INSURANCE INDUSTRY
Trends and challenges

Prof. Asoc. Dr. Elvin **MEKA**/ Eleni **KALEMAJ** Phd (c)/ Grisejda **MYSLIMI**/ PhD(c)/ Emirgena **NIKOLLI**, PhD(c)/ Joana **SHIMA**, Msc./ Elisa **KORSITA**, MSc./ Dr. Sokol **NDOKA**/ Alma **UKU**, MSc./ Dr. Ketrina **ÇABIRI MIJO**/ Prof. Dr. Ermira **QOSJA**/ Dr. Elona **SHEHU**/ Blerta **MOLISHTI**/ Ledion **FERATAJ**/ Emirgena **NIKOLLI** PhD (c)/ Arjol **SAKO**, MSc./ Dr. Blendi **LAMI**/ Prof. Dr. Kristaq **XHARO**/ Dr. Gerti **SQAPI**

UET PRESS

Content

EDITORIAL

Insurance Industry in Albania –
Trends and challenges! _____

_____ **Prof. Asoc. Dr. Elvin MEKA[1]** _____
Editor-in-Chief

The Albanian insurance industry has been seriously challenged for two times in a row: during the twin earthquake situation of September & November 2019 and during the Covid-19 pandemic, during the whole 2020 and 2021 period. This was the first time in the Albanian insurance industry's history to be faced with significant and sizeable damage bills, produced form the cluster effect of both earthquakes and the pandemic. According to Albanian Financial Supervisory Authority, AFSA, all non-life insurance companies, identified and processed, after the earthquakes, some 5,000 damage claims, with a compensation value of approx. ALL 3.7 billion, by providing insurance payback in more than 2,300 cases, with a value of over ALL 900 million, and the rest was underway during the whole 2020. Paradoxically, during the Covid-19 pandemic (202), the life insurance category in Albania moved into negative territory, with -4.1% compared to 2019!

Although the industry has surpassed the year 2019, in terms of written premiums in both segments (life and non-life, whereas the life segment rose relatively more than the non-life one), it still remains a dwarf segment of the Albanian financial system and industry, albeit having the same age as the banking industry in Albania. Furthermore, it is still characterized by a very low density (EUR 55/person) with a meagre penetration of 1.1% of GDP, compared with EU, where the density and penetration stand at and EUR 2,083/person and 7.4% of GDP, respectively.

The earthquakes and the Covid-19 pandemic did quasi nothing to push the whole insurance industry in Albania up to a higher level of development and organization. It revealed numerous issues and challenges, the insurance industry has faced during its whole lifespan: poor customer knowledge and financial education, lack of experience in dealing with such disasters, low credibility in

---

[1] Dean of Faculty of Economics, Business and Development, European University of Tirana, UET.

damage claim payments, insufficient marketing, etc. the industry is heavily dependent on compulsory insurance premiums, as they comprise more than 92% of all premiums, showing an underdeveloped life segment throughout the industry.

Near and more distant future challenges remain almost the same, as today's issues and challenges, and because of this, they should be viewed and considered as real opportunities for the Albanian insurance industry. Typically, they must strive to raise the level of information and awareness of individuals and businesses about the importance of insurance, in general, thus making a valuable contribution toward consumer financial education. Also, the industry must persist and ask for the preparation and implementation of a mandatory legal framework for natural disaster insurance, basic life insurance for all employees, along with a proper and smart marketing, together with distribution channels' optimization and digitalization.

So, the key challenge is to turn challenges into viable opportunities!!!

Evaluating the Customer Retention and Satisfaction in the Albanian Auto Insurance

Eleni KALEMAJ Phd (c)[1]
DEPARTMENT OF BUSINESS ADMINISTRATION,
UNIVERSITY OF NEW YORK TIRANA, TIRANA, ALBANIA
elenijarazi@unyt.edu.al

Abstract

Customers are the reason why businesses exist, prosper, and expand. Customer acquisition is the main goal for sales teams because more clients mean more money. The pandemic constrained people to reconsider how they utilize their time and what companies they do business with, including their insurance options. The insurance industry has the highest customer acquisition costs of any industry. Customer acquisition in insurance costs are nine times higher than customer retention, so "Happy clients" is no longer a nice to have, but a must in insurance industry.

In order to be profitable in insurance, the industry should focus in the customer experience service by improving important indicators like loyalty and retention. In this study, I seek to understand the factors that may cause an insurance services firm to lose some of its customers who have auto insurance. The findings of this empirical research utilized NPS for measuring customer loyalty in the auto insurance market in Albania.

---

[1] Eleni Kalemaj is a lecturer at the University of New York Tirana since 2017. She is also pursuing her PhD studies on digital marketing strategies and e-commerce at Mediterranean University of Albania. She holds a Master of Science in "Marketing" and a bachelor's degree in "Accounting and Finance" from Faculty of Economy, Tirana University. At UNYT, she has been teaching the subjects of "Fundamentals of Marketing" and "Industrial & Organizational Behaviour". She has also more than 10 years of work experience as a marketing manager at top companies gaining valuable expertise in different sectors. Ms. Kalemaj continuously engages in scientific research, participation and presentation in scientific conferences, publication in scientific journals, participation in professional and academic trainings, participation in scientific projects, etc.

To be successful in both customer acquisition and customer retention, Albanian insurance companies must focus in the factors identified in this research in order to influence customer loyalty and adjust their marketing strategies accordingly. The importance of the study consists on the lack of any similar research that looks at customer satisfaction, retention, and reasons for customer loss in the Albanian insurance sector. These variables have not been studied together previously. As a result, the findings of this study may serve as a starting point for other studies in the Albanian insurance sector.

Keywords: customer loyalty, customer retention, customer satisfaction, auto insurance in Albania, NPS index, Cochran's test.

I. Introduction

The main goal of every business is to keep its current clients happy while also bringing in new ones (Murali, et al., 2016). Posselt and Gerstner (2005) claim that greater customer satisfaction (CS) will eventually result in greater customer loyalty (CL) and increased customer retention (CR). To put it another way, cultivating a loyal customer base is the key to a successful business (Ansari & Riasi, 2016). Insurance companies are an example of financial services businesses that operate in a challenging and competitive market and should make the most of their limited resources to win over and retain consumers. Both Khatami et al. (2011) and Saeedpoor et al. (2015) have provide the significance of the insurance industry in emerging nations. Using artificial neural networks and linear regression, Ansari and Riasi (2016) examine the customer-service provider connections in the insurance business. According to the findings, factors that significantly predict customer loyalty include perceived value and customer happiness.

The basic auto insurance is mandatory in Albania. As a result, there are numerous applicants for this kind of insurance, and nearly all insurers are required to provide it. Providing competitive services will increase the likelihood that a policyholder would compare insurance options and maybe move to a different provider. Due to this issue, it is even more crucial to consider the many causes of client loss and come up with strategies to lessen their effects as well as raise the switching costs for consumers by offering them benefits that are competitive. Can an insurance company in Albania change its approach to attract more loyal customers? Using the premise that if loyalty can be predicted, a business can directly change its approach to attract more loyal customers. In order to answer these issues in this paper, I have divided the research into two primary sections: first, a study of the kind of client who is loyal, and second, a discussion of how an insurance company may make use of this knowledge to raise its potential levels of customer retention.

As a result, in order to succeed in both client acquisition and customer retention, the Albanian insurance firms must understand the variables influencing customer loyalty and should modify their marketing strategy in light of these variables.

II. Literature Review

Most businesses find it extremely difficult to keep current consumers for an extended period of time due to increased competition and the availability of a wide range of superior service and product providers (Fritsch & Changoluisa, 2017; Feliz & Maggi, 2019; Winer, 2001). One sort of competitive asset for a firm is a devoted customer base (Dekimpe et al., 1997). Customer loyalty is crucial for a company's survival and growth (Oliver, 1999; Olsen and Johnson, 2003) and also lays the path for it to build a lasting competitive advantage (Grönroos, 2009; Gummesson, 2008). Consumers' opinions and assessments of the benefits they derive from ongoing relationships can significantly affect their decision to remain with or leave a company (Ravald & Grönroos, 1996). This emphasizes even more the crucial part that service personnel play in providing customers with value and fostering customer loyalty.

Nowadays, buyers may readily compare several products or services before deciding, for example, by Googling information about potential choices (Bolton et al., 2014). In order to maintain its competitiveness and retain its clients, a service provider can be more productive in value creation and delivery. Better service options can benefit consumers, who may then choose to stick with the finest service provider they have access to. This emphasizes how competition may have a significant impact on research on consumer value and loyalty. Many businesses, like the insurance industry, are seeing growing competition. (Simarmata et al., 2017, Kumar et al., 2017) From a business's perspective, keeping current clients is unquestionably more profitable than spending a lot of money on attracting new ones (Weinstein, 2002; Seo et al., 2008). Additionally, even modest increases in retention can result in significant increases in revenues (Pfeifer & Farris, 2019).

II.1 What exactly is loyalty?

The most important characteristics of customer loyalty are related to a customer's repurchase relationship with the firm and recommendations to other customers (Aldaihani et al., 2020; Omoregie et al., 2019; Al-Hawary& Harahsheh, 2018). Customer loyalty is assessed through behavioural and attitude measures (Eldahamsheh et al., 2021; Saini & Singh, 2020). Early conceptions of loyalty, according to literature on the subject, put a strong emphasis on frequent purchasing.

For instance, Brown (1952) divides client buying habits into four categories: undivided loyalty, divided loyalty, unstable loyalty, and no loyalty. Bloemer and Kasper (1995) examined the distinctions between "genuine" and "spurious" loyalty and discovered that true loyalty entails more than just repeat business with the brand. Oliver (1997,1999) invokes this idea of commitment in his research on satisfaction and the relationship between brand loyalty and consumer behavior, which is consistent with their findings (Chumpitaz & Paparoidamis, 2004; Caceres & Paparoidamis, 2005). Two attitudinal measures (encouraging and positive word of mouth) are added to the ECSI loyalty measurements in this study. Therefore, while assessing loyalty, both behavioral loyalty (repurchasing, considering the first option) and attitudinal loyalty (recommendations, encouraging and positive word of mouth) are considered. According to Herhausen et al. (2019), in order to successfully manage these complex customer journeys, retailers must first understand the context of customer loyalty across the various online and offline channels that consumers use when interacting with the company.

II.2 Customer Retention

Customer retention occurs when product/service enterprises exceed customers' expectations and satisfaction, turning them into evangelists and supporters of the businesses. Attracting new customers is more expensive than keeping current ones (Vesel & Zabkar, 2009). Customers preferred receiving the greatest possible treatment, being recognized and made to feel valued (Wadud, 2013). Customer retention is now a significant problem for business operations and needs to be properly examined so that internal findings and market strategies tailored to them may keep existing clients. Managers are always looking for strategies to boost customer retention and their lifetime value (Rust et al., 2004). Once upon a time, customer retention was referred to as a defensive marketing tactic (Fornell & Wernerfelt, 1987). It appears to be a result of developing strong customer relationships. Client retention depends on maintaining customer satisfaction (Anderson & Mittal, 2000). This suggests that customer satisfaction is not the exclusive and necessary condition for client retention, it is a prerequisite. A positive and engaging customer experience delights the customer and leads to customer retention or repurchase of the product/service by satisfied customers (Gawron and Strzelecki, 2020). Firms can retain customers by providing quality services and enriching users' experiences with attributes that promote customer satisfaction and retention (Chen et al., 2021; Nani and Lina, 2021).

TABLE 1. Definitions of retention in terms of selected

Authors	Year&Page	Definitions of the concept of "retention"
Alshurideh	2016, p. 383	"all marketing plans and actions that seek to retain both existing and new customers by establishing, maintaining, and maximizing mutual long-term benefits that strengthen and extend the joint relationship between two parties"
Steiner, Siems, Weber and Guhl	2014, p. 885	"customer retention on the one hand involves actual behaviour such as repeat buying and recommendations to others, while at the same time it involves behavioural intentions in the form of planning to buy again (repeat buying intention) or to buy additional products or services (cross-buying intention), and intending to recommend a product or service to others"
Keiningham, Cooil, Aksoy, Andreassen and Weiner	2007, p. 364	"customers' stated continuation of a business relationship with the firm"
Stauss, Chojnacki, Decker, and Hoffman	2001, p. 15	"includes emotional-cognitive retention constructs (liking, iden-tification, commitment, trust) as well as behavioural intentions (willingness to recommend and repurchase intention)"

Source: own elaboration.

II.3 Customer Satisfaction

Customer satisfaction is a metric used to gauge how content customers are with your goods and services after utilizing them. It shows whether or not you were effective in exceeding customers' expectations. Customer satisfaction is viewed as an overall evaluation of a company's performance or use of a service after a purchase (Fornell, 1992). According to Parasuraman et al. (1988), the cognitive process that leads to a customer's sense of fulfillment is a comparison between the customer's perceived performance and one or more comparative criteria, such as expectations. Additionally, there are transaction-specific and cumulative ways to define satisfaction. Organizations must fulfill the demands and expectations of their consumers and modify their behavior accordantly if they want to achieve customer happiness (Hill et al., 2007). Consumers that are satisfied are more likely to display loyalty and stick with businesses longer; businesses want these customers to make repeat purchases and promote them to others in order to take their business to be more profitable (Sweeney & Swait, 2008) Customer satisfaction is a crucial component of marketing orientation since it influences consumers' future purchasing decisions (Kotler & Armstrong, 2004). Effective long-term consumer relationships depend heavily on client happiness as stated by Homburg and Rudolph, 2001. According to Ovenden (1995), customers must be

content in order to remain loyal. Customers who are happy with the service may devote themselves more to it (Hennig-Thurau et al., 2002).

Numerous researchers have looked at the connections between customer satisfaction and customer retention since the concept of the customer-centric company was popularized (Hennig-Thurau, 2004; Murgulets et al., 2001; White & Yanamandram, 2007). The degree of customer satisfaction attained and the value added by firms were directly related to determining the key elements that influence customer retention (Sim et al., 2006). According to research (Dastane & Fazlin, 2017; Jallow & Dastane, 2016), customer satisfaction dimensions are linked to each individual customer's intention to make another purchase. This link directly affects cost, revenue, and profitability. Investigations in many industries reveal a positive, decreasing relationship between customer satisfaction and firm profitability. Such investigations have rarely targeted the insurance industry. Pooser and Browne (2018) began this discussion by looking at individual insurers in the United States.

According to studies done so far in the insurance industry, there is a correlation between customer happiness and cooperation (responsiveness), speed of operation, cost of services, and aftersales service quality (Fard & Hosseini, 2015). Additionally, taking complaints seriously right away in services improves client happiness and builds trust in the business (Shams, 2020). Relationship marketing, whose major objective is to establish and preserve mutually beneficial and long-term customer relationships, is a significant component of customer retention (Küster & Vila, 2006). When businesses provide services, maintaining and establishing relationships with clients is very crucial (Brodie, 2017). Relationship marketing is defined as "attracting, building, and maintaining customer relationships" in one definition (Berry & Parasuraman, 1991).

II.4 Net Promoter Scores

Customer satisfaction measurement and integration into performance-oriented business management systems are currently among the main points of interest. With the complexity of loyalty models, it was difficult for corporate executives to select a satisfaction or loyalty model with any real sense of making an adequately informed decision.

According to a December 2003 Harvard Business Review article, loyalty consultant Fred Reichheld changed the status quo in terms of how management teams perceived the value of loyalty. Reichheld achieved this status shift by emphasizing a common survey-based metric and introducing it as a simple loyalty metric: The Net Promoter Score (NPS). According to Fred Reichheld research: "Willingness to talk up a company or product to friends, family, and colleagues is

one of the best indicators of loyalty because of the customer's sacrifice in making the recommendation. When customers act as references, they do more than indicate they've received good economic value from a company; they put their own reputations on the line. And they will risk their reputations only if they feel intense loyalty."

The main point is that NPS is the single most reliable indicator of a company's ability to grow. NPS is calculated using survey responses on an 11-point scale to a likelihood to recommend question. The NPS is calculated from a single loyalty question, "How likely is it that you would recommend this company to your friend or colleague? Customers are divided into three groups based on their responses to this question using a 0–10 likelihood scale, where 0 means "not at all likely" and 10 indicates "extremely likely": Detractors (ratings of 0–6), Passives (ratings of 7 and 8), and Promoters (ratings of 9 and 10). (ratings of 9 and 10). By simply deducting the number of Detractors from the proportion of Promoters, a business can determine its Net Promoter Score.

Average Net Promoter Score measured for each industry suggest that the auto insurance market should have an NPS greater than 43% to be considered profitable in the long-term.

FIGURE 1. Average Net Promoters Score for 23 industries

Net Promoter Scores vary widely by industry, as you can see from the average scores for 23 industries. Knowing what similar companies have achieved helps you to set realistic goals for improvement, and realism is key to the long-term success of your program.

Industry	Score
Department/Specialty Stores	62
Tablet Computers	56
Brokerage/Investments	50
Online Entertainment	47
Online Shopping	45
Airlines	44
Smartphones	44
Auto Insurance	43
Laptop Computers	43
Hotels	40
Grocery/Supermarkets	40
Credit Cards	39
Home/Contents Insurance	38
Shipping Services	38
Cell Phone Service	37
Banking	35
Software & Apps	31
Life Insurance	30
Drug Stores/Pharmacies	28
Travel Websites	23
Health Insurance	13
Cable/Satellite TV	1
Internet Service	-1

Source: Harvard Business Review article from Fred Reichheld (2003)

II.5 Insurance Albania Sector

The insurance market is a critical component of the overall financial system. In Albania, it includes private insurance companies that offer coverage to individuals and businesses. Individuals and businesses pay premiums to protect themselves from specific events, and if these events do occur, they receive a specific amount stipulated in the insurance policy. Albania is a Balkan nation with 2.838 million people (2020). Compared to other European countries, it has fewer citizens and a smaller economy. One of the world's smallest insurance markets is in Albania. The overall insurance market income from 2021 was ALL 19.24 billion where non-life premium income was ALL 17.81 billion. The insurance industry in Albania is supervised as part of the financial system. Albania's insurance market is a recent development. There were no insurance businesses functioning in the nation prior to 1991. With an insurance law in place, the Albanian insurance market is currently professionally regulated. Based on the Albanian Bank Report "List of institutional units classified in the Albanian financial sector" (2022), In Albania there are 12 insurance company: 4 of them are life insurance companies and 8 are non-life insurance companies.

TABLE 2. Insurance company in Albania (2022)

| Nr	NUIS	Company Name	Type of Company
1	J62006012D	INSIG sh.a	Insurance Company
2	J91329003O	SIGMA INTERALBANIAN VIENNA INSURANCE GROUP sh.a	Insurance Company
3	J91809007H	"SIGAL UNIQA GROUP AUSTRIA" sh.a.	Insurance Company
4	K51423801Q	"SIGAL - LIFE UNIQA GROUP AUSTRIA" sh.a.	Insurance Company
5	K11807008V	"ATLANTIK- SHOQËRI SIGURIMESH" sh.a.	Insurance Company
6	K12201002T	"INTERSIG VIENNA INSURANCE GROUP" sh.a.	Insurance Company
7	K42108801C	"ALBSIG" sh.a	Insurance Company
8	L92019017V	"ALBSIG JETE" sh.a	Insurance Company
9	K41926801W	"EUROSIG" sh.a.	Insurance Company
10	L21319037M	"ANSIG" sh.a.	Insurance Company
11	K42201801Q	"SICRED" sh.a.	Insurance Company
12	L71325020H	"INSIG JETË" sh.a	Insurance Company

Source: Own elaboration of the Albanian Bank Report
"List of institutional units classified in the Albanian financial sector" (2022)

The insurance market in Albania still depends on non-voluntary insurance and basic insurance in motor vehicles. According to the data published by the

Financial Supervision Authority of Albania, the market remains oriented towards non-Life insurance, which brought 92.56% in the period January-October 2021 of the total volume, while life insurance has 7.28%. From the point of view of market division according to the type of insurance, non-voluntary and voluntary, the gross written premiums of voluntary insurance occupy 38.91 and the gross written premiums of non-voluntary insurance occupy 61.09% of the total market. Non-voluntary motor insurance premiums during the period January-October 2021 reached about 9,616 million ALL, or 12.77% more than in the period January-October 2020.

The insurance market is critical because it allows risk to be transferred from one party to another. Individuals and businesses that do not wish to bear risk can transfer it to an insurance company. This is a critical component for a country's economic and financial markets to function properly. In relation to neighbouring nations in the region and in absolute terms, Albania's insurance market is still modest (EUR 164 million in written premiums in 2021). (Croatia – EUR 1.55 billion., Serbia - EUR 1.02 billion, Bosnia and Herzegovina - EUR 418.44 million). The structure of the insurance Albanian market has historical been dominated by auto insurance, followed by proper insurance and life and health insurance. For the period January-October 2021 the structure of the insurance Albanian market as shown in the graf.2 the auto insurance market share is ~1.5 greater than the other insurance takes together.

FIGURE 2. Market Structure of insurance company in Albania
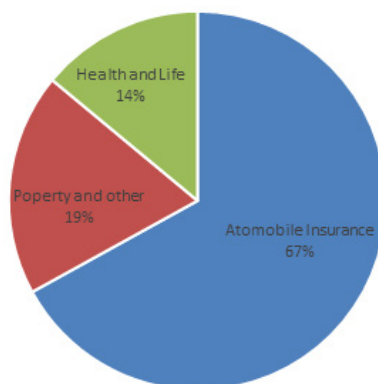
Source: Publication of AMF- Financial Supervision Authority
for the period January-October 2021

There are several ways to calculate each insurance company's market share, but the simplest is to total the premiums received by each company in a given year. Based on the publication of Financial Supervision Authority (AMF) the leader

in the sector for motor insurance is Sigma with 23.46% market share followed by Sigal with 18.08% and Eurosig with 10.93%.

FIGURE 3. Market Share 2021 of motor insurance in Albania
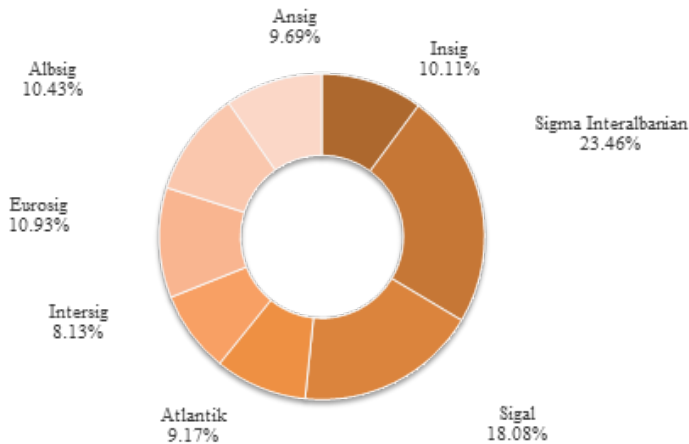
Source: Publication of AMF- Financial Supervision Authority: Insurance Geography 2021

Regarding the market share of the Non-Life Insurance Companies in Albania the leader of the market for 2021 was Intersig with 28% market share, followed by Albsig with 21% and Sigma Interalbania by 17%.

FIGURE 4. Market Share 2021 of non-life insurance market in Albania
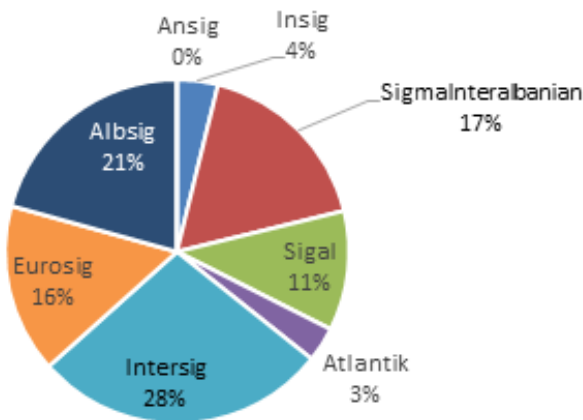
Source: Own Elaboration from AMF data published in 2021

As shown in the table 3, Tirana has the biggest market share (~58%) in the insurance market followed by Durresi. Also as reported by the Albanian National Bank (2022) all the insurance companies that operate in Albania have their main offices in Tirana.

TABLE 3. Type of insurance in each Albanian prefecture in 2021

Type of insurance 000 Lekë/ALL	Accidents and sick-ness	Motor third party liability	* MTPL e brendshme / DMTPL	* Kartoni Jeshil / Green Card	* Kufitare / Border	Motor	Other	TOTAL
BERAT	3,793	405,649	388,970	13,699	2,980	3,880	6,404	419,725
DIBËR	8,561	299,154	226,811	66,375	5,969	2,393	4,311	314,420
DURRËS	32,806	1,193,524	859,213	129,214	205,097	50,171	132,925	1,409,426
ELBASAN	15,406	770,230	688,121	73,719	8,390	22,329	40,368	848,332
FIER	16,632	878,384	827,653	39,903	10,828	21,333	35,541	951,889
GJIROKASTËR	2,755	317,089	219,434	93,930	3,724	10,115	10,977	340,937
KORÇË	12,303	792,042	565,120	216,406	10,516	12,155	35,256	851,755
KUKËS	2,868	206,648	179,094	8,205	19,348	710	2,500	212,725
LEZHË	7,022	416,000	394,349	11,056	10,595	6,821	26,378	456,222
SHKODËR	14,159	799,190	658,235	62,702	78,253	14,707	43,571	871,627
TIRANË	1,083,655	5,051,477	4,447,706	506,732	97,040	921,450	3,237,048	10,293,631
VLORË	15,532	748,836	629,334	75,466	44,037	22,871	52,339	839,579
MARKET	1,215,491	11,878,224	10,084,039	1,297,408	496,777	1,088,936	3,627,618	17,810,270

Source: Own Elaboration from AMF data published in 2021

III. Research Methodology

Customers have the power of choice and can choose from a variety of options to satisfy their demands in a business setting where there is rough competition. By analysing the Albanian market share of the insurance companies, is clear that is a rough competition between insurance companies. One of the most competitive businesses in Albania is insurance, which has 8 active companies and insurance penetration (defined as premiums as a percentage of gross domestic product (GDP)) to be 0.91 % penetration rate. The motor insurance is the largest single general insurance line in the country and the one that have consistently demonstrated as having the most disloyal customers.

Naturally, a business wants to make more money by attracting new customers by promising superior value and to keep and grow current customers by delivering

value and satisfaction. (Kotler & Amstrong, 2020). Companies should apply client retention initiatives in addition to attracting new customers in order to make this goal a reality.

Regarding the argument that keeping existing customers is less expensive than acquiring new ones, I am investigating the reasons why some auto insurance policyholders are hesitant to renew their insurance contract with existing company. As a result, this study seeks to answers the following three major questions:

- Question 1: How loyal is a policyholder loyal with the existing insurer?
- Question 2: What are the characteristics of a loyal customer and disloyal customer in the auto insurance market in Albania?
- Question 3: What are the reasons that some of the policyholders of an Albanian motor insurance are not willing to renew their auto policies with the current provider?

The study is being contacted in Tirana as it has the biggest market share compared to other Albanian city (based on the insurance geography of Albania (2021) published by AMF.

As Tirana has 61% of the Gross Written Premium in Albanian is the main market share of the insurance companies and the market with the greatest competition. Tirana population is representative sample of the auto insurance sector in Albania in terms of market share, annual sales volume, and the number of insurance stores listed in Albania.

TABLE 4. Gross Written Premium in Albanian by prefectures

Gross Written Premiums and Paid Claims according to Albanian Prefectures in 2021	Gross Written Premium (in 000 ALL)	Gross Written Premium (in %)	Paid claims (in 000 ALL)	Premiums per capita (in ALL)
BERAT	420,516.91	2%	84,377.90	3,655.08
DIBËR	314,774.94	2%	66,515.85	2,872.43
DURRËS	1,421,408.66	7%	575,335.52	4,879.12
ELBASAN	858,011.94	4%	222,781.75	3,311.36
FIER	958,716.76	5%	207,810.95	3,443.51
GJIROKASTËR	344,212.65	2%	60,703.86	6,226.94
KORCË	859,960.16	4%	160,958.03	4,358.58
KUKËS	213,989.67	1%	52,809.88	2,940.71
LEZHË	462,415.02	2%	181,955.32	3,942.73
SHKODËR	890,638.77	5%	166,399.48	4,614.49
TIRANË	11,640,642.35	61%	4,478,684.98	12,659.60

VLORË	855,243.48	4%	138,014.38	4,624.06
TOTAL MARKET	19,240,531.29	100%	6,396,347.91	6,887.38

Source: https://amf.gov.al/

When the population size is known, Cochran (1977) is one of the formulas that may be used to determine the sample size. For small populations of a known size, it uses Cochran's equation together with a population correction to calculate sample size. Cochran created the following formula in 1977 to determine a representative sample for proportions (Sarmah et al., 2013):

$$n=n0/(1+((n0-1))/N)$$

TABLE 5. Calculating the sample sizes of the study through Cochran's test:

Precision Level	±5%
Confidence Level	95%
Estimated Proportion	0.5
Tirana Population Size	919,511
Sample size	272

Source: Own Elaboration

The appropriate sample size given the population size and specified combination of precision, confidence and variability is 272. Data were collected during the period August-September of 2022 using the online survey. The questioners were made online using google form. Simple random sampling was used, which ensures approximate independence of observations. Then, results were extracted and analysed. Respondents were asked questions regarding: (1) recommendation intent; (2) satisfaction; (3) loyalty; (4) repurchase intention and (5) demographic traits. Consumers were analysed using the following questions:

- Do you have a personal vehicle for which you purchase a motor insurance?
- Are you the one who makes the automobile insurance purchases? If not, who is?
- How many years have you been carrying out the annual car insurance?
- How many companies have you changed during your life in making auto insurance?
- What were the main reason you have change the insurance company?
- How many years do you have with the correct insurance company?
- What is the name of your current insurance company?

- Do you consider yourself a loyal customer of your current insurance company?
- On a scale of 0-10, how satisfied are you with the current insurance company?
- How did you inform about your current insurance company?
- On a scale of 0-10, would you recommend the current insurance company to your family members or friends?
- How likely is it that you will continue to renew your car insurance with the same insurance company?
- Choose the 3 main characteristics that you value when choosing the insurance company.
- What age group does your age belong to?
- What is your gender?
- Your employment status?

The information was then analysed to determine if there were any significant variables or suggestive trends that would have an impact on the crucial choice of whether or not a policyholder would likely stick with their current insurer. Ratings need to be critically analysed to make sure I comprehend the meaning underlying the ratings because of the way customers interpret survey questions and the inherent error associated with measuring psychological constructs (yes, measured in surveys, customer loyalty is a psychological construct).

There were 302 people completing the questioner but I removed the ones who didn't have a vehicle or have not made an automobile insurance purchases, because I am interested only in the data of the customers in the auto insurance market, in order to evaluate the Customer Retention and Satisfaction in the Albanian Auto Insurance. By doing this the sample remained 272 people which is still within the Cochran's simple size recommendation.

Further, I looked at the length of a customer's association with their previous insurer as well as the amount of time they had been with their current insurance to extract another set of data from the initial set. Loyalty is measured by repurchase intention, price tolerance and intention to recommend products or services to others. (Anderson & Fornell, 2000). Customer loyalty is identified via the relation of the years of purchases and repeat purchases with the existing company and the survey feedback expressing the current opinion and likely future intent of the customers.

Many of today's leading companies use the Net Promoter Score (NPS) to track and manage customer relationships. According to Fred Reichheld and his co-creators of the NPS, businesses only require one survey question as a measure of customer loyalty in order to expand. Reichheld, Satmetrix, and Bain & Company, the other NPS creators, have all presented some very compelling arguments for why the NPS is superior to other loyalty measurements. They have explicitly stated that:

- The NPS is "the strongest predictor of development" Richterheld (2003)
- The NPS is "the single most accurate indication of a company's ability to develop," according to research (Netpromoter.com, 2007)
- "There is no reliably observable link between satisfaction and growth" (Reichheld, 2003)

According to the creators of NPS, here is the breakdown of the scores:

TABLE 6. NPS score meaning.

NPS Score	Score Meaning
Below 0	Customers aren't happy. There is considerable scope for improvement for companies falling in this range.
1 to 30	This score is acceptable, but there is still a lot that companies can do to grow.
31 to 50	Most companies get NPS scores in this bracket. It shows they value customer experience as a good number of customers are willing to recommend the brand to others.
51 to 70	Companies with scores in this range have a large group of promoters.
71 to 100	Such scores are difficult to attain. Businesses with scores in this bracket are leading the market.

Source: Own Elaboration

After combining these data sets, I was able to categorize customers into 3 different groups. Based on the ratings customers provide, they are classified into three groups:

(1). Detractors Customers - the ones that received a score of 0 to 6. They typically don't enjoy the company services and aren't likely to tell anybody in their social network about the company. In fact, they have the power to disseminate unfavourable evaluations and damage the reputation of the business.

(2). Passives - Customers who give you ratings of 7 and 8 are passives. They are consumers who have no strong feelings about the brand; they are neither satisfied nor dissatisfied, but they are willing to switch to a rival.

(3). Promoters – They are the ardent, brand advocates that every company aspires to acquire. By giving a brand a rating of 9 or 10, these customers demonstrate their unwavering devotion to it. They are quite happy and would love to tell their friends and family about their wonderful experiences.

The goal of this research, as previously said, is to determine whether loyalty and disloyalty can be predicted, particularly during the acquisition process.

Getting important demographic information on a potential customer is crucial to this procedure. Therefore, by examining loyalty in respect to these important demographics, I can have a better understanding of what makes a loyal consumer in auto insurance market.

IV. Results

What are the signs of loyal and disloyal customer in auto insurance?
Disloyalty is easy to define because this group makes up a significant portion of the whole sample.

TABLE 7. Categories of customers in auto insurance

Categories	Percentage %
Detractors Customers	25%
Passives	45%
Promoters	30%

Source: Own elaboration of data

TABLE 8. Net Promoter Score (NPS)% of Auto Insurance Companies in Albania

Albanian Auto Insurance Company	% of people responded	Net Promoter Score (NPS)%
Albsig	2%	0%
Ansig	2%	0%
Atlantik	4%	-33%
Eurosig	4%	-33%
Insig	4%	50%
Intersig Vienna Insurance Group	13%	50%
Sigal Uniqa Group Austria	35%	13%
Sigma Interalbanian Vienna Insurance Group	9%	25%
I don't know	26%	-42%

Source: Own elaboration of data

TABLE 9. Chances to stay loyal to the current auto insurance company

Categories	Percentage
Low chances to stay	25%

For sure I will change it	20%
I don't know	25%
I will stay for sure	30%
Total	100%

Source: Own elaboration of data

The profile of a loyal customer in auto insurance sector:

TABLE 10. Loyalty by gender

Categories	Man	Woman	Total
Detractors Customers	35%	14%	25%
Passives	46%	43%	45%
Promoters	19%	43%	30%
NPS	-16%	29%	5%

Source: Own elaboration of data

TABLE 11. Loyalty by employment status

Categories	Unemployed	Part-time employed	Full-time employed	Self-employed	Student	Retired	Total
Detractors	0%	100%	27%	0%	33%	0%	25%
Passives	0%	0%	46%	57%	50%	0%	45%
Promoters	0%	0%	27%	43%	17%	100%	30%
NPS	0%	-100%	0%	43%	-16%	100%	5%

Source: Own elaboration of data

TABLE 12. Loyalty by age

Categories	18–24 old	25–29 old	30-34 old	35-39 old	40-44 old	45-49 old	55-59 old	Total
Detractors Customers	33%	50%	33%	22%	8%	0%	0%	25%
Passives	50%	38%	56%	56%	42%	50%	0%	45%
Promoters	17%	12%	11%	22%	50%	50%	100%	30%
NPS	-16%	-38%	-22%	0%	42%	50%	100%	5%

Source: Own elaboration of data

TABLE 13. Marketing communication channel to make Loyal customers

Categories	Detractors Customers	Passives	Promoters	NPS
Digital Marketing	0%	100%	0%	0%
Sales Promotion	13%	54%	33%	21%
Referral marketing	33%	0%	67%	33%
Public relations (PR)	0%	100%	0%	0%
Advertising	0%	200%	0%	0%
Personal selling	56%	33%	11%	-44%
Other	50%	0%	50%	0%
Total	25%	45%	30%	5%

Source: Own elaboration of data

TABLE 14. The main reasons why some policyholders
of an Albanian Insurance company did not renew their auto insurance policies

Categories	Percentage
Price and a good deal offer	39%
Not a specific reason	41%
Reference from a friend	4%
I have never changed the current company	8%
Service	4%
Location of the insurance company	4%
Total	100%

Source: Own elaboration of data

TABLE 15. The main characteristics that policyholders' value
when choosing the insurance company?

Categories	Percentage
Price	53%
Company Reputation	20%
Warranty the company give	17%
Service they offered	9%
Online Service	1%
Total	100%

Source: Own elaboration of data

V. Discussions

What are the signs of loyal and disloyal customer in auto insurance?

Disloyal customer makes up a significant portion of the whole sample in the auto insurance industry. In Auto insurance industries the NPS is recommended to be minimum of 43%. The Net Promoter Score (NPS) in auto insurance industry in Albania is calculated to be 5%. These numbers clearly show that preventing disloyalty rather than fostering loyalty is the main challenge facing insurers. By identifying a such strategy, an insurer can lower customer defection rates and the likelihood that customers will switch to a competitor. Insig and Intersig have the average of NPS higher than the recommendation NPS for the industry. The NPS is the lowest among the brands name that are not remember by the clients. More than 49% of the interviewer have change at least 2 insurance company. A very good percentage of 29% is loyal to his current company and they never change that since the first transaction. The NPS categorization was confirmed to be accurate because is very similar with the findings of the other question made to the customer: "What are the chances you will stay as a customer at the current company": 30% of the people response that they will stay for sure, demonstrating the same % as the member in the group of promoters who are consider to be loyal to the brand.

The profile of a loyal customer in auto insurance sector:

The findings indeed reveal clear differences in loyalty between male and female buyers. These findings demonstrate that women are more loyal than men. Auto insurance companies should focus in increasing the promotors group within men gender. If an auto insurance company could convert the man customers from detractors to promotors would increase their overall NPS score. People who work part-time were the most disloyal category in the study. Followed by students and full time employed. Self-employed scored NPS of 43%. On the other side, the retirees are the most loyal group with a NPS of 100%. These results shouldn't come as a surprise for the younger end of the spectrum, especially those between the ages of 18 and 29. This is primarily due to the fact that the younger generations, specifically Generation Y (born between 1983 and 1994), are well-known for having disloyalty as a quality or attribute. According to a US publication called Customer Relationship Management, "Published reports have branded Generation Y as fiercely disloyal, claiming its access to Web information and online communities empowers members of this cohort to research vendors in a market and switch to a competitor if they're

unhappy with their existing vendor ". The article goes on to say that the only thing more likely to persuade a younger person to stay with a specific company or brand is a positive customer experience. So, insurance company should focus in the young generation to improve their NPS as consider the life time values that can bring a lot of profits to the company. Also, they can profit by converting them to loyal customer and cross sell other insurance products. The results of my study show that NPS score in insurance company improves through age in the auto insurance sector.

The most effective marketing communication channel to make Loyal customers.

An important component that auto insurance company should take in consideration is marketing. One of the key elements of marketing is the discipline of marketing communications, which aims to promote the business or brand, as well as its goods and services, using a number of marketing and communication channels (Sebastiano & Mereu, 2020). Integrated marketing communications are, in the definition of Batra and Keller (2016), "Integrated marketing communications are the coordinated, consistent means by which firms attempt to inform, incent, persuade, and remind consumers—directly or indirectly— about the products and brands they sell" (p. 137). In order to find out how respondents first learned about their existing auto insurance. The most devoted clients are those who arrive as a result of personal referrals, as demonstrated by Table.13. On the other hand, clients who use personal selling to make purchases are the least loyal. With a proper sales promotion strategy client tend to be more loyal to the insurance company. The data analysed in the study showed that insurance companies need to assess the appropriateness of their marketing and communications channels for reaching a desired objective or outcome along the consumer journey. It makes sense for a sample population to switch based on pricing, why internet users who locate one insurance will keep looking the identical channel for better and better deals, fostering a vicious disloyalty cycle. My findings showed that insurers looking to build a more loyal relationship with their customers have a greater opportunity to accomplish so by using referral marketing stimuli to boost their existing customer database to gain new customers.

What are the main reasons why some policyholders of an Albanian Insurance company did not renew their auto insurance policies with the previous company?

Customers who wish to switch from one insurer to another can easily and inexpensively obtain all of the information they require about various companies via the Internet or with just a phone call. Overall, the insurance market is becoming more competitive, with fluctuations in business volumes and margins, as well as

the quantity and quality of existing policies. Price and offers are one of the most influenced factors for not renewal the auto insurance with the previous company. Insurance customer shows to be very sensitive when it comes to price. Also, a big percentage showed that they didn't have a specific reason for not renew their auto insurance policies with the previous company.

What are 3 main characteristics that policyholders' value when choosing the insurance company?

The customer of the auto insurance sector value price as the main reason when choosing an insurance company. The company reputation is considered also an important element and insurance company. Marketing techniques, such as a brand campaign, can help improve a company's reputation. Insurance company should monitor what their customer think about the brand and how they can improve the perception of the company and how it operates. It is showed that customers who have a positive experience with the company and the personnel who provide customer service are more likely to stay loyal. They're also more likely to tell others about their experience, which can increase the insurance company customer base.

VI. Research limitations/implications

The study is based on auto insurance sector in Albania. In future it would be interesting to study a representative sample of the whole insurance sector. As the survey is administrated online could have some error associated with the way customers interpret survey questions and the inherent error associated with the sincerity of their answers.

VII. Conclusions

According to the literature, customer satisfaction has a positive impact on profitability per customer in many industries. Despite the fact that there are several, mostly theoretical, reasons why this relationship may differ in the insurance industry, insurance has rarely been the subject of research in this field. This is the first paper to investigate this topic using customer-level data and an examination of all major business lines of a non-life insurance company. Putting the customer at the centre of the organization (customer centricity) is a critical approach for auto insurance management because satisfied customers create value for the company (they remain with you, they refer the company to their friends and families and they are usually prepared to buy new products). As a result, determining customer loyalty should

be based on a thorough understanding of the customer. The findings reveal clear demographic indicators of customer loyalty, some of which are especially significant.

In short, people who learn about their insurer through a personal recommendation or a newspaper advertisement are more loyal. People over the age of 60 and those who have retired are far more loyal than those under the age of 60. However, I discovered that defining the types of people who are likely to be disloyal is much easier. According to my findings, the key demographic categories for disloyalty are people under the age of 35, part time employed, student or nonemployee who get informed through personal selling people.

The study showed that using current data collection techniques, it is possible to screen loyal and disloyal customers. The findings revealed a significant relationship between price sensitivity and the propensity to switch insurers: the greater the price sensitivity, the greater the propensity to switch insurers. These personality traits are reinforced by an industry that offers the lowest price to new customers while continuing to raise rates for existing customers. As showed the sales promotion are important to the reinforcement of loyalty. To avoid disloyalty within the insurance market, companies must examine how their pricing is structured. If their pricing is structured to reward customers who switch frequently, they are likely to find that customers will do just that.

According to my findings, it is possible to detect both loyalty and, more importantly, disloyalty during the renewal process. This can be influenced by asking simple questions about customers' previous switching habits. Those who switch frequently are more likely to be disloyal.

My recommendations are:

- If customers are acquired by an insurer, it is better to price properly. This would entail providing preferential rates to customers who have been with their previous insurer for a longer period of time or who refer his friends/family to the company.
- Customer disloyalty is clearly a major issue for the Albanian insurance industry, but it is not currently being addressed seriously by underwriters when it comes to renewals. Nonetheless, as showed in this study not only is it possible to predict customer loyalty, but it is also possible to adjust pricing levels in order to reward loyal customers far more than current practice allows.
- Different marketing strategies for different types of customers. We could have a more loyal consumer base in the auto insurance sector with a more logical pricing structure in place.
- As a result, specific data about each customer's loyalty and profitability must be generated.
- Insurance company must take/think: improved communication, smarter use of data and analytics.

- Insurance company should gain information about the position of the company in the market and always ask for customer feedback. Simply by monitoring its own records of new contracts and cancellations, the company learns about how it compares to its competitors in terms of customer recruitment effectiveness, as well as about its position in the insurance market.

References

Afsar, B. (2010). Determinants of customer loyalty and proposing a customer loyalty model. Journal of Management Marketing, 8(1),73–90.

