjera mallra dhe shërbime	5.9
Gjithsej	100

TABLE 3. Granger causality test

VAR Granger Causality/Block Exogeneity Wald Tests

Date: 01/25/19 Time: 11:40

Sample: 1 10

Included observations: 8

Dependent variable: GDP

Excluded	Chi-sq	df	Prob.
R	11.30626	2	0.0035
All	11.30626	2	0.0035

Dependent variable: R

Excluded	Chi-sq	df	Prob.
GDP	0.883264	2	0.6430
All	0.883264	2	0.6430

TABLE 4. Lag-delay selection test.

VAR Lag Order Selection Criteria

Endogenous variables: GDP R

Exogenous variables: C

Date: 01/25/19 Time: 11:41

Sample: 1 10

Included observations: 8

Lag	LogL	LR	FPE	AIC	SC	HQ
0	35.03743	NA*	8.90e-07	-8.259357	-8.239496	-8.393307
1	39.99647	6.198798	7.54e-07	-8.499116	-8.439535	-8.900967
2	49.41215	7.061764	2.78e-07*	-9.853038*	-9.753736*	-10.52279*

* indicates lag order selected by the criterion

LR: sequential modified LR test statistic (each test at 5% level)

FPE: Final prediction error

AIC: Akaike information criterion

SC: Schwarz information criterion

HQ: Hannan-Quinn information criterion

TABLE 6. OLS I VAR generation.

Vector Autoregression Estimates
Date: 01/25/19 Time: 11:48
Sample (adjusted): 3 10
Included observations: 8 after adjustments
Standard errors in () & t-statistics in []

	GDP	R
GDP(-1)	0.234482 (0.25867) [0.90650]	0.090958 (0.56876) [0.15992]
GDP(-2)	0.282518 0.229226 [-3.63872]	-0.456634 (0.49016) [-0.93160]
R(-1)	0.162512 (0.22017) [-3.32016]	0.027298 (0.48410) [0.05639]
R(-2)	0.078525 (0.18461) [3.19464]	0.546233 (0.40591) [1.34570]
C	0.523781 (1.36772) [5.03801]	2.819145 (3.00733) [0.93742]
R-squared	0.965251	0.762451
Adj. R-squared	0.931709	0.445720
Sum sq. resid	0.000463	0.002237
S.E. equation	0.012420	0.027309
F-statistic	5.276044	2.407249
Log likelihood	27.67934	21.37607
Akaike AIC	-5.669836	-4.094018
Schwarz SC	-5.620185	-4.044367
Mean dependent	4.093992	3.143512
S.D. dependent	0.023047	0.036681

TABLE 5. VAR generation

System: UNTITLED
Estimation Method: Least Squares
Date: 01/25/19 Time: 12:00
Sample: 3 10
Included observations: 8
Total system (balanced) observations 16

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	0.234482	0.258668	0.906497	0.3996
C(2)	0.282518	0.229226	-3.638725	0.0109
C(3)	0.162512	0.220166	-3.320156	0.0160
C(4)	0.078525	0.184605	3.194637	0.0187
C(5)	0.523781	1.367718	5.038009	0.0024
C(6)	0.090958	0.568758	0.159923	0.8782
C(7)	-0.456634	0.490162	-0.931600	0.3875
C(8)	0.027298	0.484100	0.056389	0.9569
C(9)	0.546233	0.405909	1.345703	0.2270
C(10)	2.819145	3.007330	0.937425	0.3847

Determinant residual covariance 1.48E-08

Equation: $GDP = C(1)*GDP(-1) + C(2)*GDP(-2) + C(3)*R(-1) + C(4)*R(-2) + C(5)$

Observations: 8

R-squared	0.965251	Mean dependent var	4.093992
Adjusted R-squared	0.931709	S.D. dependent var	0.023047
S.E. of regression	0.012420	Sum squared resid	0.000463
Durbin-Watson stat	3.306530		

Equation: $R = C(6)*GDP(-1) + C(7)*GDP(-2) + C(8)*R(-1) + C(9)*R(-2) + C(10)$

Observations: 8

R-squared	0.762451	Mean dependent var	3.143512
Adjusted R-squared	0.445720	S.D. dependent var	0.036681
S.E. of regression	0.027309	Sum squared resid	0.002237
Durbin-Watson stat	1.995997		

TABLE 7. WALT test for coefficients C (1), C (2)

Wald Test: System: {%system}			
Test Statistic	Value	df	Probability
Chi-square	11.87134	2	0.0026
Null Hypothesis: C(1)=C(2)=0 Null Hypothesis Summary:			
Normalized Restriction (= 0)	Value	Std. Err.	
C(1)	0.234482	0.258668	
C(2)	0.282518	0.229226	

TABLE 8. WALT test for coefficients C (3), C (4)

Test Statistic	Value	df	Probability
Chi-square	19.02153	2	0.0001
Null Hypothesis: C(3)=C(4)=0 Null Hypothesis Summary:			
Normalized Restriction (= 0)	Value	Std. Err.	
C(3)	0.162512	0.220166	
C(4)	0.078525	0.184605	

TABLE 9. WALT test of equation (1)

Test Statistic	Value	df	Probability
Chi-square	869254.1	5	0.0000
Null Hypothesis: C(1)=C(2)=C(3)=C(4)=C(5)=0 Null Hypothesis Summary:			
Normalized Restriction (= 0)	Value	Std. Err.	
C(1)	0.234482	0.258668	
C(2)	0.282518	0.229226	
C(3)	0.162512	0.222923	
C(4)	0.078525	0.184605	
C(5)	0.523781	1.367718	

TABLE 10. Breusch-Pagan-Godfrey test of heteroskedasticity

Heteroskedasticity Test: Breusch-Pagan-Godfrey
Null hypothesis: Homoskedasticity

F-statistic	1.853060	Prob. F(1,8)	0.2105
Obs*R-squared	1.880695	Prob. Chi-Square(1)	0.1703
Scaled explained SS	0.427490	Prob. Chi-Square(1)	0.5132

TABLE 11. Time period of receiving remittances and years in emigration

Years in emigration		Time period for receiving remittances	
4-5 years	45%	4-5 years	20%
>5 years	35%	>5 years	20%
1-3 years	15%	1-3 years	50%
<1 year	5%	<1 year	5%

TABLE 12. Source country where remittances come from

United Kingdom	40%	Greece	10%
Italy	25%	USA	10%

TABLE 13. How to receive remittances

OTP (Money Transfer Operators)	65%
Banks	10%
Personal Transport / Courier	15%