Aityassine, F. (2022). Customer satisfaction, customer delight, customer retention and customer loyalty: Borderlines and insights.Uncertain Supply Chain Management, 10(3), 895-904. http://www.growingscience.com/uscm/Vol10/uscm_2022_29.pdf

Anderson, E.W., and V. Mittal. (2000). "Strengthening the satisfaction-profit chain." Journal of Service Research 3: 107–120. doi: https://doi.org/10.1177/109467050032001

Ansari, A., Riasi, A. (2016). Modeling and evaluating customer loyalty using neural networks: Evidence from startup insurance companies. Journal of Future Business, 15–30. doi: https://doi.org/10.1016/j.fbj.2016.04.001

Blut, M., Beatty, S., Evanschitzky, H., Brock, C. (2014). "The Impact of Service Characteristics on the Switching Costs–Customer Loyalty Link." Journal of Retailing, 90 (2, 2014), 275–290. doi: https://doi.org/10.1016/j.jretai.2014.04.003

Brophy, R. (2020). "Branding and product distribution in the Irish insurance industry." Insurance Institute of Ireland: Thinkpiece.

Dam, S. M. and Dam, T. C. (2021). Relationships between service quality, brand image, customer satisfaction, and customer loyalty. The Journal of Asian Finance, Economics and Business, 8(3), 585-593. doi: https://doi.org/10.33258/birci.v4i4.3140

El Refae, G.A. and Nuseir, M.T. (2022). The role of digital marketing strategies on customer satisfaction and its ultimate impact on organizational performance: Moderating role of entrepreneurial intentions. Academy of Entrepreneurship Journal, 28(S2), 1-17 doi: 10.5267/j.ijdns.2021.9.006

Reichheld, F.F. (2003). "The One Number You Need to Grow by." Harvard Business Review. Retrieved from: https://hbr.org/2003/12/the-one-number-you-need-to-grow

Fornell, C. (1992). "A National Customer Satisfaction Barometer: The Swedish Experience." Journal of Marketing, 56 (1), 6–21. doi: https://doi.org/10.2307/1252129

Gao, Fan, and Wang (2021): Crafting the customer experience in omnichannel contexts: the role of channel integration. Journal of Retailing and Consumer Services, doi. https://doi.org/10.1016/j.jretconser.2021.102842

Gee, R., Coates, G., and Nicholson, M. (2008). "Understanding and profitably managing customer loyalty." Marketing intelligence and planning., 26 (4). pp. 359-374. doi: http://dx.doi.org/10.1108/02634500810879278

Guelman, L., Guillén, M. (2014). A causal inference approach to measure price elasticity in auto Insurance. Journal of Expert Systems with Applications, 41 (2014), 387–396. doi: https://doi.org/10.1016/j.eswa.2013.07.059

Gupta, S. and Zeithaml, V. (2006). "Customer metrics and their impact on financial performance." Marketing Science, 25(6), 718–739. doi: https://doi.org/10.1287/mksc.1060.0221

Golovkova, A., J. Eklof, A. Malova, and O. Podkorytova. (2019). "Customer satisfaction index and financial performance: A European cross-country study." International Journal of Bank Marketing 37: 479–491. doi: https://doi.org/10.1108/IJBM-10-2017-0210

Hennig-Thurau, T., Gwinner, K.P. and Gremler, D.D. (2002). Understanding relationship marketing outcomes: An integration of relational benefits and relationship quality. Journal of Service Research, 4(3), 230–247. https://doi.org/10.1177/1094670502004003006.

Herhausen, D., Kleinlercher, K., Verhoef, P.C and Rudolph, T. (2019). "Loyalty formation for different customer journey segments", Journal of Retailing and Consumer Services, 95 (3) (2019), pp. 9-29. doi: https://doi.org/10.1016/j.jretai.2019.05.001

Jahnert, J.R. & Schmeiser, H. (2022). "The relationship between net promoter score and insurers' profitability: an empirical analysis at the customer level." The Geneva Papers on Risk and Insurance - Issues and Practice, volume 47, pp. 944–972. doi: https://doi.org/10.1057/s41288-021-00237-3

Kotler, P. and Armstrong, G. (2015). Principles of marketing. 17th edition. Pearson.

List of institutional units classified in the Albanian financial sector – Bank of Albania. (2022).

Marcos, A.M.B.d.F. and Coelho, A.F.d.M. (2021), "Service quality, customer satisfaction and customer value: holistic determinants of loyalty and word-of-mouth in services", The TQM Journal, doi: https://doi.org/10.1108/TQM-10-2020-0236

Murali, S., Pugazhendhi, S., Muralidharan, C. (2016). "Modeling and investigating the relationship of after sales service quality with customer satisfaction, retention and loyalty – A case study of home appliances business." Journal of Retailing and Consumer Services, 30 (2016), 67–83. doi. 10.1016/j.jretconser.2016.01.001

Myron, D. (2006). 'The growing consumer disloyalty', Customer Relationship Management

"Consumer loyalty in the 21st century — can we pin down butterflies?" International

Journal of Research in Marketing, 5(3), 382–389. doi. https://doi.org/10.17722/jorm.v5i3.126

Pfeifer, P.E. and Farris, P.W. (2004). "The Elasticity of Customer Value to Retention: The Duration of a Customer Relationship." Journal of Interactive Marketing, 18(2), 20–31. doi. https://doi.org/10.1002/dir.20006

Posselt, T., Gerstner, E. (2005). "Pre-sale vs. post-sale e-satisfaction: Impact on re- purchase intention and overall satisfaction." Journal of Interact Mark, 19 (4), 35–47. doi. https://doi.org/10.1002/dir.20048

Publication of AMF (2021): Insurance Geography. https://amf.gov.al/statistika

Rust, R.T., Lemon, K.N. and Zeithaml, V.A. (2004). Return on marketing: using customer equity to focus marketing strategy. Journal of Marketing, 68(1), 109–127. doi. https://doi.org/10.1509/jmkg.68.1.109.24030

Shoqata e siguruesve (2021): ECURIA E TREGUT TË SIGURIMEVE NË SHQIPËRI PËR PERIUDHËN. Retrieved from: https://shoqatasiguruesve.al/2021/11/29/ecuria-e-tregut-te-sigurimeve-ne-shqiperi-per-periudhen-janar-tetor-2021/

Torkzadeh, S., Zolfagharian, M., Yazdanparast, A. and Gremler, D.D. (2022), "From customer readiness to customer retention: the mediating role of customer psychological and behavioral engagement", European Journal of Marketing, Vol. 56 No. 7, pp. 1799-1829. https://doi.org/10.1108/EJM-03-2021-0213

Vigneshwaran, SR. and Mathirajan M. (2021) "A Theoretical Framework for Customer Satisfaction and Customer Loyalty at Automobile After Sales Service Centres", International Journal of Innovation, Management and Technology, Vol. 12, No. 1, doi.

Western Balkans regular economic report No.21 (2021). https://www.xprimm.com/

Challenges of agricultural insurance development in Albania

Grisejda MYSLIMI, PhD(c)[1]
DEPARTMENT OF ECONOMICS & FINANCE, EUROPEAN UNIVERSITY OF
TIRANA, TIRANA, ALBANIA
grisejda.myslimi@uet.edu.al

Emirgena NIKOLLI, PhD(c)[2]
DEPARTMENT OF ECONOMICS & FINANCE, EUROPEAN UNIVERSITY OF
TIRANA, TIRANA, ALBANIA
emirgena.nikolli@uet.edu.al

Joana SHIMA, Msc.[3]
DEPARTMENT OF ECONOMICS & FINANCE, EUROPEAN UNIVERSITY OF
TIRANA, TIRANA, ALBANIA
joana.shima@uet.edu.al

[1] Grisejda Myslimi is a PhD candidate at Agricultural University of Tirana, following the doctoral study program in Finance. She is graduated in "Finance" at the "Ismail Qemali" University of Vlora, in 2013. Afterwards, she continued the Master of Science program in Finance at the European University of Tirana, UET. At the end of the second cycle of studies Ms. Myslimi had her first working experience at the Regional Directorate of Taxation, Vlora, as tax Inspector. Since October 2015 she is part of full time staff of European University of Tirana as assistant lecturer at the Department of Economics and Finance.

[2] Emirgena Nikolli, PhD(c) is assistant lecturer at the Department of Economics & Finance, Faculty of Economics, Business and Development, at the European University of Tirana. She is a PhD candidate at the University of Gdansk, Sopot, Poland. Prior to the European University of Tirana, she was a part-time lecturer at "Ismail Qemali" University, Vlora, Albania. Ms. Nikolli finished her Bachelor and Master of Science Studies in Economics, at the "Epoka" University, Tirana, Albania. She worked for nearly three years as a banker at the American Bank of Investments. She is author of some scientific articles, presented at several international conferences. Her primary research interests are in the field of economics, macroeconomics, finance, education, etc. Since October 2021, she is part of the academic staff at the "European University of Tirana", Tirana, Albania.

[3] Joana Shima, MSc., is graduated in "Finance and Banking" at the European University of Tirana, in 2015. During October 2014 – March 2015, she worked as economist in a private company. Since 2015, she joined the European University of Tirana's staff as assistant lecturer, at Finance & Economics Department, Faculty of Economics, Busines and Development. Mrs. Shima has published articles in different scientific journals. Also, she has participated in different international conferences.

Abstract

Agricultural production is exposed to natural risks that cannot be prevented and lead not only to production losses but also to a decrease in farmers' income. As a result of these risks, farmers often do not have the opportunity to pay their loans. Against risky borrowers, credit institutions refuse to give loans. Under these conditions, the government must intervene in risk management, trying to reduce these negative effects. The provision of agricultural products as one of the most important instruments for the financial support of this sector will be the focus of this paper. Agricultural insurance provides compensation for economic losses resulting from unfavorable natural phenomena, contributing to the reduction of poverty. Without adequate insurance, lenders would not provide farmers with insurance policies. Agricultural insurance is a tool that helps farmers to predict the future, to protect the business from unforeseen events, supply and demand fluctuations or various operational challenges. In the case of developing countries such as Albania, these markets are not developed. A main problem in the development of these markets is the lack of demand due to unaffordable prices for farmers. One of the biggest challenges of the agricultural insurance industry is not only providing the right insurance product, but also helping agricultural sector in improving risk management practices to increase production. As Hazell (2009) puts it, many agricultural risks cannot be insured on a financially sound basis, but there is scope for increased insurance of farm assets, of the life and health of rural people, and of some specific perils that affect crop and livestock yields. Such insurance could be efficiently provided by the private sector if governments were to remove some of the important constraints impinging on commercial insurers. The greatest challenge is to find ways of insuring low-income rural households against natural hazards on a financially sound basis.

1.Introduction

Farmers face many risks. Their income is very uncertain. They often do not have the opportunity to pay their loans. Against risky borrowers, credit institutions refuse to give loans. Over the years, lenders have developed ways to reduce risk. Risk coping strategies are important for dealing with catastrophic revenue losses after they occur. To repay loans and meet essential living costs in catastrophic years, farmers rely on new loans, asset sales, use of their own food stocks, help from relatives, or off-farm employment. But these strategies are also costly. For example, the sale of assets such as land or livestock may leave the household without suitable productive assets. In addition to traditional methods of risk management, farmers can use

insurance as a strategy for managing agricultural risks. An insurance provider is an entity, issuing or reinsurance agency, willing to provide insurance coverage for a premium. The agricultural insurance market in developing countries, including our country, is very underdeveloped compared to the agricultural insurance markets of developed countries.

In our country, investments from the state budget for the agricultural sector are very small in relation to the income and employment provided by this sector. There is no program for farmers in case of natural disasters or losses. The provision of a fund by the government for insurance companies would lower the price of the insurance premium and would encourage Albanian farmers to cultivate different crops, increasing the yield and diversifying the planted products. The government can intervene in the regulation of agricultural insurance markets through regulations to help farmers manage risks. Governments of different countries offer their own landscape insurance schemes. Also, governments can supervise insurance programs offered by private companies or cooperate with these companies.

The insurance market in Albania is a relatively new market since the first insurance company in Albania, Insig, started operating in 1991. The performance of this market is closely related to the legislation for the development of this industry. Strong legal and regulatory bases and supervisory tools for the development of this market are also important for Albania's EU membership. Insurance products in our country are purchased when they are mandatory or in cases where it is a condition for obtaining a loan. Albania is vulnerable to natural disasters mainly of hydro-meteorological origin and climate changes which have increased. Fires and droughts due to high temperatures have continuously affected the agricultural sector in our country. Such events nedd risk management strategies. One of the risk management strategies is its transmission. But the products of ogricultural insurance for natural risks are low, and the impact of natural disasters such as floods or fires leaves businesses or families unprotected.

Agricultural insurance is classified into two groups, traditional insurance and Index Based Insurance. On the basis of traditional insurance, after the occurrence of unfavorable event, which may come as a result of a single risk or a multiple risk, farmers are repaid on the basis of losses assessed by experts. Insurance based on index is an innovative type of insurance that calculates losses and pays compensation to farmers based on a statistical index predetermined before the start of the insurance period. Index Based Insurance (IBI) was born out of the need to overcome the problems with traditional insurance schemes. Like private insurance, index insurance seeks to provide coverage against specific risks, but in this case contracts are written against specific events and registered at regional levels.

Purpose

The purpose of this study is to analyze the role of agricultural insurence market in the economy and to identify the challanges of agricultural insurance in Albania.

The main objectives of the paper are:

a. to consider genesis of views on the point and role of the agricultural insurance scheme;
b. to analyze the current contour of the agricultural insurance system;
c. to prove the priority directions of development of the system of agricultural insurance

Research question

The main question raised in this paper is: What are the main challenges faced by the agricultural insurance sector in Albania?

2. Literature Review

Agricultural insurance is a financial instrument that pays farmers if they face production losses due to natural disasters (IFC, 2002). Agricultural insurance was born as a financial instrument in the early 1930s in the United States of America to help farmers cope with the loss of agricultural production as a result of various natural disasters. Agricultural insurance is offered in the insurance market. In the case of developing countries such as Albania, these markets are not developed. The increase in natural disasters has grown the need for insurance. As smallholder farmers face a variety of climate risks, agricultural insurance has become a key protection tool (Hellmuth et al., 2009). The frequency of adverse events is expected to increase significantly. Such a situation has increased the need to take measures to mitigate the negative impacts that these disasters cause in the living conditions, economy, assets or services of the affected regions. In developing countries, capital losses are smaller compared to developed countries, but their impact is so important that it affects sustainability (Hatch et al, 2010). Agricultural insurance is a tool that helps farmers forecast the future, protect the business from unforeseen events, supply and demand fluctuations or various operational challenges. Agricultural insurance increases productivity, guarantees sustainability and survival of businesses, increases the well-being of farmers' families (Munyoro & Moyo, 2019). In the conditions

of the international economy, the lack of agricultural insurance instruments is at the disadvantage of farmers in developing countries in conditions where farmers in industrialized countries have great access to these instruments. Farmers who are facing climate risks produce less products reducing not only their income but also the tax revenue. Declining tax revenues limit the ability to finance social services and cause economic stagnation. Export earnings will decrease, migration from rural areas to urban areas will increase, financial markets will shrink and the demand for fiscal aid to cope with emergencies will increase. At the macro level, all these situations will affect the increase in the level of poverty and the failure of the market or the government. Munyoro & Moyo (2019) showed through their study the importance of agricultural insurance as a prerequisite for every farm. According to them, insurance companies should undertake awareness campaigns to make farmers understand the importance of insurance in the development of the agricultural sector.

3. The situation of the agricultural sector in Albania

Albania has and will continue to have as its main priority the improvement and consolidation of the activity in the agriculture sector, as one of the main sectors of the Food Economy. Albania has a total of 2.8 million ha of land, of which: 699,021 ha is agricultural land or 24% of the total that has been cultivated in years, while meadows and pastures occupy 16%, lands (non-productive, urban, internal water bodies) occupy 15 %, forests 36% and others 9%.

Many farmers use the land to meet their livestock needs only, but a significant number of these farmers still have a excess of products for the needs of the country's market. Also, a part of the remaining farmers have invested and are in the process of investing in agriculture in all links of the food chain, to produce products for the local market and for export. The rural area in Albania, in contrast to many developed countries, is still very populated. Residents have made significant investments in new housing and the reconstruction of existing ones. Currently, in these areas, in over 2,500 villages, about 40% of the country's population lives, which continues without stopping the investments. It affects the generation of income, employment, the reduction of poverty, the progress of other economic sectors.

In the table below are presented some statistics from the Albanian Investment Development Agency for the production of plants in the years 2015- 2020. The agricultural products that are produced more in Albania are cereals and maize.

TABLE NO. 1 The production of plants, 2015 – 2020 (in 000 ton)

Nr.	Title	2015	2016	2017	2018	2019	2020
1.	Cereals	695.5	698.4	701.7	678.2	666.1	684
	Wheat	275	275	274.9	240.3	233.2	233.4
	Maize	380	379.7	381.1	391.1	389	399.1
	Rye	3	2.7	2.7	2.3	2.6	3.2
	Barley	7	9	9	9.7	7.9	12.6
	Fodder	30.5	32	34.1	34.9	33.4	35.6
2.	Vegetables	1030	1129	1152	1166.3	1258	1295.7
	Strawberry			5.1	4.4	5.3	5.4
	Potato	245	238.3	249.8	254.5	260.7	254.9
	Lagume	28	24.8	21.2	24.5	24.8	25.8
	Tabacco	2.2	1.8	1.4	1.7	1.4	1.4
	Sunflower	2	2	1.1	0.8	1	1.3
	Soybeans	0.5	0.7	0.5	0.7	0.6	0.4
	Sugar-beet			29.7	27.5	30.7	27
	Medicinal plant	10.8	10.6	12.8	12.5	12.9	14.4
	Fresh fodder	6000	6144	6688.6	7050.1	7115.2	7170.6

Source: Albanian Investment Development Agency

Table number 2 presesnt some statistics from the Albanian Investment Development Agency related to the cultivated surface with vegetables. In Albania, Fieri is the region with the largest area cultivated with vegetables

TABLE NO. 2 Surface cultivated with vegetables, 2015 – 2020 (in hectar)

NO.	County	2014	2015	2016	2017	2018	2019	2022
1	Berat	2406	2481	2689	2789	2824	2969	3098
2	Diber	1835	1506	1584	1626	1660	1699	1944
3	Durres	3666	3713	3590	3673	3763	3710	3731
4	Elbasan	2917	2998	3176	3020	3057	3035	3198
5	Fier	8452	8636	9310	9152	9298	10481	10936
6	Gjirokaster	916	942	918	900	1095	1154	1136
7	Korce	2622	2853	2859	2980	3026	3105	3148
8	Kukes	685	662	697	674	705	747	757
9	Lezhe	1444	1755	1920	2111	2044	2057	2084

10	Shkoder	3904	3773	3949	4242	3754	3771	3737
11	Tirane	5785	5907	6047	6081	6053	6148	6253
12	Vlore	1937	1942	2062	2177	2189	2564	2652
	Shqiperi	36569	37168	38801	39425	39468	41440	42674

Source: Albanian Investment Development Agency

3.1 Insurance and the risks faced by the agricultural sector

Insurance in general is defined as a type of service business activity that protects people and their property from the consequences of multiple risks. Insurance products in our country are purchased when they are mandatory or in cases where it is a condition to obtain a loan. The increase in natural disasters has increased the need for insurance. In September 2020, the farmers of Konispoli area in Saranda faced a great economic loss, due to a hailstorm. According to their statements in the media, about 30% of citrus production was damaged, while in olives, the damage is estimated to be even greater. The hail of September was the latest example of the great dangers that the agricultural sector is exposed and which periodically cause damage. When it's not hail, it could be flood, frost, drought or fire. The reason why Albanian farmers are particularly exposed to economic damage is the almost total lack of insurance in agriculture and further, in the entire food value chain. Securing agricultural production is a complex issue. Currently, insurance products in agriculture are almost non-existent.

Agricultural risks negatively affect the growth of agricultural production (Ding, 2019).

Risk occurs when the consequences of a decision are not fully known at the time the decision is made (Kahan, 2008). There are some risks that affect the agricultural sector:

Production or yield risk – Weather is the main source of production risk. Diseases and insects are also risks that affect the production sector. So, this risk is caused by factors that affect the quantity and quality of agricultural products and farmers can be protected from this risk by mechanisms such as insurance.

Market risk or price risk - directly affects the price of raw materials and production as a result of sudden changes in competitive markets. Changes in international markets, which are always more dynamic, can negatively affect the profitability of producers. Other factors that affect the price change are the fluctuations in the exchange rate, the change in supply and demand, the quality of the products, the change in transport costs, subsidy policies, etc.

Institutional risk – Refers to unexpected changes with negative impact of laws or regulations on agricultural business. Restrictions imposed by the government

regarding production, pricing of inputs or outputs, decisions to reduce imports or exports of a certain crop, changes in policies affecting animal disposal, changes in income tax policy, etc. are examples of institutional risk.

Financial risk – Related to the ways of financing and using the firm's capital. It refers to increased costs of capital, lack of liquidity, loss of capital and the ability to obtain credit from lenders. So, the farmer may be target to changes in interest rates for borrowed capital or face a lack of liquidity by not having enough funds to pay investors.

Personal risk – Refers to uncertainties and risks related to health and personal relationships, ability to continue working, accidents, illness, death and divorce. These events threaten the continuity of production on the farm.

3.2 Risk management strategies in agriculture

Risk management strategies are classified into four groups:

Avoidance - According to this method of risk management, businesses in agriculture eliminate activities with a higher level of risk. Also, to avoid risk, the bank can be structured in a way that some risks will not be present.

Reduction - is related to reducing or mitigating risks and negative consequences that affect the business, thus minimizing possible losses. Expansion and diversification of agricultural activities is the strategy most used by farmers to reduce risks. Thus, farmers can use different crops or use better techniques in addition to existing ones for the prevention of diseases that affect agriculture.

Acceptance – businesses accept risk with the assumption that increased risk will increase the benefits of the economic entity. In some cases, due to high costs or the inability to identify risks, it is difficult to use other risk management strategies and accepting it is the only option for farmers.

Transfer – Risk is reduced by being transferred from one party to another against payment.

4. Agricultural insurance market development

Agricultural insurance support, implementation of laws, policies, regulations and investment promotion are key factors for managing agricultural risks. The lack of cooperation between the government and the private sector of insurance or reinsurance negatively affects the development of agricultural insurance. According to Ghosh et al. (2021), in addition to investments in technology and effective production methods, agricultural insurance is an important factor that affects risk management, increasing welfare and production security. One of the biggest challenges of the agricultural insurance industry is not only providing the right

insurance product, but also helping the agricultural industry to implement risk management practices to increase production (Kramer et al., 2022).

According to Hatch (2008), the result of the impact of insurance in different countries is influenced by many factors such as the possibility of demand for insurance, the expectations of governance from this industry, the divergence of objectives between the public and private sectors, lack of coordination between organizations and insufficient cooperation between farmers and insurance companies.

Sustainable insurance programs take years to develop in the right place. It requires an appropriate legal framework, analysis, planning, collection of information on the risks affecting the agricultural sector, engaged experts, good administration, etc. A part of the farmers do not trust the insurance company and another part cannot afford to pay the premiums. Others believe that their misfortunes are the will of God and cannot be prevented. Insurance programs should be oriented by demand and not by supply, since the identification of farmers' needs is a priority in the success of insurance programs. Besides the insurance programs must be in compliance with the needs of the insured, the price of the products must be affordable by the farmer. The education of buyers and their support also affects the development of insurance. Promoting the loan program for farmers would increase the demand for insurance. For a sustainable agricultural insurance system, the cooperation of the Ministry of Agriculture with the Ministry of Finance for the financial process and with other ministries that can help in the design of programs is needed. Identification of best practices and their adaptation according to the conditions of the country where they will be applied. Withdrawal of private investments, promotion of free markets, good laws and policies that promote sustainability, transparency and accountability

The experience of developed countries shows that the role of reinsurers in the operation of agricultural insurance is a priority. They help not only in the technical management of risk and its evaluation, but also bear responsibility for financial losses in the event of an accident. Accurate data on weather, production, natural disasters, market information are important for forecasting and determining the risk profiles a country faces.

4.1 Challenges of development of Agricultural Insurance Market

Being that small farmers face a series of climatic risks, agricultural insurance has become a main means of protection (Hellmuth et al., 2009). Some factors that decrease the demand for agricultural insurance products are as follows:

- Product quality
- Product and contract drafting

- Income and profitability
- Lack of information, knowledge and education
- Behavioral factor and socio-cultural factor
- The role of government in setting policies, regulating and stabilizing the market

Promoting the demand for agricultural insurance remains one of the biggest challenges for the governments of developing countries. Increasing demand can be achieved not only through infrastructure development and reinsurance, but also by creating policies and regulatory institutions to increase confidence. In relation to the supply, farmers ask products with good quality (Clarke, 2016). The establishment of quality standards and innovation enables the increase of product quality (Lewis, 2013). According to Clarke (2016), insurance products are often of poor quality due to the level of risk, which refers to the probability that the insurance will not cover the damaged production. When the basic risk is high, farmers are less motivated to insure their products (Elabed, 2013 & Hill, 2013). Eforuoku et al. (2018) found that households in locations with high losses and those with low-risk locations have low insurance coverage. Families who are not insured are aware of their unfavorable location. Morsink et al. (2016) suggests that in order to reduce the risk the products might cover all losses. In summary, we can say that the challenges faced by agricultural insurance market include the lack of high-quality information, inadequate regulatory framework, weak supervision, lack of actuarial expertise, lack of professional expertise in designing and monitoring agricultural insurance products, clients with low-income and the tendency of governments to control the market.

For being successful agricultural insurance need the support of the government. This support can be provided financially through subsidizing the premium, reinsurance, subsidizing part of the administrative expenses, etc. Providing assistance to insurance companies will help increase insurance coverage and sustain insurance schemes. Also, the government can help in the insurance of agriculture

a. Payment of premiums increases the chances of farmers participating in insurance schemes
b. Providing information on risk history
c. Subsidy of the research costs that are made before the start of the agricultural insurance program
d. Reinsurance support where a part of the reinsurance cost is paid by the government
e. Reimbursement of administrative expenses of insurance companies
f. The increase in agricultural loans based on insurance collateral

5. Conclusions

Agricultural market insurance is a must for the economic development of a country. Agricultural insurance products are difficult to deliver in a sustainable manner. Modern risk management strategies are important for income stabilization, avoid asset reduction, and improve competitiveness. Traditional risk management practices at times are not adequately strong to deal with the moods of weather and disease and cause considerable economic losses that negatively affect families, societies and government. The role of governments in developing agricultural insurance markets is vital. Government have to take actions as adjusting legal and regulatory frameworks, increasing public information, training staff, instructing farmers, organizing pilot experiments, creating catastrophic disaster support programs etc. Although agricultural insurance should not be seen as a magic answer to weather problems but a risk management strategy. Albanian's agricultural insurance is in low level. So, the government should pay more attention to its development and chooses pilot areas to scrabble for a new method affecting to Albanian's agricultural insurance in turn to quicken the development of new agriculture. The development of the system of agricultural insurance is important to reflect the interest of the government, the insurer, the insured and their combination reproduces the efficiency of the entire scheme. The growth and introduction of new insurance products as an instrument of innovation in agricultural insurance, should cover measures from promotion and insurance agreements to the pursuit of investment instruments and advanced ways of trade modification.

6. References

Clarke, D. (2016). A Theory of Rational Demand for Index Insurance. *American Economic Journal: Microeconomics*, 286-290.

International Financial Corporation (2002). *Agricultural Finance.* World Bank.

Ding, Y. (2019). Risk and Insurance in Agricultural Economy. *Journal of Integrative Agriculture*.

Eforuoku, F., Balogun, V., & Joshua, A. (2018). Determinants of crop farmers' utilization of agricultural insurance scheme in Osun State, Nigeria . *Nigerian Journal of Rural Extension and Development*, 27-29.

Elabed, G. (2013). Managing basis risk with multiscale index insurance. *Agricultural Economics*.

Ghosh, R. K., Gupta, S., Singh, V., & Ward, P. (2021). Demand for Crop Insurance in Developing Countries: New Evidence from India. *Journal of Agricultural Economics*, 295-298.

Hatch, D. (2008). Agricultural Insurance A powerful tool for governments and farmers. *COMUNIICA*, 23-28.

Hatch, D., Garcia, M., & Nuñez, M. (2010). Developing Successful and Sustainable Agricultural Insurance Programs Fundamental Concepts and Initial Steps. *World Bank*, 4-9.

Hazell, P. B.R. (1992). The appropriate role of agricultural insurance in developing countries, *Journal of International Development*, Vol. 4, No. 6, 567-581

Hellmuth, M., Callaway, J., & Louw, D. (2009). Benefits and costs of measures for coping with water and climate change: Berg River Basin, South Africa. *DTU Findit*, 2005-220.

Hill, R. V. (2013). Adoption of weather-index insurance: learning from willingness to pay among a panel of households in rural Ethiopia. *Agricultural Economics*.

Instat (2021). *Statistikat e Bujqesise 2020.* Tirana.

Kahan, D. (2008). Farm management extension guide MANAGING RISK in farming. *FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS*.

Kramer, B., Hazell, P., Alderman, H., Ceballos, F., Kumar, N., & Timu, A. (2022). Is Agricultural Insurance Fulfilling its Promise for the Developing World? *Annual Review of Resource Economics* , 1-6.

Lewis, L. W. (2013). The Role of Government in Index Insurance for Individuals. *fondation pour les études et recherches sur le développement international*.

Morsink, K. (2016). How to Measure Whether Index Insurance Provides Reliable Protection. *Journal of the Econometric Society* .

Munyoro, G., Moyo, B. (2019). The Significance of Agricultural Insurance in The Development of the Agricultural Sector in Zimbabwe: A Case Study of Mashonaland Central Province. *International Journal of Research in Business, Economics and Management*.

The insurance market in Albania, the degree of concentration, and consequences on the economy

Elisa KORSITA, MSc.[1]

EUROPEAN UNIVERSITY OF TIRANA, TIRANA, ALBANIA
ekorsita@uet.edu.al

Prof. Asoc. Dr. Elvin MEKA[2]

DEPARTMENT OF ECONOMICS & FINANCE,
EUROPEAN UNIVERSITY OF TIRANA, TIRANA, ALBANIA
elvin.meka@uet.edu.al

---

[1] Elisa Korsita has completed her bachelor's studies at Agriculture University of Tirana, faculty of Economics and Agrobussines with Finance and Accounting profile. During these three years she worked as a Marketing Specialist at Horeal Expo Group company. Following her bachelor's degree, she continued her master's studies at European University of Tirana, Faculty of Economics, Business and Development in Accounting and Financial Reporting profile. During her master's studies she worked for a year as a loan administration specialist, at NOA Operations Department (non-bank financial institution). Actually, she is working as a teller at Banka Kombëtare Tregtare (BKT).

[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, Editor-in-Chief of "BANKIERI" Magazine, a publication of Albanian Association of Banks (AAB), and actually is Chairman of "AK Invest" Supervisory Board and board member of the Albanian Securities Exchange - ALSE.

Abstract

The purpose of this study is to critically analyze the insurance market in Albania, its level of concentration, and somehow to answer the question whether it impacts the country's economy. The study analyzed how the insurance system in Albania has evolved, and more specifically, how the situation and progress of the insurance market in Albania is presented in the last 5 years (2016–2021), and how the degree of concentration of the insurance market in Albania is presented and what contribution it makes to the national economy of Albania. The study hypothesized that, in the insurance market in Albania, we still cannot say that we have optimal competition, as we still have a high degree of concentration, and that this factor has also influenced the weight of the insurance market in the economy of Albania. Throughout the study, the qualitative methodology was used, through the case study, from where, statistical processing and the comparative method was used as a method. The study concluded that within the insurance market in Albania, we still cannot say that we have fair competition, as we still have a high degree of concentration, and that this factor has begun to affect the weight of the insurance market in the economy in Albania. It is recommended that the AMF work more towards stabilizing competition and the degree of concentration of the insurance market in Albania, stabilizing the price level.

Keywords: *insurance, market, scale, concentration, economy, impact, stabilization.*

1. Introduction

Insurance plays an important role in the development of the economy around the world, being an important source of capital accumulation and investment. Insurance may promote financial stability, mobilize savings, facilitate commerce, enable more effective risk management, encourage loss reduction, and promote efficient capital allocation, as well as serve as an alternative for and supplement to government security initiatives. Insurance, and especially life insurance, is perceived as a service that people buy for their loved ones because they need to take care of them in case something unexpected happens. As such, it has a social impact in addition to an economic one (Skipper, 2001).

Albania is a country that has experienced a long transition, after the beginning of reforms in 1990. In the first decade, economic changes did not prioritize the insurance industry. Albania's insurance sector has grown dramatically in the second decade of the transition period. The number of insurance businesses has grown,

foreign money has entered, the law has been much strengthened, and so on. Non-life insurance products have long dominated the Albanian insurance industry. The insurance market in Albania has developed significantly in the second decade of the transition period, precisely during which the number of insurance companies has increased, foreign capital has entered, legislation has been significantly improved, etc. (Naqellari et al., n/a). The late development of the insurance sector in Albania may be one of the reasons it is not yet taken into account in academic studies.

However, worldwide research implies that there may be a link between economic progress and insurance activity in poor nations such as Albania. In this context, this study seeks to address and analyze the progress of Albania's insurance market, analyzing not only the evolution of this practice and the schemes implemented over time, but also the current challenges it is facing, as well as presenting the perspectives, their development, and the challenges for a deeper implementation that is still lacking.

2. Methodology

The goal of this study is to critically examine Albania's insurance industry, its level of concentration, and to understand whether it has an influence on the country's economy. The study is based on the concept that there is still no ideal competition in the Albanian insurance market, resulting in a significant degree of concentration, which impacts the weight of the insurance market in the Albanian economy. In this context, the qualitative technique, more especially the case study method, was applied in this research. The case study is based on statistical data analysis to give a clearer understanding of the insurance industry across the years studied. The primary data for the statistical analysis of the study was accessed from the official website of the Financial Supervision Authority (AMF) from 2016 - 2021, which is the entity in charge of supervising the insurance market in Albania based on the law in effect, in terms of the performance of the insurance market in Albania. The study also applies the comparative method, that is, a comparative qualitative study, which is based on the analysis and interpretation of the collected data.

3. Literature review

3.1. The role of insurance in the economy and their impact

Insurance plays an important role in the economy. Insurance companies reduce risk, as they manage large groups of objects and events, increasing predictability.

This is exactly how the insurance industry and insurance market are related to economic development since insurance is part of the financial market. Insurance companies help keep our economy strong and vibrant in many ways. The insurance market affects the economy by improving the investment climate, primarily by managing risk and controlling unexpected losses. Insurance also promotes the economic and social development of the country (AKA, 2017).

The primary macroeconomic factors highlighted in the research are insurance demand and inflation (Modigliani-Miller, 1958); total assets; the price of insurance (Mantis & Farmer, 1968); inflation (Babbel, 1981), unemployment; demographic factors (Browne et al., 2000); risk; cultural factors (Hofstede, 1995); market structure (Feyen et al., 2011); Social insurance (Lewis, 1989); legal and regulatory environment and more recently political risk and governance (Park and Lemaire, 2011).

The literature related to insurance shows that previous researchers have focused on the impact of economic growth on the overall development of the insurance sector. The study by Beenstock et al. (1986) for example, was among the first empirical research to find that the demand for life insurance depends directly and positively on income, as measured by GDP per capita.

Ward and Zurbruegg (2000) examined the short- and long-run dynamic relationships between economic growth, as measured by annual real GDP, and the insurance industry, as measured by total real premiums, for nine OECD countries from the period 1961– 1996. They found that the causal relationship between economic growth and insurance market developments varies across countries. Webb et al. (2002) on the other hand examined banks, life, and non-life insurers individually and collectively for 55 developed and not developing countries from 1980 to 1996 and discovered that there is no relationship between economic growth and non-life insurance, but economic growth affects life insurance penetration while not predicting banking development.

Using the net written premium of insurance, Kugler and Ofoghi (2005) discovered a long-run association between the rise of insurance market size and economic growth. They also determined that the causation from GDP growth to insurance market size development is stronger than the causality from the other side. Moreover, Adams et al. (2009) used time series data from 1830 to 1998 to examine the long-term historical link between banking, insurance, and economic growth in Sweden. Their results for the whole period show that the banking sector has the dominant influence on both economic growth and the demand for insurance, while the insurance market seems to be driven by the pace of economic growth.

Meantime, Boadi et al (2013) find a positive impact of leverage, and liquidity and report a negative impact of asset tangibility on the profitability

of insurance firms in Ghana for the period 2005-2010. Zhu (2013) investigates the correlations between solvency, operational ability, and profitability in 1994, 1995, and 1996 using structural equation modeling. According to the conclusions of this study, the operating ability has a favorable influence on the size and profitability of life insurers and a negative effect on return on capital throughout these years, whereas solvency, asset, and product risk have no effect on capital return.
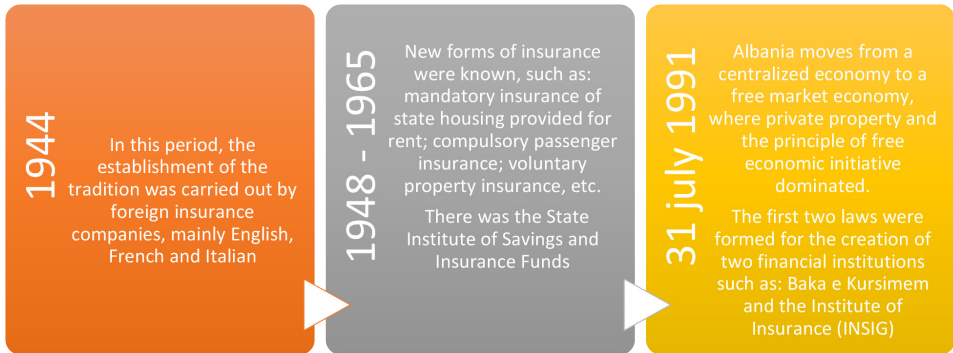
Another study from **Ćurak** et al (2011) investigated the main determinants of financial performance of composite insurance companies in Croatia during the period 2004 to 2009 and report that size, underwriting risk, inflation, and capital returns have a significant impact on insurers' capital return. The regression results show the positive impact of gross premium growth, GDP growth, and foreign ownership of companies and the negative impact of the operating expense ratio for a panel of 25 Polish non-life insurance companies for the period 2002- 2009. Ahmed etc. (2011) also examined the impact of firm-specific factors including size, leverage, tangibility, risk, growth, liquidity, and age on the performance (return on assets) of listed life insurance companies in Pakistan for the period 2001-2007. Their findings suggest that size and leverage are the only statistically significant drivers of life insurance company success in Pakistan. Growth, age, and liquidity are statistically negligible, but size has a positive coefficient and financial leverage has a negative coefficient.

Another study looked at the market concentration of Romania's life and non-life insurance businesses between 2015 and 2019. Market concentration was measured using the concentration ratio and the Herfindahl-Hirschman index. The data indicate that the life insurance business is more concentrated than the non-life insurance market. Non-life market concentration has risen from a moderate market in 2015 to a narrow oligopoly weight in 2019, however the life insurance sector has maintained a narrow oligopoly throughout the time, according to concentration ratio estimations. Market concentration has increased in both the non-life and life insurance sectors. Except for a little increase in 2016, concentration ratios and the Herfindahl-Hirschman index in the life insurance market have been quite constant, with only minor fluctuations (Serban et al., 2021).

3.2. A historical overview of the insurance market in Albania

In terms of the historical evolution of the insurance industry in Albania, the following scheme depicts three major moments:
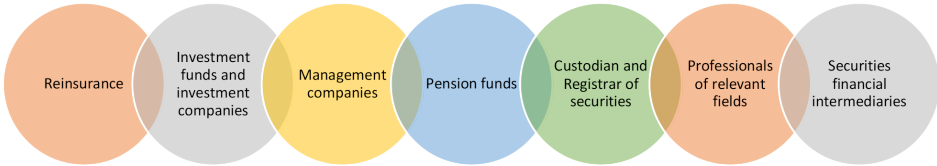
FIGURE 1. Historical development of the insurance market, stage 1

1944	In this period, the establishment of the tradition was carried out by foreign insurance companies, mainly English, French and Italian	1948 - 1965	New forms of insurance were known, such as: mandatory insurance of state housing provided for rent; compulsory passenger insurance; voluntary property insurance, etc. There was the State Institute of Savings and Insurance Funds	31 july 1991	Albania moves from a centralized economy to a free market economy, where private property and the principle of free economic initiative dominated. The first two laws were formed for the creation of two financial institutions such as: Baka e Kursimem and the Institute of Insurance (INSIG)

It is also important to note that in Albanian law, the insurance market is divided into two major subgroups: life insurance and all other non-life insurance. As indicated by the papers and the AMF study, the Albanian legal framework in the insurance business has converged with the European one in recent years. The Albanian insurance industry needs appropriate growth incentives, notably from the government will, which could encourage this sector by permitting and supporting expansion. The principal legislation controlling this market is Law No. 9267 of 29.7.2004, "*On the Activity of Insurance, Reinsurance, and Mediation in Insurance and Reinsurance*," as amended by Laws No. 9338 of 16.12.2004 and 9685 of 26.02.2007. Despite the fact that such legislation has been adapted to that of the European Union, as a result of the *Acquis Communautaire*, it may be argued that changes or improvements are still required, despite the fact that the AMF has linked this law to the new amendments and distributed the articles.

The required insurance market today has the most clout in Albania, highlighting the importance of sustained expansion. It is crucial to note that there are various actors in the insurance sector; nonetheless, this information will be supplied below (AKA, 2017). Furthermore, some of the significant types of enterprises operating in the Albanian insurance market should be highlighted; some of the main groups are as follows:

FIGURE 2. Types of insurance in Albania

Reinsurance | Investment funds and investment companies | Management companies | Pension funds | Custodian and Registrar of securities | Professionals of relevant fields | Securities financial intermediaries

Furthermore, it is also worth presenting the functional supervisory structure in the insurance market, which is certainly not applicable to all non-banking institutions.

Finally, it is worth mentioning that there are over 39 different types of insurance policies available on the market today, divided into 7 main insurance categories, which are personal and commercial liability insurance, personal and business vehicle insurance, property insurance /Ownership, Health Insurance, Life Insurance, Transport Insurance and Liability and Guarantee Insurance (AKA, 2017, pp. 25-33).

4. Analysis of the insurance market in Albania

According to World Bank Report (2019), between 2007 and 2017, the Albanian insurance industry expanded in all claim-paying groups. All insurance segments showed a positive trend throughout the period. Non-life insurance maintained its share of about 92 percent of all premiums written. The value of gross paid damages increased in annual terms to 4.8 billion ALL. Despite nearly tripling over this time, life insurance remains an undeveloped industry in Albania. The non-life insurance market followed a similar pattern, doubling while maintaining the same market proportions.

Since 2008, it has strongly influenced the market. In terms of portfolio, the Albanian insurance industry has not evolved considerably in the recent ten years (WB, 2019). Insurance penetration since 2008 has been continuously increasing, from 0.65 percent in 2008 to 1.04 percent in 2017. This indicator shows that economic growth alone does not drive the volume of insurance premiums; insurance premiums grew twice as fast between 2008 and 2016 (9.8 percent) as nominal GDP growth (4 percent). Despite this healthy increase in premiums, the insurance sector in Albania remains small in absolute terms and comparison to its counterparts in the region. With 1.04 percent insurance penetration, the market is at an early stage of development. With the insurance consumption of USD 46 per capita, Albania lags behind the counterpart countries of South-Eastern and Central Europe. For example, this figure is lower than in Kosovo, where premiums per capita are USD 52, Macedonia (USD 79), and Croatia (USD 327). Albania ranks 130th in total premiums (USD 135 million) in 181 insurance markets in the world in 2017 (WB, 2019).

Because third-party liability insurance is frequently required in developing countries, car insurance tends to emerge early. Life insurance markets frequently arise later because they are more dependent on the emergence of the professional class and capital markets. This is likewise true in Albania, where motor classes

account for the vast majority of market share. For example, the strong GDP growth in 2014 was largely due to an increase in the number of compulsory premiums after a period of seeming stagnation. This occurred as a result of actions taken to stabilize market pricing and safeguard them from fierce competition. The AMF took stabilization measures that year, including tightening rules on payment discipline for motor insurance claims and significantly strengthening the Compensation Fund, which compensates victims of uninsured and unidentified drivers, as well as damages against the bankrupt insurers for transferring significant amounts of pending claims payments (AMF, 2019).

Life insurance premiums roughly doubled between 2008 and 2011, followed by five years of stagnation and stagnation with minor fluctuations. Credit life insurance dominates the Albanian life insurance industry, which is dependent on the country's credit expansion. The modest dynamics of lending in the period 2015-2016 have hindered the development of the life insurance market. Loans for families in Albania create not just life insurance, but also wealth insurance for the bought assets. Individual credit has grown again since 2017, after falling to 13.2 percent in 2017. Consumer credit increased by 8%, while mortgage credit increased by 2%. The mortgage loan accounts for approximately 63 percent of the surplus of loans received by resident families in 2017 (BSH, 2017).

In 2017, the insurance market did rather well, financially. GDP rose by 5.4 percent in 2017, reaching ALL 16.2 billion. Non-life premiums rose by 4.2 percent, while life premiums rose by 23.2 percent. The market was dominated by non-life insurance, which accounted for 92.1 percent of total GDP volume, with life insurance accounting for 7.4 percent. In 2017, the number of insurance contracts reached 1,261,238, a 12% increase over 2016, indicating that the increase in premiums reflected not just the general increase in insured values (e.g., newer automobiles), but also that more people and companies purchased new insurance. Insurance accounts for the lion's share of overall non-life premiums (66.8 percent). Albanian insurers recorded a GDP of ALL 12.46 billion (EUR 98.7 million) in the third quarter of 2018, a 9.73 percent year-on-year rise. During the same time period, damages paid fell by 3.1 percent to ALL 3.39 billion (EUR 26.86 million). The domestic branches of the Austrian UNIQA group lead the life and non-life insurance segment (World Bank, 2019).

Although non-life insurers' total assets under management have steadily increased, their share of total insurance assets as a percentage of GDP (2 percent in 2016, up from 1.4-1.9 percent from 2007 to 2015) has been lower than in comparable countries such as Croatia (11.4 percent), Bosnia and Herzegovina (7.1 percent), Serbia (5.1 percent), and Macedonia (3.1 percent). Despite the rise of the insurance sector, its share of the financial markets maintained at 30% from 2013 to 2016. The slight expansion was caused by an increase in overall premium

volume, mostly in required auto insurance products. The total assets managed by life insurers are small because life insurance in Albania is barely developed and mostly short-term. The overall assets of the insurance market climbed by 4% in 2017, reaching ALL 30.6 billion, a gain that was virtually exclusively impacted by the non-life insurance industry (World Bank, 2019). Because the capital market is weak, it is difficult for life insurers to create appealing plans that provide long-term capital accumulation. With the licensing of Albania's first private stock exchange, which became live in February 2018, some progress has been achieved in the financial market infrastructure. Investments of insurance companies have focused on bank deposits, treasury bills, and bonds. Deposits account for the majority (50.5 percent), followed by land and buildings (18.1 percent) and treasury bills and bonds (12.5 percent). Meanwhile, the following figure shows the change from 2017 to 2021, where it is noted that the gross premiums until 2021 have increased significantly, in fact in the last year they increased by 16% and are heading towards normalization.

CHART 1. Gross written premiums in insurance (billion ALL)

Source: https://www.monitor.al/tregu-i-sigurimeve-u-rrit-me-16-per-vitin-e-kaluar/
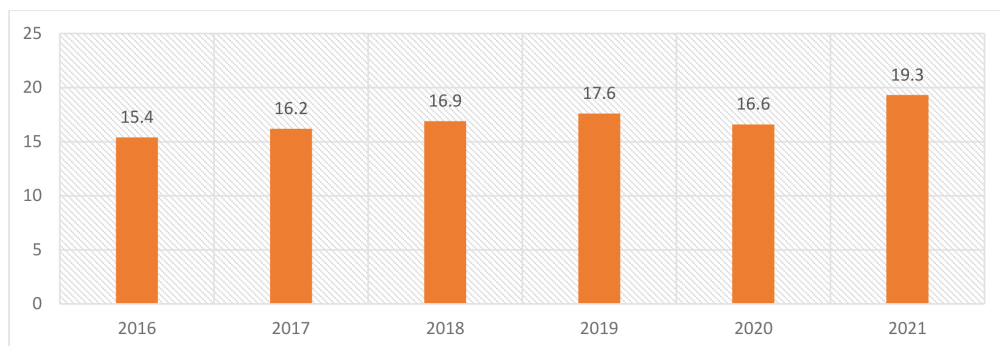
4.1. Insurance companies and their degree of concentration

The first insurance company, established in 1991 as a state-owned company, was INSIG. From 1991 to 1999, the insurance market in Albania was a monopoly, because INSIG was the only provider. In 1996, the regulatory framework for market liberalization created the conditions for private life and non-life insurance companies, although it was only in 1999 that two new insurance companies, Sigal and Sigma, began to compete with INSIG. These two private companies broke the eight-year monopoly of INSIG and gave a new dimension to the sector, creating a new spirit and a competitive environment. Two more non-life insurers (Intersig and Atlantic) entered the market in 2001. In the autumn of 2004, five

new insurance companies received licenses and two of them offered life insurance products: Interalbanian, Albsig, Eurosig, Sigal Life, and Sacred Life. In 2007, the Austrian UNIQA Group completed the partial acquisition of SIGAL group companies.

SIGAL UNIQUA companies remain the clear market leader in life and non-life insurance. Sigal Uniqa Group Austria is the market leader in both the life and non-life insurance sectors. Sigal Life Uniqa Group Austria has a 61.3 percent market share in GWP (third quarter 2018), while its sister firm, Sigal Uniqa Group Austria, has a 26.3 percent market share in non-living life insurance. SIGAL was founded in 1999. In 2010, UNIQA bought the right to purchase the majority of the company's shares after having bought a share in 2007. SIGAL was the first company in the Albanian market to receive a reinsurance license, approved in March 2006, which he mainly uses to reinsure the group's companies in Kosovo and Macedonia. The second-ranked company was Eurosig, with a market share of 15.2 percent in 2017. Sigma Interalbanian Vienna Insurance Group was the third-ranked company, with a market share of 14.4 percent. Vienna Insurance Group acquired a majority stake in Sigma in September 2007. In October 2010, Vienna Insurance Group acquired Interalbanian, the fourth-ranked non-life company 2014, and the two companies merged in 2014. The company has subsidiaries in Kosovo and Macedonia. Albsig ranked fourth with a market share of 13.1 percent and is also licensed in Macedonia. The third company in the Vienna Insurance Group is Intersig, acquired in August 2011, with a market share of 11.2 percent.

Thus, Vienna Insurance Group's overall market share in Albania was approximately 25.6 percent in 2017. INSIG, the former state monopoly, had a significant decrease in its share, from 18.6 percent in 2006 to 6.7 percent in 2016 In March 2016, the Albanian government announced the end of its long process for the privatization of INSIG. As the first insurance company operating in Albania, INSIG played a defining role in the creation, development, and consolidation of this business. Outside of Albania, the corporation has expanded its activities by establishing new subsidiaries in Kosovo and adjacent Macedonia. Non-life insurer Eurosig, which outbid three other companies in a bid of US$17.9 million, acquired the company in May 2016. In January 2017, Eurosig announced that it had sold 90 percent of its life business to INSIG in equal shares in Albsig and an Albanian business entrepreneur, Samir Mane, owner of the Balfin Group. The quoted price was 1.1 million USD.

Until 2017, 11 companies were in the Albanian insurance market, eight of which were non-life insurers and three were life insurers. Market concentration is high and the upward trend has been interrupted only slightly over the past two years. The combined market share of the five largest non-life insurers was 80.2 percent and the top three was 55.8 percent in 2017 while below is the current situation through 2021.

TABLE 1. List of companies registered as insurance companies until the end of 2021

1	J62006012D	INSIG sh. a	Tirana	Insurance company
2	J913290030	SIGMA INTERALBANIAN VIENNA INSURANCE GROUP sh. a	Tirana	Insurance company
3	J91809007H	"SIGAL UNIQA GROUP AUSTRIA" sh.a.	Tirana	Insurance company
4	K51423801Q	"SIGAL - LIFE UNIQA GROUP AUSTRIA" sh.a.	Tirana	Insurance company
5	K11807008V	"ATLANTIK- SHOQËRI SIGURIMESH" sh.a.	Tirana	Insurance company
6	K12201002T	"INTERSIG VIENNA INSURANCE GROUP" sh.a.	Tirana	Insurance company
7	K42108801C	"ALBSIG" sh.a	Tirana	Insurance company
8	L92019017V	"ALBSIG JETE" sh.a	Tirana	Insurance company
9	K41926801W	"EUROSIG" sh.a.	Tirana	Insurance company
10	L21319037M	"ANSIG" sh.a.	Tirana	Insurance company
11	K42201801Q	"SICRED" sh.a.	Tirana	Insurance company
12	L71325020H	"INSIG JETË" sh.a	Tirana	Insurance company

Source: The Bank of Albania, 2022

Making a small comparison, Kramaric (2012) investigated the market structure and degree of concentration in the new EU member states' insurance markets (Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovakia, and Slovenia). The investigation found that the amount of concentration has dropped in all of the nations studied, but at varying degrees of intensity. This was explained by the fact that these nations had centrally planned economies, with a state-owned business providing the majority of insurance services. Following the fall of communism, certain nations immediately embraced free market policies, boosting the share of insurance businesses operating in insurance markets, particularly those with foreign capital, resulting in increased competition. Given the size and expansion of the market in Albania, the competition was a beneficial aspect. The industry's movements over the previous 18 years reveal that the structure of the insurance market in Albania has shifted from state monopoly (until 1999) to monopolistic competition and moderate concentration, but the degree of competition varies by class and activity. The index has distinct levels for the life and non-life sectors (WB, 2019).

Overall, the data set averages to show that a "natural level" is closer to the data set averages of around 2000 to 2200 for life insurers and 1200 to 1500 for non-life insurers. Because of the small number of insurance companies participating in the life insurance market, life insurance activity is more concentrated than non-life insurance. Life insurance activity is around three times that of non-life insurance activity and has been rising, reaching 4,571 in 2017 (against 3,411 in 2007). The HHI for non-life insurance is 1,558, which is within the competitive range. All

firms are domestic joint-stock enterprises. Foreign insurers are permitted to enter the Albanian insurance market and establish wholly owned subsidiaries and branches.

The separation of life and non-life insurance is required under insurance legislation. All insurance companies operate through branches in the provinces, many of which function as independent units, issuing policies and settling claims. The lack of qualified distribution channels characterizes the Albanian insurance market. Insurance knowledge is practically non-existent in banks (which act simply as referral agents) and low among agents, so the skills needed for active product marketing are largely lacking (AXCO, 2019). In 2017, there were 16 brokerage companies, 224 insurance agents (of which 165 were licensed for the first time), 36 brokers, and 14 agent companies (AMF, 2019). A recent trend in Albania is that banks have formed their brokerage operations after years of operating as agents for insurance companies. Banks are becoming an increasingly important source of loan-related SME accounts, but strict lending criteria limit the amount of collateral such loans can generate. Agents (Banks, branches of foreign banks, and non-bank financial entities), companies of agents (legal entities licensed by the AMF), brokers (a person licensed by the AMF to carry out insurance brokerage activities), and brokerage companies perform the activity of insurance mediation in Albania. The main distribution channel for commercial and industrial businesses is direct handling. Discussions in 2006 between the companies to establish a common online system resulted in the creation of the National Data Center in 2007 and AMF has created a common database. Insurers have websites, used to inform and attract customers, but it is not possible to buy a policy online, not least because an insurance policy requires a physical signature from the insured.

The insurance market in Albania was a monopoly until 1998 (Naqellari et al., n/a). From 1998 - 2003 it passed into an oligopoly, and until 2014, according to studies, it is still part of monopolistic competition. We have a competitive market but with a distorted function, which burdens the budget of various economic insurance entities. Although it should be noted that according to the analysis we saw in the previous chapter, the insurance market in Albania is a relatively new activity. In recent years, the increase in the number of insurance companies and the change in their structure has led to a decrease in the degree of concentration, moving towards a monopolistic competition market structure from the monopoly that was in the initial period, or the early years of this market. It is recommended that the AMF determine insurance premiums for mandatory products (Naqellari et al., n/a).

Based on the data for 31.12.2021, for the entire activity of the Non-Life and Life insurance market, the gross written premiums result in about 19.3 billion ALL, where a significant part is presented in Euros (30%). In addition to products

such as the Green Card and Border Insurance, which are mandatory, we see that there are also trends towards products such as combined Personal Accident and Health Insurance, Travel Life Insurance, and Student Life Insurance, which have been re-launched in modehën Euro (100%). Likewise, life and non-life insurances were also carried out in most cases with the euro currency, similarly in the same trend are Engineering Insurances or Goods in Transport Insurance. Especially in cases of engineering insurance that include large infrastructure works, including those works with international and import-export companies. In 2021, the share of premiums written in Euro against the total for Non-Life Insurance activity has increased by about 3.3% compared to the end of 2020, going to 29.7% from 26.4%.

4.2. Non-life and Life insurance activity premiums 2016-2021

CHART 2. Weight of premiums of Non-Life insurance activity in EUR against the total 2016-2021 (%)
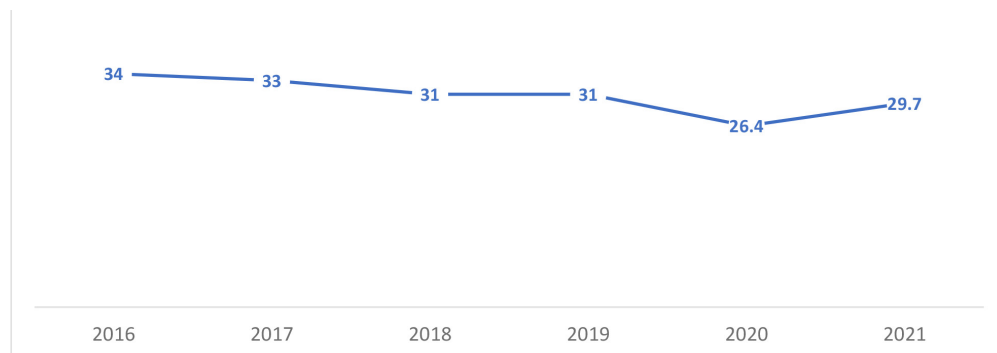
Source: https://amf.gov.al/publikime_re.asp

We see from the graphs an increase in premiums due to the mandatory Green Card insurance and Border Insurance with the restriction of movements from COVID-19, with the main impact of around 10 million euros (30.1%). In 2021, the largest movements of premium amounts in euros with a change from the previous year are in Marine Insurance (7.64% increase from 2020), Guarantee Insurance (4.91% increase from 2020), Motor Insurance with increased weight (3.73 % (an increase from 2020), Civil Liability with increased weight (1.39% increase from 2020). The only insurance that has suffered a decrease from euroization is Engineering Insurance (AMF, 2022).

Examining the graph below, in 2021, the weight of the premiums realized in Euros against the gross realized premiums in total for the Life activity has decreased by about 3% in contrast to 2020.

On the other hand, if we refer to the chart below for 2021, some classes

have suffered premium burdens which are Debtor Life Insurance (7% decrease compared to 2020) and Combined Life Insurance (2% decrease from 2020). On the other hand, we have a significant increase, especially in the share in euros of some insurances that include the saving element, such as Life Insurance (39% increase from 2020) and Life Insurance with variable elements (10% increase from 2020) (AMF, 2022).
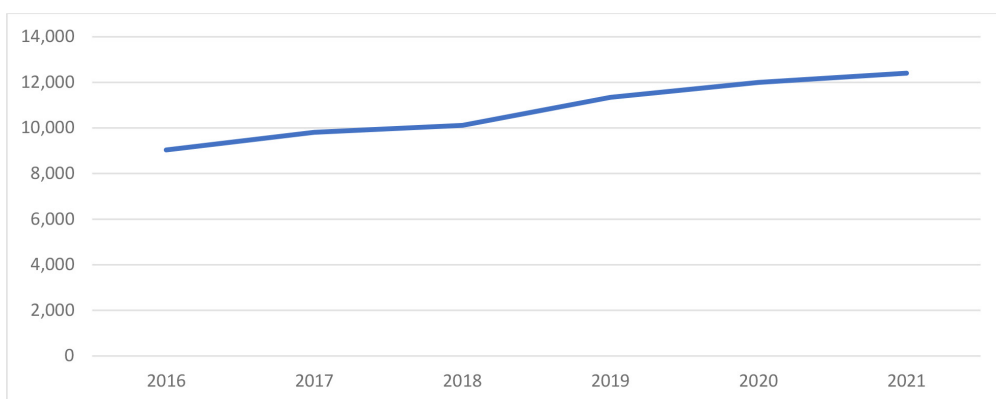
CHART 4. The weight of Life insurance activity premiums in EUR against the total 2016-2021 (%)
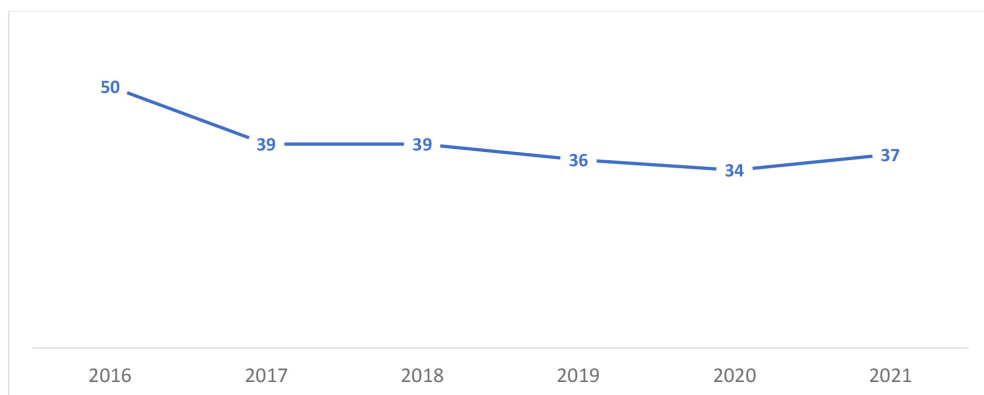
Source: https://amf.gov.al/publikime_re.asp

4.3. Bank deposits of insurance companies

CHART 6. Total deposits 2016-2021 (million ALL)

Source: https://amf.gov.al/publikime_re.asp

CHART 7. Weight of deposits in ALL and foreign currency
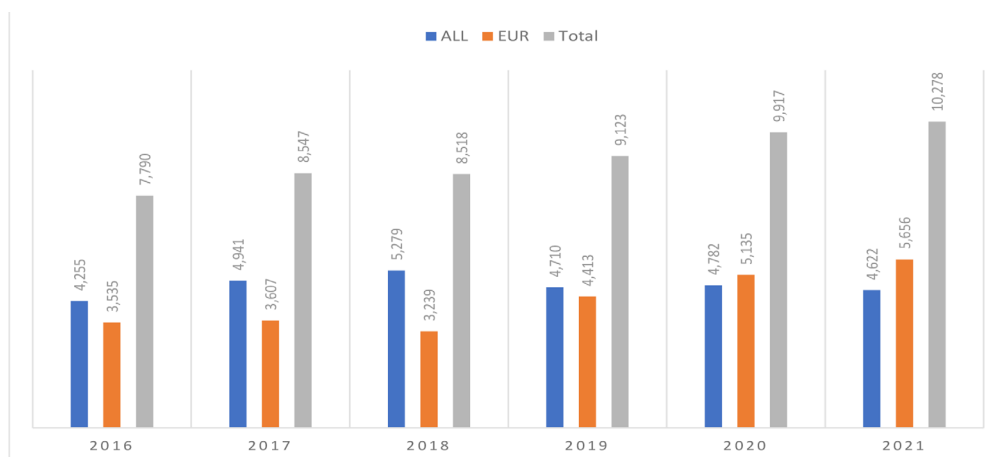against total deposits 2016-2021 (%)
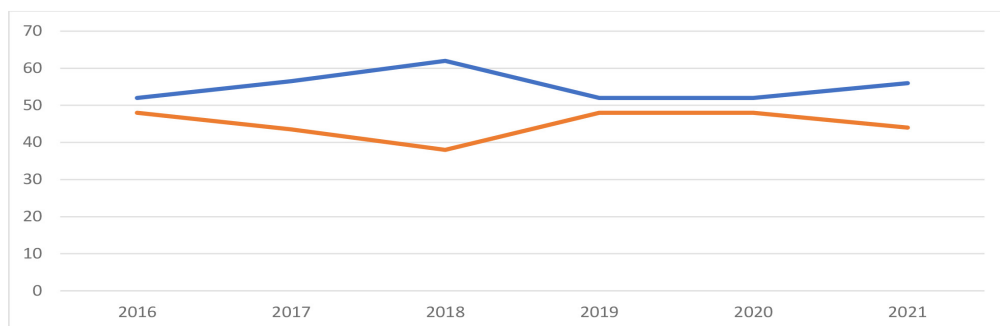
Source: https://amf.gov.al/publikime_re.asp

Deposits of insurance companies invested in Lek currencies and foreign currency for 2021 result in a total value of about ALL 12.8 billion. Of these deposits, about 48.3% of the total deposits were invested in Lek currency (about ALL 6.2 billion), while those in foreign currency appear to be about 51.7% of the total value of deposits or about 6.6 billion Lek. Deposits invested in Euro certainly occupy the largest part (90.8% of total deposits in foreign currency and 46.9% of total deposits (ALL + FX), while the rest of the deposits are invested in dollars. Deposits in foreign currency show a slight increase in value and weight to the total deposits of insurance companies against the end of 2020 (AMF, 2021).
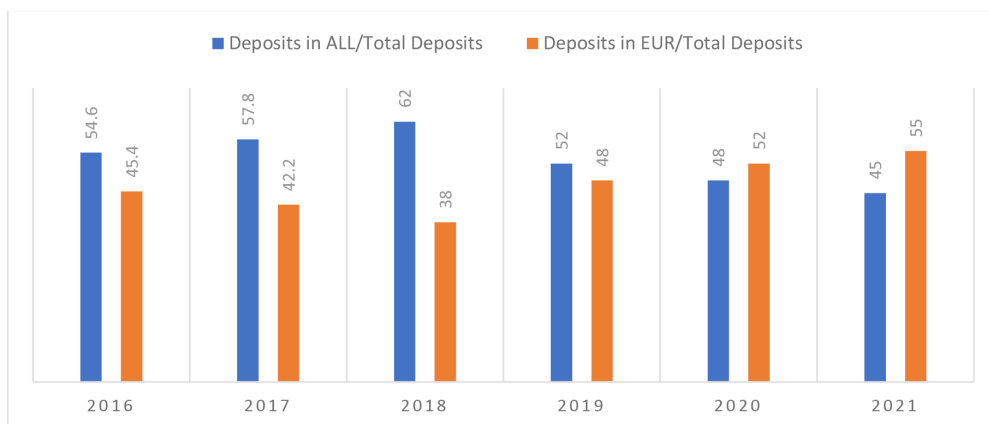
4.3. Non-Life insurance market

CHART 8. The value of deposits in Lek and foreign currency
for the Non-Life insurance market 2016-2021 (ALL million)

Source: https://amf.gov.al/publikime_re.asp

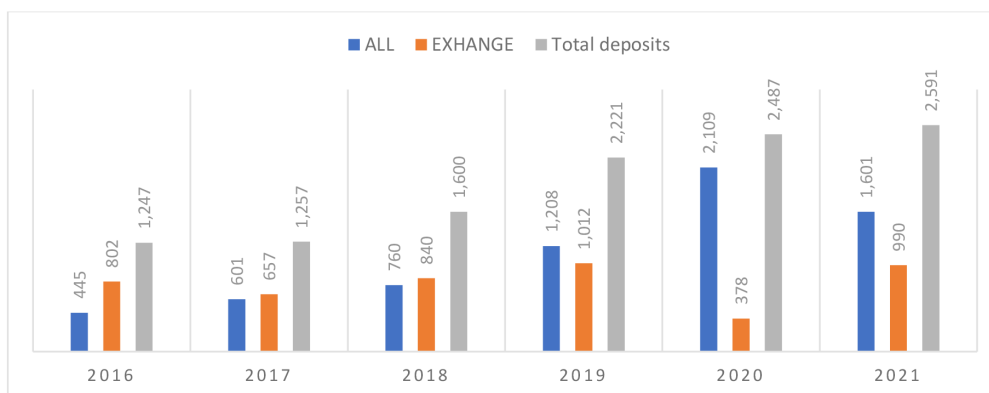**CHART 9.** Weight of deposits in Lek and foreign currency against total deposits (%)

■ Deposits in ALL/Total Deposits   ■ Deposits in EUR/Total Deposits

	2016	2017	2018	2019	2020	2021
ALL	54.6	57.8	62	52	48	45
EUR	45.4	42.2	38	48	52	55

Source: https://amf.gov.al/publikime_re.asp

For 2021, in terms of the Non-Life insurance market, 46.5% of the total amount of all deposits were invested, where more than half (53.5%) were in foreign currency, emphasizing that the majority of currencies are Euro (84.3%), while the rest are in dollars. We have an increase of 2.8% in total deposits in foreign currency compared to total deposits. Due to the increase in deposits in Euro and, as a result of the decrease in deposits in Lek, the weight of deposits in Euro to the total has increased by 2.2% (AMF, 2021).

4.4. Life insurance market

CHART 10. The value of deposits in Lek and foreign currency for the life insurance market 2016-2021 (million Lek)

■ ALL   ■ EXHANGE   ■ Total deposits

	2016	2017	2018	2019	2020	2021
ALL	445	601	760	1,208	2,109	1,601
EXHANGE	802	657	840	1,012	378	990
Total deposits	1,247	1,257	1,600	2,221	2,487	2,591

Source: https://amf.gov.al/publikime_re.asp

Regarding the Life insurance market, 62% were invested in deposits in Lek, or ALL 1.6 billion compared to total deposits, while about 38% were invested in foreign currency deposits, or ALL 0.9 billion, compared to total deposits. The main weight in deposits in foreign currency is the deposits invested in Euros or the equivalent of about ALL 0.88 billion. Euro deposits again account for the majority of foreign currency deposits (89%), and the rest is in USD. We have grown in this direction from 2020 (AMF, 2021).

CHART 11. Weight of deposits in ALL (blue)
and foreign currency (red) against total deposits 2016-2021 (%)
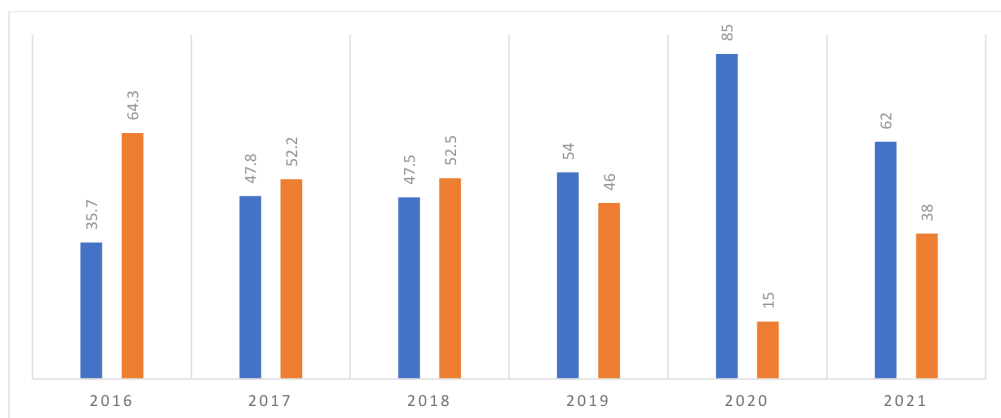
Source: https://amf.gov.al/publikime_re.asp

TABLE 2. Financial system activity indicators for 2021 (% annual change)

| The financial system	2021
Insurance company	4%
Credit savings company	10%
Pension funds	18%
Investment funds	11%

Source: The Bank of Albania, 2022

According to the report of the Bank of Albania for 2021, as can be seen in the table above, insurance companies have experienced an increase of 4%, meanwhile, the change from 2021 to 2022 was 16%. A considerable increase, however, in normalization.

FIGURE 8. Insurance market structure, January-March 2022
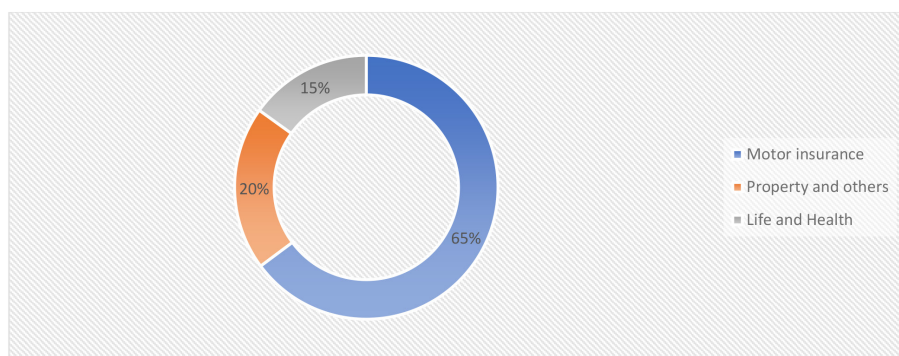
As we can see from the graph above, the market is largely oriented toward Non-Life insurance, with 92.51% of premiums, while Life insurance has only 7.45% of the total share of premiums. If we talk in ALL, the income from gross written insurance premiums for the period January-March 2022 amounted to ALL 4,280 million or 5.97% more than in January-March 2021 as declared in the middle of the year by the AMF. It is also specified for the same period that the number of concluded insurance contracts reached 247,576 with an increase of 21.99% compared to 2021 (AMF, 2022). When we talk about insurance market performance, we are mainly talking about the claims ratio (claims/premiums). Ratios below 50% indicate a market that is not functioning properly, while claims ratios that are too high may signal unsustainable levels of competition that threaten financial stability. In Albania, the claims ratio in the non-life insurance market was 31.1 percent in 2017, a trend that continued even later, with little fluctuation throughout 2020, which presented the increased problems with COVID-19 and increased control. for mandatory insurance, especially health and travel insurance. This is significantly lower than in other European countries, where it fluctuates between 60% and 70%. Such a low claims ratio in recent years is more likely to indicate poor claims performance and a low level of consumer protection.

Another performance element is also the expense ratio (expenses/premiums) which is a measure of how efficient an insurer is. The premium received should be sufficient to pay expenses and claims in most circumstances and lines of business because investment income is market driven and not fully under the insurer's control. If the expense ratio is too high, the insurer will eventually find that it cannot compete for market share against more efficient operators. Although the trend is improving in Albania, the expense ratio is high and remains above the upper limit of the generally considered normal range (less than 35 percent), the non-life market average is 64.5 % (69.8 percent for life), significantly surpassing those in other European markets. Administrative expenses grew at a higher rate than net premiums earned, driven by

distribution and operational costs. The expense ratio meant insurance companies had less money to pay claims and less value for money for consumers.

There is a third ratio to consider, the combined one (damage ratio + expense ratio). The combined ratio measures how much of the premium is being used for claims and expenses. If the combined ratio is greater than 100 percent, the insurer relies on investment income, and if that is not sufficient, on capital and surplus to cover claims and expenses. The average combined ratio of the market in Albania is around 95.6% for non-life. The average return on equity was a healthy 9.6 percent for the non-life insurance market in 2017 and 11.7 percent for life, well above the 6.5 percent average of previous years, thanks to good technical results and investment returns. All these indicators show that the performance of the insurance industry has room for improvement in Albania, where a significant part of the premium paid by consumers does not benefit them in the form of claims payments but is absorbed to finance inefficient administrations. Such an average says nothing about the health and performance of individual insurers, for whom no such information is published.

Albania chose to move from a total lack of insurance to a functional insurance market through a state monopoly. Given the government's previous role as the sole provider of risk management through social insurance, this choice is understandable, but it limited the development of a thriving insurance market for a long time. Underserved state monopolies reinforce consumers' impression that insurance is not of interest to them and the expectation that social insurance will better handle their risks, even when they do not cover more than a portion of the population.

Although a lack of awareness and understanding is a universal explanation for the lack of demand, it is justified in Albania given the communist decades without any insurance and the post-communist insurance monopoly. A country with a small (and shrinking) population with a low degree of urbanization and weak digital and regulatory infrastructure to serve rural areas translates into poor economies of scale, which in turn result in value poor customer experience about operational and administrative costs, demand turnaround times and product development and diversification.

Surveillance tools must be calibrated, market-tested, and fine-tuned after their initial development, requiring not only user training but also several reporting cycles to allow for this. A strong supervisory approach must be coordinated not only with the legal framework but also with the technical capacity of supervisory staff because absorptive capacity is critical to success.

5. Conclusions

Albania's insurance business has a lot of potential. The insurance industry has grown considerably in recent years. However, Albania has challenges and obstacles in the insurance market.

The purpose of the research is to perform a critical evaluation of Albania's insurance market, its impact on the country's economy, and the degree of concentration. The study determined that the Albanian insurance system has evolved, the insurance business has advanced in the last five years (2016-2021), and the situation is provided in these years. The level of concentration in the Albanian insurance market, as well as the contribution of the insurance business to the Albanian economy, are depicted. The study's thesis is that because there is still a high degree of concentration in the insurance market in Albania, we cannot infer that we have fair competition. This is one of the factors influencing the prominence of the insurance sector in the Albanian economy. To address the study's presented hypothesis, the insurance market was examined utilizing statistical processing and the comparison technique.

According to the study's findings, insurance businesses have reported balance-sheet expansion and, in general, higher activity revenue. Despite the significant growth of GDP in 2021, this rise is represented in a 4% increase in the financial system's proportion of GDP compared to a year before. This demonstrates that the role of the insurance industry in Albania has grown significantly and activity has expanded.

Furthermore, the numbers behind the concentration ratio for the entire competitiveness of the Albanian insurance market from 2016 to 2021 indicate that the degree of market concentration is modest. Competition is a highly essential occurrence in both economic and social life since it stimulates and sustains businesses. In recent years, the increase in the number of insurance companies and changes in their structure have resulted in a decrease in the degree of concentration, moving away from the monopoly that existed in the initial period, or the early years of this market, and toward a monopolistic competition market structure.

The insurance market may help to economic growth by acting as a financial mediator as well as a supplier of risk transfer and compensation, allowing diverse risks to be managed more effectively. Similar to the research reviewed in the literature, it was discovered that the life insurance market has a favorable influence in high-income nations but not in developing countries such as Albania, and that the insurance activity that dominates the market has a greater impact on economic growth. Because the non-life insurance market dominates the insurance business, it is believed that it would provide a good effect.

Albanian consumers have little interest in directing their savings and investments toward insurance businesses due to the low level of insurance culture and the underdevelopment of life insurance companies in comparison to other financial intermediaries such as banks and investment funds. They continue to allocate their savings toward traditional options such as bank accounts.

The analysis presented above may be of tremendous relevance to the government

and policymakers, because Albanian financial law should strive to encourage the insurance market, particularly life insurance activities, with the same zeal as the banking industry. Furthermore, the findings of this study will assist specialists in addressing some significant factors that may be considered in the operation of the insurance market, as well as the government in taking certain public actions for the consolidation and strengthening of the insurance market in Albania. The study's findings can be utilized to assess the link between economic development and the insurance market in the context of a regional area in the future.

Regarding the recommendations, we may underline the importance of the AMF determining the premium. This prevents economic entities from restricting, impeding, or distorting competition. The AMF has no authority to intervene in the decision of insurance premiums or to penalize these enterprises for pricing. The material's conclusions will aid this institution in carrying out its mission, which is to control competition. To enhance their performance and to invest in knowledge, all insurance businesses must cooperate, collaborate with the necessary state authorities, and implement new rules and processes.

6. Bibliography

Adams, M., Andersson, J., Andersson, L.F. and Lindmark, M. (2009). Commercial banking, insurance, and economic growth in Sweden between 1830 and 1998. Accounting, Business & Financial History, 19 (1), pp. 21-38.

Agjencia Kombëtare e Arsimit, Formimit Profesional dhe Kualifikimeve (2017). Material mësimor. Sigurime. Lëndës profesionale: "Sigurime", kl.13 (L-17-368-15). Sektori i Skeletkurrikulave dhe Standardeve të Trajnimit të Mësuesve.

Ahmed, N., Ahmed, Z. and Usman, A. 2011. Determinants of Performance: A Case of Life Insurance Sector of Pakistan. International Research Journal of Finance and Economics 61: 123-128.

Autoriteti i Mbikëqyrjes Financiare (2020). Raport vjetor 2020. Online në: https://www.parlament.al/Files/Kerkese/20210514110640Raporti%20Vjetor%202020%20final.pdf. (Accessed on 31 May 2022).

Autoriteti i Mbikqyrjes Financiare (2022). Analizë mbi përdorimin e monedhës kombëtare në tregjet financiare, nën mbikëqyrjen e Autoritetit të Mbikëqyrjes Financiare (Janar-Qershor 2021). Gusht 2021. https://amf.gov.al/pdf/publikime2/RaportiiDeEurizimitjanar-qershor2021.pdf .

AXCO Global Statistics. 2019. "Albania: Non-Life (P&C) and Life Reports". https://www.axcoinfo.com/

Babbel, D. F., (1981). Inflation, Indexation, and Life Insurance Sale in Brazil, Journal of Risk and Insurance, 48(1): 111-135.

Banka e Shqipërisë (2022). Raporti vjetor 2021. Aksesuar online në: https://www.bankofalbania.org/Botime/Botime_Periodike/Raporti_Vjetor/.(Accessed June 16, 2022).

Beenstock, M., Dickinson, G. and Khajuria, S. (1986). The determination of life premiums: an international cross-section analysis 1970-1981. *Insurance, Mathematics, and Economics, 5* (4), pp. 261-70.

Boadi, E. K., Antwi, S., & Lartey, V. C. (2013). Determinants of Profitability of Insurance Firms in Ghana. International Journal of Business and Social Research, 3(3), 43-50. http://www.thejournalofbusiness.org/index.php/site/article/view/ 231/231

Browne, M. J., J. Chung, and E. W. Frees (2000). International Property-Liability Insurance Consumption, *Journal of Risk and Insurance*, 67(1): 73-90.

Ćurak, M., Pepur, S., & Poposki, K. (2011). Firm and economic factors and performance: Croatian composite insurers. The Business Review Cambridge,19(1), 136-142. http://bib.irb.hr/prikazirad?lang=en&rad=553926.

Feyen, E., Lester, R. and Rocha, R. (2011). What Drives the Development of the Insurance Sector, Policy Research Working Paper No. 5572, World Bank.

Hofstede, G., (1995). Insurance as a Product of National Values, *Geneva Papers on Risk and Insurance*, 77(20): 423-429.

Lewis, F. D., (1989). Dependants and the Demand for Life Insurance, *American Economic Review*, 79(3): 452-467.

Modigliani, F., and M. Miller, (1958). The Cost of Capital, Corporation Finance and the Theory of Investment, *American Economic Review*, 48(2): 261-297.

Naqellari, A., Hoti, A. & Angjeli, G. (n/a). Tregu i sigurimeve në shqipëri, shkalla e përqëndrimit dhe pasojat në ekonomi. Konferenca e shtatë Ndërkombëtare, fq. 260-27. https://docplayer.net/50056697-Tregu-i-sigurimeve-ne- shqiperi-shkalla-e-perqendrimit-dhe-pasojat-ne-ekonomi.html. (Accessed on 31 May 2022).

Park, S. C., and Lemaire, J. (2011). The Impact of Culture on the Demand for Non-Life Insurance, University of Pennsylvania, Wharton School Working Paper IRM 2011–02.

Revista Monitor. Monitrimi i tregut të sigurimeve. https://www.monitor.al/tregu-i-sigurimeve-u-rrit-me-16-per-vitin-e-kaluar/.

Serban, F. M., Cristea, C. & Stoenoiu, C.E. (2021). Market concentration in Romanian insurance industry.
https://imt.uoradea.ro/auo.fmte/files-2021-v2/32_Florica%20Mioara%20Serban_ Market%20concentration%20in%20Romanian%20insurance%20industry.pdf. (Accessed June 20, 2022).

Skipper, H.D., 2001, Insurance in the general agreement on trade in services(American Enterprise Institute).

Ward, D., and Zurbruegg, R. (2002). Law, Politics and Life Insurance Consumption in Asia, *Geneva Papers on Risk and Insurance*, 27(3), pp. 395-412.

Webb, I., Grace, M.F. and Skipper, H.D. (2002). The effect of banking and insurance on the growth of capital and output. Center for Risk Management and Insurance, working paper Kugler, M. and Ofoghi, R. (2005). Does insurance promote economic growth? Evidence Kugler, M. and Ofoghi, R. (2005). Does insurance promote economic growth? Evidence from the UK. Money Macro and Finance Research Group, Money Macro and Finance (MMF) Research Group

World Bank Report (2019). Albania Insurance Market Development. Examples of World Bank Projects.
https://openknowledge.worldbank.org/handle/10986/33173?show=full.

Zhu, S. (2013). A structural equation modeling analysis on solvency, operation and profitability of life insurers. http://repositories.lib.utexas.edu/bitstream/handle/2152/22568/ZHU-MASTERSREPORT-2013.pdf?sequence=1.

Social Enterprises in Albania – Reporting and Impact on the Economy

Dr. Sokol NDOKA[1]

DEPARTMENT OF ECONOMICS & FINANCE,
EUROPEAN UNIVERSITY OF TIRANA
sokol.ndoka@uet.edu.al

Alma UKU, MSc.[2]

EUROPEAN UNIVERSITY OF TIRANA, TIRANA, ALBANIA
auku2@uet.edu.al

Abstract

A social business is a new form of business that can be considered as a bridge between the community of profit-maximizing organizations and the community of non-profit organizations. The business model concept is currently attracting a lot of attention from researchers and seems useful in providing guidance on how to create social businesses. The

---

[1] Dr. Sokol Ndoka has completed higher studies, Bachelor in the period 2007-2010 and Master of Science in the period 2010-2012, profile Management, Faculty of Economics at the University of Shkodra "Luigj Gurakuqi". During the period 2013-2018, Ndoka completed his Doctoral studies in Finance profile at the Faculty of Economics and IT at the European University of Tirana with the topic "FINANCIAL RISK MANAGEMENT, CONDITION FOR BANKING; PERIOD 2006-2015. During the period 2012-2013, he worked as an Assistant Accountant at the company Edi-Elt Consulting & Account. In February 2015, Ndoka began working as an external lecturer in the department of Finance & Economics, Faculty of Economics, and IT at the European University of Tirana. Since October 2015, Ndoka has been working as a professor at the European University of Tirana.

[2] Alma Uku is a project manager at the non-profit organization Caritas Albanian. She holds a Master of Science Degree in Accounting and Financial Reporting from the European University of Tirana (2022) and Bachelor Degree in Finance & Accounting from the Agricultural University of Tirana (2020). During the last three years, in addition to her studies, she has always been professionally engaged, firstly as a financial assistant at "Noorden Shpk" Accounting Office, then as a financier at the Blaed Trade Company, and for one year as a financier and project manager at Caritas Albania, one of the largest non-profit organizations in Albania.

purpose of this study was to investigate social enterprises, their reporting and impact on the economy, specifically stopping in the Albanian case and gathering perceptions and knowledge about this new phenomenon. The study, as a by-product, also aimed to understand the dynamics and potential of market development, but also of policies that may facilitate or even further hinder its development. The methodology used in this paper combines primary with secondary data. Two instruments (questionnaire) were used to collect the primary data in the study, to identify the concept of social business directed at the population, as well as those responsible or employees of certain businesses in Albania.

The study concludes that both businesses and individuals were proactive, in terms of developing this form of business in Albania. Although there were still difficulties in understanding the theoretical component or the legal component when it comes to social business, the respondents were positive against this new form of business. While individuals expressed a desire to work in such businesses, their businesses in most cases expressed a desire to introduce more social components in their own businesses. Results also highlighted the lack of regulatory framework, which in most cases becomes a constraint on the development of these businesses and their full development potential. It is noted that social businesses in Albania should strive to blend multiple institutional, legal and regulatory logic, by combining social and commercial missions in their business model, so that they have more market and a higher spread in Albania. Business has a high potential for economic development at country level.

Keywords: *social business, economy, entrepreneurship, influence, Albania, reporting.*

1. Introduction

Few can ignore the rise of critical social issues that plague our society today. Many experts and practitioners have begun to believe that traditional government approaches as well as the work of the non-profit sector are not enough to solve these problems. One of the emerging options is a new form of entrepreneurial organization, which joins the social purpose traditionally associated with the non-profit sector, and the economic rationality and market-based approaches traditionally associated with profitable businesses (Wilson & Post, 2013).

In recent years, the terms "social entrepreneurship" and "social impact" have gained popularity, especially in developed countries. The term "enterprise" has become increasingly popular and widely accepted both in the business world and in legal terms. However, although the above terms have been added to the use, as a concept they have remained ill-defined. The terms business or social enterprise are generally used to describe organizations that intertwine aspects of a lucrative business with a kind of mission that has the essential function not only of economic

benefit but also of societal appropriation. Until yesterday, this term was closely related to non-profit organizations, while today, social business has given another dimension and meaning to doing business. Many supporters of the nature and purpose of social enterprises have tried to give more precise definitions of "social entrepreneur" or "social enterprise". However, definitions in this area still remain somewhat contradictory, and are almost always used only in the "social" context and benefit. Despite the lack of a complete definition, social entrepreneurship has been advocated as a new "Enlightenment" in solving social problems and described as a new "Fourth Sector" of society. These are private organizations that, while active in the market, usually pursue purposes other than profit: their main purpose is not to generate financial benefits for their owners or stakeholders, but to provide goods and services either to their members or to the community at large. Traditionally, these organizations have been included in the concept of "social economy" (Borzaga et al., 2014).

The gap in the explicit definition of social business has led even legal experts to highlight the fact that the social business movement requires the development of new structures of hybrid entities designed to accommodate the needs of social enterprises and to expand this new fourth sector (El Ebrashi, 2013). It should be said, however, that examining examples of existing social enterprises provides a basis for understanding how these organizations operate and why defining terms in this area has proved difficult. This, as the term "social" is used as the defining characteristic of a social enterprise, and it is necessary to define exactly what this term means. Despite the importance of this distinction for the above definitions, there has been a relatively rigorous explanation of what exactly is meant by the term "social" in this particular context. Several attempts have already been made for years to determine exactly what kind of missions or objectives these social businesses undertake (Hockerts, 2006).

2. Methodology

The methodology is always in function of certain objectives and goals from the beginning of the study. The methodology used in this paper combines primary with secondary data. Initially for this study, the necessary literature on the issues raised in the review was provided, based on which research questions were subsequently raised. The literature of this study served as a primary data as the literature helped us not only to raise research questions, but also to design the methodology adequate to be followed in this study.

The paper is based on the quantitative approach. This is a research procedure for collecting a large amount of raw data using question and answer formats (Zott

& Amit, 2007). Survey study methods are appropriate for descriptive and causal study situations (Ramdani, Binsaif & Boukrami, 2019). The choice of quantitative approach, through survey, for this study was informed by its applicability to the collection of standardized data. In addition, the data structures generated by the survey methods may enhance the researcher's ability to make general conclusions about the target population defined as a whole. The data generated in a survey can also be analyzed in many different ways according to the variety of variables. Furthermore, the use of the survey provided the researcher with the advantage of collecting data that are suitable for advanced statistical techniques.

Quantitative methodology was used in this study (Igwenagu, 2016). As regards the quantitative method, it was used as an instrument of study a questionnaire addressed to citizens and employees, who may also be business managers to give an attitude towards social business. The use of this method gives the research a more generalizing character as it enables statistical data to be obtained from a larger number of samples. Quantitative research methods deal mainly with the collection and processing of data that are structured and can be presented in numerical form (Igwenagu, 2016). The data collected were analyzed by manual and electronic methods using a data preparation network and SPSS version 25. The use of structured networks allowed specific responses to be found with relative ease and facilitated the identification of new models. Descriptive analysis was used in analyzing the collected data. Using descriptive analysis, it became possible to calculate the mean, frequency and percentage of respondents' responses. After calculating the data by means of the SPSS program, they were presented with tables and graphs from which their interpretation was made.

2.1. Instrument(s) used

Two instruments were used in the study, which are questionnaires used to identify the concept of social business directed at people, as well as at the representatives or employees of businesses as a whole. The questionnaire addressed to businesses as a whole is structured in two different main parts and it is composed of a series of different questions.

- **The first section** of the questionnaire contains general information about respondents, such as: gender, age, education, as well as what area their business operates in, etc. Demographic data is necessary to include this information in a study as this helps to understand and explain the perceptions, attitudes and management practices of respondents' social businesses and from this it may be possible to get a broader view of the community as a whole.
- **The second section** of the questionnaire provides information about the roles and responsibilities they have in this business that they are employed,

about the seniority that the business has, about how familiar they are with the concept of social business, whether they have attempted to return the objectives of the current business to the objectives that the social business has.

- As for the second instrument, which targeted citizens and individuals' perceptions on their knowledge, it is presented as follows:
- **The first section** of the questionnaire addressed to people contains general information for respondents such as gender, age, education, etc. Demographic data is necessary to include this information in a study as this helps to understand and explain the perceptions, attitudes and management practices of respondents' social businesses and from this it may be possible to get a broader view of the community as a whole.
- While **the second section** of the questionnaire therefore targets the undefined group, it includes questions on how well they know the social business, their perception of working in a social business.

3. Literature Review

3.1. Social business as a business model innovation

According to Grove & Berg (2014) the emerging field of social enterprises focuses on using business methods and practices to achieve positive social change. It is often described as "schooled capitalism". Social businesses promote social objectives as primary, while also generating a profit. The difference is that, in a social business, management and investors does not get a share of the profits (although investors get their money). Profits are reinvested to expand the company and its positive social impact. Stakeholders receive a dividend from their investment in the form of social change.

Over the past two decades, strengths in various fields have emerged by promoting the notion that social problems can be better addressed through the use of business methods. Additionally, as According to Grove & Berg (2014) puts it, the context of this emergence of socially and non-profit businesses or NGOs with business methods is set in a multifaceted dissatisfaction with the ability of governmental and philanthropic agencies to address essential social problems such as poverty, health care needs and environmental sustainability. "Social entrepreneurship" is the most common phrase used to cover the various forms of this movement, including divergent approaches ranging from the sensitivity of large corporations to social issues and focusing on low-income emerging markets, to microfinance organizations using profitable models.

Social entrepreneurship is an important and very biased area (Zahra et al., 2009). Different authors argue that in many social entrepreneurship concepts about how social need is detected, social opportunities are pursued, and the wider social system is influenced. Social entrepreneurs adopt different innovative legal structures such as cooperatives (Ridley-Duff, 2010; Thomas, 2004), exclusivity (Tracey & Jarvis, 2007) and more traditional legal structures. Social entrepreneurship is also characterized as the act of meeting community interests using entrepreneurial approaches (Haugh, 2007). It includes a wide range of actions, such as reducing poverty, providing support to individuals, community groups and businesses, training and employment programs, and creating new jobs and products (Meadows and Pike, 2010). However, most definitions, like that of Nicholls (2008:23), relate to innovative and effective activities that strategically focus on resolving social market failures and creating opportunities to add to the social value system using a range of organizational formats to maximize societal change and bring about change. The practice of social entrepreneurship encompasses most of the basic internal operational processes of entrepreneurship (Meyskens et al., 2010).

However, social entrepreneurs differ in their purpose from entrepreneurs in general, in that their profit is used for a social purpose (Dees, 1998). They share a passion for dealing with social issues and focus on seeking opportunities to create social values for their communities (Luke & Chu, 2013). More precisely, the purpose of social entrepreneurship initiatives is to produce social change (Haugh, 2007; Luke & Chu, 2013; Wallace, 1999). As such, some studies develop methods for capturing societal change (Bloom & Smith, 2010; McLoughlin et al., 2009); for example, Bloom and Smith (2010) identify drivers that drive value creation and bring about change, including staffing, communication, alliance building, lobbying, profit generation and the reproduction and stimulation of market forces. However, Meadows and Pike (2010), also encourage the realization of qualitative studies to further our understanding of value creation and societal change. The way value creation flows can be managed in organizations is of interest to both researchers and practitioners (Hamel, 2000; Zott et al., 2011) as the discovery and design of such processes lead to opportunities to create knowledge and develop skills.

3.2. The main differences between the form of social and other forms of consciousness

A social enterprise is a business whose main objective is to have a social impact instead of generating profit for its owners or shareholders, who mainly use their surplus for these social objectives. It is managed by a social entrepreneur in a responsible, transparent and innovative way, involving the combination of employees, clients and stakeholders affected by its activities. As Okano et. Al

(2017) defines, in the capitalist system, two extreme types of corporate bodies can be distinguished. On one hand, companies can be seen as profit-maximizing businesses whose purpose is to create shareholder value. On the other hand, non-profit organizations exist to meet social objectives. As Yunus et. al (201o) prescribes, in the organizational structure, this new form of business is the same as profit-maximizing businesses: it is not a charity, but a business in every sense. Managerial mindset should be the same as in a business: when running a social business, think and work differently than you were running a charity, even though your objective is different from a profit-maximizing company. At the same time as efforts to achieve their social objective, social businesses need to recover their full costs, in order to be self-sustaining. Their owners never intend to make a profit for themselves, but they have the right to take their money if they wish. Instead of being passed on to investors, the surpluses generated by social business are reinvested in business and thus, ultimately, passed on to the target group of beneficiaries in forms such as lower prices, better service or greater access.

Thus, a social business is designed and operated just like a 'regular' business venture, with products, services, customers, markets, expenditures and revenues. It is a loss-free, dividend-free, self-sustaining company that sells goods or services and returns investments to its owners, but whose main goal is to serve society and improve the very poor. Here it differs from NGOs, most of which are not created to recover their total costs from their operations and are therefore obliged to devote part of their time and energy to raising money. While seeking self-sustainability, a social business relies only on its investors at the start of a development project. Social businesses can be seen as a subset of social entrepreneurship, which includes both for-profit and non-profit initiatives, and which can be distinguished from conventional entrepreneurship through the relative priority given to creating social wealth versus creating economic wealth.

4. Social enterprise and legal and regulatory framework

The development of a consistent and principled theory of social entrepreneurship is critical to the development of law and policy because of what "social enterprise" is like. If one's starting point is to define "social enterprise" through a dichotomy that characterizes the social and economic functions of organizations as separate spheres of activity, then a logical conclusion is that new forms of legal entities are needed to accommodate these enterprises. However, if social enterprise is understood as a decision to focus on value creation, then social entrepreneurship is best conceived not as a unique type of business that requires a new legal entity structure, but as a strategic choice that can be implemented by any business organization. By

proposing the adoption and use of a theory of social enterprise value creation, we argue that the development of new types of entities is unnecessary and may have the unintentional consequence of limiting the growth of social enterprise. We advocate it rather than limiting social enterprises by creating new forms of entities, legal scholars and practitioners should focus on policies and legal reforms that highlight the ability of all organizational types to operate according to a social enterprise strategy of focusing on value creation.

According to Sparviero (2019), governance defines the systems and processes pertaining to direction, control and accountability; it defines what and to whom an organization responds. There are many different ways in which governance of (BS) can be structured, however the main difference stems from two main factors: the origin of the main sources of funding (e.g. philanthropic donations, government support or own revenues) and the way in which the organization's governing board is composed. Indeed, research in the field of organizational studies suggests that the source of funding plays a fundamental role in guiding organizational behavior and strategies, especially if an organization does not benefit from diverse revenues and needs to align its values with resource providers.

Moulton and Eckerd (2012) reported, for example, after conducting an empirical research by a large sample of non-profit organizations, that a higher level of donations from individuals is significantly and positively related to performance in the role of social capital (i.e., building mutual relationships and a sense of community) and negatively related to performance in the role of political advocacy (i.e. direct engagement in the political process to influence public policy outcomes), while on the contrary, higher levels of government revenues are strongly and positively related to performance on the role of political advocacy, but negatively related to performance in the role of social capital (Moulton and Eckerd, 2012).

Various studies have been done into the support that the government needs to give to social businesses, especially during very difficult times like COVID-19. According to a study conducted by (Bombardi and Ciampolini 2020) conducted in southwestern Europe on social businesses and coping with difficulties during periods of crisis, it turned out that being very young made it very difficult to cope with difficult periods. The COVID-19 crisis has provided an opportunity to highlight on a wide scale some topics and issues that the CSO sector has been claiming in recent years: the dramatic ecological crisis and its links to unsustainable social and economic patterns, the critical expansion of cities, and the consequent abandonment of rural areas, the reduction of biodiversity in local environments, the eruption of mobility and transnational migrations and the weakening of the state.

According to Bombardi and Ciampolini (2020) new community structures and public policies are needed to create a new alliance between civil society and state

institutions, aimed at achieving more sustainable development. Social enterprises can play an essential role in forming and growing this new coalition.

5. Reporting and impact of social businesses on the economy

As the name implies, the importance of social entrepreneurship lies in its "social" meaning. Therefore, understanding how social enterprises work requires explaining their unique social aspects. However, explaining these implications and what they mean in practice for the economic structure of social enterprises is difficult. Social entrepreneurship is defined differently and sometimes ambiguously, and its use in the social sciences may be inconsistent with its legal meaning or with the ways it is understood by many social entrepreneurs in the real world (Agafonow, 2015). Typically, the main economic difference between everyday entrepreneurship and social entrepreneurship is said to lie in their respective goals: in general, social enterprises are defined as "mission-driven", while ordinary enterprises are profit-driven (Dees et al., 2001; Abu-Saifan, 2012). However, this distinction is inaccurate for two reasons, both of which make it difficult to establish a simple boundary between two types of entrepreneurship: first, profitable entrepreneurship is always to some extent social, and second, social entrepreneurship is always to some extent profitable (Austin, Stevenson and Wei-Skillern, 2006). The following two subsections explore each of these claims in turn and set the basis for a discussion of economic accounting in social entrepreneurship. Explain that social entrepreneurship is a subset of a larger social process that occurs through division of labour. *Moreover, the pursuit of monetary gain is necessary for social enterprises to achieve their goals.*

As we mentioned above, a term closely related to the social economy is social entrepreneurship, defined as *"the creation of structures, relationships, institutions, organizations and sustainable socio-economic practices that deliver and support social benefits"* (Fowler, 2000,). Social entrepreneurship brings the social economy closer to the business environment as it involves organizations aimed at solving various social issues, generating real economic benefits for members and their stakeholders. The tool of social entrepreneurship is social enterprise. Although a simple term, social entrepreneurship seems to have a complex range of meanings: any organization that generates revenues earned for public use; non-profit organizations that use efficient business measurements; a form of entrepreneurship that generates innovative solutions to social problems (Trexler, 2008); a business that has primarily social objectives and that reinvests its profits in business in order to continue to help the community or directly in the community, while not focusing on the distribution of wealth to shareholders or owners (Bull & Crompton, 2006).

A social enterprise can be defined by a number of characteristics (SEC, 2003): it participates in the production of goods or the provision of services in a market; it has a precise social purpose such as job creation, training or the provision of local services; the profits earned are mainly reinvested in order to continue to pursue their social goals; independent organizations whose management and ownership systems are usually based on the participation of stakeholder groups. Social enterprises represent 2 million organizations and provide employment to over 11 million individuals, they are present in all economic sectors, from agriculture and crafts to banking, insurance, commercial services, health and social services etc (European Commission, 2014). The importance of the social economy and social enterprises is also based on the fact that this sector is closely linked to local development.

Bouchard (2013) points out that social economy, a hybrid of market economy and public economy, concerns communities abandoned by "dominant" forms of development. The social economy plays a key role in the local development process (Galliano, 2003): being a labor - intensive sector; meeting local needs; reducing local disparities in service provision; access to goods/services and employment opportunities. Social enterprises produce benefits for society by lowering the real economic costs associated with unemployment and promoting local identity - building trust in communities and increasing 'civil engagement' (Galliano, 2003).

Audretsch and Thurik (2004) found that changing consumption patterns, increasing more flexible production processes and more competition among small and medium-sized enterprises were striking in the transition from a management economy to an entrepreneurial economy. In this perspective, the area related to entrepreneurship is social entrepreneurship. It is called the area in which entrepreneurs adapt their activities to connect directly with the ultimate goal of creating social value. It is attracting increasing amounts of talent, money and attention. However, along with increasing its popularity, there have been inconclusive discussions about what a social entrepreneur really is and what his influences are on society. In this sense, Social Enterprise applies an entrepreneurial approach to address social issues and create positive change in the community. Social enterprise is more responsible and does not rely on changing the priorities of government and key foundations, is about making the change that is needed within a community and (sometimes) grows to affect entire cities, countries and regions. Like all businesses, social entrepreneurship needs to make investments and sales in order to grow and meet the needs and priorities of the communities it serves, as opposed to traditional nonprofit programs which are often limited to funds available from government and philanthropic funders. It actively engages stakeholders and gives people a voice that helps them directly in the operation of the business - as owners, employees and paying customers.

There are several studies that establish a direct link between entrepreneurship and economic growth. A study conducted by Salgado-Banda (2005) introduced a new variable based on patent data as a proxy for productive entrepreneurship and alternatively a proxy based on self-employment data.

The main conclusion they reached was that there is a positive correlation between the proposed measure for productive entrepreneurship and economic growth and the alternative measure based on self-employment appears to be negatively related to economic growth. Van Stel etc. (2005) using the Global Entrepreneurship Monitor (gem) database at different times conclude that the effect of the entrepreneurship activity rate on economic growth positively affects the level of economic development. Another study by Wenneker et al. (2005) used the country's level of entrepreneurship as an independent variable, expressed by the rate of embryonic entrepreneurs defined in the gem 2002 database for 36 countries. The main conclusion was that the influx of young entrepreneurs tends to decrease with a level of development at a certain point, only to increase again from that point (function U). So, as we can see, social capital and entrepreneurship play a key role in development.

6. Discussion and interpretation of the findings

According to the European Union definition, social businesses are those companies that have as their main goal the social impact, rather than generating profit for their shareholders. This philosophy gained even more attention, especially after 2006, when the entrepreneur from Bangladesh, Muhammad Yunus, won the Nobel Peace Prize, precisely with the social business philosophy, which was at the foundation of his financial institution, Grameen Bank. In recent years, social business support schemes have been added, while in 2016, Albania adopted a separate law regulating these businesses.

Ymeraj (2021) stresses that in Albania, social business financing schemes are very scarce. The reality is not very different for the whole Balkans, where financing schemes for entrepreneurship have only been open for three years. The experience of social business here in Albania has been that business leaders are much more interested in engaging in social actions when their skills and expertise are used and they can see tangible social and business results. Thus, social business offers the opportunity to move from the traditional role of a businessman who provides funds passively to the point where they can have the strongest impact, creating wealth.

It is noted that recently established nonprofits (from 1 to 6 years) engage in revenue-generating activities from the beginning of their establishment. Social

business offers NGOs the opportunity to access additional resources to achieve their social action and empowerment goals (Ymeraj, 2021). According to the National Business Center (NBC), 319 non-profit organizations possess a license and provide social services and educational services. Different organizations target a diverse range of clients such as the general public, students, people with disabilities, teachers, businesses, political parties, municipalities and international institutions (Partners Albania, 2016). This shows the sector's need to diversify its funds and a growing tendency of social enterprises in Albania.

Continuing with the question, which is one of the most important about how they know social business, i.e. whether they had knowledge of the concept of social business, a large percentage of them responded positively. This shows that it has already arrived in Albania as a concept and that we are very close to practicing this type of business.

The results of this study showed that most businesses are less oriented towards social business, which shows that this practice is applied on a small scale by businessmen. Most of businesses surveyed said they had employed people with disabilities in their businesses, hired and trained people and this is an aid to people and an impetus to reduce poverty. They show a willingness to make a difference in the community where the business exercises the activity. Most of the businesses surveyed have made clear the concept that social business introduces a completely revolutionary dimension to the free market economy.

Based on the results of the analysis, we note that the majority of citizens surveyed know to some extent but not entirely the concept of social businesses. They said positively that they would like to work in a social business as well, and a very significant proportion of respondents in this study said that it would not be a problem for them to have colleagues with disabilities in their work environment.

6.1. Problems in the legal framework

The concept of social entrepreneurship continues to be unclear and little known in Albania. There are various legal forms, based on the principles of social entrepreneurship, such as associations, centers and foundations, agricultural cooperatives, and savings-credit associations. Based on Law no. 65/2016 "On social enterprises in the Republic of Albania", this sector is directly identified with the non-governmental legal form. Under this law, social enterprises must provide a defined number of social services to certain groups and employ a significant number of persons as part of these groups.

Currently, there is no policy for supporting social entrepreneurship. However, the main problem of the legal framework on social enterprises lies in the ambiguity of the definition of these enterprises. Particularly, some of the shortcomings identified

relate to the ambiguity of definitions between the concepts "social enterprise" and "social enterprise", referred to in Law no. 15/2019 "On Employment Promotion" in social enterprises. The law creates spaces for overlap as social enterprises have to integrate disadvantaged groups into the labor market and provide social services, meanwhile, in European practices they are treated as two separate categories of social enterprises. Other shortcomings relate to the legal categories, which may receive the status of "social enterprise", since the law only recognizes non-profit organizations excluding all other existing legal forms that meet the criteria of social enterprises.

In addition, the law contains other restrictions in terms of economic and social criteria. According to him, it is forbidden to distribute the share of profits or revenues of social entrepreneurship to shareholders or partners, while in the countries of the European Union, social enterprises can use a certain percentage of profits for expansion of activities and investments, as well as in bonuses for employees. It is also allowed to distribute a percentage of profits to entrepreneurs or members of social entrepreneurship. The current law provides for the profit generated to be reinvested entirely for the development of the activity of the social enterprise, as well as the tax on profit, hindering their development. In European countries, meanwhile, the tax on reinvested profits, on employee bonuses and reserve funds, as well as the distribution of a certain percentage of profits to their shareholders, are not applied.

The law also contains major restrictions on the number of employees, where businesses to obtain social business status must have at least 3 persons employed, 30% of whom must be from marginalized groups of society. This is considered to be very disadvantageous considering the fact that 3 persons employed from the beginning of the activity represent a huge cost for the business, while not motivating the business to undertake social initiatives.

7. Research limitations and ethics in research

The authenticity of this study relies on the will of participants to be honest and to carefully consider the answers given in the questionnaires. The names of the participants were not included in the questionnaire, in order to provide respondents or employees of businesses specifically with the confidentiality of their responses. In addition, the researcher assumes that he has instructed and allowed sufficient time for the participants to respond appropriately to minimize the risk of inaccurate responses as much as possible. Among the main limitations of the study we can list:

- A limitation of the instruments is due to the fact that the time the researcher had available was very short.
- Study limitation was the period during which the study was conducted, the study was administered online only. In the future it would be good for researchers to conduct focus interviews so that different groups can be together and openly express their opinions. A combined qualitative and quantitative methodology could give a broader view of the issue studied.
- Finally, another limitation is the fact that the study was conducted only by residents of the city of Tirana, and not throughout Albania. This limitation should be considered for the promotion of broader studies in this area.

8. Conclusions and recommendations

8.1. Conclusions

Social enterprises, as hybrid organizations, have dual social and financial objectives at their core, which are the reason for their existence. The purpose of this study is to research on social enterprises, their reporting and impact on the economy, focusing specifically on the Albanian case and gathering perceptions and knowledge about this new phenomenon. The study, as a by-product, also aimed to promote the development of the market, but also of policies which will further facilitate its development. The study used questionnaires to collect primary data. The instruments used in this study were divided into two parts: one was directed to businesses to look in more detail at the concept of social businesses and their willingness towards this new business. And the other was directed at individuals to understand the level of social business knowledge they know and how willing they would be to work in such a business. Each was divided into different sections with a certain number of questions. The findings are based on information collected from businesses in Tirana (50) and from different individuals on social businesses and their approaches in Albania (155).

As Haugh (2012) concludes, social enterprise has emerged as a phenomenon of practical and theoretical importance and has attracted the attention of practitioners, policy makers and scholars worldwide. Within the interest of academia a phenomenon of social entrepreneurship has shifted from the periphery of scientific research to a prominent position that is rich in opportunities for theoretical testing, outreach and development.

Social entrepreneurship brings the social economy closer to the business environment as it involves organizations aimed at solving various social issues, generating real economic benefits for members and their stakeholders. It plays a

key role in the local development process (Galliano, 2003): being a labour-intensive sector; meeting local needs; reducing local disparities in service provision; access to goods/services and employment opportunities. Social enterprises produce benefits for society by lowering the real economic costs associated with unemployment and promoting local identity - building trust in communities and increasing 'civil engagement' (Galliano, 2003).

Social enterprises represent 2 million organizations and provide employment to over 11 million individuals, they are present in all economic sectors, from agriculture and crafts to banking, insurance, commercial services, health and social services etc. (European Commission, 2014). The importance of the social economy and social enterprises is also based on the fact that this sector is closely linked to local development.

In the Republic of Albania, the activity of such enterprises is regulated by Law no. 65/2016 "On social enterprises in the Republic of Albania", which, according to the analyses and interpretations carried out, needs interventions and revisions, because on the one hand there is ambiguity, because there is a lack of legal specification in certain points, and on the other hand, there are aspects of it that do not comply with the legal provisions and European practices and instead restrain the development of social enterprises in Albania.

8.2. Recommendations

1. Policymakers and decision-makers should support these socially driven small businesses, in order to have a major impact on society and the community.
2. Encouraging responsible institutions to adopt or update their social economy strategies and measures in cooperation with social economy actors. Opening a wide public debate and consultations with stakeholders and interest groups, in order to further advance with the concept and regulatory and legal framework for the activity of social enterprises in the country.
3. Provision of government support services including establishment of financial support schemes and soft loans, establishment of financial incentives considering the social purpose of social enterprise activity, Potential Job Creation counseling for Disadvantaged Financial Groups, empowerment of NS capacities and assistance for the development of business plans, as well as support for promotion and networking domestically, regionally, European and beyond.
4. Encouraging profitable businesses to turn them into social businesses and supporting them in the context of poverty reduction in Albania.
5. Social Enterprises should focus on creating the necessary primary items (such as agricultural and food production, basic needs care and services).

6. Creating other funding opportunities in addition to the approved fund for social enterprise support.
7. Universities and vocational schools should update curricula by introducing social entrepreneurship as one of the most discussed areas of the 21st century.

9. Bibliography

Abu-Saifan, S. (2012). Social entrepreneurship: definition and boundaries. *Technology innovation management review*, *2*(2).

Agafonow, A. (2015). Value creation, value capture, and value devolution: Where do social enterprises stand?. *Administration & Society*, *47*(8), 1038-1060.

Audretsch, D. B., & Thurik, A. R. (2004). *A model of the entrepreneurial economy* (No. 1204). Papers on Entrepreneurship, Growth and Public Policy.

Audretsch, D.B., and Thurik, A.R. (2004). A Model of the Entrepreneurial Economy. Discussion paper 1204 (Max Planck Institute, 9Jena, Germany).

Bloom, P. N., & Smith, B. R. (2010). Identifying the drivers of social entrepreneurial impact: Theoretical development and an exploratory empirical test of SCALERS. *Journal of social entrepreneurship*, *1*(1), 126-145.

Bombardi, D., & Ciampolini, T. (2020). The impact on social economy in South East Europe.https://////C:/Users/AC/Downloads/(2020)%20societies2-report-SOCIAL%20 ECONOMY.pdf

Borzaga, C., Bodini, R., Carini, C., Depedri, S., Galera, G., & Salvatori, G. (2014). Europe in transition: the role of social cooperatives and social enterprises.

Borzaga, C., Depedri, S., & Tortia, E. (2014). Organizational variety in market economies and the emergent role of socially oriented enterprises. In Social enterprise and the third sector (pp. 101-117). Routledge.

Bouchard, M.J., 2013. Innovation and the Social Economy: The Quebec Experience, Toronto: University of Toronto Press.

Bouchard, T. J. (2013). The Wilson effect: the increase in heritability of IQ with age. *Twin Research and Human Genetics*, *16*(5), 923-930.

Bull, M., & Crompton, H. (2006). Business practices in social enterprises. *Social Enterprise Journal*.

Dees, J. G. (1998). Enterprising nonprofits: What do you do when traditional sources of funding fall short? *Harvard business review*, *76*(1), 55-67.

European Commission (2014). Working document of th Progress Report Commission for Albania, 2014.

Fowler, A. (2000). NGDOs as a moment in history: beyond aid to social entrepreneurship or civic innovation?. *Third world quarterly*, *21*(4), 637-654.

Galliano, R. (2003). Social economy entrepreneurship and local development. *Asan- Eurada. Available from*.

Grove, A., Berg, G.A. (2014). Social Business: Defining and Situating the Concept. In: Grove, A., Berg, G. (eds) *Social Business*. Springer, Berlin, Heidelberg. https://doi.org/10.1007/978-3-642-45275-8_1

Hamel, G. (2000). Waking Up IBM. *Harvard Business Review*, *78*(4), 137-144.

Haugh, H. (2007). Community-led social venture creation. *Entrepreneurship theory and practice*, *31*(2), 161-182.

Haugh, H. (2012). The importance of theory in social enterprise research, *Social Enterprise Journal*, Vol. 8 No. 1, pp. 7-15. https://doi.org/10.1108/17508611211226557

Luke, B., & Chu, V. (2013). Social enterprise versus social entrepreneurship: An examination of the 'why' and 'how' in pursuing social change. *International Small Business Journal*, *31*(7), 764-784.

McLoughlin, J., Kaminski, J., Sodagar, B., Khan, S., Harris, R., Arnaudo, G., & Mc Brearty, S. (2009). A strategic approach to social impact measurement of social enterprises: The SIMPLE methodology. *Social Enterprise Journal*.

Meadows, M., & Pike, M. (2010). Performance management for social enterprises. *Systemic practice and action research*, *23*(2), 127-141.

Meyskens, M., Robb–Post, C., Stamp, J. A., Carsrud, A. L., & Reynolds, P. D. (2010). Social ventures from a resource-based perspective: An exploratory study assessing global Ashoka fellows. *Entrepreneurship theory and practice*, *34*(4), 661-680.

Moulton, S., & Eckerd, A. (2012). Preserving the publicness of the nonprofit sector: Resources, roles, and public values. Nonprofit and Voluntary Sector Quarterly, 41(4), 656-685.

Nicholls, A. (Ed.). (2008). *Social entrepreneurship: New models of sustainable social change*. OUP Oxford.

Okano, M.T., Vendrametto, O., Fernandes, M.E., Dos Santos, O.S. (2016). Relationship Networks: Social Innovation and Earnings for Companies. In: , et al. Advances in Production Management Systems. Initiatives for a Sustainable World. APMS 2016. *IFIP Advances in Information and Communication Technology*, vol 488. Springer, Cham. https://doi.org/10.1007/978-3-319-51133-7_11.

Partners Albania, (2016), 'ANNUAL REPORT 2016', Marrë nga: https://issuu.com/partners-albania/docs/annual_report_2016?embed_cta=embed_badge&embed_context=embed&embed_domain=partnersalbania.org&utm_medium=referral&utm_source=partnersalbania.org.

Ridley-Duff, R. (2010). Communitarian governance in social enterprises: case evidence from the Mondragon Cooperative Corporation and School Trends Ltd. *Social enterprise journal*.

Salgado-Banda, H. (2005). Entrepreneurship and Economic Growth: An Empirical Analysis DEGIT Conference Papers. Dirección General de Investigación Económica. Banco de México.

Sparviero, S. (2019). The Case for a Socially Oriented Business Model Canvas: The Social Enterprise Model Canvas. Journal of Social Entrepreneurship, Vol.10, Issue 2, pp. 232-251.

Tracey, P., & Jarvis, O. (2007). Toward a theory of social venture franchising. *Entrepreneurship theory and practice*, *31*(5), 667-685.

Trexler, J. (2008). Social entrepreneurship as an algorithm: Is social enterprise sustainable?. *E: Co Issue*, *10*(3), 65-85.

Wallace, S.L. (1999). Social entrepreneurship: The role of social purpose enterprises in facilitating community economic development. *Journal of developmental entrepreneurship*, *4*(2), 153.

Wennekers, S,, van Stel A., Thurik R. and Reynolds, P. (2005). Nascent entrepreneurship and the level of economic development, Small Business Economics 24 (3), 293- 309.

Wilson, F., & Post, J. E. (2013). Business models for people, planet (& profits): exploring the phenomena of social business, a market-based approach to social value creation. *Small Business Economics*, *40*(3), 715-737.

Ymeraj, A. (2021). Social business under the youth guarantee: Experience from the ground in Albania. *The Business & Management Review*, *12*(1), 186-192.

Yunus, M., Moingeon, B., Lehmann-Ortega, l. (2010). Building Social Business Models: Lessons from the Grameen Experience, *Long Range Planning*, Vol. 43, Issues 2–3, pp. 308-325.

Zahra, S. A., Gedajlovic, E., Neubaum, D. O., & Shulman, J. M. (2009). A typology of social entrepreneurs: Motives, search processes, and ethical challenges. *Journal of business venturing*, 24(5), 519-532.

Zott, C., & Amit, R. (2007). Business model design and the performance of entrepreneurial firms. Organization science, 18(2), 181-199.

Zott, C., Amit, R., & Massa, L. (2011). The business model: recent developments and future research. *Journal of Management*, *37*(4), 1019-1042. Ramdani, B., Binsaif, A., & Boukrami, E. (2019). Business model innovation: a review and research agenda. New England *Journal of Entrepreneurship*.

A synthesis of the current situation of University–Industry cooperation in Albania following the Triple Helix Model

Dr. Ketrina ÇABIRI MIJO[1]
DEPARTMENT OF MANAGEMENT AND MARKETING, EUT
ketrina.cabiri@uet.edu.al

Prof. Dr. Ermira QOSJA[2]
DEPARTMENT OF MANAGEMENT AND MARKETING, EUT
ermira.qosja@uet.edu.al

[1] Dr. Ketrina Çabiri Mijo has completed her PHD on Corruption and Decision Making in Public Procurement at the European University of Tirana, followed by a fellowship at the Institute of Social and Economic Research (ISER) at Essex University (2016) supported by the Civil Society Scholar Award and a research stay at the Department of Political Sciences and Sociology, University of Salzburg as a Sigma Agile Fellow (2015-2016). Ketrina received a master's degree in European Politics from the University of Sussex, United Kingdom in 2009. Ketrina has been a research Fellow at TRAIN programme 'Fostering Policy Dialogue in the Western Balkans' lead by German Council on Foreign Relations (DGAP) in 2017. Since 2011 Ketrina has been working at the Office for Project Development and Partnerships at UET and currently she is the Head of Office. Previously she has worked as an expert of European Research Programs in the Agency for Research, Technology and Innovation in the Council of Ministers in Albania. She has an extensive experience in project writing and management, while she has been involved in several EU Projects such as Tempus, IPA CBC/Interreg MED/Balkan Med, LLP/ Jean Monnet, ERASMUS +, ESPON and other national and international donors like World Bank and British Council, Open Society Foundation, Friedrich Ebert Sifting, OSCE, UNWOMEN, GDN (Global Research Competition), etc. Ms. Çabiri has published in national and international journals and publishing houses, such as Bentham Science Publishers, Kluwer Law International, Oxford University Press, International Journal of Sustainability in Higher Education (Emerald Publishing), etc.

[2] Prof.Dr. Ermira Qosja is a Doctor in Management, Polytechnic University of Tirana; doctoral studies at Politecnico di Bari, Italy; specialized in SME management at the University of Washington, Seattle, USA, as well as other universities, in France and Portugal. She became involved in the senior management of several businesses in Albania, General Director of Shekulli publications, Spektër, Radio +2, Sporti Shqiptar; Director of PR&HR and development projects in "Deka" and "OLIM" companies; Director of the first Community College under the "Harry Fultz" Institute, etc. Author of several publications related to entrepreneurship, entrepreneurship education, leadership in higher education, etc., at home and abroad. She has initiated several projects for UET connection with business, organizing competitions on business plans & ideas, interacted with Chambers of Commerce, creating an entrepreneurial culture within the university, as well as becoming part of European projects on entrepreneurship. During April 2018- March 2019, she has been Head of Management and Marketing Department, UET; April 2019 - November 2020, UET Vice Rector for Institutional Development and Students.

Abstract

Albanian universities face a variety of challenges which reflect the national and international factors in the political, social, and economic sphere. On one hand Universities should establish high teaching standards which equip students with necessary competences requested by the labour market and on the other hand they should play an important role in boosting innovation within industries through scientific research, to impact the economic development of the county.

The goal of this research is to analyse the existing collaboration among universities and the industry in Albania, from the perspective of universities and companies.

This research uses a qualitative methodology, based on the questionnaires of work page 1 of the KALCEA project. In total, the sample consists of 43 respondents, 16 of which are university senior management staff and 27 leaders/administrators and senior managers of large Albanian companies.

Findings of the paper indicate that cooperation between Universities and industry do exist and is claimed as important by both parties. However, it still lacks strategic plannings and structural approaches which establish, inter alia, the necessary culture of synergy and common innovative product.

Keywords: *cooperation industry–university; triple helix model, scientific research.*

I. Introduction

This work is originating from the KALCEA Project "Knowledge Triangle for a Low Carbon Economy", funded in the frame of ERASMUS + Programme. KALCEA project aimed at increasing institutional capacities of Western Balkan Countries (WBC) by creating a systematic and structural approach for implementation of knowledge triangle principles, including knowledge sharing, information and skills for joint exploitation of research capacities for sustainable growth based on innovation in WBC[3].

The paper is based on the results of the questionnaire and focus groups which are conducted through the Work Package 1 of the KALCEA project and then extended by the authors of the paper, in order to have proper number to ensure a qualitative analysis of the situation. These two methods try to assess the current level of cooperation between Higher Education Institutions (HEIs) and the business sector in Albania, as a part of the wider effort to analyze the current situation in knowledge triangle (education, research and innovation) in WBC.

---

[3] https://kalcea.com/

The role of universities in modern society is very important in the development of knowledge. For years, policymakers have taken action to develop a "third mission" within many universities, aiming to connect them with knowledge users and facilitate technology transfer, an approach known as the "third mission" of universities (Etzkowitz, 2004).

Undoubtedly, this mission or third dimension, which makes knowledge and research applicable to the industry, is gaining attention within Albanian universities and policymakers in the field of education. The most recent law on Higher Education in Albania empowers departments within Faculties, expending their academic freedom - in addition to teaching and scientific research activities- to develop creative and innovative activities, as well as to generate income through legitimate financial autonomy[4].

The goal of this research is to analyze the existing collaboration among universities and the industry in Albania, from the perspective of universities and companies. *The research question is*: Is the current model of collaboration between universities and the industry in Albania following the triple helix model?

This research is based on qualitative methods, composed of the questionnaires of work package 1 from KALCEA project, and the focus groups conducted in the Polytechnic University of Tirana. The questionnaire presents a general group of questions as well as specific questions which relate to the category of respondents. In total, the sample consists of 43 respondents, 16 of which are university leaders and 27 leaders/administrators and senior managers of large companies in Albania, who intend to or have already established collaboration with universities and are working to formalize the collaboration.

Findings of the paper indicate that universities should approach to and develop the third mission in a more extended way, while companies need not only qualified staff, but also start-up and innovative ideas, consultancy, training, etc. Last but not lease, policymakers need to identify and implement instruments that promote this cooperation, in support to the country's economic growth.

II. Literature Review

Universities nowadays are required to equip students with the necessary skills and competences to meet local needs. In the last two decades, the role of universities continues to change, adding to the dimension of teaching and research, a dimension of social and economic impact (Fagerberg, Mowery, & Nelson, 2005).

Arguments in favour of additional roles that universities should undertake grow continuously, besides teaching and research, thus influencing economic development

---

[4] https://arsimi.gov.al/ligji-nr-80-2015-per-arsimin-e-larte-dhe-kerkimin-shkencor-ne-institucionet-e-arsimit-te-larte-ne-republiken-e-shqiperise/

of countries (Branscomb, Kodama, & Florida, 1999). Researchers believe that the university-industry partnership is an opportunity for diffusion of technology, which is a very important contribution to innovation (Scott & Martin, 2000). Research-oriented universities in developed economies are constantly looking for ways to commercialize research as an opportunity to associate universities to economic performance. Collaborations between industry and universities have increased significantly in the last twenty years and the prospects of these collaborations look deeply promising (Scandura, 2016), (OMAR AL-TABBAA & SAMUEL ANKRAH, 2018). This growth is due to increased pressure from both parties, universities and the industry. The urge for the industry arises from shorter product life cycles, rapid technological change and aggressive global competition that have fundamentally transformed the competitive environment for most firms (Wright & et al, 2008). Universities are compelled by the immense new knowledge engendered and the challenges of rising costs and funding concerns. In addition, there is increasing societal pressure on universities to be seen as engines of economic growth (Philbin, 2008).

Based on the literature review authors highlight the following models of collaboration between universities and the industry:

The Linear Model - this model argues that universities play a key role in economic growth and therefore government research funding should be increased. Funding research is the only possibility to promote innovation (Fagerberg, Mowery, & Nelson, 2005).

Mode 2 framework - creates a closer connection between universities and the industry, arguing the need for interaction with other institutions within the national innovation system, hence creating a broader and more diverse knowledge base (Fagerberg, Mowery, & Nelson, 2005)

Triple Helix framework - argues that universities can play a more dominant role in the innovation process in knowledge-intensive countries. This model demands a boost in collaboration between essential actors in the innovation process of developed societies, where the academy must take on the entrepreneurial role, both in terms of creating companies and firms, as well as in the knowledge transfer process between them. The model has been criticized for its inability to state the extent to which the entrepreneurial role of universities is being performed worldwide (Etzkowitz & Leydesdorff, 2000).

In the triple helix model, each actor of the system has to play a specific role while working in close synergy with others: universities produce new knowledge and technologies that can have an industrial application; government acts as a public entrepreneur in addition to its traditional regulatory role in setting rules of the game; venture capital and large companies act as engines of innovative systems, bringing capital, managerial skills, and a network of relationships that foster the development of innovative businesses (Samuel & Omar, September 2015).

Research on university-industry collaboration shows that the way the process develops, and its final form largely depends on the initial conditions of the collaboration (Heimeriks & Boschma, 2014) and on this basis we identify 3 forms: 'embedded', 'emergent', and 'engineered' ' (Ring, Doz, & Olk, 2005).

Embedded - collaboration has previously existed and is based on mutual trust, but the subjects share no common interests and are not dependent on each other (Salerno, Landoni, & Verganti, 2008). Therefore, the rationale of collaboration is based on 'hoped' potential value and assumed mutual commitment, rather than concrete collective targets and obligations.

Emergent - relationships when they perceive a need for joining their resources in order to proactively seize an opportunity or reactively respond to a change in the external environment (Ring, Doz, & Olk, 2005)

Engineered - the collaboration was initiated by an external party. Relevant literature asserts that the first two cases are more widespread, whereas for the third case there is limited knowledge (OMAR AL-TABBAA & SAMUEL ANKRAH, 2018).

III. Methodology and Analysis

The purpose of this paper is to analyse the status quo of university-industry collaboration in Albania, from the viewpoint of university leaders and large firms. This paper comes as is an integral part of a larger research programme of the European University of Tirana (UET) which is supported by several European projects in which the UET has been involved in recent years. Erasmus + Projects co-funded by the European Commission, such as: KALCEA, KNOWHUB[5], USIA[6] have made a substantial contribution add capacities towards a systematic and sustainable approach to the implementation of the triple helix model.

However, to fully accomplish the analysis of this paper, the following objectives have been set:

1) Mapping the existing situation in knowledge triangle activities at major part of HEIs in Albania (well-balanced geographically), with a focus on knowledge transfer and innovation;
2) Detailed analysis of the conditions that create obstacles for effective integration of higher education, research and innovation in national level;
3) Analyze current cooperation between HEIs and business sector at national level;

---

[5] https://knowhub.eu/
[6] https://usia.al/

4) Analyze participation of business sector representatives in different activities at HEIs in Albania, Bosnia and Herzegovina and Kosovo*,

5) Analyze capacities and identify main actors at HEIs in Albania, necessary for cooperation with business sector in research project,

6) Analyze existing policies at HEIs in Albania, Bosnia and Herzegovina and Kosovo*, necessary for implementation of knowledge triangle mechanism, like research polices.

7) Identification of knowledge triangle mechanisms in Albania.

Following these objectives, the research question would be: Is the current model of collaboration between universities and the industry in Albania following the triple helix model?

As mentioned, this research is based on qualitative methods, composed of the questionnaires of work package 1 from KALCEA project, and the focus groups conducted in the Polytechnic University of Tirana.

The questionnaire presents a general group of questions as well as specific questions which relate to the category of respondents. In total, the sample consists of 43 respondents, 16 of which are university leaders (rector/vice-rector/dean) and 27 leaders/administrators and senior managers (managers/HR managers/administrators) of large companies in Albania, who intend to or have already established collaboration with universities and are working to formalize the collaboration. The distribution was coordinated through a database of contacts provided by the authors of this paper.

As can be seen from the graph on the left of Figure 1 the sample is comprised of 63% companies and 37% universities. The graph on the right of the same figure shows the content of the sample from the viewpoint of ownership for each group, so out of 16 universities 10 are public and 6 are private, whereas of the 27 companies 25 are private and 2 are public.

FIGURE 1. Composition of the sample of respondents

a)

b)
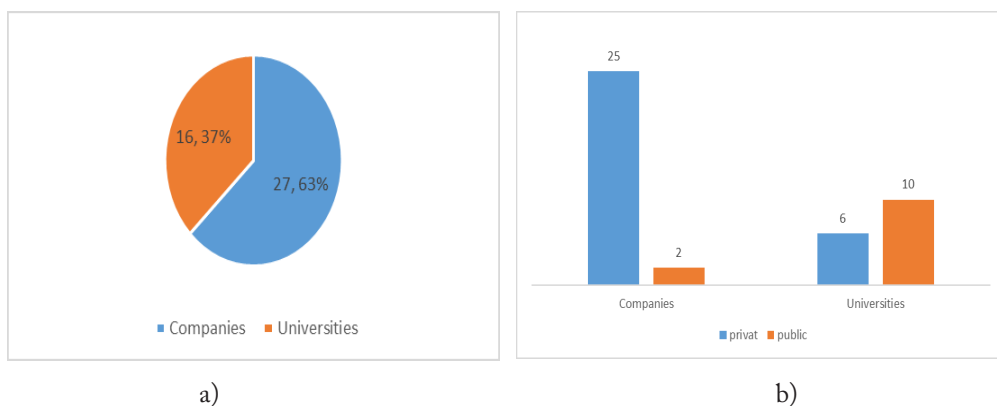
This questionnaire was used to understand the stakeholders' expectations, experiences, needs and their level of understanding triangle concept and mechanism.

The results of the questionnaire were distributed and discussed in a focus group with representatives from business sector, students and academic staff at national level.

Participants in this focus groups were the following:

1. HEI staff: Two core functions of the universities are to educate students and to generate new knowledge through research and innovation. Both functions are directly connected to knowledge triangle activities. Therefore, academic staff were identified as one of the target groups. They need knowledge on establishing strong cooperation between the HEIs and industry sector. Furthermore, teaching staff need to improve their competences in terms of providing new skills and knowledge requested by the labor market and to transfer it to students at BSc and Master level. They need support and knowledge in transferring/creating research activities at HEIs in cooperation with industry sector (applicable research) and transforming research into innovation.

2. Students: especially students at PhD and Master level. Currently they have limited access to solving real-life problems originating from the industry sector. Based on the information from strategic documents there is a need for making studies more effective in terms of practical knowledge. Consequently, young professionals after their studies cannot find appropriate employment in the sector.

3. University authorities (Rector, Vice-rectors, deans, head of department units): were a distinct target group, since such structures and activities need to be endorsed by the University ecosystem and need to be horizontal in order to be successful. Their involvement is of crucial importance in introducing a systematic approach at the institutional level (HEIs).

4. Industry sector, including companies, Chambers of Commerce, Energy associations, Business communities Professionals and practitioners: were also a target of focus group. Companies and businesses, especially those with limited or no R&D capacity, rely on HEIs and Research Institutes for new knowledge and innovation, acting as an end user of the knowledge produced by the HEIs. Currently, they have limited access to this knowledge and this problem will be overcome by establishing strong cooperation with HEIs. They also need continuing education in new technologies and solutions that will make them more competitive on the market.

Findings from the focus group were used to support and validate the answers collected from the questionnaires distributed during the first stage.

IV. Findings of the paper

The information collected through the questionnaires was processed and gave us the opportunity to discuss the following findings, which are of particular importance to universities to consider while devising their strategies and plans for collaboration with the industry, but also for policymakers and companies.

University-Business collaboration

Regarding university-business collaboration, the respondents were asked if there was a university-business and business-university collaboration. The responses of the two surveyed groups are presented in the graph of Fig. 2, where it shows that the answer "YES" is a overwhelming, 81% for companies and 87% for universities, both parties are clearly interested in collaboration; businesses due to the high costs of training the workforce aims to obtain an internship and hire talented employees, whereas the universities are compelled to collaborate in order to comply with their development strategies, the pressure coming from policymakers to generate funds to cope with local and regional competition.

FIGURE 2. Distribution of responses for university-business collaboration
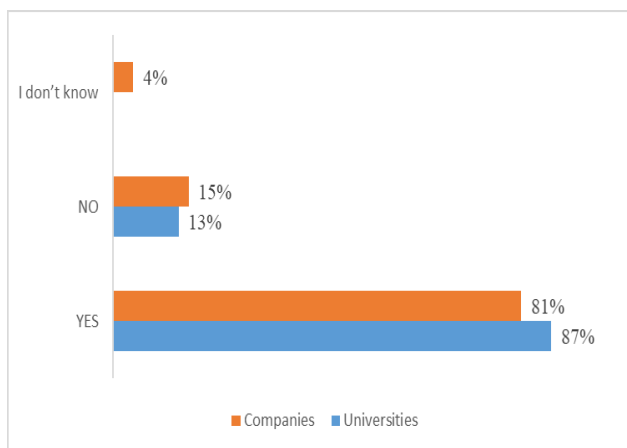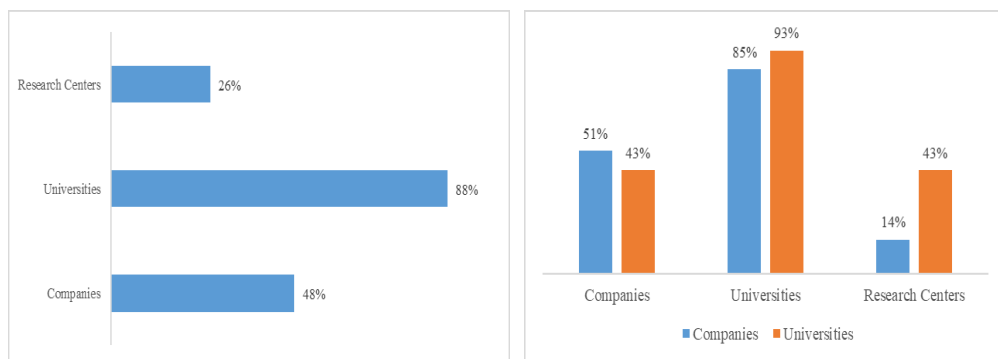

Initiators of the University-Industry collaboration

Responses to the question "Who should be the initiator of university-business collaboration", to the entire sample are given in the graph on the left of Figure 3, and on the right the responses are separated for companies and universities.

The data makes it evident that over 85% of the two parties perceive the university as the initiator of the collaboration, then the companies and least the research centres. This allocation of responsibilities shows that the cooperation of universities with the industry has now become an organic element of the development of universities and firms share this view as well. Nevertheless, it appears that companies are less proactive in this process and this is perceived as such not only by university leaders, but also by business leaders themselves.

**FIGURE 3.** Initiators of the University-Industry collaboration

Most useful mechanisms to promote University-Industry collaboration

Figure 4 indicates responses to the question of *Most useful mechanisms for promoting university–industry collaboration*, compared to several alternatives: personal contact, local organizations, student associations, knowledge transfer networks, etc. It is evident the most important alternative perceived by both parties is "personal contact" (94% of respondents for universities and 70% for companies). This result is partially due to the small size of the country and market in Albania, but it also proves that the form of collaboration is *Embedded*.

If we consider that businesses are compelled to collaborate primarily based on their interest in skilled employees, it means that the research product has not yet been commercialized, student start-ups have not yet found the path that leads them to find a business and therefore it is still missing a formal collaboration framework based on demand and supply for innovative products and processes.

FIGURE 4. Most useful mechanisms to promote University-Industry collaboration

a)

b)
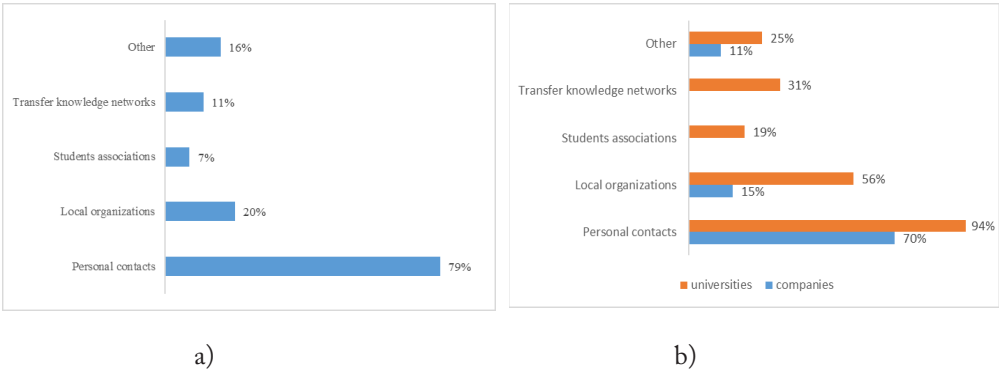
Reasons for collaboration: Education - Research - Monetization - Common Interests

The collaboration between business and HEIs spins around four main pillars: Education, Research, Monetization and Common Interests, which, according to respondent's opinion, provide the basis of collaboration business-HEIs as follows (see Figure 5): Regarding education, the purpose of collaboration Business-HEIs mostly comes to carry out student internships and student employment (93%), followed by university lectures (63%), development of new curricula (49%) and finally scientific guidance (20%) (fig.5.a.left.). The graph on the right of Fig.5.a. where the responses are divided between university and company shows that universities have a better understanding of the nature of the collaboration they seek with industry.
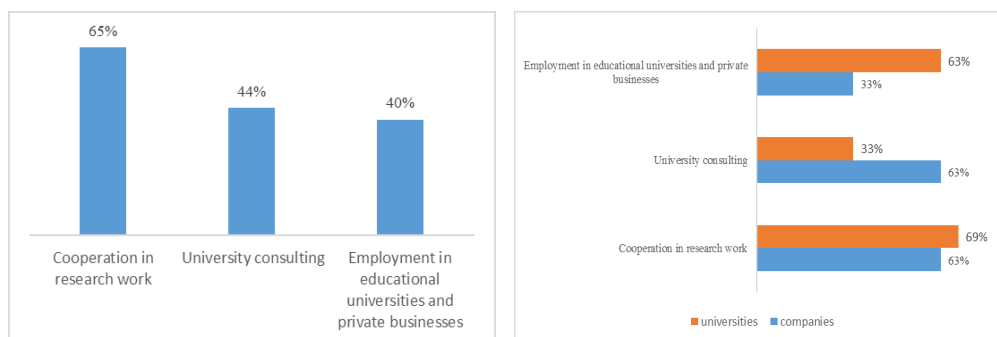
FIGURE 5. a. Reasons for collaboration for the indicator - Education
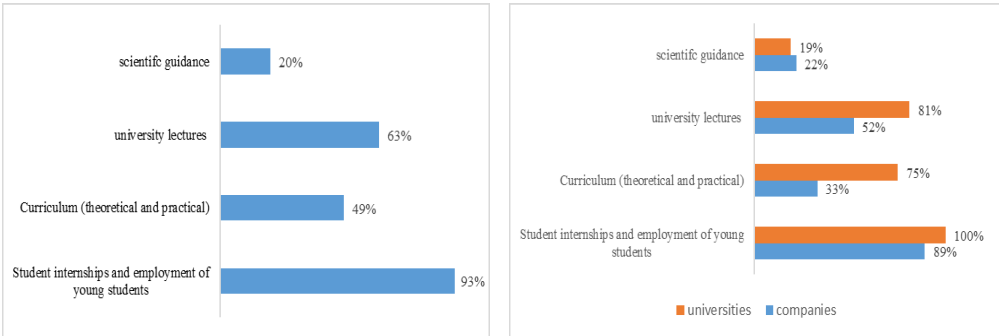
Regarding *research*, the purpose of collaboration Business-HEIs primarily arises from research collaborations (65%) to university consulting (44%) and then employment in educational universities and private businesses (40%) (Fig. 5.b. left). The graph on the right of figure 5.b. shows that the responses differentiate the representatives of the

industry from those of the university because the industry has more expectations from the consultancy that can be obtained from the universities (63%), whereas university representatives find interest in employment in the industry (63). Responses regarding the alternative "collaboration in research work" are very similar.

**FIGURE 5.** b. Reasons for collaboration for the indicator - Research work

Regarding *valorisation*, the purpose of collaboration Business-HEIs (Fig. 5.c) primarily arises for the "application of research results" (56%) followed by "academic entrepreneurship" (35%) and "new venture" by students (35%). The graph on the right of Figure.5.c. shows that companies are more restrained in their expectations regarding the valorisation of their collaboration with academia.

FIGURE 5. c. Reasons for collaboration for the indicator – Valorisation
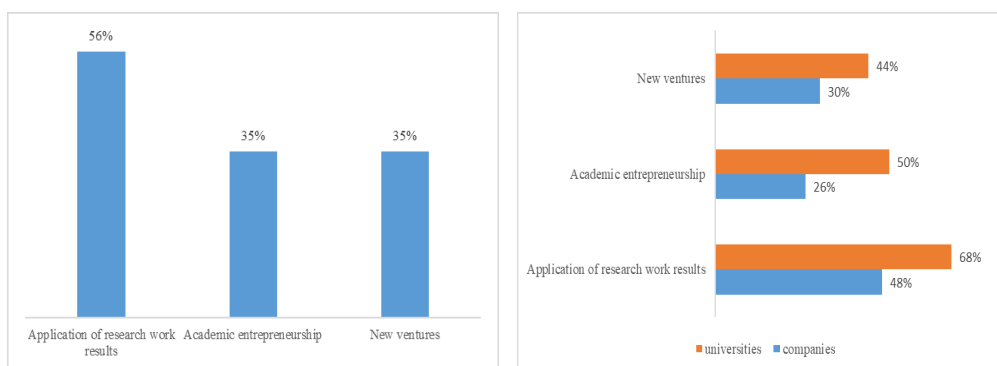
Regarding *shared interest*, the purpose of collaboration Business-HEIs mainly arises for "Shared Resources" (63%) followed by benefit from "Grants, Sponsorships, Scholarship" (47%) and finally from "Participation in Joint Management Boards" (44 %) (Fig.5.d.left). From the graph on the right it can be deduced that companies are more reserved in their expectations, there is an increased interest compared to universities regarding the participation in Management Boards and this is mainly related to PR and the influence that companies want to have.

FIGURE 5. d. Reasons for collaboration for the indicator – Shared Interest
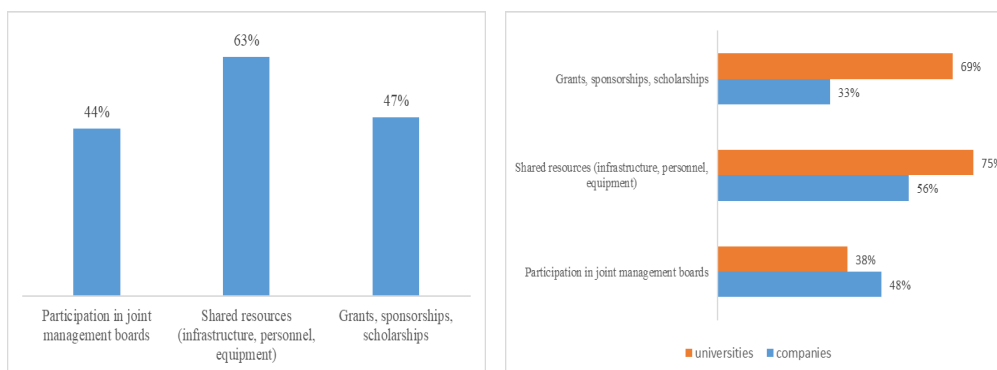
The results of current University-Industry collaboration or in the last three years

Respondents were asked on the results of collaboration between universities and the industry between several alternatives: testing research results in practice; the use of research results for developing new products and practices; suggestions from universities and businesses for problems to be addressed; job opportunity; generation of additional income for employees in universities and scientific centres; integration of research groups with companies; access of academics, students or scientific workers to industrial facilities; attracting new research papers; creating new connections between academia and industry; modification of research results in practice; aid for the improvement of the educational curriculum; etc.

FIGURE 6. The results of current University-Industry collaboration or in the last three years
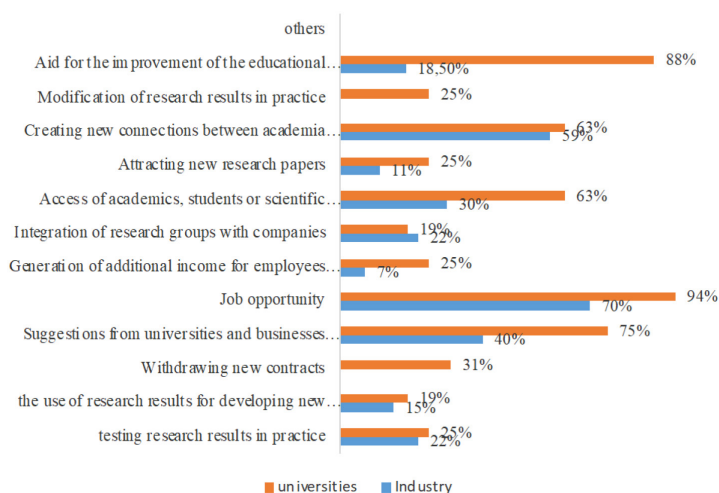
Figure 6 graphically illustrates the distribution of the responses, and it can be noted that to universities the three most important factors are: job opportunity (94%); aid for the improvement of the educational curriculum (88%); suggestions from universities and businesses for problems to be addressed (75%). From the business respondents, the 3 most important factors are: job opportunity (70%), creating new connections between academia and industry (59%); suggestions from universities and businesses for problems to be addressed (40%). For both parties the main factor is job opportunity. Results that would prove the triple helix approach still seem far from the perception of both university and business leaders.

Five most significant factors that affect the advancement of University-Industry collaboration

One of questionnaire questions focused on the choice of five factors that have the greatest impact on the advancement of University-Industry collaboration between the alternatives: ability of university staff to work outside the institution; willingness to donate time and financial or human resources; understanding and mutual expectation between companies and universities; efficient communication among companies and universities; close personal relations; available funds; unequivocal determination of goals and objectives; partner flexibility; commercial orientation of universities; short geographic distance between the partners; better integration of employees in educational or research-scientific institutions; innovation risk sharing; better recognition of the possibilities of collaboration; a well-defined framework of collaboration (contracts, procedures, management structure); etc. Graph of Figure 7 illustrates the distribution of the results for universities and companies on the five factors that have the greatest impact on the advancement of University-Industry collaboration.

FIGURE 7. Five most significant factors that affect the advancement of University-Industry collaboration
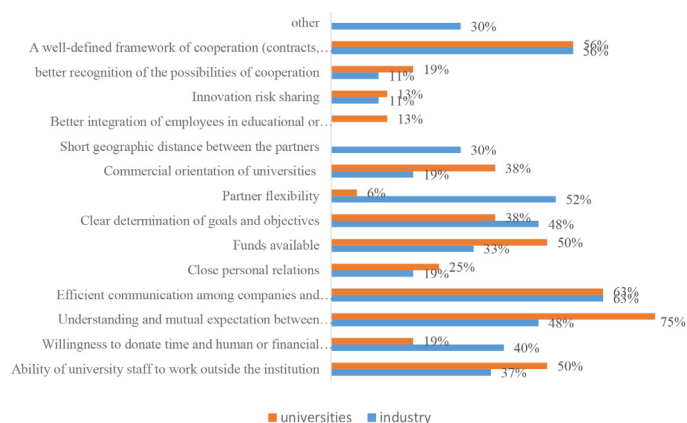
To business leaders, these five factors have the greatest influence on the advancement of collaboration: efficient communication among companies and universities (63%); a well-defined framework of collaboration (contracts, procedures, management structure) (56%); partner flexibility (50%); unequivocal determination of goals and objectives (48%); understanding and mutual expectation between companies and universities (48%).

To university leaders, these five factors have the greatest influence on the advancement of collaboration: understanding and mutual expectation between companies and universities (75%); efficient communication among companies and universities (63%); a well-defined framework of cooperation (contracts, procedures, management structure) (56%); available funds (50%) and ability of university staff to work outside the institution (50%).

It can be deduced that the most important common factors are more of a structural, planning and mentality nature. From the university's point of view, the factors related to "funds available" and "ability of university staff to work outside the institution" are also deemed important.

Five main obstacles that limit University-Industry collaboration

The collaboration between universities and the industry is reviewed under the lens of obstacles as well. Leaders of universities and companies were presented with the following alternatives, from which they had to choose five which they deem most important: insufficient government funding; insufficient private funds; lack of university staff with sufficient knowledge of business and its development inside and outside the country; lack of trust between university staff and business representatives; lack of a well-defined framework of cooperation; complex and tiresome bureaucratic procedures; focus on narrow scientific publications without impact on business practice; not recognizing the opportunities that can come from collaboration; difficulties in finding the right partners; lack of a shared vision; not properly assessing each other's intentions; absence of interactive or intermediary structures that enable communication; different ways of communication between businesses and universities; frequent changes of academic or business staff; inadequacy of fiscal incentives; concern regarding negative effects that collaboration can bring; being in the development stage (collaboration may be required in the future); there were no obstacles.

Graph of figure 8 illustrates the distribution of results of university and company respondents on five main obstacles that limit university-industry collaboration.

FIGURE 8. Five main obstacles that limit University-Industry collaboration
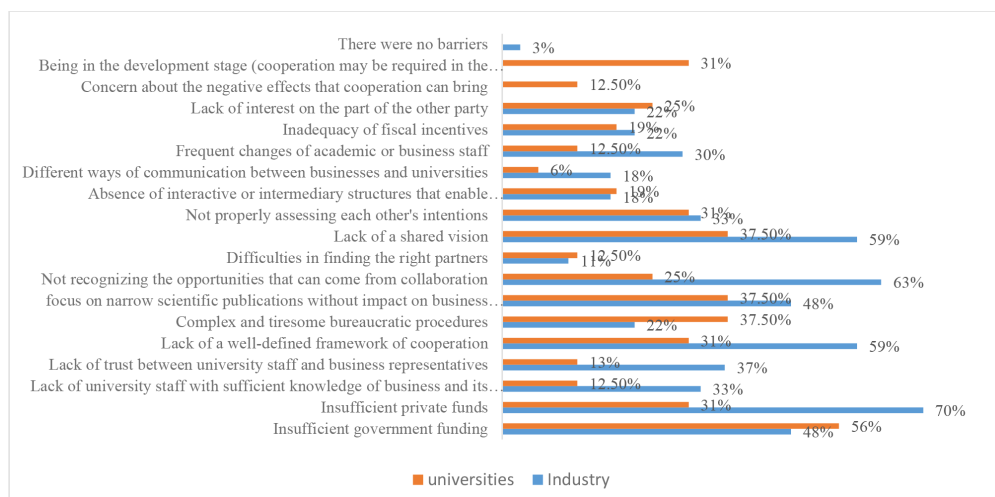
To university leaders, these five obstacles hinder university-industry collaboration (Fig. 8): insufficient government funds (56%); complex and tiresome bureaucratic procedures (37.5%); lack of shared vision (37.5%); focus on narrow scientific publications without impact on business practice (37.5%); being in the development stage (collaboration may be required in the future) (31%);

To company managers, these five obstacles hinder university-industry collaboration (Fig. 8): insufficient private funds (70%); not recognizing the opportunities that can come from collaboration (63%); lack of shared vision (59%); lack of a well-defined framework of cooperation (59%); insufficient government funds (48%).

Comparing the choices between the groups infers that private or public funds are a significant factor; but great importance bear also the factors that arise from a distancing culture which does not allow recognition of the opportunities that come from collaboration in order to build appropriate collaboration framework on these grounds, while for universities it is important to change their approach in order to make their research products valuable to the industry.

Challenges of University-Industry collaboration

The last issue deals with the challenges presented by university-industry collaboration. Based on this, leaders of universities and companies were presented with the following alternatives: differences between two different organizational cultures; lack of knowledge on the business side of the specifics of scientific work; lack of knowledge on the business side of the goals and structure of higher education programs and the learning process; complex and tedious bureaucratic

processes; very high requirements regarding human resources; negative effects on research work or learning; other challenges or obstacles; there were no challenges/difficulties. Distributions of the responses are presented in the graph of figure 9.

FIGURE 9. Challenges of University-Industry collaboration
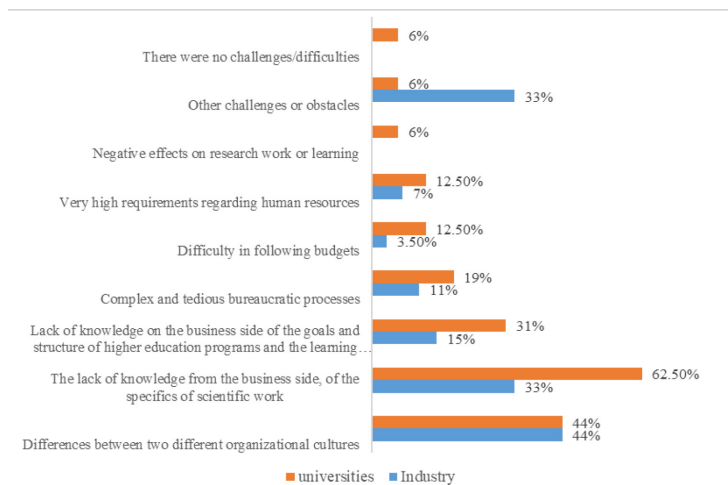
To university leaders, the most important challenges of university-industry collaboration are: lack of knowledge on the business side of the specifics of scientific work (62.5%); the differences between two different organizational cultures (44%) and lack of knowledge on the business side of the goals and structure of higher education programs and the learning process (31%).

To company managers, the most important challenges of university-industry collaboration are (Fig.9): differences between two different organizational cultures (44%); lack of knowledge on the business side of the specifics of scientific work (33%); other challenges or obstacles (33%). This implies that the most important challenge for the collaboration between universities and the industry is a cultural one, perceived equally by both universities and industry.

V. Conclusions

The purpose set forth in this paper was to analyse the status quo of university-industry collaboration in Albania, from the standpoint of university leaders and large companies. This was made possible through the use of a qualitative methodology, based on a KALCEA project questionnaire. Of a total of 43 respondents, 16 of them are university leaders and 27 are heads of mainly large companies.

The university-industry collaboration appears to be equally important to both universities and businesses and they claim such collaboration exists. A large pool of respondents (88%) believe that universities should be the initiators of this collaboration, while they consider personal contacts as the most useful mechanism to promote this collaboration (79%). This means the form of university-industry collaboration is *Embedded*, so it is mainly based on mutual trust as the parties do not yet have a dependence on one another or common interests (Salerno, Landoni, & Verganti, 2008). It is worth emphasizing that the significance of the collaboration depends heavily on the way the parties approach this process from the beginning.

The collaboration between businesses and universities is primarily based on their interest for skilled employees, while it is accepted by both parties that the research product is not commercialized, student start-ups have not found the path that leads them to found a business, there is still a lack of a formal collaboration framework driven by the demand and supply for innovative products and processes. Based on this reasoning, the collaboration model is far from being "Triple Helix".

Companies are more sceptical of the results of collaboration with universities. Beyond the primary interest for employees, consulting and training to increase the skills of staff/managers, as well as participation in Management Boards, companies do not seem to have any other expectations regarding the valorisation of this cooperation.

V. Recommendations

Universities should aim to strategically approach the collaboration with the industry, starting by changing their internal culture regarding scientific work, building sustainable structures and then generating funds.

Universities should plan round tables and seminars through which to present the capacities of their scientific work and then proceed to concrete projects with industry.

It is very important to conceive and implement sabbatical semesters for lecturers with the business and tangible products of their work with the industry. In the criteria for evaluating the performance of lecturers, research work based on the needs of the industry, consultancies, and projects with them should be marked with high coefficients, the same approach should be considered with doctoral theses. If examples of cooperation are not created, models of success cannot be established.

Universities should be viewed and managed as generators of innovative ideas, start-ups and patents, hence innovation centres (where they are not created) should generate innovative ideas through competitions and collaboration with industry.

Local, regional and European projects are a good opportunity for collaboration with the industry, which in addition to capacity building, also serve for infrastructure that can create new opportunities for innovation and research.

VI. Bibliography

Branscomb, L., Kodama, F., & Florida, R. (1999). Industrializing knowledge:University-industry linkages in Japan and the United States. LONDON MIT PRESS.

Etzkowitz, H. (2004). The evolution of the entrepreneurial university. International Journal of Technology and Globalisation, 1(1), 64-77.

Etzkowitz, H., & Leydesdorff, L. (2000). The dynamics of innovation: From national systems and Mode 2 to a triple helix of university – industry – government relations. *Research policy, 29*, 109-123.

Fagerberg, J., Mowery, C., & Nelson, R. (2005). *The Oxford handbook of innovation.* New York: Oxford University Press: Oxford University Press.

Heimeriks, G., & Boschma, R. (2014). "The path-and placedependent nature of f scientific knowledge production in biotech 1986-2008. *Journal of Economic Geography, 14:*, 339–364.

OMAR AL-TABBAA, & SAMUEL ANKRAH. (2018). Engineered' University-Industry Collaboration: A Social Capital Perspective. *European Management Review.*

Philbin, S. (2008). Process model for university—industry research collaboration. *European Journal of Innovation Management, 11,*, 488-521.

Ring, S., Doz, Y., & Olk, M. (2005). Managing formation processes in R&D consortia. *California Management Review 47*, 137–156.

Saarinen, J. (2014). Critical sustainability: Setting the limits to growth and responsibility in tourism. *Sustainability 6(1)*, 1-17.

Salerno, M., Landoni , P., & Verganti, T. (2008). Designing foresight studies for nanoscience and nanotechnology (NST) future developments. *Technological Forecasting and Social Change, 75*, 1202–1223.

Samuel, A., & Omar, A.-T. (September 2015). Universities—industry collaboration:A systematic review. *Scandinavian Journal of Management Volume 31, Issue 3*, 387-408.

Scandura, A. (2016). University–industry collaboration and firms' R&D effort. *Research Policy, 45*, 1907–1922.

Scott, J., & Martin, S. (2000). The nature of innovation market failure and the design of public support for private innovation. *Research Policy 29*, 437-447.

Wright, M., & et al. (2008). Mid-range universities' linkages with industry: Knowledge types and the role of intermediaries. *Research Policy, Volume 37, Issue 8*, 1205-1223.

Online resources

https://arsimi.gov.al/ligji-nr-80-2015-per-arsimin-e-larte-dhe-kerkimin-shkencor-ne-institucionet-e-arsimit-te-larte-ne-republiken-e-shqiperise/

https://kalcea.com/

Retirement Planning Attitude in a Financial Behavior Perscpective. Case of Albania

Dr. Elona SHEHU[1]
DEPARTMENT OF ECONOMICS & FINANCE,
EUROPEAN UNIVERSITY OF TIRANA
elona.shehu@uet.edu.al

Blerta MOLISHTI[2]
EUROPEAN UNIVERSITY OF TIRANA, TIRANA, ALBANIA
bmolishti@uet.edu.al

Abstract

Nowadays, an issue that is becoming more and more prominent and is receiving attention from everyone is retirement planning. Retirement planning behavior is defined as the behavior of individuals toward the design of planning schemes, which has emerged in recent years from research in behavioral economics (financial behavior). Studies carried

---

[1] Elona Shehu is a Doctor of Science in Banking and Corporate Governance field at European University of Tirana. She studied in Albania, Netherlands and one semester in Budapest, at Obuda University, doctoral school. She has about 12 years' experience in finance, where she was appointed as the Administrator of the European Education Initiative company. She also has more than 8 years of academic experience as lecturer assistant at first, lecturer from 2017 and was appointed as Head of Department for Economics and Finance recently. She has referred at several conferences and published a considerable number of papers.

[2] Blerta Molishti is a graduate student in Bachelor of Finance (Accounting), at Department of Economics, Business and Development, at European University of Tirana. During academic years she has been part of different student's clubs and JAA (Junior Achievement of Albania). She has been awarded with excellence certificates (a holder of full scholarship) for three years of studies at EUT; UET 1st place Certificate for the forum of finance students: "Earthquake, Pandemic and the Albanian Financial System" and 3rd place at "Stock Market Learning Competition" organised by German Sparkassestiftung. Lately she has been part of an internship as an accountant at "Jaso Consulting".

out time ago have shown that the realization of a planning has brought impacts both on saving behavior and on portfolio selection. Also, it is emphasized by the researchers in this field that there are some very relevant factors, which help the retirement planning behaviour. The main purpose of this paper is to get acquainted with the behavioral theory, then research and determine the factors that influence planning behavior and readiness for retirement, seeing and analyzing this whole "phenomenon" in basis of division of different age groups for individuals employed in our country. The factors highlighted by the research are financial literacy, saving attitude, future orientation. Methodological research approach of data generation is the combination of quantitative and qualitative methods, which was realized by developing a structured questionnaire. The questionnaire is divided into two sections respectively and is completed by 164 respondents with a variety of professional backgrounds. From the empirical data collected and the analysis carried out, it is concluded that the middle age group (36–50 years old) shows a greater approach in the planning behavior of savings for retirement readiness. As well as from the review of the literature, it is concluded that there is a positive correlation between the planning behavior of individuals and the aforementioned factors.

Key words: *behavioral theory, EMH, prospect and life cycle theory, financial literacy, saving attitude, future orientation, age group*

1. Introduction

In the everyday life, it is difficult to control certain factors, such as age and loss of savings value. Referring to Gjergji, Jegeni and Shehu (2011), Social Security Scheme is established to assist individuals in managing these problems and the pension fund, according to which individuals pay a certain amount of revenues to this fund during the working years in order to get them back again (together with a return rate) during old age years, a time when the ability to generate incomes decreases.

Liedtke (2006) states that the first social insurance schemes started to be designed in the late 19th century. The main initiator of these schemes was the German chancellor Otto von Bismarck who designed the first system of state pension in 1881, which would be implemented only a decade later. This scheme, which in the international literature is recognized with the term "Pay-As-You-Go", was intended to enhance the growth of workers' welfare aiming at the operation of the economy with a maximum efficiency. Contribution to these schemes was mandatory for workers and in some various ways the funds were provided directly by government funds.

After 1990's, Albania as well-made changes in terms of social security policies. Thus, in 1992 Albania enabled the legal framework necessary for the operation

of a state scheme according to PAYG model. Later this led to the establishment of the Social Insurance Institute as the institution responsible for collecting contributions and distributing these funds to the beneficiaries of the scheme by managing in this way all social security policy of the country. This state pension scheme is based on the Pay-As-You-Go principle, which requires the current workers to pay contributions based on the current incomes. These contributions are used for payments to the current beneficiaries. The contributor receives only a promise by the government that they will be paid a retirement income in the form of the pension when they are in the age of retirement. According to Gjergji et.al (2011), three are the main reasons that explain the inefficiency of pension system in Albania:

- Increase of life expectancy and decrease of the contributors' level to the PAYG scheme
- The non-professional interference of the government only for political benefits
- High levels of informality in the labour market

Due to the uncertainty of individuals in the government ability to provide them the best living standard at an old age, due to the ratio of the contributors and beneficiaries and due to the low return of this scheme, individuals are concerned about their retirement planning. Furthermore, most of them are always considering private pension schemes, or individual saving accounts.

Considering retirement as a very important element that utilizes the living standard, this study is mainly focused on retirement planning in Albania. Pension Scheme in Albania has been going through many obstacles related to policymaking. This article is not going to analyse the policymaking approach or the efficiency of the pension scheme. Nevertheless, this article aims to analyse the financial behaviour of the individuals planning their retirement.

During the last decades, a new theory finds a huge boost in development and use by many local and foreign economists and analysts. This theory is called behavioural theory. A theory that manages to explain and give a result that the decisions of individuals are also indicated by some other additional elements (whether these are economic or not in their composition) compared to what the traditional models of this field explain. In this paper, this theory will be in the framework of the study of the behaviour of individuals, respectively divided into different age groups, related to the readiness that these people have for their retirement planning. Nevertheless, what is meant by the term retirement and then by the retirement planning behaviour? The concept of retirement means the time or moment when an employed individual stops working because he/she has reached

the defined retirement age. Age, which is determined by the tax laws of our country and finds its difference in both genders, that women and men do not have the same retirement age. The work of Krishna Moorthy and other researchers who are part of it (2012) have drawn conclusive results showing that different age groups of employed individuals tend to have different perspectives on planning behaviour for retirement readiness and that many individuals have come to understand the importance of planning earlier in their lives, which from their study was influenced by three factors that included: environment, individuals, and psychology.

1.1 Research focus and objectives

The scope of this article is to analyse retirement planning approach in Albania, through four main variables: (i) demographic profile, (ii) financial education, (iii) saving attitude and (iv) concern about future consequences (CFC). Hence, the research focus is to analyse whether factors such as: financial education, saving attitude and future orientation have an influencing role in the financial planning behaviour and readiness of individuals for retirement. In addition to the research focus, the main objectives of this paper are:

- to analyse each of the variables mentioned above;
- to draw a set of conclusions based on the sample of respondents;
- to conclude whether this hypothesis stands for Albanian Pension System;

Based on the literature framework, the main hypothesis taken into consideration about this paper is: *"Financial knowledge determines financial planning behaviour and retirement planning incentive."*

1.2 Methodology

The hypothesis stated in the section above, in terms of methodology is tested through a qualitative approach. This method provides a better overview of the results on the population, the design of the problem as well as its purpose. Primary data is designed and collected from a semi structures questionnaire, which was disseminated through Google Forms as an effective way of generating high response level, due to effectiveness and time management.

The questionnaire consists of 15 questions, most of which are build based on a Likert scale. In order to follow a logistic structure, as stated in the literature review section, the questions are organised in sections, where grouped questions aim to drive conclusions for these variables: demographic profile, (ii) financial education, (iii) saving attitude and (iv) concern about future consequences (CFC). The first

section of the questionnaire aims to build a demographic profile of the respondent; the second section is oriented towards financial education and the last section designs findings about saving attitude and future orientation concern.

The population for this study consists in adults aged over 21. The sample consists of random individuals in different fields who may or may not have knowledge in the field of finance. To have a robust analysis and to exclude the gender effect, after the data was generated, using the random effect the final sample was an equal distribution of female and male respondents and the number of observations analysed are 164.

2. Literature Review

Behavioural finance is a relatively new concept. The main studies in this field date back to the 18th century, from the most important works of the "father" of economics, Adam Smith. Sewell (2010) mentions that the theory or behavioural finance deals with the treatment of psychological "stimulations" that influence the decision-making behaviour of individuals having a direct impact on the financial markets. For Oprean (2012), this new discipline rejected the traditional theory of the efficient market hypothesis (EMH), arguing that markets are no longer rational, but "piloted" based on psychological elements, such as: beliefs; emotions; greed and perceptions. What is the traditional theory about and why did such a theory fail? Olsen (2010) argued that in the efficient market theory, individuals make choices and decode their problems in a logical and rational way. The lack of feelings and the impact of psychology in finance on traditional theories, mainly on the efficient market hypothesis, led to the need of using the theory of financial behaviour. This theory aims to understand these behavioural anomalies, through the explanation of psychological and social phenomena that individuals experience both in the workplace and financial markets.

2.1 Prospect Theory

Subash (2012) quotes that along with behavioural theory, Prospective theory was developed, as part of the large group of behavioural economics. This theory was designed by Kahnesky (1979) as a psychological alternative to the expected utility theory, which states that different people have different abilities and reactions in different situations. As this theory defines, the behaviour of individuals is shown to be very fluctuating, for example: people experience more pain from loss than satisfaction from a benefit that is the same (loss aversion). Kahneman (1979) states that prospect theory is related to the strategy of how economic agents subjectively

structure an outcome, which has an influence on the portion of utility they expect or receive. So, in short terms, making these decisions affects the consumption of individuals and their savings attitude.

2.2 Life Cycle Theory

According to Deaton (2005), the development of this theory started in the early 1950s by Franco Modigliani and is based on the economic approach of individuals, which they carry out to conceive the structuring of many life cycle choices, such as: consumption, saving, education, job offer, etc. Numerous theoretical studies have shown that people make smart choices when it comes to how much they want to spend based on their age and ability to work. It is observed that hard working people are more inclined to have a retirement plan.

Modigliani's theory points out that one of the main reasons that individuals save money is related to their need to provide for retirement, so savings starts at a younger age based on their willingness to work.

2.3 Factors influencing planning behaviour for retirement readiness

According to Ng, Tay, Tan & Lim (2011), retirement planning is not a mandatory option, but an individual choice to prepare for the uncertainties of the future. This structure focuses on economic aspects of planning such as: pension plans, social security program and personal savings of the individual. On behalf of this issue, Hershey (2007) proposed three dimensions to be considered when planning for retirement: (i) capacity, (ii) willingness and (iii) opportunity. In addition to these proposals, the planning behaviour is also influenced by several factors that are very important in their content and which are explained as follows:

2.3.1 Demographic factors

Recent studies of Hershey, Jacob – Lawson, McArdle & Hamagami (2007), also Hira, Rock & Loibl (2009), as well as Mustafa, Dept, Abdul, Shah, Usahawan, Yusof & Politeknik (2017) confirm that that there is a relationship between demographic elements and retirement planning behaviour (RPB). In addition, they state that these common demographic characteristics determining this retirement planning behaviour (RPB) include gender, age, income, and education level. Based on this literature perspective, each of these factors is included in this article.

According to Yakoboshi & Dickemper (1997) the gender difference is a determinant in retirement readiness, because women and men have different behaviours if we asked them the same questions or put them on the same hypothetical situations. For income, Kim, Kwon & Anderson (2005) focused

on the fact that the preparation of individuals in determining the sufficiency of income affects the attitude they have for their retirement planning behaviour. Joo & Pauwels (2002) show that age is related to helping people in the retirement planning process and motivating them to take retirement precautions. Meanwhile, in terms of educational level, they state that through access to information and education, individuals broaden their perspective for the future Nd become aware of the retirement risks. Hence, highly educated individuals are expected to have a retirement plan in a younger age.

2.3.2 Financial Literacy

Alba & Hutchinson (1987) mention that retirement planning should be combined with financial education, which makes individuals handle their financial resources effectively. Also putting these knowledge and skills to work helps them make the right economic decisions. According to Bernheim (1998) and his studies show a positive correlation between financial knowledge and a variety of financial behaviours related to wealth, savings, and portfolio choice. From Nga & Yeoh (2018) we quote that the development of skills requires the understanding of concepts such as: inflation risk, investment risk, etc., which prepare the retirement readiness portfolio. As Selvadurai (2018) mentioned, an increase in financial education will be followed by an increase in financial knowledge, therefore the pension plan should contain "abundant" financial knowledge.

2.3.3 Saving Attitude

According to Canova, Rattazzi & Webley (2005) the retention of savings exhibits two cases of intention. In the first case, the purpose of savings is to ensure individual independence and autonomy, while in the second case, the purpose of savings is to provide and maintain a good standard of living after retirement. Joo & Pauwels (2002) state that individuals who manage to actively save for retirement tend to have a higher level of retirement readiness.

According to Engel, Blackwell & Miniard (1990) this willingness and ability of individuals to save for retirement tends to have significant relationship with three factors, such as: environmental influences, individual differences and psychological process factors. Also, it is estimated that the effort of self-control and the performance of a careful planning are seen to have a great implication in the savings results. Hence, we expect that individuals having a saving attitude, are more likely to have a better retirement experience.

2.3.4 Future Orientation

Howlett, Kees & Kemp (2008), correlate the concept of future orientation with the choices that people make in the present and the impact they will have in the

future. Otherwise, this is also known as concern about future consequences (CFC). Rabinovich, Morton & Postmes (2010) determined that the future perspective can influence people's attitudes toward a particular behaviour. Those who visualize the future as closer are more likely to be prepared for a saving and planning behaviour. According to Xiao (2008), this variable shapes the person's attitude and behaviour regarding planning decisions. Xiao states that: "…people who have more awareness of the future consequences of future orientation will tend to maximize their future well-being…"

3. Findings

This section provides evidence of the main findings conducted in this research. The analysis of the findings is organised into three parts in line with the research focus, hypothesis, and objectives of this study: findings regarding demographic profile, financial literacy and saving attitude.

3.1. Demographic profile

Aiming to produce unbiased results, the data sample was balanced. Using random command, the data was divided into two equal groups, consisting of 82 female respondents and 82 male respondents. This balanced sample, contributes in generating a better gender approach.
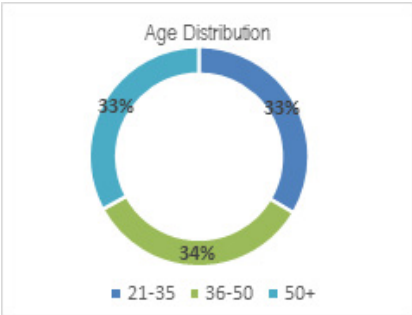
In terms of age distribution, the sample was also balanced, aiming to produce robust results and findings. Out of 164 individuals, 55 of them comprise the age group 21-35, 55 (36-50) and 54 respondents are 50+ years old. Considering this balanced distribution, we expect to have a better insight of the saving attitude.

Age Distribution
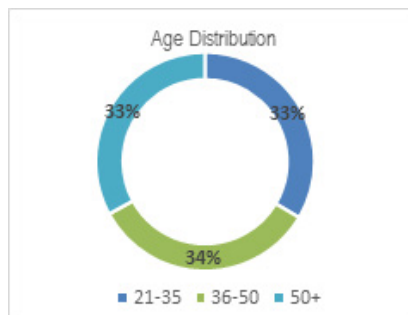
In terms of educational background, out the total sample, around 10 % of the respondents have a basic educational background; approximately 31% have completed a bachelor's degree; 48% have completed a master's degree and around 11% have an upgraded educational background and have completed PhD or executive programmes.

Educational Profile
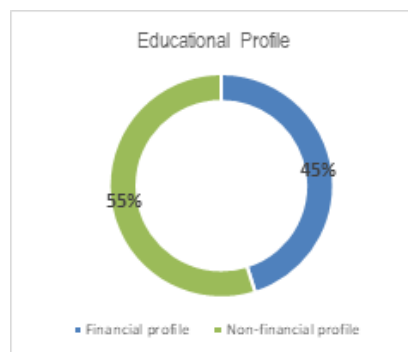
From the collected results, we can state that the participation of the respondents consists of both individuals with a financial profile and those who do not have a financial profile. In terms of percentage, this division consists of 45% of the participants having a financial profile and 55% of them were from another profile (non-financial).
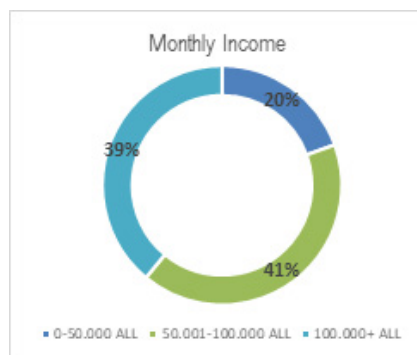
Monthly Income

Aiming to have a general overview of the respondents, we decided to have an income. assessment of the sample. Individuals were questioned about their net monthly income. Referring to Instat report, where the average wage in Albania is about 54.000 ALL, this article finds out that 20% of the respondents have a below average income; 41% have a average income and 39% have an income above average.

Considering the educational background of the respondents, the findings are in line with the expectation that the higher the educational background, the higher the monthly income generated.

3.2. Financial Literacy

The second section of the questionnaire aims to generate an insight about financial education, financial literacy. Throughout these responses we can evaluate the weather individuals are able to handle their financial resources effectively. The questions in this part sometimes have a financial nature, sometimes they want to get a point of view from the respondents. All three age groups were asked the same questions.

The results show that the level of information about the pension scheme is below average for about 17% of the respondents, considering a self-evaluation of the each of the respondents. Most of them consider themselves as well informed about how the pension scheme works in Albania. Nevertheless, after they were asked about how much of their gross salary goes for social insurance 78% of the respondents have provided correct information. In terms of financial literacy, most of this sample is financially educated.

In addition to this variable, respondents were also tested for their knowledge about financial instruments and which of these instruments they usually use. About 90 per cent of the respondents are aware of the financial instruments and have general knowledge about financial risks (inflation, investment etc.), but most of them are familiar with treasury bonds and deposits.

Financial Literacy

- 11% of GS - 24.5% of GS - 7% of GS - 20% of GS
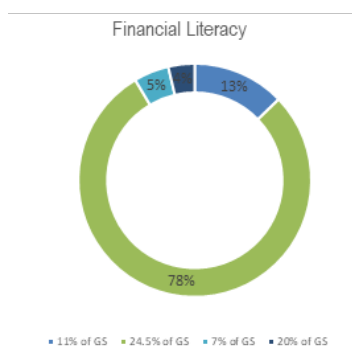
Cross questions were used to test the credibility of the respondents. After they were given a mini case with inflation and interest rate evaluation, we came out having about 85% of the responses in line with previous questions about financial education.

3.3 Future Orientation and Saving Attitude

Future orientation was also an important variable taken into consideration. Long term perspective in terms of retirement plan came out to be important (combining here important and very important) for all the sample. 92 per cent of the respondents have a saving attitude and confirmed that they have a saving plan for the retirement and 60 save more than 10% of their monthly income.

4. Conclusions

The results of the study show a valuable contribution to conclude that the financial planning behaviour for retirement shows a positive and relevant correlation with several factors, which simultaneously tend to help in the preparation and readiness of individuals for retirement. Specifically, they contribute in the understanding hat there are differences in this behaviour even between different age groups. From the results of the analysis, it is testified that these factors such as: financial education, future orientation, saving attitude have a direct and immediate impact, as they are such indications that show us that different individuals manage to perform the right choices to have a safe portfolio of their decisions and consequently, they will express a higher attitude for retirement planning.

Throughout this analysis these statements are confirmed: (i) financial knowledge leads individuals in activities aimed at achieving a good financial planning, which helps them in maintaining a pleasant living standard during and after being part of the workforce; (ii) future orientation resulted from the respondents as a very important element, since having a visualization of the future perspective creates more facilities in their saving attitude; (iii) the attitude towards savings shows a positive relationship with financial planning behaviour, because having a savings plan expresses the individuals attitude to face uncertainties (in this case, it shows a readiness for retirement).

The study of a socio-demographic character, such as age, served to understand the difference in behaviour that each of the age groups shows when fulfilling the questionnaire. As a concluding remark, individuals in the age group of 36-50 years old, have a clearer outlook for the future and from the questionnaire it was noticed that they have a good savings plan (expressed in higher %). The hypotheses raised

at the beginning of this paper, is verified by the conclusions obtained from this research study.

Regarding the recommendations given on this topic, it is worth noting that responsible persons or professionals in the field of financial planning should make more efforts to establish specific programs aiming the enhancement of financial literacy in younger age. We suggest that financial education should be part of the curricula and study programmes in high school and more present to stakeholders. Having a well understanding of financial literacy, being aware of uncertainties and being able to make right decisions, helps towards a better living standard and retirement planning.

References

Alba, J.W. & Hutchinson, J.W. (1987). "Dimensions of consumer expertise". Journal of Consumer Research, 410-455.

Bernheim, D. D. (1998). "Financial illiteracy, education and retirement saving". Wharton School Pension Research Council, 8-97.

Canova, L., Rattazzi, A. M. M., & Webley, P. (2005). "The hierarchical structure of saving motives". Journal of Economic Psychology, 20-35.

Deaton, A. (2005). "Franco Modigliani and the life-cycle theory of consumption", 1-15. https://www.princeton.edu/~deaton/downloads/Deaton_Franco_Modigliani.pdf

Engel, J. F., Blackwell, R. D., & Miniard, P. W. (1990). "Consumer Behavior". Journal of Marketing, 15-19.

Gjergji, A., Jegeni, E., and Shehu, E. (2011). "Implementation of the second pillar as an indispensable reform for the pension market development in Albania", Paper presented at the UAMD Conference. Durres, Albania

Hershey, D. A., Jacobs-Lawson, J. M., McArdle, J. J., & Hamagami, F. (2007). "Psychological foundations of financial planning for retirement". Journal of Adult Development, Vol. 14, 25-35.

Hershey, D. A., Jacobs-Lawson, J. M., McArdle, J. J., & Hamagami, F. (2007). "Psychological foundations of financial planning for retirement". *Journal of Adult Development, Vol. 14*, 25-35.

Hira, T. K., Rock, W. L. & Loibl, C. (2009). "Determinants of retirement planning behaviour and differences by age". International Journal of Consumer Studies, Vol. 33, 290-300.

Howlett, E., Kees, J., & Kemp, E. (2008). "The role of self-regulation, future orientation and financial knowledge in long-term financial decisions". Journal of Consumer Affairs, 222-242.

Joo, S. & Pauwels, V.W. (2002). "Factors affecting workers' retirement confidence: A gender perspective". Financial Counseling and Planning, 1-10.

Kahneman, D. & Tversky, A. (1979). "Prospect Theory: An analysis of decision under risk". *Econometrica*, 262-292.

Kim, J., Kwon, J., & Anderson, E. A. (2005). "Factors related to retirement confidence: Retirement Preparation and Workplace Financial Education". Financial Counseling and Planning Education, 77-90.

Liedtke, P. (2006), "From Bismarck's Pension Trap to the New Silver Workers of Tomorrow: *Reflections on the German Pension Problem*", European Papers on the New Welfare, paper no. 4, February 2006,

Modigliani, F. (1975). "The life-cycle hypothesis of saving twenty years later". Contemporary Issues in Economics, 2-35.

Moorthy, K., Chelliah, T. D., Sien, C. S., Leon, L. C., Kai, N. Z., Rhu, W. C., & Teng, W. Y. (2012). A study on the retirement planning behaviour of working individuals in Malaysia. International Journal of Academic Research in Economic and Management Sciences.

Mustafa, A., Dept, C., Abdul, S., Shah, A., Usahawan, P., Yusof, K., & Politeknik, H., (2017). "Factors influencing retirement planning behaviour of lecturers in polytechnics". Advanced Journal of Technical and Vocational Education, 9-15.

Ng, T. H., Tay, W. Y., Tan, N. L., & Lim, Y. S. (2011). "Influence of investment experience and demographic factors on retirement planning intention". *International Journal of Business and Management*, 195-205.

Nga, K. H. & Yeoh, K. K. (2018). "An exploratory model in retirement savings behaviour: A Malaysian study". International Journal of Business and Society, 637-660.

Olsen, R. A. (2010). "Toward a theory of behavioral finance: Implications from the natural sciences". Qualitative Research in Financial Markets, 100-130.

Oprean, C. (2012). "A Behavioral Finance Perspective of the Efficient Market Hypothesis". Economic Sciences Series, 158-165.

Rabinovich, A., Morton, T., & Postmes, T. (2010) "Time perspective and attitude-behaviour consistency in future-oriented behaviors". British Journal of Social Psychology, 70-90.

Rabinovich, A., Morton, T., & Postmes, T. (2010) "Time perspective and attitude-behaviour consistency in future-oriented behaviors". *British Journal of Social Psychology*, 70-90.

Selvadurai, V. (2018). "Financial Literacy Education and Retirement Planning of the Urban Elderly in Malaysia".

Sewell, M. (2010). "Behavioral Finance". University of Cambridge.

Smith, A. (1759). "The theory of moral sentiments". Printed for: Millar, A., Kincaid, A. & Bell, J. (2003).

Subash, R. (2012). "Role of Behavioral Finance in Portfolio Investment Decisions". Institute of Economic Studies – Charles University (Prague).

Xiao, J. J. (2008). "Handbook of consumer finance research". Gjetur në: https://doi.org/10.1007/978-0-387-75734-6

Yakoboshi, P., & Dickemper, J. (1997). "Increased Saving but Little Planning: Results of the 1997 Retirement Confidence Survey". Employee Benefit Research Institute (EBRI), 1-25.

Yakoboshi, P., & Dickemper, J. (1997). "Increased Saving but Little Planning: Results of the 1997 Retirement Confidence Survey". *Employee Benefit Research Institute (EBRI),* 1-25.

The impact of trade agreements. Case of Albania

Ledion FERATAJ[1]
EUROPEAN UNIVERSITY OF TIRANA, TIRANA, ALBANIA
ledionferataj@gmail.com

Emirgena NIKOLLI PhD (c)[2]
DEPARTMENT OF ECONOMICS & FINANCE,
EUROPEAN UNIVERSITY OF TIRANA, ALBANIA
emirgena.nikolli@uet.edu.al

Abstract

This paper aims to explain the impact of the CEFTA trade agreement on macroeconomic terms of Albania in the terms of GDP and trade balance. The main is the development of the states and the components taken in the study provide clear overview for this purpose. In the realization of this paper, the quantitative research method was used. There are mainly used government publications and scientific articles of various academics. Analysis

---

[1] Ledion Ferataj has graduated at bachelor studies in Banking & Finance, at Department of Economics & Finance, Faculty of Economics,University of Tirana. He is a graduate student in Master of Science in Finance, Financial Reporting and Accounting at Department of Economics, Business and Development at European University of Tirana. During academic years he has been a member of different student's clubs and has attended several trainings.

[2] Emirgena Nikolli, PhD(c) is assistant lecturer at the Department of Economics & Finance, Faculty of Economics, Business and Development, at the European University of Tirana. She is a PhD candidate at the University of Gdansk, Sopot, Poland. Prior to the European University of Tirana, she was a part-time lecturer at "Ismail Qemali" University, Vlora, Albania. Ms. Nikolli finished her Bachelor and Master of Science Studies in Economics, at the "Epoka" University, Tirana, Albania. She worked for nearly three years as a banker at the American Bank of Investments. She is author of some scientific articles, presented at several international conferences. Her primary research interests are in the field of economics, macroeconomics, finance, education, etc. Since October 2021, she is part of the academic staff at the "European University of Tirana", Tirana, Albania.

of the findings is done with descriptive analysis and simple analysis, the explanation between variables. Regarding the work method, dependent variables such as GDP and imports were used and exports of our country and independent variables in the first analysis changed imports and exports to see how Albania's GDP changes when variables change such as democracy index, free business index to get a better picture formed of the study. They are used as dummy variables that take the variables from 0-1. For help, the calculator on the web (distance calculator) and e-viewer was used for ease of calculations. By using the gravity equation, we show that CEFTA has had an important impact in the distribution of Albania to CEFTA partners. CEFTA has increased Albania's exports by 34%. The results show that Albania's imports have been affected significantly and are good for remittances. Another important relationship it is determined between the import and export of Albania. The increase in Albanian exports appears that it has a positive impact on Albanian imports. It is clear that the relationship between GDP, exports and foreign direct investments is a positive relationship, with growing exports and foreign direct investment, GDP is bound to grow to visible way.

Keywords: *import, export, GDP, CEFTA, trade agreements.*

1. Introduction

The tendency of countries to conclude regional agreements in many cases arises from two factors. First of all, countries that are historically close have been the biggest partners merchants. It helps that, in the area, the markets are often very similar in preferences and their problems. Second, with the integration of international competition, countries began to look to each other to build larger and more competitive markets. The regional market is expected to increase the amount of resources and reduce production costs, by thus contributing to the globalization of member states. For the purposes of this thesis we will focus on the CEFTA trade agreement. In unequal trade agreements, the undeveloped country will be heavily supported and there will be additional costs to enter and out of the treaty (Wagner, 1988). This means that countries with similar rates of development are more likely to enter into a trade agreement and that agreement has a higher chance of survival.

1.1 Research Questions

- How and to what extent has the agreement affected the economic growth of Albania?
- How has the agreement affected the trade balance, i.e. imports and exports?

1.2 Methodology

For this paper is used quantitative research method and to be more specific is used statistical analysis such as mean, standard deviation, regression, hypothesis testing, and sample size determination**.** In order 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 macroeconomic issues. Also to help with my calculations I also have used the data calculator ,e-views such as panel data and cross sectional also distance calculator.

2. Literature review

Albania, as a former communist country with a middle-class economy, passed a difficult transition to an open market. After the fall of communism in 1992, they were important changes in the subsequent democratic governments that tried to the country to be close to international trade standards. Although the institutions government agencies are struggling to address high unemployment, widespread corruption and weak infrastructure, the transition period has proved challenging for Albania (Central Intelligence Agency). However, due to many economic changes, Albania has made great progress in macroeconomic policies and financial. Besides, adequate financial reforms have been introduced to attract more foreign investors (CIA). In terms of economic activity, agriculture remains the industry the largest in Albania, which accounts for about a fifth of its GDP and provides employment for 55% of the total workforce in the country. However, there are many problems they have limited the agricultural potential of Albania, such as migration from rural areas, small owners, outdated technology, weekly organization of agricultural groups and many other problems that create inefficiency in the agricultural sector (European Commission, 2014). On manufacturing industries, they are always entrenched and largely resource-based natural. The assortment of Albanian production consists mainly of chemicals, base metals, petroleum, hydropower, cement, food processing, textiles and clothing and timber. Similar to the product range, exports include textiles and shoes, tar, metals and metals, crude oil, vegetables, fruits and tobacco. To better understand how CEFTA has contributed to trade performance and investments of the member states of the agreement, below we quote some of the findings main. Thus, according to (Cieślik et al, 2012), the early CEFTA proved to be an important driver of economic development in member states. This agreement has served as an effective tool for achieving the economic and political goals of states. Therefore, CEFTA has given countries time

to prepare to meet the standards socio-economic. The same benefits apply to the new generation of the contract, but in one different degrees. (Börzel, 2009) argue that despite racial tensions and religiously, the countries of the Western Balkans testify to the determined economic integration through CEFTA 2006 can lead to political stability and security development regional. In addition, CEFTA affirmed a clear agenda of European integration and encouraged the countries of the Western Balkans to make greater efforts to build complex and efficient economic structures and relationships. This support is provided for improve the economic integration of these countries in global trade chains. So, trade openness is seen as an important factor in improving economic growth in the Western Balkan region. Certain trade-increasing benefits, openness offered in the business environment includes the great opportunities they create in the big markets. In this direction, CEFTA is considered as an empowering tool for the participating countries also begin to reap the initial benefits of greater trade openness (Damijan, 2006). The creation of CEFTA improved the ability of member countries to attract FDI. This fact has had a positive impact on international commercial competition. IN consistent with the many economic benefits in terms of trade and investment, CEFTA improves the region's political climate to bring important image benefits for its member states. In this way, CEFTA is an organization an excellent tool for the preparation of the integration of the EU member states and being taken in order effective with socio-economic competition (Druzic, 2009) countries for attracting FDI. This fact has had a positive impact on international commercial competition. In accordance with the many economic benefits of CEFTA in terms of trade and investment improves the political climate of the region to bring significant image benefits to its member states. In this way, CEFTA as an organization is a tool of excellent for the preparation of the integration of the EU member states and taking on effectively with socio-economic competition (Druzic, 2009). (Kostovska, 2014) states that CEFTA aims to provide a comprehensive trade liberalization provision between Croatia, Montenegro, Macedonia, Serbia, Albania, Bosnia and Herzegovina, UNMIK (Kosovo) and Moldova in 2010. In addition to this policy, CEFTA aims to promote of international cooperation and the strengthening of regional security. (Miteva-Kacarski, 2012) concluded that, with the exception of trade and consolidated states such as those of the EU, the construction of CEFTA offers increased opportunities for members to develop coordinated efforts in addressing regional challenges such as inefficiency in attracting FDI. However, there is a list of obstacles, which includes invisible trade barriers that need to be addressed in the future in order to fully exploit the benefits of free trade. (Krizmanic, 2007) emphasized that, despite the common assumption that the main goal of CEFTA is to ensure free trade between the participating countries, i.e. the author concluded that free trade is only a secondary goal, which

is mainly the preparation of member states to meet the European Union. CEFTA instead plays a role in coordinating member states' efforts to implement EU law and procedures in local markets. (Begović, 2011) believes that free trade has had rather a negative impact in terms of labor. This fact is due to economic and social factors related to the tensions between the provinces. In addition, the countries are inclined to develop trade relations with the European Union are higher than within CEFTA. Thus, the author concludes that the economic benefits are limited.

2.1 CEFTA as a need for participating countries

The emergence of an international initiative, known as the Stability Pact for Southeast Europe (here in after: SPSEE) in 1999, played a key role in strengthening peace, democracy, rights of man and economy in Southeast Europe. Emphasis was also placed on relationships trade between countries. Most important was the SPSEE's influence on the establishment of CEFTA 2006 (Todorovic, 2011).

At the end of 2004, most countries in the Balkans Western countries had signed international trade agreements. However, because of the great differences between the signed trade agreements, in terms of content and their special value, the process of international trade was not considered effective and profitable in all countries.

2.2 Mission and goals

CEFTA was established to create a new and more favorable economy in the Western Balkans and Moldova. Although there were a number of trade agreements between the member states, there were significant differences between them. Thus, among other purposes, CEFTA was created primarily to simplify the complex matrix of agreements bilaterally and to increase trade between member states (Delević, 2011). As it is said in article 1 of the agreement, the main goals of the agreement are:

- To consolidate in an agreement the existing level of free trade achieved through a series of free trade agreements between the two countries that have been signed between the parties;
- Development and improvement of investment conditions, including foreign investments direct;
- Increasing trade in goods and services and encouraging investments in laws fair, transparent, stable and predictable;
- Eliminating trade barriers and distortions and facilitating the transport of goods and distribution of goods and services across borders between countries;

- Ensuring conditions of fair competition affecting trade and investment external and gradually opens the government procurement markets.

2.3 Can we compete in an environment that is constantly on the move? If yes, how?

The benefits of international trade can be seen from two perspectives:

1. At first sight, mercantilist, the most exporting country is more successful.
2. Although the most accepted theory today is ancient, according to it, a place is I successful in foreign trade if there are comparable profits. Said in simple words, if it is possible to produce a better product (cheaper, better quality and production higher) than in another country.

Albania is said to be attractive because it has cheap labor. But entering a game competing with low wages is really getting into a boat that will sink early or later. It boosts the country's economy, but does not create prosperity for its citizens, one economy that increases export, which increases foreign exchange earnings? Can such a strategy development remove the country from the list of poor nations?

The main Albanian export is dominated by the textile and footwear industry, as well as by extraction of natural raw materials (other minerals and medicinal plants). And the result is that if the citizens of the country are more active, income will be gained from exports, but poor people will remain after. On the other hand, the extraction of natural resources does nothing but destroy the country's economy and severely damages the ecosystem, harming the lives of citizens themselves, as the increase in sales of the country's gross domestic product can be similar to the company's balance sheet. So, what should be the aim of development plans of the country? We want to create and maintain economic competition, not at the expense of citizens (low wages and inflation), but from product quality and value claims added by the end user of the product.

The solution cannot come simply with a complaint. So, it's time for manufacturers to sit down at the table with the traders of agricultural goods. Besides them, other actors such as transporters and distributors, advertising and marketing firms, land research institutes, hotel and tourism companies, etc. Seeing the final product throughout the series from its production to the end user, we will also be able to identify key aspects of success, obstacles to be overcome, improvements to be made throughout the product process. But is our business on par with our counterparts across the border? Unfortunately, our businesses have to account for high operating costs due to the lack of business infrastructure. Lack of electricity, road infrastructure, high levels of corruption are some of the worst things in our businesses compared to those across the border.

Creating competitive advantages: Now we are faced with another view, which protects the notion that there is no profit in Albania, but that Albanian businesses must create it in partnership with organizations and governments. Their creative approach may be high technology and innovation. These are modern names called *Cluster*. One of the distinguishing features of the time in which we live is no longer the opening of society and the origin of society knowledge; many have become more knowledgeable: those who are more into current fashion trends, products, etc. And since people are the ones who trade, that means the market has already discriminated against them.

3. Empirical Analysis

3.1 Literature review for our model

For more than half a century, the model known as the Gravity Model has been used to identify the effects of cross-border issues between partner countries, investments, foreign exchange, travel expenses, common language, free trade agreements, distance between sites and size of sites measured by impact of Gross Domestic Product (GDP). The Gravity Model illustrates the relationship between trade flow, economic size of both trading countries as measured by their GDP or Gross National Product (GNP) and the distance between them. Based on Newton's Law of Gravitation which measures attraction between two objects based on their weight and distance properties. Newton (1687) noted that this attraction is directly related to the product of their quantity and in contrast to the square of the distance between objects.

The growth of exports plays an important role in the perspective and development of the trade balance to face the international competition. The growth rate of exports over the years is an important indicator, whose performance can judge the stability and sustainability of the economy in general, as well as its ability to compete in international markets, but that reflects more directly and closely the international conjuncture. Economic growth seen as GDP growth. This indicates an increase in the production of goods and services within the country. The value of the Gross Domestic Product is calculated according to the formula: GDP = C + I + G + NX where: C = Consumption, I = Investment, G = Government Expenditure, NX = Net Exports (X – M), X = Exports, M = Imports. Net exports are one of the factors affecting GDP of a country. The trade balance shows whether a country is able to export or import more. Commercial models that have been widely used in the decades of have recently focused on understanding the power effects of trade between two or more our international partners.

TABLE 1: Trade balance and percentage to GDP

Year	Imports € mil	%GDP	Exports € mil	%GDP	Balance in bilion Euro	
2000	6,565	5%	1,655	9%	-4,91	7%
2001	5,981	-9%	1,785	8%	-4,196	-14,54%
2002	6,788	13%	1,599	-10%	-5,189	23,67%
2003	6,255	-8%	1,499	-6%	-4,756	-8,34%
2004	6,677	7%	1,445	-4%	-5,232	10,01%
2005	6,898	3%	1,845	28%	-5,053	-3,42%
2006	6,125	-11%	1,755	-5%	-4,37	-13,52%
2007	7,161	17%	1,985	13%	-5,176	18,44%
2008	6,434	-10%	1,826	-8%	-4,608	-10,97%
2009	6,762	5%	1,564	-14%	-5,198	12,80%
2010	7,692	14%	2,335	49%	-5,357	3,06%
2011	7,569	-2%	2,807	20%	-4,762	-11,11%
2012	7,485	-1%	2,655	-5%	-4,83	1,43%

Note. Reprinted from INSTAT. (2016). [Foreign Trade]. Retrieved February 20

TABLE 2: Inflows and outflows of FDI in the years 2000-2012 (€ million)

Viti	FDI Inflows	FDI Outflows
2000	115,6	-1,3
2001	158,2	-1,9
2002	190,7	-2,1
2003	268,3	-3,3
2004	297,8	-5,2
2005	215,5	-10,5
2006	278,1	-13,6
2007	485,6	-16,2
2008	675,9	-18,1
2009	715,2	-9,1
2010	798,9	-9,7
2011	734,5	-19,3
2012	754,2	-30,8

3.2 General analysis

From this analysis we will get information if GDP is affected by these factors and if so, to what extent. The basic equation we will rely on is:

$$Y(GDP)=ß0+ ß1X1(EXP)+ ß2X2(IMP)+ ß3X3(FDI)+ų.$$

It is clear that the relationship between GDP, exports and foreign direct investment is a positive relationship, with increasing exports and foreign direct investment, GDP is bound to increase significantly. In the case of import they are considered independent mutations, although the relationship is not linear, it is negative. This shows that there will be an increase in imports and, on the other hand, a decrease in exports. So, from the analysis shown, we have a match of what we know in theory by comparing it with the empirical side of our study. The categories of export products are usually what are already called traditional sectors; among them, the textile and footwear sectors remain the dominant force for increasing export capacity. Although the rates are increasing at not very high rates, they are still significant, especially in the production of products. This sector constitutes 34.6% of the total exports, which is the first sector for export. The linear relationship between GDP and exports/imports is clearly shown in the above tables FDI, GDP and the relationship between them. This analysis will have created a gravity equation in the trade of the two countries, used for the first time in January 1962, the German economist Tinbergen. It is considered the best way to use the random effects method. As we focus only on Albania's exports, limited work will be directly related to Albanian foreign trade. Such work will have greater scope and clarity on other variables, especially how true these numbers are. Our site contains a panel with real data of the six main partners of Albania during the period 2000-2012.

The main idea of the gravitational model is based on restoring the Newtonian policy to this level on the GDP of trading countries. Our main variables in the model will be traded as the value of the variance corresponding to the GDP of Albania and its trading partners. The independent variable will be the distance between sites. Furthermore, our model is developed for other remote measurement variables (landing, trade barriers), institutional indicators (government efficiency, trade freedom, irregularity index, etc.), economic dynamics (real active trade – REER, etc.) (Xhepa, 2003) used the gravity model to study the trade flow of Albania and its country for 21 countries that are main partners in the period 1994-2002. The results of the model have proved that the volume of exports and exports is positively related to the weight of the national economy and negatively to the

local distance and limited exchange rate. (Pllaha, 2012) in her study on the flow of trade between nine countries in Southeast Europe, according to the Gravity Model, found that most countries trade under their own jurisdiction. The main variables are logarithmized in order to obtain a more elastic coefficient, while the other variables are left linear. And the formula would take the form:

$$L\_Exsport_{jt} = bo + b1 L\_GDP\_PART_{jt} + b2 L\_GDP\_SQ_{jt} + b3 L\_DIST_{jt} + b4 REER_{jt} + b5 Coom\_bord_j + b6 Cruise_j + b7 Tr\_Barr_{jt} + b8 Gov\_Effi_t + b9 IND\_L\_BUS_{jt} + b10 IND\_L\_MARK_{jt} + b11 IND\_L\_FISK_{jt} + b12 IND\_L\_INVEST_{jt} + b13 IND\_L\_FINANC_{jt} + b14 IND\_INFORMAL_{jt}$$

$j = 1 - 6$ the countries under study
$t = 2000 - 2012$ studied period

3.2.1 General analysis

CEFTA focuses on lowering the prices of agricultural and manufactured goods purchased in member countries. Figure 1 shows the display of a standard price that the CEFTA countries (with the exception of Kosovo) set for Albania's exports. In the early 2000s, Albanian imports were taxed at around 15% in FYR Macedonia, 14% in Serbia and Montenegro, 6% in Bosnia and Herzegovina and 5% in Moldova. These costs have decreased in all CEFTA countries, especially from 2007 onwards. In 2016, price sales in Albania were zero, or almost zero, in all CEFTA countries. Figure 2 shows that, until 2015, CEFTA countries' prices for Albanian agricultural products were higher than non-agricultural ones. It also shows that taxes on non-agricultural products were reduced before the cost of agricultural products. We have analyzed the impact of tax cuts on CEFTA international demand for purchases in Albania over the period 2001–2016, as 2001 is the first year for which we have taxable data for all CEFTA member countries.

Countries often use import prices that are below the negotiated level, or binding prices. In such cases, there is a risk that the importing country will revert to the maximum negotiated amount in the event of a negative shock. This creates uncertainty among potential exporters, reduces the number of firms that become traders and the number of exports. However, according to tax data from the United Nations Conference on Trade and Development (UNCTAD) Trade Analysis Information System (TRAINS), CEFTA countries have not offered special treatment to Albanian trade prior to bilateral trade agreements.

FIGURE 1: Tariffs of member states on imports from our country
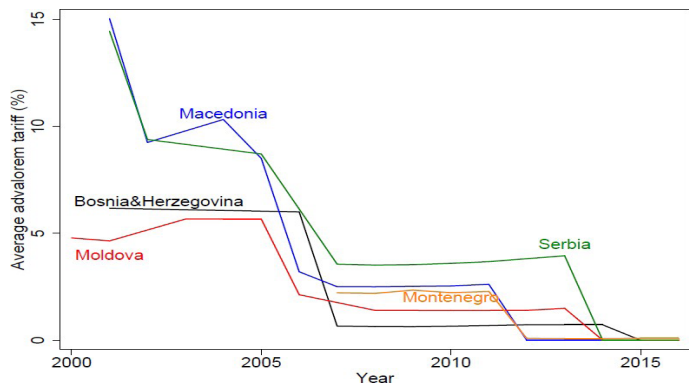
FIGURE 2: Tariffs of agricultural and non-agricultural products throughout the years
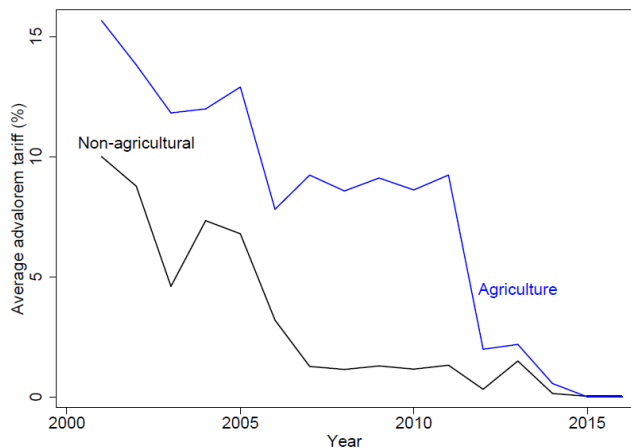
TABLE 3: Impact of tariffs on CEFTA countries' imports from Albania, 2001–2016

Tariff (ln)	-5.249
	(0.650)
Observation	7054
Indicator	0.667

Table 3 presents the results of the measurements. The tariff coefficient is weak and very precise, showing that the reduction of taxes has had a significant positive effect on the export of CEFTA countries from Albania. The reduction of tariffs for CEFTA countries during the analysis would have increased the purchase of goods from Albania in 525. % (–5.249 * –100%).

The average tax imposed on CEFTA countries on Albania's exports was 10.49% in 2001 and 3.76% in 2006, the year before CEFTA became operational.

When we multiply the percentage of cost reduction once CEFTA takes effect ((3.76 / 10.49) * 100) with a limited expansion (5.249), we find that CEFTA countries have increased their exports from Albania by 188%. This result suggests that the reduction in tariffs imposed by CEFTA has encouraged Albania's exports to CEFTA partners.

4. Results and Recommandations

The trade balance in Albania has been very limited, but it should not be forgotten that the same trend is the same as the last one, a sharp decrease in trade barriers, which contribute to the growth of their investments. The strong commercial connection that Albania has with Italy is evident in the historical relations between these two countries. This, in turn, brings the dependence of our exports on the Italian economic operation. The sudden change in their economy will have an unexpected impact on our trade balance. Exports also play an important role in the country's economy.

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

- To soften this negative balance between export-import there are two possible ways: increase and promotion of exports and domestic production of some products that are imported and that the Albanian economy has real opportunities to remove them from the import list.
- Export trends are on the rise with some countries such as: Kosovo, Spain, Italy, Switzerland, etc. and mainly in domestic economy items, construction materials, leather, medicinal plants, minerals etc.
- Export promotion is undoubtedly a very powerful mechanism of economic regulation. In the context of Albania's economic policy, export development is considered a key factor in improving macroeconomic indicators, especially from the point of view of improving the trade balance and creating job places.

5. References

(2017). Retrieved from INSTAT.com: http://www.instat.gov.al/al/themes/tregtia-e-jashtme. aspx

Begović, S. (2011). The Effect of Free Trade Agreements on Bilateral Trade Flows: The Case of CEFTA. *Zagreb International Review of Economics & Business, Vol. 14 No. 2*, 51-69.

Börzel, R. (2009). Diffusing (inter-) regionalism: the EU as a model of regional integration. 27.

Cieślik, A., Michałek, J. J., Mycielski, J. (2012). Measuring the trade effects of the euro in Central and Eastern Europe. *The Journal of International Trade & Economic Development, pp.25–49.*

International Trade & Economic Development. 25-49.

Damijan. (2006). Central European Free Trade Agreement: Did the Initiative Prove its Commitments? *Eastern Journal of European Studies*, 45-62.

Delevic, M. (2011). An economic pillar of the process of political stabilization and regional cooperation in the Western Balkans. In *CEFTA 2006–challenges and opportunities* (pp. 7-12).

Druzic, I. (2009). REGIONAL COOPERATION AND ECONOMIC INTEGRATION. *Proceedings from the Third International Conference.* Skopje,Republic of North Macedonia.

Kostovska, L. (2014). Competitivenes of the seecs' position vis a' vis. *International Scientific Conference*, (p. 200). Vienna.

Krizmanic, M. (2007). Croatian Yearbook of European Law & Policy. The new CEFTA with special reference to its influence on accession to the European Union and on the Republic of Croatia.

Miteva-Kacarski. (2012). CEFTA 2006 – Effects, challenges and opportunities. *Trends and Challenges in the Economic Development, University of Economics.*

Pllaha, A. (2012). Free Trade Agreements and Trade Integration Among South Eastern European Countries: Gravity Model Estimations.

Xhepa, S, Agolli, M. (2003). Albania's foreign trade through a gravity approach.

Todorovic, M. (2008). Key issues in multilateral trade liberalization of economies in transition. Beograd, Beograd, Serbia.

Todorović*, M, and Jovan Bogdanovi, J. (2011). The European Union debt crisis and the Eurozone's survival, FACTA UNIVERSITATIS Series: Economics and Organization Vol. 8, No 2, 2011, pp. 165 - 180, Belgrade, Serbia.

Wagner, R. H. (1988). Economic Interdependence, Bargaining Power, and Political Influence. *The MIT Press*, 461-483.

The impact of microfinance on economic development and the standard of life of individuals during the years 2018–2021. The case of Albania

Dr. Sokol NDOKA[1]

Department of Economics & Finance,
European University of Tirana, Tirana, Albania
sokol.ndoka@uet.edu.al

Arjol SAKO, MSc.[2]

European University of Tirana, Tirana, Albania
asako7@uet.edu.al

---

[1] Dr. Sokol Ndoka has completed higher studies, Bachelor in the period 2007-2010 and Master of Science in the period 2010-2012, profile Management, Faculty of Economics at the University of Shkodra "Luigj Gurakuqi". During the period 2013-2018, Ndoka completed his Doctoral studies in Finance profile at the Faculty of Economics and IT at the European University of Tirana with the topic "FINANCIAL RISK MANAGEMENT, CONDITION FOR BANKING; PERIOD 2006-2015. During the period 2012-2013, he worked as an Assistant Accountant at the company Edi-Elt Consulting & Account. In February 2015, Ndoka began working as an external lecturer in the department of Finance & Economics, Faculty of Economics, and IT at the European University of Tirana. Since October 2015, Ndoka has been working as a professor at the European University of Tirana.

[2] Arjol Sako, MSc., is a graduate student in Master of Science in Finance, Accounting and Financial Reporting, at Department of Economics, Business and Development at European University of Tirana. During his academic years he has been the general coordinator of Student Clubs, part of Dean of Student Office and participant in Erasmus + projects. Also, during his five years of studies at European University of Tirana he has been awarded with excellence certificates. For almost three years Arjol has been working as Consumer Products Manager at ALBtelecom sh.a and currently he works as Enterprise Products Manager in Business Unit at Vodafone sh.a.

Abstract

The goal of each country today is to have the highest and continuous economic growth. But sustainability of economic growth is very important. This is achieved only by making the right policies, providing the country with high income. Microfinance is not a new development. Its origins date back to 1976, when Muhammad Yunus founded the Grameen Bank as an experiment on the outskirts of the Chittagong University campus in the village of Jobra, Bangladesh. Since then, several microfinance institutions emerged and succeeded in helping the poor and over time created new strategies to fulfill their vision. This paper is about microfinance and its impact on people from different layers of society, with the main focus on the impact on the poor layer of the population in Albania during the years 2018-2021. The aim of this study is to show how microfinance works and how it affects the standard of living (income, savings, etc.) of poor people in Albania.

> POVERTY SHOULD NOT BELONG TO CIVIL SOCIETY.
> HIS PLACE IS IN A MUSEUM. THERE IT SHOULD BE!
> MUHAMMAD YUNUS

1. Introduction

There are about three billion people, half the world's population, who live on less than two dollars a day. In these poor communities, one in five children do not live to see their fifth birthday (Barr, Michael S, 2005). A 2006 study shows that the income ratio between the richest 5% and the poorest 5% of the population is 74 to 1, compared to 30 to 1 in 1960. Microfinance is a lending methodology that uses an effective substitute for collateral for short-term loans and working capital even for micro-entrepreneurs. According to Otero, microfinance is "the provision of financial services to the low-income poor and self-employed very poor". These financial services, according to (Ledgerwood, 1999), generally include savings and loans, but may also include other financial services such as insurance and payment services.

1.1 The problem addressed in the study.

The problem in this thesis is about microfinance and its impact on poor people in our country. Through this study, we will show how microfinance works, using the lending methodology to reduce poverty, and how it affects the standard of living (income, savings, etc.) of poor people in Albania.

1.2 Objectives of the study

- Identifying the definition of microfinance according to different economic theories.
- Review of the literature from a historical point of view on Microfinance and its main concepts, referring mainly to researchers and economists, such as Muhamed Yunus, Otero, etc.
- Analyzing the progress over time of the main elements of the financial performance of MFIs in Albania.
- Analyzing whether the standard of living of individuals in Albania has increased due to the influence of MFIs.
- Recommending some solutions that can lead to the reduction of poverty and the increase of living standards through the benefit of microcredit.

1.3 The purpose of the paper

The main purpose of this paper is to research the progress of the operation of microfinance institutions, the growth and economic development of the population in our country, as well as to analyze the performance trend and determine the factors that influence the increase in the financial performance of these institutions that operate in Albania. Also, this paper aims to understand if microfinance in Albania can represent a financial opportunity to be implemented on a larger scale to improve the creditworthiness of individuals as well as the level of the standard of living. The research question is:

- What is the impact of microfinance on living standards and poverty alleviation in Albania?

Hypothesis

The main hypothesis of this paper is: Loans received in microfinance institutions have negatively affected the increase in the standard of living and the alleviation of poverty in Albania during the years 2018-2021.

1.4 Limitations of the study

This study has the following limitations:

- Difficulties related to finding information and lack of official publications related to this topic. For this reason we mainly used secondary data.

- We have obtained these data from the websites of these units and from the data published on the official websites of the controlling institutions (AMF, etc.).
- There remains the possibility that other studies will deal with the study of the effects that microfinance institutions and microcredit have on increasing well-being in Albania.
- For the realization of this paper, we relied mainly on foreign literature, since the studies of Albanian authors related to this topic are few. The limitation in this paper was precisely in the adaptation of this foreign literature to the relevant models in the Albanian situation.

2. Literature review

Small operations have existed since the 18th century. The first appearance of microlending is attributed to the system of the Irish Loan Fund, introduced by Jonathan Swift, who sought to improve conditions for poor Irish citizens. In its modern form, microfinance became known on a large scale in the 1970s.

Microfinance and intermediary institutions play a powerful role in economic growth and development. In accordance with the literature, there seems to be a positive relationship between economic growth and the growth of the financial sector. (King, Robert, Ross, & Levine, 1993).

(Rena, Ravinder, Tesfy & Ghirmai, 2006) concluded that microfinance has strong capacity to drive economic growth and poverty reduction. They showed that there is a significant link between microfinance and the evolution of poverty, in that the ultimate decline in the poor's access to income and the control of economically productive resources, which include financial resources. The previously implemented programs did not bring good results due to the non-inclusion of the citizens for whom the program was designed (the poor).

Microfinance is generally defined as the provision of financial and non-financial services to the poor on sustainable basis. These services of microfinance include microcredit, savings, micro insurance, money transfer services, pension remittances and business advisory services targeted at low-income groups and enterprises. (Robinson, M.S.,2002).

According to (Asiama, J., 2007) microfinance started as a self-help group among the rural poor and in Africa microfinance was first established in the Northern region of Ghana by Canadian Catholic missionaries in the year 1955. He averred that successive government in Ghana has developed varying strategic programmes aimed at reducing poverty and ensuring that the standards of living of the low income earners are enhanced.

According to (Johnson & Rogaly, 1997) financial service providers, which aim to enable people to overcome poverty, are focused on credit, with a focus on credit for small enterprises, including agricultural production. Nowadays, a number of institutions emphasize that the poor benefit from microfinance in terms of increasing income and reducing dependency.

The programs of microfinance institutions have become important components in the construction and implementation of strategies for reducing poverty or promoting the promotion of micro and small enterprises (Hulme, 2000).

MFIs serve a pivotal role in the economies by availing small packages that suit every economically active person (Zainal et al. 2019).

Many studies have revealed that microfinance institutions help to alleviate poverty through the provision of credit to marginalized societies. Availability of credit helps diversify household income and smoothens household expenditure, allowing them to absorb economic shocks and fluctuations (Samer et al. 2015). Enisan and Oni (2012) emphasized that MFIs are a vehicle through which the poor are empowered.

3. Overview of microfinance

3.1 Economic and social developments in Albania.

In addition to the economic conditions since the beginning of the economic transition - the previous industrial and manufacturing segment completely collapsed in the 1990s. During the last years, Albania has progressed in terms of economic development, where it is clear that the country has grown steadily and comprehensively.

Microfinance can be an essential element of an effective poverty reduction strategy, mainly in developing countries. Especially in Albania there is a lack of access and efficient provision of credit, savings and insurance facilities to develop businesses, increase their capacity to earn income and improve the quality of life. The roles of Microfinance Institutions (MFIs) are unmatched in terms of providing access to financial services to poor citizens. This part of society is financially excluded from formal financial institutions due to the unwillingness of institutions to provide loans without collateral due to their commercial purposes. In addition to the social goals intended by MFIs, institutional support is essential to ensure continued support. Therefore, the efficiency of MFIs is key to achieving sustainability.

Microfinance during the years 2018-2021

It should be noted that in recent years the competition in the microfinance market has grown, also thanks to the increased interest of banks in this segment, especially in the field of financing small businesses and agriculture. Microfinance institutions have comparative advantages with the banking system when it comes to the microfinance market, which requires different expertise and approaches than banks, which take time to build.

Microfinance is a very necessary element for increasing financial inclusion, especially in the new credit system and for strengthening low-income segments. Last year's data show that the microfinance sector disbursed 29.4 billion ALL or 242 million euros in new loans. According to data from the Albanian Microfinance Association (AMA), the volume of new loans increased by 91% compared to 2021, which confirmed the rapid recovery of lending in this segment as well.

The value of the new loan has also exceeded the pre-pandemic levels, 9.3% more than in 2019. The new loan, based on the detailed data of various sectors of the economy, has been granted mainly to individuals, where 52% of the value of of new loans are loans followed by loans for business with 37% and loans for agriculture with 10%.

The loan portfolio at the end of 2021 was estimated at around ALL 34.8 billion, with an increase of 14.3% compared to 2020. The phase before the pandemic hit the microfinance sector the most. The postponement of quarterly loans and the subsequent need for further restructuring during 2020 have caused liquidity difficulties for some microfinance institutions and limited the scope for new loans. In recent years, microfinance institutions have had advantages over the banking system when it comes to the microfinance market, a market that requires expertise and approaches different from banks, which take time to establish. These institutions operate in a competitive environment, their activity is stable in terms of growth and portfolio quality Microfinance institutions generally offer loans with characteristics such as small amounts, alternative collateral options, transparent interest rates and often irregular loan repayments in line with business cycles. Of course, they pay special attention to the improvement of existing products, as well as the development of new products, constantly monitoring the development of the target market, the demands and preferences of this market, how the demand changes, as well as the identification of new markets, etc.

3.2 The roles of non-bank financial institutions in the credit market.

In almost all advanced economies, financial systems offer a wide range of sophisticated services and products. The effectiveness of such developed systems has contributed to macroeconomic stability and growth and sustainable economic

development of the country. Increasing access to credit and its efficient distribution to strengthen the private sector benefits the entire economy, with particular benefits for small and medium-sized enterprises (SMEs), which often have limited access to financing from the banking sector.

A well-developed non-banking financial sector is considered an important part of a healthy and efficient financial system, which can ensure stability in the growth and development of the economy, making it complete, balanced and sophisticated. A multilateral financial system that includes tier-2 banks and non-bank financial institutions protects the economy from financial shocks and enables rapid recovery from such shocks.

Non-bank financial institutions are still in an early stage of development in Albania, but their importance should increase in the future, as has happened in other developed countries, where they have an important role for financial intermediation.

4. Empirical analysis

This chapter will contain the empirical analysis of this study, which is built based entirely on secondary data. In this study, the quantitative method was used, which helps us to use secondary data. Secondary data consists of statistics conducted by institutions, books, articles and other relevant data. Also, from the annual reports published on the official websites of various institutions such as the Bank of Albania, the Ministry of Finance, the Albanian Microfinance Association (AMA).

The first part of the analysis is built by interpreting the annual reports of the microfinance institutions operating in Albania. These data were obtained from the Microfinance Association in Albania (AMA).

The second part of the analysis is constructed by interpreting the results obtained from the multiple linear regression analysis. In this analysis, the number of active loans, number of disbursed loans, total debt from loans, active loan portfolio, active customers in rural areas were used as independent variables, while the standard of living was used as the dependent variable.

The first part

The progress of IFJB assets
In December 2021, the total assets of IFJBs reached the level of 76.29 billion ALL, which is an increase of 12.4% or 8.42 billion ALL compared to 2020. In 2020, the total of these assets was 59.6 billion ALL, where, comparing it with 2019, it again marked an increase of 3% or 1.5 billion ALL. A significant increase was

evident this year, where comparing it with the previous year, there is a difference of 25% or 11.8 billion lek. Mainly, this increase was generated by: Fondi Besa (25%), Iutecredit Albania (19%), Kredo Financë (16%), Porsche Leasing (5%) etc. The assets of these institutions reach 4.43% of the total assets of the banking system, compared to a year ago.

TABLE 1. Total assets of NBFIs

Indicator/mld ALL	Dec. 2018	Dec. 2019	Dec. 2020	Dec. 2021
Total assets of NBFIs	53.1	65.2	67.9	76.3

Source: Bank of Albania.

4.1.1 Surplus of the loan portfolio

In 2021, the gross loan portfolio for IFJBs was worth 42.1 billion ALL, which resulted in an increase of 5.51 billion ALL (or 15.1%) compared to the previous year. At the end of 2020, this portfolio reached 36.6 billion ALL, where compared to 2019, it experienced an increase of 3%. Again in 2019, a significant increase of 23.7% is reflected compared to 2018. The activity with the highest growth during 2021 and 2019 was microcredit compared to the other three categories: lending, financial leasing and factoring. While in 2020 it was lending, which is certainly related to the pandemic situation.

TABLE 2. Performance of the gross and net loan portfolio.

Indicators/mld ALL	Dec. 2018	Dec. 2019	Dec. 2020	Dec. 2021
Total portfolio (net)	26.4	33.0	33.5	37.4
Total portfolio (gross)	28.6	35.5	36.6	42.1

Source: Bank of Albania.

4.1.2 Progress of the gross loan portfolio based on the activity of NBFIs

The microcredit portfolio in IFJBs mainly consists of lending and microcredit entities (76.1%). Next is the portfolio of financial lease entities (22.8%) and the portfolio of factoring entities (1.1%). The credit portfolio of IFJBs reaches 5.9% of the total credit of the banking system, maintaining almost the same weight compared to the previous year.

Financial activities (in billion ALL)	Dec. 2018	Dec. 2019	Dec. 2020	Dec. 2021
Lending	12.7	14.7	15.6	16.6
microcredit	8.4	11.4	11.6	15.4
Financial lease	6.9	8.9	9.1	9.6
Factoring	0.6	0.5	0.4	0.5
Gross portfolio	28.6	35.5	36.6	42.1

Source: Bank of Albania.

4.1.3 Quality of the loan portfolio.

At the end of 2021, the indicator of problem loans for financial entities has increased by 2.44%. This result was influenced by the increase in problem loans by about 28.6% (or ALL 1.6 billion), while the increase in the financing portfolio was about 15.1%. This increase in problem loans has resulted mainly as a consequence of the deterioration of the quality of the portfolio in the microcredit entities. Even during 2020, the indicator of problem loans has increased compared to 2019. This increase has been entirely influenced by the microcredit portfolio. In addition to the consequences of the quarantine and the slowdown in economic growth, this indicator has also been affected by supervisory requirements, which has led to an increase in the amount and number of loans classified as problematic.

At the end of 2018, this indicator increased by 0.5%, which was influenced by the increase in non-performing loans by about 56.8%. At the end of this year, the growth of the financing portfolio was about 23.7%. The main cause of this increase was the event of fraud in the entity "Fondi Besa", as well as the deterioration of the quality of the portfolio in the microcredit entities.

TABLE 4. Progress of the credit quality indicator.

Indicators	Dec. 2018	Dec. 2019	Dec. 2020	Dec. 2021
Non-performing loans (gross)	9.16	9.69	11.20	13.60
Non-performing loans (net)	2.53	4.14	4.38	3.96

Source: Bank of Albania.

Second part

4.2.1 Regression analysis, correlation between variables and hypothesis testing.

This part of the study will focus on the analysis of the hypothesis, the theory of which has been extensively covered in the previous chapters. This part will analyze the financial situation and lending by NBFIs during the period 2018-2021, where through the analysis of some constituent elements of the overview of the sector, we will notice the impact that microcredit has had in alleviating poverty during the period under study. The elements that will be analyzed are: total deposits/savings, active loan portfolio, disbursed volume, number of disbursed loans. The verification of the hypotheses was carried out through the testing of the variables obtained in the study. These tests were performed using the statistical program EViews 12.

1. Stationarity tests for time series

The stationarity test shows the stability of the data for each variable. In the multiple linear regression analysis, only those variables are entered which during the testing are stationary. To identify the stationarity of the time series we will use the Augmented Dickey-Fuller test.

Hypotheses:
H0: The time series has a unit root (is not stationary).
Ha: The time series is stationary.

Decision rule:
- If the probability is less than 0.05, the basic hypothesis is not accepted and we will accept the alternative hypothesis.
- If the probability greater than 0.05, the basic hypothesis is accepted.

TABLE 5. Summary of stationarity test results

Variables	T-statistic	Probability	Result
Number of active loans (NAL)	-3.48284	0.0019	Stationary
Number of loans disbursed (NLD)	-1.66389	0.0032	Stationary
Total Debt from Loans (TDL)	-1.054349	0.5707	Not stationary
Active loan portfolio (ALP)	-1.464131	0.4242	Not stationary
Active customers in rural areas (ACRA)	-1.931609	0.2889	Not stationary

Source: Author (2022).

2. Multiple linear regression analysis.

The multiple regression analysis will be built in order to validate the hypotheses at the beginning of the study, which will be carried out with the variables that turned out to be stationary. This equation relates the mean value of y to the independent variables x1…..xk.

The multiple linear regression equation has the form: $y=\beta_0+ \beta_1\chi_1+ \beta_2\chi_2+……+ \beta_k\chi_k+u$

- Standard of living = $\beta_0+ \beta_1 NAL+ \beta_2 NLD+ \beta_3 TLD+ \beta_4 ALP+ \beta_5 ACRA+ui$ (Equation before stationarity test)
- Standard of living = $\beta_0+ \beta_1 NAL+ \beta_2 NLD$ +ui (Equation after stationarity test)

The equation evaluated with the relevant tests (overall and individual significance test) is presented as follows:

Estimated equation: $y=\beta_0+ \beta_1\chi_1+ \beta_2\chi_2+……+ \beta_k\chi_k$

Standard of living =17.00081 -0.373319NAL-0.479899NLD

- *Overall significance test.*

This test is performed to examine the significance of the model as a whole.

H0: $\beta_1= \beta_2= \beta_3=0$

Ha: At least one of the parameters must be non-zero.

Test: Least Squares

Criteria for making the decision:

- If $p \leq 0.05$, the basic hypothesis is rejected and we will accept the alternative hypothesis.
- If $p > 0.05$, the basic hypothesis is not rejected.

In the specific case, p=0.007817, i.e., smaller than 0.05. This means that the basic hypothesis is rejected and the alternative hypothesis is accepted.

Result: The model is statistically significant.

- *Individual significance test.*

This test is performed to observe the significance of each independent variable in the model.

Criteria for making the decision:

- If p ≤ 0.05, the basic hypothesis is rejected and we will accept the alternative hypothesis.
- If p > 0.05, the basic hypothesis is not rejected.

Test: Least Squares
Active number of credits
H0: β2=0
Ha: β2= different from 0.
In the specific case, p=0.0300, i.e. smaller than 0.05. This means that the basic hypothesis is rejected and the alternative hypothesis is accepted.
Result: The active number of loans is a statistically significant variable.
Number of loans disbursed
H0: β3=0
Ha: β3= different from 0.
In the specific case, p=0.0936, i.e. smaller than 0.05. This means that the basic hypothesis is rejected and the alternative hypothesis is accepted.
Result: The number of loans disbursed is a statistically significant variable.

- *Model interpretation*

Standard of living =17.00081 -0.373319NAL-0.479899NLD
Based on the above analysis, it turns out that the model exists as a whole. Given that the F-statistic, which is the measure of the joint importance of the explanatory variables, is statistically significant at the 5.3% level and corresponding to the probability value of 0.007817, it follows that this entire model is statistically significant. From the results we can observe that the number of active loans, the number of disbursed loans and the constant are statistically significant.

The number of active loans (-0.373319NAL) is statistically significant and has an inverse relationship with the standard of living. From this analysis it follows that, if we keep all other variables constant, an increase of one unit in the NAL variable, will lead to a decrease of 0.373319 units in the Standard of Living variable.

Likewise, the variable Number of loans disbursed (-0.479899NLD) is statistically significant, which also has an inverse relationship with the standard of living. If we keep all other variables constant, a one-unit increase in the NLD variable will lead to a decrease of 0.479899 units in the standard of living variable.

TABLE 6. Summary of individual significance test results.

Model	Beta Coeficient	Std. Error	T-statistic	Probability	Results
1					
constant	17.00081	3.772705	4.162992	0.0012	----
No. of active loans	-0.373319	0.590252	-2.273623	0.0300	Active number of loans (ANL) is a statistically significant variable
Number of loans disbursed	-0.479899	0.447544	-1.101322	0.0936	Disbursed volume is a statistically significant variable.

Source: Author (2022).

TABLE 7. Summary of overall significance test results.

Model	R-squared	Adjusted R-squared	F-statistic	Prob (F-statistic)
1	0.388904	0.833289	5.318201	0.007817

Source: Author (2022).

3. Model assumptions.

After constructing the multiple linear regression analysis, tests will be performed on the assumptions of the model, as follows:

Jarque-Bera Test/Test for Normality of Residual Distribution. This test shows whether the distribution of the residuals as a whole is normal or not.

- Assumption of normal distribution of residuals.

H0= The random variable ε has a normal distribution
Hα= The random variable ε does not have a normal distribution
Test: Jarque-Bera
Criteria for making the decision:

- If $p \leq 0.05$, the basic hypothesis is rejected and we will accept the alternative hypothesis.
- If $p > 0.05$, the basic hypothesis is not rejected.

In this case, p=0.05675, i.e., greater than 0.05 (Table 6). This means that the basic hypothesis is not rejected.

Result: The random variable ε has a normal distribution.

- The homoscedasticity assumption.

H0 = The random variable ε has the same variance for each value of the independent variable (Homoskedasticity)

Hα = The random variable ε does not have the same variance for each value of the independent variable (Homoskedasticity)

Test: Breusch-Pagan-Godfrey

Criteria for making the decision:

- If p ≤ 0.05, the basic hypothesis is rejected and we will accept the alternative hypothesis.
- If p > 0.05, the basic hypothesis is not rejected.

In this case, p=0.1354, i.e. greater than 0.05 (Table 7). This means that the basic hypothesis is not rejected.

Result: The random variable ε has the same variance for each value of the independent variable (Homoskedasticity).

- *Functional form adequacy test.*

To see if the chosen linear functional form is appropriate for this study, we will use the Ramsey RESET test, which is presented as follows:

Assumption about the appropriateness of the functional form.

H0 = The chosen linear functional form is appropriate.

Hα = The chosen linear functional form is not suitable.

Test: Ramsey RESET test.

Criteria for making the decision:

- If p ≤ 0.05, the basic hypothesis is rejected and we will accept the alternative hypothesis.
- If p > 0.05, the basic hypothesis is not rejected.

In this case, p=0.2957, i.e. greater than 0.05 (Table 8). This means that the basic hypothesis is not rejected.

Result: The selected functional form is suitable.

TABLE 8. Summary of model assumption results.

Model assumptions	Probability	Result
Assumption of normal distribution of residuals	0.5675	The random variable ε has a normal distribution.
The homoscedasticity assumption.	0.1354	The random variable ε has the same variance for each value of the independent variable (Homoskedasticity).
Assumption about the appropriateness of the functional form.	0.2957	The functional form chosen is appropriate.

Source: Author (2022).

5. Conclusions

The purpose of this paper was to study and analyze the impact of microfinance on increasing the standard of living and reducing poverty in Albania during the years 2018-2021.

Microfinance has proven to be an effective mechanism for poverty reduction, especially in developing and less developed countries. Microfinance can penetrate those levels of society that the traditional financial system has missed. In this paper, several indicators were analyzed, through which the hypothesis and the research question raised at the beginning of the study were proven.

From the first part of the analysis, it is noted that during the period 2018-2021 they have increased from year to year, which affects the increase in sustainability, efficiency and income of the microfinance institution. Quite a significant increase is observed during the years 2020-2021, i.e. during the period of the Covid-19 pandemic.

In terms of developments in the balance of the portfolio, the activity with the highest growth was in the years 2019 and 2021, where microcredit was the main category used by individuals, compared to factoring, financial leasing or lending. Of course, the earthquake and the pandemic have affected this situation as well.

- Conclusions of multiple regression analysis.

In this study, several indicators were analyzed such as (Active loans, disused loans, total debt, active loan portfolio, active customers in rural areas) on the relationship they have with the standard of living of individuals who have received loans from non-financial institutions. bank during the period 2018-2021. In order to analyze these links, the data were obtained from the Financial Supervision Authority (FSA) and the Bank of Albania (BA). Multiple linear regression analysis was performed using EViews 12 statistical software.

Based on the multiple regression analysis, we can conclude that this model exists as a whole as the F-statistic is statistically significant at the 5.3% level, according to the corresponding probability value of 0.007817.

From the results we can observe that the number of active loans, the number of disbursed loans and the constant are statistically significant.

The number of active loans (-0.373319NAL) is statistically significant and has an inverse relationship with the standard of living. From this analysis it follows that, if we keep all other variables constant, an increase of one unit in the NAL variable, will lead to a decrease of 0.373319 units in the Standard of Living variable.

Likewise, the variable Number of loans disbursed (-0.479899NLD) is statistically significant, which also has an inverse relationship with the standard of living. If we keep all other variables constant, a one-unit increase in the NLD variable will lead to a decrease of 0.479899 units in the standard of living variable.

Referring to the above analysis, it is concluded that, from a social point of view, the main goal of non-bank financial institutions is to positively influence economic development and increase the standard of living. In the short term, these incentives achieve their goal. But relying on the analysis carried out in this study, it results that IFJB, in addition to increasing their assets and profitability, lower the standard of living and deepen poverty. This results because they have facilities in the initial benefit of the loan, but on the other hand, they have high interest rates, which deepens the individual's inability to fulfill obligations. From the side of these institutions, this is somewhat justifiable, since they themselves, since they do not hold collateral for the loans granted, are forced to "protect" themselves with these interest rates. The analysis shows that the more the number of active loans increases, the more the profitability of non-bank financial institutions will increase and the more the standard of living will decrease. So, the hypothesis raised at the beginning of the study is confirmed.

6. Recommendations

Based on the final results of this study, we can say that there is still a lot of work and many opportunities to improve the condition of the population from a social and economic point of view.

Two elements are needed for the microfinance sector in Albania to be successful:

1. An institutional and cultural environment favorable for microcredit must be built and consolidated with the contribution of a wide range of actors, from public administration to traditional lending actors.
2. Further in-depth analyzes should be drawn up by the responsible institutions for access and profitability in the microfinance sector.

Researchers should conduct scientific research to provide suggestions on how microcredit should be used efficiently to increase economic development, standard of living and poverty alleviation.

Cooperation with all the aforementioned actors will contribute to the assessment of the current situation, the creation of new plans and strategies, the creation and evaluation of new opportunities, the initiation of concrete steps to positively influence the increase in the standard of living of families in Albania. and poverty reduction.

7. References

Asiama, J. (2007). Microfinance in Ghana: An Overview. Department of Research, Bank of Ghana, Accra.

Bank of Albania (2018). Annual Report 2018. Tirana: Bank of Albania. The Bank of Albania. (2019). Annual Report. The Bank of Albania. Tirana: Bank of Albania. Found at https://www.bankofalbania.org/web/pub/kopertina_rv_2019_shqip_per_web_ikone_9552_0.jpg

Bank of Albania (2020). Annual Report 2020. Tirana: Bank of Albania.

Bank of Albania (2021). Annual Report 2021. Tirana: Bank of Albania.

Barr, M. S. (2005). Microfinance and Financial Development. Found at https://repository.law.umich.edu/cgi/viewcontent.cgi?article=1046&context=law_econ_archive

Enisan, A. A., and Isaac, O.O. 2012. Impact of microfinance on poverty alleviation in Ondo State, Nigeria. Australian Journal of Business and Management Research 2: 31.

http://hummedia.manchester.ac.uk/institutes/gdi/publications/workingpapers/archive/fd/fdwp01.pdf

https://mpra.ub.uni-muenchen.de/11079/1/MPRA_paper_11079.pdf

https://www.shs-conferences.org/articles/shsconf/pdf/2016/01/shsconf_psu2016_02003.pdf

Hulme, (2000). Impact assessment methodologies for microfinance: theory, experience and better practice. Found at Johnson & Rogaly, (1997). The Impact of Microfinance on Grassroot Development: Evidence from Smes in Kwabre East District of Ashanti Region of Ghana. Found at https://www.scirp.org/pdf/OJBM_2017081811015930.pdf

King, R. G., Levine, R. (1993). "Finance and Growth: Schumpeter Might Be Right". *The Quarterly Journal of Economics*, Vol. 108, No.3, 717-737

Otero, L. (1999) Adopting zero interest financing model (ZIFM) in Islamic microfinance institutions: the case of Shariah people credit bank (BPRS), Indonesia. Found at Rena, R., Tesfy, G. (2006). Poverty and microfinance in Eritrea – a discourse. Found at Robinson, M.S. (2002) The Microfinance Revolution, Sustainable Finance for the Poor. World Bank Office of the Publisher, Washington DC.

Samer, S., Izaidin, M., Syaiful R., Mohd, R..M., Nlizwa, R. (2015). The impact of microfinance on poverty reduction: Empirical evidence from Malaysian perspective. *Procedia-Social and Behavioral Sciences* 195: 721–28.

Zainal, N., Annwar N.A.M., Kamarudin, F., Law, S.F., Fadzlan, S., Hussain, H.I. (2019). The social role of microfinance institutions in poverty eradication: Evidence from ASEAN-5 countries. *International Journal of Innovation, Creativity and Change* 5: 1551–76.

Fiscal stamps' concession – between high costs and absent economic logic

Prof. Asoc. Dr. Elvin MEKA[1]
DEPARTMENT OF ECONOMICS & FINANCE,
EUROPEAN UNIVERSITY OF TIRANA, TIRANA, ALBANIA
elvin.meka@uet.edu.al

Abstract

The fiscal stamps' concession for excise –taxed and pharmaceutical products is part of a long list of many PPPs and other concessions, granted and approved by Albanian governments, over the years, whose purpose is to free the government and state entities from providing services and investments in different sectors of the economy.

Beyond being a normal practice in many European countries and also in the region, this concession, approved since 2011, is almost unique and unusual, in terms of printing and selling price for fiscal stamps by SICPA, the concessionary company, where practically these prices are up to 7–10 times more expensive than the respective ones applied in other European countries and in the region, even by the same concessionary company. Despite this, such a concession applies a primitive technology for the production and printing of (domestic and imported) beer tax stamps, which does not justify the price of the

---

[1] 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, Editor-in-Chief of "BANKIERI" Magazine, a publication of Albanian Association of Banks (AAB), and actually is Chairman of "AK Invest" Supervisory Board and board member of the Albanian Securities Exchange - ALSE.

stamp, furthermore, is senselessly burdening the cost of producers and importers, as well as the final consumer, in the domestic market. This concession remains unprecedented, as it imposes a fiscal stamp on beer as well, a practice not implemented in Europe, by burdening, without an economic logic, all the operators who produce and trade beer, as well as the final consumer in the domestic market.

Given the fact of the lack of a deep analysis on the benefits and successes of the fight against fiscal evasion from trade of excise – taxed goods and, moreover, of the lack of a clear comparative analysis between the advantages and essential improvements, such a concession brought to the national economy, public finances and the consumer of the Albanian producer, but also through the analysis made with regard to the economic & financial indicators and the costs of the Albanian producers and consumer, the paper comes to the conclusion that this concession, in its closing stage, should be deeply revised, probably being temporarily offered by the government and then negotiated with more favorable terms and prices than the current ones and comparable to other countries in the region and Europe.

Also, the government should be attentive to the concerns of beer producers and importers and the unjustifiable costs on final consumer. Moreover, it must clarify and specify, from a legal point of view, the possible consequences, or "gaps" of the concession contract with SICPA company, related to its international arbitration proceedings.

I. General

Concessionary agreements are a policy instrument that can affect the market for a long time. These agreements usually grant exclusive rights to infrastructure project operators, but not exclusively, and therefore have the potential to distort competition, to a significant degree.

In European countries, granting concessions or public-private partnership contracts for various infrastructure projects or providing services is a normal practice. According to ATK[2], for the year 2018, the total value of Concessions/PPP contracts, signed in the European market, reached the value of EUR 14.6 billion (a decrease of 4% from 2017 with a total value of EUR 15.2 billion).

The concession/PPP market in Albania records a history of more than 18 years, since 2004, when the concession of Rinas International Airport was granted for the first time. All Albanian governments have been very active in using and tuning this instrument in many fields and sectors of the Albanian national economy.

---

[2] Concessions Treatment Agency – ATK: http://atrako.gov.al

CHART 1. Concessionary/PPP Contracts through years
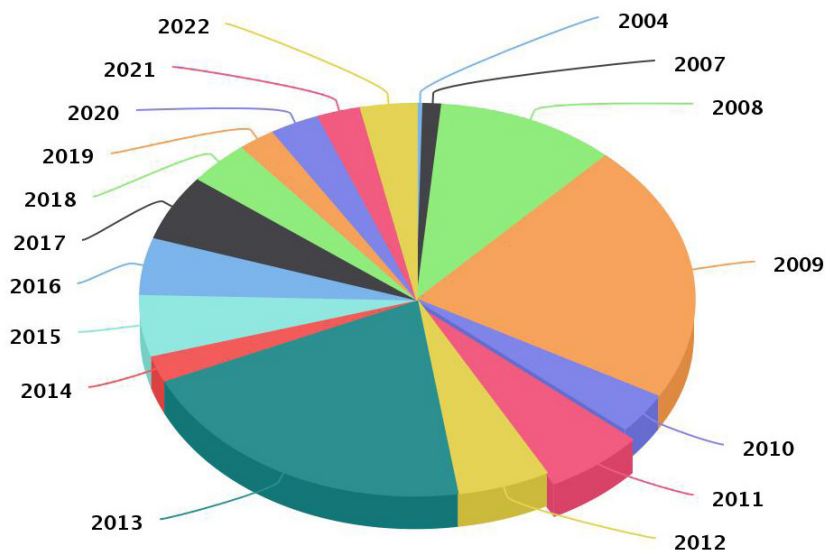
Source: ATK (2022)

According to the data of the Concessions Treatment Agency (ATK), from 2004 to 2022 (July), about 246 contracts and concession/PPP agreements were signed by the Albanian governments (see Chart 2 below) in various fields, which include:

- Health,
- Transportation,
- Fiscal Control,
- Energy/Gas,
- Environment,
- Agriculture,
- Internal Works,
- Economic Development and
- Urban Development.

CHART 2. Concessionary/PPP Contracts by activity (field/sector)

Contracts by Activity

Legend:
- Health
- Transport
- Fiscal Control
- Energy/Gas
- Environment
- Agriculture
- Domestic Works
- Economic Development
- Urban Development
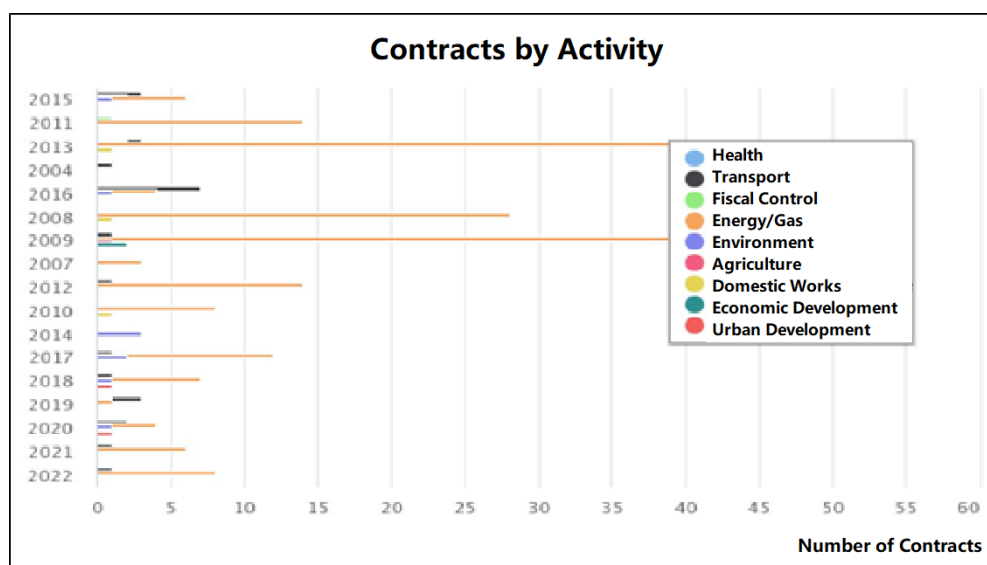
Source: ATK (2022)

The concession of fiscal stamps, approved since 2011, ranks under the fiscal control field.

Concessions/PPPs' advantages and disadvantages

As per the application of concession contracts and public private partnership (PPP), there is an open and time spanning debate, actually and also at international level, regarding their efficiency and effectiveness, in terms of increasing the quality of life for the public and the provision of quality services within a short time, which in other conditions would not be possible. In practice, granting various infrastructure projects or various government services with concessions may present certain advantages and disadvantages, as per following:

Advantages:

1. The private sector bears a significant part of risks, allowing a better distribution of risk between public and private entities,
2. High level of private investments,
3. The potential for efficiency gains, in all phases of project development, and implementation and technological innovation is high, if they are well - designed and implemented in a balanced regulatory environment,

4. By increasing the efficiency of government investment, the Concession/PPP allows government funds to be redirected to other important socio-economic areas,
5. Public - private partnerships reduce costs and can potentially lead to lower taxes.

Disadvantages:

1. They are generally very complex to implement and administer,
2. There may cause high fiscal costs for the government,
3. Negotiation between the parties and the conclusion of a project agreement may require a long time,
4. May require in-depth regulatory oversight,
5. They may produce conditional obligations to the government, in the medium and long term,
6. When there are a limited number of private entities that have the ability to complete a project, this may mean less competition and thus a less cost-effective partnership,
7. Project earnings may vary, depending on the assessed risk, the level of competition and the complexity and scope of the project.
8. If the PPP/Concession expertise lies too much on the private side, the government is at a major disadvantage, for example, it may not be able to accurately estimate the proposed costs.

II. The situation of fiscal stamps' concession in Albania

The concession of fiscal stamps for excise – taxed and pharmaceutical products in Albania is part of a long list of many public-private partnerships (PPPs), and other concessions granted and approved by Albanian governments over the years, the purpose of which is freeing the government and state entities from providing services and investments in various sectors of the economy, in fact almost in all sectors where services are provided by state entities and institutions.

From a historical point of view, the concession contract between the Ministry of Finance & Economy and the Swiss company SICPA, for putting fiscal stamps on excise – taxed goods (alcohol, alcoholic beverages and tobacco) and pharmaceutical products, was approved by the Assembly of the Republic of Albania in February 2011, through the Law no.10381, dated 24.2.2011: "For the approval of the concessionary contract between the Ministry of Finance, as the contracting authority, and "SICPA Security Solutions, s.a." and "Sicpa Security Solutions,

Albania", sh.p.k., "For the layout, financing, design, production and establishment of a system for issuing, distributing, tracking and monitoring of fiscal stamps and drug control stamps" and the concession contract that followed it, the Albanian government aimed to establish an efficient system for identifying and tracking products, subject to excise tax, aspiring for a higher efficiency in the fight against fiscal evasion and informality, in the production and marketing of these products in the territory of the Republic of Albania.

Previously, fiscal stamps were printed by the Bank of Albania and were a service provided by the Ministry of Finance, at a cost several times lower for excise - taxed products.

Beyond being a normal practice in many countries of Europe and in the region, this concession is almost unique and unusual, in terms of the price of printing and selling fiscal stamps by the concessionary company, SICPA (as presented below).

Under such a contract, the Albanian government agreed with the concessionary company (SICPA) to put the fiscal stamps according to the following prices:

TABLE 1. Prices of fiscal stamps by products

Product	Fiscal stamp type	Price per 1000 pieces (in €, excluding VAT and other taxes)
Tobacco	Security stamp	€ 20.00
Alcohol	Security stamp	€ 32.00
Beer	Security stamp	€ 22.00
Pharmaceuticals	Security stamp	€ 14.43

Source: Law no.10381, dated 24.2.2011.[3]

If we compare these price figures with those the Albanian government has agreed with the concessionary company, and also with those that are usually applied for fiscal stamps in Europe and in the countries of the region, we will notice a significant difference in the price range applied in Albania, a difference that is not in percentage terms, but several times higher than the prices applied outside Albania.

---

[3] Law no.10381, dated 24.2.2011: "For the approval of the concessionary contract between the Ministry of Finance, as the contracting authority, and "SICPA Security Solutions, s.a." and "SICPA Security Solutions, Albania", sh.p.k.., "For the layout, financing, design, production and establishment of a system for issuing, distributing, tracking and monitoring of fiscal stamps and drug control stamps".

TABLE 2. Prices of fiscal stamps in several countries of Europe and in the region

Country	Fiscal stamp in USD $/'000 pieces	Company
Kosova	2.2	UAB "Garsu pasaulis"
EU*	3	Mainly National State Subjects
Bosnia & Herzegovina	3.2	Local Provider (Grafotisak)
North Macedonia	3.2	National Printing House
Serbia	5.2	National Printing House
Turkiye	5.6	SICPA
Georgia	6.4	SICPA
Montenegro	6.6	Obod
Russian Federation	7	CRPT
Albania	24.2	SICPA

* Average cost for 1,000 pieces of fiscal security stamps.

Specifically, what is visible and that goes without any explanation and logical reasoning, in the practical aspects of this concession, is the remarkable difference in the price of printing fiscal stamps, which the Albanian Government, back in 2011, accepted and agreed upon with the concessionary company, SICPA, differences in the range of 7 to 10 times (700 – 1,000%) higher than those applied outside Albania. As it can be seen from Table 2, the differences that exist between the price of fiscal stamps in various countries are within some reasonable and logical intervals; the only exception here is their price in Albania, which goes beyond any logical and reasonable range.

The Albanian government, and also the concessionary itself, have made no clarifications and explanatory arguments regarding such a high price level for printing fiscal stamps in Albania. The rationale of the lack of economy of scale and the small consumer market, the Republic of Albania presents, is completely inappropriate, as long as in markets smaller, or comparable to Albania (Kosova, Montenegro, Georgia, Bosnia & Herzegovina, North Macedonia, etc.) the price applied for fiscal stamps is several times lower, which speaks for the irrelevance of such an argument. Also, the argument of using a very special technology does not hold, since the format used in Albania does not have big differences, or that would require very large costs from those needed to be used in other countries. Practically, in Albania the use of a completely different and much more advanced technology for their printing by this concessionary company is not evidenced, contrary to what the latter uses for printing and producing fiscal stamps in other countries, where it offers such a service. Last, but not least, this concession agreement extends the effects of the application of the fiscal stamp to the beer product. Here it is worth noting that, in no European country, there is any evidence of putting any fiscal stamp on the "beer" product. At the time of

the negotiations for granting the concession for the printing, distribution, tracking and monitoring of fiscal stamps, it was evident that there was only one European country that applied the imposition of stamp tax for the beer product; this country was Turkey, which for several years has given up such a procedure and its respective application. In other words, the fiscal stamp application for beer is not only unusual, but it can be asserted that it is quite unique for Albania.

Moreover, beer is a wet product and, in the environment where it is packaged and the fiscal stamp is attached, there is moisture and about half of fiscal stamps that are purchased by the producer, or the importer at SICPA, are damaged. Thus, the cost of fiscal stamps, in case of beer, is even higher for the business, considering a very high percentage of losses and damages. In other words, the concessionary company uses an outdated technology for their production, a method that ranks Albania as the only country in Europe that uses such a primitive method of printing fiscal stamps, at a time when their selling price is very high, causing high costs and unnecessary waste of time to importing and domestic business.

On the other hand, despite the fact that "SICPA Security Solutions" Albania sh.p.k., has implemented the "Track and Trace" system, which in some way can be a reason for significant technological expenses that justify the high price applied for the beer tax stamp, the outdated technology of their printing and the lack of the fact that the concessionary company is using, only in case of Albania, a much more advanced technology than in other markets, disproves such a claim. This means that the reason of an accelerated depreciation of equipment, within the concession period, does not hold.

On the other hand, an unusual element of this concessionary contract is the application of very different prices for tax stamps, from the same concession company (in this case "SICPA Security Solutions" SA, which offers the same tax stamp production service also in Turkey and Georgia, but with prices almost 4 - 5 times lower than in Albania. If the reasoning for the large level of fiscal evasion in Albania, in relation to Georgia were to be considered, this reasoning does not hold, since as Little et. al (2021) put in the early 2000s, the informal cigarette market was unmanageable in Georgia, reaching one-third to two-thirds of the total cigarette market. According to such an argument, at least the level of the fiscal stamp price of cigarettes should have been comparable to Georgia, which is not observed in the above data.

II.1. Financial considerations and associated concession's costs

The concession of fiscal stamps that the Albanian government has given to "SICPA" company produces a certain cost, for three stakeholders, as follows:

- Domestic producers and importers of excise – taxed goods,
- The final Albanian consumer,
- The Albanian government.

As can be easily deduced from the above information, it is easily recognizable that the one who pays the most and finally the burden of this concession, at least from a financial point of view, is the final consumer in Albania (the individual), who bears not only the burden of the concession's cost (the turnover invoiced by "SICPA" company), but also other additional costs, which come as a result of the process of price transfer from producer to the final consumer.

Costs for manufacturing and importing businesses

Based on this concession, domestic beer producers and importers have been forced to carry out extra expenses and make considerable investments, by purchasing specific equipment that enables the correct implementation of the regime of putting fiscal stamps on products, produced by them. The fact is that the concessionary company has not made the required investments, i.e., offering specific equipment to local brewers, investments which could also include the price of fiscal stamps. In other words, even the costs of putting fiscal stamps have been charged as costs to domestic brewers and importers. Specifically, domestic brewers (producers), in accordance with correct implementation of service, provided by the concessionary company, are obliged to follow a very complex procedure for the purchase and putting of fiscal stamps on excise – taxed goods, such as: cigarettes, beer, wines and other alcoholic beverages. Moreover, even for importers of excise - taxed goods, the procedure of sending fiscal stamps to producers of goods subject to the excise regime outside Albania, produces some extra costs. This is because, apart from the fact that, for fiscal stamps Albanian importers are obliged to deposit the corresponding bank guarantees, their delivery to producers (outside Albania) must be done by an international transport company, and this further increases the respective business costs. In many cases, importers (e.g. of beer, but not only), send fiscal stamps to producers almost every week, accumulating increasingly higher costs.

Such an approach has inevitably and understandably led to increased production costs. As local producers put out:

> "The expenses charged to businesses that produce excise – taxed goods, to guarantee the compliance of duties' payment to the state through fiscal stamps, in certain cases, go beyond any financial logic. In case of beer, for example, the expenses incurred by domestic brewery businesses are as much as 50% of the excise duty per production unit, for the purchase of fiscal stamps, only".

But if these production costs, in one way or another, are transferred to the final consumer, they still make domestic production less competitive, compared to imports, where the "price" element remains almost the only relative competitive

advantage that domestic production possesses, given the real difficulties to ensure the same economy of scale foreign producers enjoy, either European or regional ones, which enables the distribution of extra costs in more final production units. This puts local producers in a difficult position in the market, thus compromising their competitive position.

On the other hand, beyond the argument that this concession and the high price of fiscal stamps has almost no impact on the revenues of the state budget (since the part that passes to the budget is quite negligible), it has not managed to effectively address the main issue of the informal trade of excise – taxed products, mainly tobacco, which is still sold openly in the free market, without any concern from unregistered local producers or farmers, at a price 2-3 times cheaper than the excise duty per kilogram, which continues to be an issue. So, in the eyes and interest of the business engaged in the production and trading of excise – taxed products, the fiscal stamp applied by the concessionary company does not result, even after 10 years from its inception, as an efficient solution for the informal trade of these goods, as it has no power or does not protect honest manufacturers and importers from the unfair competition of illicit trade. Furthermore, it does not provide the government with a more effective excise tax for the tax collection.

In summary, the entire fiscal burden brought by this concession translates into a significant pre-fiscal burden, which in practice does not bring any practical positive results, neither in the field of food safety, nor in a better monitoring of the supply chain on those goods and products, that other countries and governments are able to obtain from similar solutions, but at a much cheaper price of stamps and/or total solutions, through tracking systems through codes.

Final consumer costs

The above additional production costs (specific machinery and equipment) that domestic manufacturers are forced to be faced with and bear are only the initial aspect of the overall costs incurred by this concession. The problem goes deeper because, beyond the problem of domestic producers with foreign competition, the final consumer is burdened with more than the cost of producers' investments, since the price transfer does not materialize according to the *Dollar-for-Dollar* principle (ALL-for-ALL), instead it goes under the "*cascade principle*" effect, where sequential processes add up to final costs more than their arithmetic sum, after each stage or process. In such a situation, the cost effect and price of the tax stamp is not the one presented in the invoice of their purchase, but even greater, forcing the Albanian consumer to pay costs not only for the tax stamp, but also the increased costs of production. At least for beer, this could have been avoided, by not making it part of the concession of fiscal stamps and saving the Albanian consumer unnecessary expenses for years.

On the other hand, as the local entrepreneurs claim, mainly beer producers, but also traders of other alcoholic beverages, tobacco and cigarettes:

> "…high tariffs during these 10 years have only increased costs and have not protected us from unfair competition."

So, everyone can easily figure out that one of the goals of introducing and applying fiscal stamps, the consumer's safety (health), is not evidenced either by the concessionary company, or by the government, itself.

II.2. Economic and financial aspects of fiscal stamps' concession

Regarding the economic and financial aspects of fiscal stamps' concession, below are presented some economic and financial data through years (until 2020) by "SICPA" company.

As can be seen, throughout 9 years (until 2020), the concessionary company has realized a total turnover of about ALL 8 billion, where the average annual turnover has fluctuated around ALL 900 million. If the concessionary company would apply a normal price for the sale of fiscal stamps, ranging from 7 to 10 times lower, the financial amount collected by the business would fluctuate in the range of ALL 1-2 billion, which easily means that the Albanian importing business and producers of the excise – taxed goods have paid about ALL 7 billion more, or about EUR 60 million, during the above - mentioned concessionary period. Meanwhile, the cost, or fiscal "damage" for the final consumer is even greater than this figure, due to the cascade effect on the final price of the product, as explained above.

Concession's revenues for the Albanian government

According to Annex 18 of the concession agreement[4], in question, the concessionary company will pay in favor of the Authority (the Albanian government) a concession fee of 2% (two percent) of the net income from the sale of fiscal stamps, for the rights and privileges granted through this agreement, according to the audited financial statements of the concessionary company, for each financial year. Technically, the income of the Albanian government from the granting of this concession is completely negligible, considering the fact that for 5 years the concessionary company has not made any profit (that is, it has not even paid corporate tax).

---

[4] Annex 1: "Price, Fees and Costs" of the Law no.10381, dated 24.2.2011: "On the approval of concessionary contract between the Ministry of Financave, as the contracting authority, and "Sicpa Security Solutions, s.a." and "Sicpa Security Solutions, Albania", sh.p.k. companies "For the layout, financing, design, production and establishment of a system for issuing, distributing, tracking and monitoring of fiscal stamps and drug control stamps".
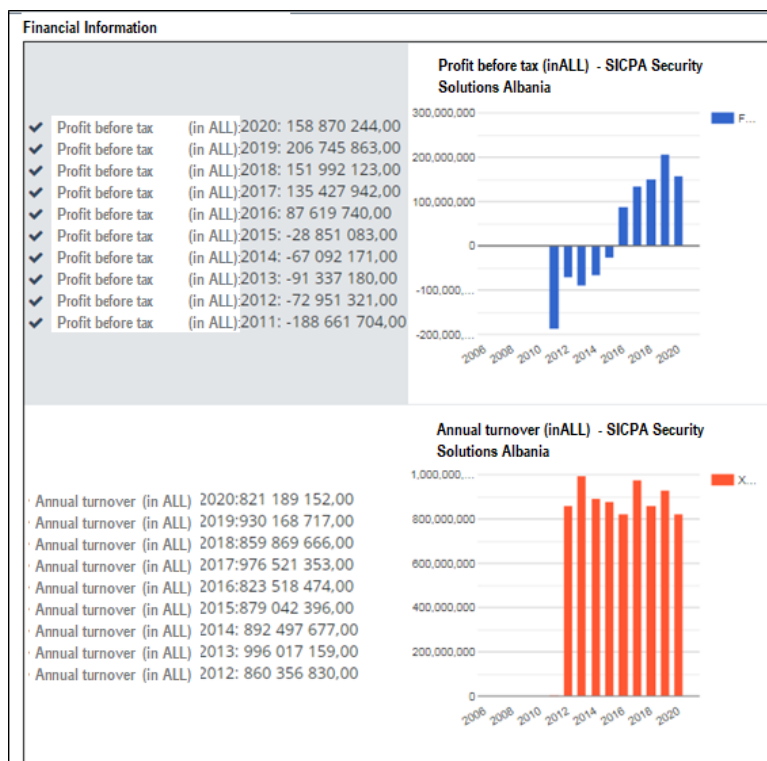
According to the financial statements for the last two years of "SICPA Security Solutions Albania sh.p.k" company, the estimated concession fee of ALL 18,603,374 for the year 2019, was paid during 2020. The estimated concession fee for the year 2020 stands at ALL 16,423,783 and it was paid in April 2021.

What stands out is that, during the first 5 years, the concessionaire worked at a loss (and consequently did not even pay the corporate tax), and only after 2016 it started to generate profit.

Profit-to-Turnover (in%) through years

2014	2015	2016	2017	2018
0%	0%	10%	13%	17%

2019	2020
22%	19%

Source: Open Corporates

Financial Information

Profit before tax (inALL) - SICPA Security Solutions Albania

✔ Profit before tax	(in ALL):2020: 158 870 244,00
✔ Profit before tax	(in ALL):2019: 206 745 863,00
✔ Profit before tax	(in ALL):2018: 151 992 123,00
✔ Profit before tax	(in ALL):2017: 135 427 942,00
✔ Profit before tax	(in ALL):2016: 87 619 740,00
✔ Profit before tax	(in ALL):2015: -28 851 083,00
✔ Profit before tax	(in ALL):2014: -67 092 171,00
✔ Profit before tax	(in ALL):2013: -91 337 180,00
✔ Profit before tax	(in ALL):2012: -72 951 321,00
✔ Profit before tax	(in ALL):2011: -188 661 704,00

Annual turnover (inALL) - SICPA Security Solutions Albania

- Annual turnover (in ALL) 2020:821 189 152,00
- Annual turnover (in ALL) 2019:930 168 717,00
- Annual turnover (in ALL) 2018:859 869 666,00
- Annual turnover (in ALL) 2017:976 521 353,00
- Annual turnover (in ALL) 2016:823 518 474,00
- Annual turnover (in ALL) 2015:879 042 396,00
- Annual turnover (in ALL) 2014: 892 497 677,00
- Annual turnover (in ALL) 2013: 996 017 159,00
- Annual turnover (in ALL) 2012: 860 356 830,00

Source: Open Corporates[5]

---

[5] https://opencorporates.al/sq/nuis/l02120032r

II.3. The legal "issue" of a possible extension for the concession

Regarding the concession agreement for fiscal stamps, it should be noted that, like many other agreements of this type, the Albanian government has signed over the years, by passing the provision of many services to private companies, this agreement also "suffers" from a legal deadlock. Specifically, it is about the production and application of fiscal stamps for pharmaceutical products, which was foreseen in the 2011 agreement, but which technically did not start that year. According to the performance report of the concessionary company, it is claimed that the contract terminates after the implementation of the "Track and Trace" system for pharmaceutical products. Following this logic, such a delay extends the implementation period for another 10 years, until the completion of the second element of the contract. At the time of drafting the concession agreement, the Ministry of Health required that the stamp of pharmaceutical products must also offer the "Track and Trace" function, for which the concessionary company claimed that the necessary respective investment would be EUR 9.7 million, and therefore the price of the stamp would have to be increased from ALL 2 per piece to ALL 10 lek per piece. Also, under the proposals in that time, the drug stamp would be priced at 2.4% of the retail price of each pharmaceutical product. Such an agreement would cause losses to the "track and trace" drug tracking system and the system of double drug stamps, which allowed the FDSKSH to track fake prescriptions. Such a price was contested and rejected in 2016, whereas according to Ms.Irena Beqiraj, former Deputy Minister of Finance:

> "...The quality of medicines, mainly curative ones, is always increasing, due to research and development expenses. Every new medicine costs more. With the increase in the value of the medicines, the profit of the concessionary company would increase proportionally, which, with the same cost per unit, produced both the stamp for paracetamol, which costs ALL 50, and for an expensive medicine, which could cost ALL 50,000. These "unfair" benefits, which would come not because of the investment, or operating costs of the concessionary company, but simply from the developments in the drug markets, in my economic point of view, would fall on the public, or the state budget, for refunded medicines."

On the other hand, Mr. Edmond Ahmeti, Director of Concessions at MFE, claims that:

> "...the group of experts that reviewed the concession contract, after repeated business concerns, has reached the final legal conclusions that the closing date of the concession is February 6th, 2023."

As per above, it is understandable that, according to the legal claims of the concessionary company, the concession cannot terminate in February 2023, but it must be extended for a longer period, as the condition of fiscal stamps for pharmaceutical products must be met, too. However, according to Mr. Edmond Ahmeti Director of Concessions at MFE:

> "…in Article 4 of the contract, it is determined that for the unrealized element, each of the parties had the right to terminate the contract. This right was not exercised by any of the parties at that time, that is, it did not renounce the contract, or notify the other party about the termination of the contract for non-fulfillment of a condition. As such, since the concession fee had started to be paid in 2012, following discussions in meetings held by the contract implementation board (representatives of the ministry and the concessionary company) they agreed that February 6th, 2013, would be considered contract start date, which means the date of fulfillment of the preconditions. This was the part that was not officially defined for the entry into force of the contract".

In conclusion, it can be affirmed that the Albanian government may face a legal dispute at international level, related to the controversial aspect of the start date of concession, according to the claims by the concessionary company. Such a fact should serve as a signal of caution, as regards taking relevant and timely measures, aimed at a successful avoidance of an international legal confrontation, which would, in any case, cause economic and reputational consequences and costs for the consumer and the Albanian government.

V. Conclusions and recommendations

At the end of this study, the following conclusions may be drawn and the following recommendations may be given, as follows:

Conclusions

- Albania offers the most expensive concession for fiscal (tax) stamps, and imposes fiscal stamps even to products that are not normally treated as such in all EU countries and in the region (beer), thus burdening the and Albanian producers and consumers with excessive and unnecessary costs, by increasing the cost of households' budgets. Albanian business is faced with additional cost of about EUR 60 million, during the whole concession's timespan.

- The final consumer is burdened not only with the financial cost of the concessionary company, but also with the producers' investment costs, since the price transfer process does not take place according to the *Dollar-for-Dollar* principle (ALL-for-ALL), instead it goes under the *"cascade principle"* effect, where sequential processes add up to final costs more than their arithmetic sum, after each stage or process.
- The application of the fiscal stamp for beer is not only unusual, but it can be asserted that it is quite unique for Albania. The fiscal stamp for beer should be removed immediately, because no country in the region or Europe has imposed it. In Albania, there is a lack of evidence, facts and in-depth analyses, which testify to any essential and significantly tangible results, related to the fight against fiscal evasion, in the trading and production of goods that bear a fiscal stamp, hence one of the primary goals of this concession. Under these conditions, the presence of such a concession creates little added value for the national economy, the Albanian consumer and the Albanian government, itself.
- The concessionary company uses an outdated method/technology of printing fiscal stamps for beer, thereby increasing production and import costs and expenses, and further burdening the final consumer.
- The Albanian government is a very modest beneficiary of incomes from this concession, thus making its extension quite unreasonable, at least under the prevailing regime of setting the value and price of fiscal stamps.

Recommendations

- The Albanian government should terminate and discontinue the concession in 2023 and stop the fiscal stamps' price abuse, as well as lift their application from beer product.
- Following the official termination of the concessionary contract, the Albanian Government may consider to temporarily provide the service of fiscal stamps' production by itself, until a second moment that may be deemed as appropriate, to stabilize the current anomaly first, then to sign a new concessionary contract with much more fair and normal terms than current ones. Regardless of the decision-making by the Government, in the near future on whether or not to continue the fiscal stamps' concession, or providing such service by itself, the rates and prices of these stamps must be fundamentally revised and aligned with those of the countries of the region and EU countries, by reducing their cost burden in the final price, paid by the consumer and by the business engaged in this field of production and trade. Moreover, technological advancements and numerous offers on the market

for this type of service create all necessary conditions for the application of fiscal stamps at prices comparable to other countries in the region and EU.

- The government may consider undertaking a study, related to real benefits and necessary mechanisms to be used, in case of the application of fiscal stamps, related to the reduction of fiscal evasion and the minimization of goods' circulation in informal ways, which harm regular business, beyond the aspects of food safety and consumer health protection, which should be part of goals and objectives for imposing and applying fiscal (safety) stamps.

II. References

Azo, D. (2022). Question marks on fiscal stamps concession; businesses complain about high costs, (in Albanian) MONITOR Magazine, https://www.monitor.al/pikepyetjet-e-afatit-te-koncesionit-te-pullave-fiskale-bizneset-ankohen-per-kostot-e-larta-te-tarifave/

Beqiraj, I (2021). "Concessionary Agreement for fiscal stamps does not end in 2021" (in Albanian), PANORAMA Newspaper, 5 February 2021. http://www.panorama.com.al/kontrata-e-koncesionit-te-pullave-fiskale-nuk-perfundon-ne-vitin-2021-ish-keshilltarja-e-rames-flet-hapur-kjo-ishte-ceshtja-qe-solli/

ESCAP (2008). Pros and cons of concessions. A primer to public – provate partnerships in infrastructure development, https://www.unescap.org/ttdw/ppp/ppp_primer/2251_pros_and_cons_of_concessions.html

Little, M., Ross, H., Bakhturidze, G., Kachkachishvili, I. (2021). Analysis of the illicit tobacco market in Georgia in response to fiscal and non- fiscal tobacco control measures, *Tobacco Control*, https://www.doi.org/10.1136/tobaccocontrol-2020-056404

Monitor (2021). Fiscal stamp concession nearing the end. Businesses to Rama: Decrease the price for fiscal stamps; we are paying an absurd cost for 10 years, MONITOR magazine (in Albanian), https://www.monitor.al/koncesioni-i-pullave-drejt-fundit-bizneset-leter-rames-ulni-cmimin-e-pullave-fiskale-prej-10-vitesh-po-paguajme-kosto-absurde/

SICPA Security Solutions Albania shpk (2021). Performance Report, 2021.

Webpages:

Albanian Institute of Science: www.opencorporates.al

Agency for Concessions Treatment: http://atrako.gov.al

World Bank: https://www.worldbank.org/en/topic/publicprivatepartnerships

The balance small business: Public-Private Partnership Pros and Cons https://www.thebalancesmb.com/public-private-partnership-pros-and-cons-844713

Laws and bylaws:

Albanian Parliament (2011). Law no.10381, dated 24.2.2011, "For the approval of the concessionary contract between the Ministry of Finance, as the contracting authority, and "SICPA Security Solutions, s.a." and "SICPA Security Solutions, Albania", sh.p.k.: "For the layout, financing, design, production and establishment of a system for issuing, distributing, tracking and monitoring of fiscal stamps and drug control stamps".

Necessity for a Grand Strategy

Dr. Blendi LAMI[1]

Department of Social Applied Sciences,
European University of Tirana, Albania
blendi.lami@uet.edu.al

Prof. Dr. Kristaq XHARO[2]

Department of Social Applied Sciences,
European University of Tirana, Albania
kristaq.xharo@uet.edu.al

Abstract

Articulations of notions such as "infringement of sovereignty", "national union", "national strategy" or "power capacities" should be done with great prudence by Albanian policy makers. Declarations of Albanian actors have also a direct impact on the behavior of international factor. Declarations of this nature must be filtered first in the "laboratory" of a national – or even grand strategy. Albanian national power determines the behavior of states such as Albania and Kosova. National power is the most popular "currency" for communication in International Relations. Each state uses its power to secure its interests in the international arena. The nature of this struggle for power can only be examined through an analysis of power competition with other nations. No nation can punch above its weight in international relations first and foremost without considering alliances. In this context, this article aims to shed light on the weight of a small state in

the international arena, which can be determined by a national strategy. This article concludes that the Albanian geopolitical space need a Grand Strategy and small countries like Albania and Kosova must harmonize their foreign policy with its strategic allies.

*   **Keywords**: national power, power capacities, hegemonic power, strategic allies, grand strategy*

1. Introduction

This article was initiated by the recent political discourse of Albanian political actors, who talk about terms such as "national sovereignty", "national union", "national strategy" or "power capacities", without conducting first a thorough analysis of the current position of Albania and Kosova respectively. Both discourses are related to the declarations made by Albanian political actors and to the attitudes of the international factor that come by because of "intemperance" in such statements - mainly due to the lack of knowledge and the lack of an assessment of the capacities. Only the design of a grand strategy would then allow the correct use of these notions and would then provide a track to be followed.

In both cases it is a negotiation crisis. In the internal context, the crisis has reached its dominant point involving internal and foreign political actors, but also the public in general. Externally, it is related to the statements of the two top leaders of the Albanian states for another alternative if the negotiations with Europe stop or do not proceed at the expected pace. In terms of communication, the crisis seems to extend between the internal and the international factor. In its most simplified form, the problems created by this crisis are related to the comportment of respective political elites towards the international factor, mainly towards alliances and strategic allies.

Recently the two top leaders of the Albanian states (Albania and Kosova), perhaps addressing the international factor (EU), declared that indifference or delays in integration towards the Albanian states is promoting another alternative, apart from the perspective of a future within the EU structures. In another form, the alternative of a national union was articulated. The statements of the Albanian leaders on the matter in question attracted the reaction of the international factor. The reaction from NATO came two days after the declaration, from Russia four days later and from the EU after six days. Of course, there were also reactions from neighboring countries: Serbia, Greece, Northern Macedonia, etc. Reactions from Serbia came first in a laconic form from President Vucic and then a rather threatening "declaration of war" from the Serbian foreign minister. The question arises: Were the speeches of the Albanian leaders productive in the way of

diplomatic behavior? Did they consider the respective national powers? Is there a grand strategy facilitating or enabling this union?

The union of nations in the "international game" - in search of a "precedent"

Since the World War II, it was difficult to find precedents for the phenomenon of national unification. The conferences of Tehran, Yalta and Potsdam during the World War II tried to preserve or bring under the influence of the winners the states that were considered sovereign until the war. Apart from the birth of new states from the decadence of colonialism in Europe, there were no unifications of states, but developments of going under the umbrella of two superpowers due to the security dilemma.

After the Cold War, political scholars analyze two moments. First, the unification of Germany and the "unification"/annexation of Crimea. The first was successful because it was agreed by the great powers and Germany itself represented such power capacities that influenced the behavior of the major powers. The union of Crimea with Russia, which continues to be considered annexation, has been accompanied by categorical positions against this action and a powerful economic embargo. The case of Crimea is a "precedent", but the international factor considers it a violation of the international law (Zagorodnyuk, 2023).

In contrast, all other cases - always after the Cold War - are those of the creation of new states as a result of the disintegration of "modern empires": the Soviet Union, Yugoslavia and Czechoslovakia. In each of the "peaceful" or "violent" cases, the process of recognition of new states has passed through the process of recognition or international treaties. The international factor – i.e., the great powers - even in these cases have aimed at not disrupting regional balances and balance of power (Roeder, 2012:15). As a concept and reality since 1815 (Congress of Vienna), balance of power has changed little even in modern times. According to Kissinger (1957), the great European and world powers connect the balance of power with the security dilemma itself, which even for a long time does not seem to change (p. 28). All the "new countries" were small countries and not powers that could upset the balance in Europe or the world. Meanwhile, in every case, the behavior of the political elites has been coordinated or approved by that of the great powers.

Many dilemmas arise when designing and then implementing a national strategy. Even for what we have seen in all these years, obviously such a strategy has been missing. Chaotic movements with colossal expenditure of energy, making and remaking of history, have been present in the political scene of both Albanian states. As for the other "distributed" half, there was never any debate. The absence of such a grand strategy - the fruit of the logical consensus of all factors

- remains one of the biggest disadvantages of Albanian politics. More concretely, three specific moments of a major strategy - national interests, national power (resources) and the way elites behave towards them and towards strategic allies - are the columns of a grand strategy. Any strategy that is currently in place and named "national" has failed to address aspects of the national strategic character such as interests, potentials, alliances, developments and perspectives, which would have a nationwide impact.

2. Literature review

Buzan & Wæver (2010), among many researchers of international relations, believe that at the base of the behavior of states lies the capacity of national power (p. 377 – 395). According to Morgenthau (1968), national power - one of the central subjects of the study of international relations - is the ability of a nation to realize objectives of its national interests in relation to other nations. It includes the capacity to use or threaten to use force by influencing others to secure national objectives (p. 25). Based on the power capacities, countries in the world today are categorized into hegemonic powers, great powers, regional powers, small powers, and small countries.

Currently only the US is a hegemonic power. Russia is a great power with strong military potential, but its economic potential does not allow it to emerge as a hegemonic power. China is a great power with strong economic potential, but due to its military arsenal (i.e., its limitations) it is not comparable to the US's and Russia's strength. Britain and France are great powers, but with military and economic potentials not comparable to the first three. Hegemonic powers and great powers possess nuclear arsenal. Germany and Japan are powerful economies but do not possess military potential - not because of impossibility but because of limitations imposed on them since World War II. Regional powers rank after hegemonic powers and great powers.

Continuing this reasoning, Buzan & Wæver (2010) in "Region and Powers" make the following list: one hegemonic power (USA), five great powers that are also members of the UN Security Council and 13 regional powers. Italy and Turkey are cited as regional powers in our region. Other countries are either "minor powers" at best or simply "small countries". While countries classified in the first three categories do not have issues of survival, other (i.e., small) countries fight for their survival and modify their behavior to avoid security risks.

According to Schwarzenberger (1952), "Power is the capacity to impose the will on others by relying on the capacities of effective power in cases of non-compliance" (p. 74). National power has several elements that political scholars

classify in different ways. Morgenthau (1968) classified them into two categories - permanent and temporary ones, while Kugler & Organski (2018) preferred to classify them into natural and social ones. Palmer, Perkins, Charles O. Lerche, Abdul Said and James H. Wolfe define them in two types: tangible and non-tangible or in very articulate language in "soft powers" and "hard powers".

In a more detailed form, power capacities are defined by geography, natural resources, economic development and industrial capacities, technology, military power, ideology, leadership, governing quality, national character and morality, diplomacy, etc. To continue the analysis, we can also rely on Toje (2010) who simplifies the definition of power into economic, military and soft power and states that "the three forms of national power are inseparable from each other" (f. 67). Without economic power no nation can develop its military power and without the latter no nation can play an active role in international relations. Should the countries ignore this trinomen, they will get into difficult and intricate situations.

3. The Balkans, Albania and balance of power

The Balkans, an area of 550,000 km² and a population of 55 million, consists of thirteen countries. None of the Balkan states can be classified as a great power. Only Turkey, referring to the above criteria, is evaluated at the level of regional power (Buzan & Wæver, 2010, p. 54). Other states are divided into the category of small powers or small states. Their economic and military powers do not rise to the level of regional or great powers. To clarify this presentation more precisely, the concept of national power becomes necessary.

Economic power is the most important form of national power. It presupposes the ability of a nation to meet its own needs and to control the behavior of other states through economic means. Economic tools in foreign policy are considered in the current period the most vital tools that a state can use to influence the actions and behavior of other states. Perkins (2001) in his book "International Relations" states that "no state can become a military power, even a great power, without having adequate economic power" (p. 44). According to Wolfe (2008), "economic power is inseparable from military power, because it is one of its basic components in the conditions of modern war; moreover, economic power can also be considered military power but in an easier reduction" (p. 15).

What about the Balkans? Referring to the CIA Fact Book 2016 we can find the economic power capacities for countries in the region. For analytic purposes, Italy is also included, which ranks 12th, while the other countries are as follows: Turkey – the 13th; Greece – the 57th; Bulgaria - the 76th; Serbia – the 81st; Croatia – the 84th; Slovenia – the 98th; Bosnia – the 111th; Albania – the 121st; Macedonia

– the 125th; Kosova – the 145th; Montenegro – the 153rd. The position of most of the countries in the region and obviously Albania cannot be evaluated in terms of the size of a "small power" economy, but simply a "small country" with no weight or influence on regional geopolitics.

Military power is one of the most important forms of national power. It is considered essential to the nation's security objectives. And for every state, security is the most vital element of its national interest. In fact, it is at the same time the main concern of every nation for its security. The possibility of the violation of a nation's security through war and aggression by other nations is always considered as a distinct possibility and thus every nation gives priority to its security. To maintain its security from possible dangers, every country will need an army. Military power is considered the key tool for the security and territorial integrity of any nation. What about in our region? Based on the global power index 2016, Albania ranks 115th out of 125 countries under consideration. A position not laudable even on a regional scale. In this context, Turkey ranks 8th, Italy 10th; Greece 28th, Croatia 68th, Serbia83rd; Albania 115th, Slovenia 111th, Bosnia 120th, while Italy ranks 10th; Romania 43rd and Bulgaria 67th.

So, in the context of military power, our country remains a "small country" and far from being categorized a "small power". Meanwhile, our neighbors are in more favorable positions in the ranking. The current trend of increasing military power is dominated by the neighbors. Difference in power goes in favor of our neighbors. According to Stockholm International Peace Research Institute, military spending for 2016 is as follows: Italy 27.3 billion; Turkey 14.9 billion; Greece 4,973 billion; Serbia 710 million; Croatia 695 million; Albania 147 million and Kosova 51 million. Being positioned as a member of NATO does not change the balance of power in the region, because the countries mentioned above are also members of the alliance, except for Serbia.

Soft power is another important form of national power. It signifies the power of thought and the image of the nation. The role of propaganda and "smart" negotiations in international relations is a well-known fact. These tools are used by states to ensure a desired change in relation to the behavior of other states. With the use of formal, informal, public and cultural diplomatic means, a state always tries to influence the opinion and leaders of other states. The ability to influence others through communication constitutes the psychological part of a nation's national power. Nye (2005) describes soft power in his book "Tools for Success in World Politics" as the possibility that ". . . a country can achieve the desired results in world politics because other countries – admiring its values, using its example, aspiring to the level of prosperity and well-being – want to follow it" (p. 75). In this sense, it is also important to set the agenda and draw others into world politics and change their behavior not only through force or economic sanctions. The soft

power – getting others to help you achieve the goals you want – brings people and states closer together rather than coercing them.

National Power is the most popular "currency" for communication in International Relations. Each state uses its power – or at least one of the forms we mentioned above (economic, military, diplomatic ones) – to secure its interests in the international arena. It is this feature that makes us see international relations as a process of power competition. The nature of this struggle for power can only be examined through an analysis of power competition with other nations, closer or further away from the region. The role that a nation plays or can play in international relations, can be judged by assessing its power. From this point we come across the fact that the interest in maintaining and increasing national power is the primary interest of any nation in the path for survival. National power is the means of fulfilling the needs and aspirations of a nation. As such, it remains essential that based on national power we can assess the importance and weight of a country in international politics.

Beyond the "genius" that a leader can display, what gives weight to his/her positions and statements is the power of the nation. No nation can punch above its weight in international relations outside the context of alliances and allies. National strategies balance the weight and role of political elites. Nonserious attitudes towards allies puts a state in danger of survival.

4. A paradigm for small states

Within a unique context of circumstances, each nation designs or not its own grand strategy for its existence. In relation to the small countries, to secure national strategic interests, a quick incursion into history distinguishes the way they approach the objective through only three alternatives. The small number of alternatives - only three - on the one hand seems to limit the choices and on the other hand helps a country to face few dilemmas. However, having only three alternatives is not a very comfortable position, as there are limited opportunities to weigh, evaluate and decide. Owing to their capacities, countries with early and contemporary history can easily select their alternative within this paradigm. It is geography, history and geopolitics that are the columns of such orientation. According to circumstances, alternatives of selection evolve with each other and are intertwined, but do not change the outcome of the choice. Mitrany (1975) presents these alternatives: alternative of neutrality; alternative of joining powerful alliances and alternative of partnership with a powerful regional or global country.

The behavior of a small country with the big international actors cannot be a precedent. Located in the heart of Europe, Albania is traditionally required to

maintain its sovereignty to follow a security policy based on the idea that the country is secure when it manages to anticipate and avoid threats to its survival. In the above three alternatives, this objective seems to be achieved by following the alternative of alliances and partnerships. Neutrality is attained from the tendency to choose. It is estimated that after a long time Albania and Kosova are finally in their natural positions when it comes to alliances and strategic partners.

It is the duty of the political elites, mainly their leadership, to always take into consideration the fact that existential strategic interests are linked to these two types of alternatives. Avoiding this direction endangers the existence of the country. Limiting the policies with the allies is dangerous. The use of the term "sovereignty" is reliable and safe when articulated only within this context. "The elites cannot have the monopoly to question strategic alliances and partners (Mitrany, 1975:44). The elites, through diplomacy and various forms of cooperation, are asked to encourage the reduction of distances with Washington, Berlin, London, Paris, Rome and Brussels (NATO & EU), without excluding the good relations with neighbors.

Articulating the concept of infringing sovereignty or exceeding the recognized position of sovereign space requires maturity and responsibility. According to Hart (1974), these are considered major terms defined within a grand strategy (p. 334), and major terms are related to key issues. Major issues are further related to important actors, factors and processes. Small countries find it impossible to move or shift the strategic lines. Partners and alliances give the chance for small countries to be positioned smartly at the negotiating table along the powerful nations in a direct or indirect way. Alliances provide benefits, but also obligations. Alliances are respected and countries are just links in a chain. Respecting the alliance strategy is very important for the implementation of the national strategy.

Behavior with strategic partners should be conducted with expertise and cannot be conducted by "heroes" or "rhapsodes". Albania and Kosova have needed a relatively long time to find their natural strategic partners. Since the formation of the Albanian state, Albania, as a small state, tried all three alternatives of preserving sovereignty: neutrality, allies and alliances. The specter of "finding" allies has moved from neighboring countries to the steppes, but also to the Far East, and in every case, unfortunately, it was rewarded with disappointment and the risk of losing sovereignty precisely because of the wrong choices. It was never able to solve its own national issue. A country like Albania not only did not have the power capacities, but also lacked the combination of national strategic interests with natural strategic allies.

Failures were closely attached to the behavior of the elites. Interests of elites "weighed" more than the vital interests of the nation. The preservation of sovereignty and the national issue is based as much on increasing power capacities

as on the manner of behavior with partners. In the current international context, Albania has found its vital strategic partners: the USA and powerful western European countries. It is crucial that the national feeling harmonizes with the rapprochement of these partners. It cannot be the competency of any leading elite to thwart or change this equation with its behavior.

Does the lack of this strategy affect a common national vision? At a time when we are one of the most dispersed nations where approximately half of the country is in its natural territories and the other half is scattered around the world, is there a common strategy that orients and harmonizes the parts? Apart from the flag, the anthem and the national football team, is there a generator of feelings and ideas that unites people of the same language and origin? A nation without a strategy is a ship without a compass.

The term "strategy" is often used in every field: security, defense, environment, culture etc. These types of strategies formally have not been missing. But it is about something more - about national strategy. It is the idea of what Colin Gray, Robert Art, Christopher Layne, Hew Stracan and many other dominant voices in international studies call "grand strategy".

In our case, this term can be articulated as "grand strategy" or "national strategy". According to the above authors, this strategy covers the most fundamental issues of the nation, in times of peace, crises and conflicts, and is related to the most vital interests of a nation. The Grand Strategy harmonizes all types of strategies: security, defense, politics, diplomacy, economy etc. In terms of the necessity for a grand (national) strategy, Hart (1974), one of the most prominent theorists and historians of strategy, states the following: "Grand Strategy in the modern world is the art of managing a nation's resources and representing its interests, in times of peace and war, without time limits. It reflects an uninterrupted history, creation and work of generations, orientation for the future (p. 333). So, the national strategy is not a strategy against anyone else, but a strategy to preserve and promote national interests in the present and the future.

5. In lieu of a conclusion: temporary diversion to devise a major strategy

It is a fact that the political elites of the Albanian states individually represent only separate parts of the nation (Albania up to 30-35%, Kosova up to 20-25%), i.e., no more than 50-55% of the entire nation. In this way, both Albanian states can only formulate and execute state strategies. Therefore, it is necessary to devise a national strategy. In the meantime, the debate related to this topic can be deepened and expanded, and everyone's contribution helps at least to raise awareness of the issue.

First, political parties as temporary actors in the history of a nation find it difficult to assess the mission as part of a larger strategy. The grand strategy enables ambitions for unlimited action. Political elites have historically dominated strategic actions giving advantage to political tactics. Fluctuations or even avoidance for policymakers in assessing resources, allies, and strategic alliances indicate major differences between tactics and strategy. Electoral tactics have dominated grand strategy even though tactics without strategy are just "noise before defeat" (In the words of Sun Tzu, military strategist and philosopher, "Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat".) Although a grand strategy, as Luttwak (1976:33) says, reduces the risk of chaotic decisions by the ruling elites, the latter still avoid the initiative for devising a strategy.

Second, the grand strategy, contrary to the appetite of the political elites, defines the space to "play". The strategy inspires the elites and the leadership to "play" at the tactical and operational level in order to realize the grand strategy, knowing the strategic vision. It limits to a repairable level the errors or damages of the elites or leadership. No one can rise above the strategy because it embodies national interests, resources and power. The wrong game, even temporarily, at the strategic level, does not limit the damage made by the leaders or elites, but expands the impacts at the national level.

Third, grand strategy is a Clausewitzian trinity: interests - power (resources) - strategic behavior towards allies or alliances. However, this does not fit the ethics of leaders that show themselves as "historic" and "omnipotent" figures that do not respect the standards. Unfortunately, in our history there are many examples of the elites exposed to the limits of power arrogance, not respecting the "level of the game" being played in the international arena: they often ignore this strategic trinity, do not properly recognize national power and resources, are not mature enough to harmonize their behavior with the geopolitical context and endanger relations with allies and strategic alliances for narrow political interests.

Fourth, strategy guides strategic leadership behavior. Leaders, to win political battles at the operational level at the tactical level, do not hesitate to mix the levels, and ignore strategic objectives, i.e., national interests. Although history shows that sooner or later the game at these levels turns into a boomerang, this does not prevent players from challenging the strategy and considering themselves "strategists".

Fifth, grand strategy, as stated by Gray (2018), helps securing and managing the country's strategic resources by overseeing their distribution (p. 74). On the contrary, any elite that avoids such a strategy "suffocates" in matters of the moment and wastes power resources, on which the future relies. Frequently, political elites limit their vision at the electoral (4-year) term, and they abuse with these resources

which should in fact be "heavy columns" in the foundations of the nation. There is no list of the strategic assets and there is no strategic vision of their management from generation to generation; this data should be an alarm bell for the need for national strategy. We know what we miss today, but we have a hard time thinking what the next generation will miss. The strategy seeks to guide the nation even after 25, 50 or 100 years.

Sixth, the political elites in our country have built their political action, mainly in denying everything achieved before. This is contrary to dimension of the grand strategy which is a systematic and valued approach to the national interest that reflects the continuous contribution in the past, present and future of all actors. Political elites - as temporary actors - have the chance to permanently contribute to or temporarily damage the nation's strategic interests.

Seventh, the strategy minimizes or avoids the historical "tipping points", which unfortunately in our history as a nation and later as a state appear whenever the ruling elites change. The tendency to start eras from the "zero level" seems like such an attractive trend for these elites that don't worry much about continuity. In these conditions, the grand strategy must face the conjunctural interests of the political elites, who are ready to reach the boiling point at any time.

In conclusion, these are just some of the moments that show why political elites avoid coordination to devise a grand strategy. But this avoidance can only be temporary because the drafting of a strategy comes as a necessity to unify and protect the vital interests of the nation. This is necessary because every delay creates such obstacles that – in case a state doesn't act accordingly – it can easily become part of someone else's strategy.

6. Bibliography

Art, R. (2003*). A Grand Strategy for America*. Ithaca: Cornell University Press.
Buzan, B. & Waiver, O. (2010). *Regions and Powers*. Cambridge University Press
CIA Fact Book 2016. https://www.cia.gov/the-world-factbook/about/cover-gallery/2016-cover/
come_from_Institutional_change_in_the_age_of_nationalism
Gray, C. (2018). *Theory of Strategy*. Oxford University Press.
Hart, L. B. H. (1974). *Strategy*, 2nd Edition. New York: Signet/New American Library.
https://www.researchgate.net/publication/285929435_Where_Nation States_
https://www.sipri.org/publications/2021/sipri-fact-sheets/trends-world-military-expenditure-2020
Kissinger, H. (1957) *A World Restored. Metternich, Castlereagh and the Problems of Peace, 1812-22*. Echo Point Books & Media
Kugler, J. & Organski, A. F. K. (2018). *The Power Transition: A Retrospective and Prospective Evaluation*.https://www.acsu.buffalo.edu/~fczagare/PSC%20346/Kugler%20and%20Organski.pdf

Luttwak, E. (1976). *Strategic Power: Military Capabilities and Political Utility*. Sage Publications.

Mitranny, D. (1975). *The Functional Theory of Politics*. New York: St. Martin's Press.

Morgenthau, H. J. (1968). *Politics Among Nations: The Struggle for Power and Peace*, 4th ed., New York: Knopf.

Perkins, P. (2001). *International Relations*. CBS.

Roeder, P. G. (2012). Where Nation-States come from: Institutional change in the age of nationalism. *Research Gate*.

Schwarzenberger, G. (1952). *Power Politics*. New York: Frederick A. Praeger, Inc.

Strategjia e Sigurisë Kombëtare të RSH (Tiranë 2014)

Strategjia e Sigurisë së Republikës së Kosovës (Prishtinë 2010)

Strategjia Ushtarake (Tiranë 2015)

Sun Tzu. *The Art of War*. Filiquarian; First Thus edition.

Toje, A. (2010). *The European Union as a Small Power. After the Post-Cold War*. Palgrave Studies in European Union Politics (PSEUP)

Trends in World Military Expenditure, 2020. Stockholm International Peace Research Institute.

Wolfe, J. (2008). *Paths of Glory: The Life and Death of General James Wolfe*. McGill-Queen's University Press.

Zagorodnyuk, A. (2023). The Case for Taking Crimea: Why Ukraine Can—and Should—Liberate the Province. *Foreign Affairs*. https://www.foreignaffairs.com/ukraine/case-taking-crimea

Interest Articulation and Lobbying in Unregulated Legal Contexts: The Case of Albania

Dr. Gerti Sqapi[1]

DEPARTMENT OF APPLIED SOCIAL SCIENCES,
EUROPEAN UNIVERSITY OF TIRANA, ALBANIA
gerti.sqapi@uet.edu.al

Abstract

The main argument of this paper is that the legal regulation of lobbying is an important factor for disciplining/curbing the undue (illicit) influence of different interests' groups on the political-making process, especially in countries with post-communist and non-consolidated democracies as Albania. In three decades of political and economic transition from a one-party communist system to a democratic one and towards a market economy, the democratization of Albania has faced various problems, which have often led to a loss of public confidence in the political class and apathy of citizens towards the political system. In many cases, this has come as a result of the perception or even the disclosure by the media and the public of corruption scandals, political clientelism, or undue influences in the decision-making processes in Albania. Surely, it can be said that that political scandals of trading or exercising illicit influences on public officials can affect, as numerous cases have shown, every democratic political system in the world. However, they are more likely to occur in new democracies (post-communist) countries that face weak state structures and a legal environment that is not yet well consolidated and where a culture of informality exists alongside written rules and laws. For this purpose, that of disciplining and controlling the influences that specific interests exert on

---

[1] Dr. Gerti Sqapi is a lecturer at the Department of Applied Social Sciences, Faculty of Law, Political Sciences, and International Relations at the European University of Tirana. He holds a doctoral degree in Political Science and his teaching is focused on subjects of Political Science and Sociology.

the decision-making process of governments, legislatures, or other regulatory agencies, a good part of European countries have considered undertaking legal regulatory initiatives for lobbying activity in their environments.

I. Introduction and Problem Statement

For a significant part of the Albanian public opinion (and also that of many other countries in Central and Eastern Europe), the terms "lobbying", and "lobbyist" carry negative connotations and are often seen as related to illegal activities such as corruption, political clientelism, the undue influences or trading in influence of specific interests' groups on politicians, etc. However, also in the perception of a large part of Albanian society, lobbying is an activity that already takes place in Albania and that this is done behind closed doors. In the absence of specific studies undertaken to show the actual extent of the existence or occurrence of lobbying activities in Albania, other studies conducted in countries of Central and Eastern Europe have shown that most unions, businesses, and employers' groups "regarded themselves both as being either active or very active in efforts to influence government policy and as having enjoyed some success in their lobbying efforts". (McGrath 2008, p. 19). Likewise, many business associations in the (EU) new member states now commonly conduct lobbying and advocacy efforts which would be quite familiar to observers of interest groups in more established democracies (McGrath 2008, p. 18). Thus, between different interest groups and governance [Government, Public Administration and Parliament], there are links that tend to develop naturally, and this is considered as an integral part of the decision-making process in modern democratic political systems. This is emphasized in the political science literature, where many authors point out the fact that "legislators always have been subject of pressure from societal interests haunting the legislative hallways in search of political influence (Cited in Binderkrantz 2014, p. 1). Regarding popular perception related to lobbying and lobbyists, a study undertaken in 1999 of almost 4000 firms in 25 countries undergoing transitions suggested that lobbying and corruption 'are clearly related phenomena' but that this is an inverse relationship—the more corrupt a nation is the less likely individual firms are to engage in lobbying (Campos & Giovannoni 2007).

Thus, trading or the exercise of illicit influences on politicians and in the formulation of public policies in favor of narrow personal interests is a concern not only of transitional post-communist countries, which are faced with weak

state structures and a legal environment not yet consolidated, but also of advanced liberal democracies. Political scandals of undue / trading illicit influences on certain public officials can affect, and as numerous cases show that it has happened, every democratic political system in the world. But, where the lobbying activities are not recognized or not legally regulated through legal frames or regulatory mechanisms, these (informal) relations tend to be consumed away from the eyes of the public, thus giving rise to negative phenomena, which in Albania are widely known, such as the trafficking interests, undue influences, corruption of officeholders, tailor-made laws or laws created to satisfy particular needs, clientelistic relationships formed on the basis of mutual benefit to the detriment of the public interest, acceptance by the government of unsolicited proposals for granting various concessions[2] (Sqapi & Mile 2022, p. 16).

This is especially true for post-communist countries, Albania also included, where such corrupt and clientelistic relationships of politicians and policymakers exist to varying degrees. As Gadowska also pointed out: clientelism (relationships between people of unequal status who form mutual and personal bonds, such as a patron offering assistance to lower-ranking clients in return for something of value) applies to varying degrees in *'every country of Central Eastern Europe'*, precisely because in periods of transition the political and economic spheres are necessarily intertwined as economic decisions take on an increasingly political nature (Gadowska, 2006). In other words, in periods of transition, especially from a previous communist system (where the transition is not only in the political aspect, but also in the economic, social, cultural aspect), the economic interests and becoming rich in such societies are thanks to the connections developed with politics. In most of them, these relationships remain informal, but they are developed to a considerable extent, although far from the public's attention. The "*culture of informality"*, carried over from communism and strengthened during transition" (Grodeland, 2006) it is what best characterizes the nature of Albanian society and the way the Albanian political system operates nowadays.

II. Definition of Lobbying and Lobbyist and What should Not be Considered as Lobbying

To emphasize at the beginning, one of the key points for the effectiveness of a lobbying regulatory system has to do with a clear and well-defined definition of

---

[2] See more regarding these tailor-made laws in Albania in the Reports of Transparency International (2020), *"Examining State Capture: Undue Influence on Law-Making and the Judiciary in the Western Balkans and Turkey"*, pp. 16-20; Transparency International & Institute for Democracy and Mediation (2021), *"Deconstructing State Capture in Albania: An Examination of Grand Corruption Cases and Tailor-Made Laws from 2008 to 2020"*, pp. 38-41.

what lobbying activity is. As it is emphasized in the fourth principle for transparency and integrity for lobbying in the OECD guideline document: "Definitions of 'lobbying' and 'lobbyists' should be robust, comprehensive and sufficiently explicit to avoid misinterpretation and to prevent loopholes (OECD 2013, p. 3). Such definitions should be successful in including all the activities undertaken by anyone or any interest group where an attempt to influence policy-making or prospective decision-making is made. Although the OECD guidelines document recommends that definition of lobbying should primarily target those who receive compensation for lobbying (which may be consultant lobbyists or internal lobbyists employed within an organization), the definition of lobbying should "be considered more broadly to include all those who seek to influence policy" (D.P.E.R. Ireland, 2012 p. 29), even if they are not paid for it. This broad definition should be done in order to best ensure the main goals for the implementation of a legal regulatory system of lobbying, which are: openness and transparency in the process of formulating public policies, the minimizing the risks of corruption, and creating a level playing field for all interest groups that want to influence the political process.

Referring to the authors Chari, Hogan and Murphy, lobbying is defined as *"the act of individuals or groups, each with varying and specific interests, attempting to influence decisions taken at the political level"* (2010, p. 3). The definition of lobbying should include all the communications, information, or arguments (to persuade) undertaken by a group or any individual employed or not by an organization, or receiving remuneration from it or not, to public officials and politicians regarding a prospective specific public policy or legislative decision-making. Thus, the main focus should be on the communications or contacts with public officials (ministers, MPs, or Civil Service employees) to ensure a clear and sound foundation for the regulatory approach [of lobbying activity], "rather than seeking to encompass preparatory work, research or planning in advance of that engagement" (D.P.E.R. Ireland 2012, p. 31).

The definitions of lobbying activity and lobbyists in the legal regulatory framework should also be clear regarding those types of communication or contacts with officials that should not be considered lobbying. "Essentially public communications with Government, the political system and the public service fall into three main categories:

(i) Day-to-day contact between individual citizens in a personal capacity and their local political representatives, constituency TD, Councilor, or public servant in relation to any issues affecting them as individuals (i.e., such contact could range, for example, from personal administrative matters to representations the individual is making on international issues) or in relation to local issues which do not have a wider national or regional impact.

(ii) contact between individuals representing organizations either in a remunerated capacity or as office holders in those bodies and office holders (i.e., ministers) or public servants in relation to matters concerning the objectives of the organization in which they are employed or hold office or on a wider sectoral or sectional interest, and

(iii) interaction between individuals in professional lobbying organizations representing the interests of third-party clients and political representatives, office holders or public servants". (D.P.E.R. Ireland 2012, p. 8).

Among these three mentioned categories, the interactions, or contacts between citizens and their elected or local representatives that fall into the first category (i) should be excluded from the scope of the lobbying regulatory system and should not be considered as lobbying activities. This is because the regulation of lobbying should have no intention of infringing the principles of representation, including the various contacts or concerns that an individual/voters or a community can communicate to their elected representatives. In the same way, communications or expressions of views broadcasted publicly by different individuals or interest groups should not be considered lobbying activities. These include, for example, communication that is already on public record – such as formal presentations to legislative committees, public hearings and established consultation mechanisms. (OECD 2013, p. 3).

Subject to the regulation of lobbying and mandatory requirements for registration in the public register of lobbying activities should be the contacts or interactions that fall into the categories (ii) and (iii) mentioned above. The regulation approach proposed in this paper aims to regulate the lobbying activities undertaken by consultant lobbyists (or lawyers) who represent the interests of clients as a third party or by internal lobbyists employed by an organization/firm, who receive or not a [financial] remuneration from it in their attempt to influence prospective public policies or legislative decision-making on certain issues. Therefore, the approach proposed in this paper aims to regulate both professional [paid] and non-professional lobbying, thus focusing on their purpose and the communication or contacts with public officials, which seek to influence specific prospective public policies or legislative decision-making.

III. The Main Reasons for Regulating Lobbying in a Statutory Form in Albania

Among the main reasons for the adoption of a comprehensive framework to regulate lobbying in Albania on a [legally] statutory basis would be: disciplining/curbing the problem of uncontrolled lobbying or informal [personal] connections

that exist to varying degrees between different interest groups and decision-makers; increasing transparency and accountability in the political process; minimizing the risks of corruption in the political system; providing ample information from all interested parties to make the decision-making process better informed; and finally, leveling the playing field for all the different interest groups that want to influence public policies.

First, legal regulation of lobbying activity through registration and (public) reporting requirements for lobbyists on a mandatory basis in a publicly accessible register would shed light on the relationships that exist between different interest groups and politicians/public officials. As noted in the literature on lobbying, one of the key goals of regulating this activity and introducing a lobbying register (easily accessible by anyone), "is to make information available to the public on the identify of those seeking to influence public policy decisions as well as providing a framework for holding those engaged in lobbying accountable for the manner in which they conduct the activity" (D.P.E.R. Ireland 2012, p. 10). Making public the relationships that exist between certain interest groups and politicians through mandatory reporting requirements for lobbyists (and for the politicians as well), would make the general public better informed about the interests who stends behind proposed public policies and would curb, in this way, the phenomenon of informal relationships/ties that exist between actors and economic interest on the one hand and politicians on the other. The need to manage these interactions by other means may explain the spread of regulation and supervision in some countries over the last years and decades (de Sousa & Coroado & Lang, 2015, p. 16).

Second, legal regulation of lobbying would also lead to increased transparency and accountability in the political system. The possibility of a proper independent scrutinization by the public about the relationships that exist between different interest groups (mainly economic but not only) and prospective political decision-making would make politicians more careful and more accountable in the political process of policy formulation The recognition and legal regulation of lobbying in this regard is expected to function as a valuable mechanism in promoting openness and transparency in the political system, enabling the possibility for the people to monitor not only the government in relation to its activity but also providing a general overview regarding of who is influencing the public policies. On the other hand, lack of transparency effectively facilitates abuses and illicit behaviour on both the active and passive side of lobbying (de Sousa & Coroado & Lang 2015, p. 18). This, is because the disclosure of information on lobbying activity and those involved in it through the legal regulation of this activity would constitute a valuable function not only for the public but also for legislators and other (competing) interest groups because "without adequate and traceable records of exchanges between decision-makers and lobbyists, the democratic process as a

whole may suffer from the "secrecy surrounding the basis on which a decision has been made." (ICAC 2010, p. 18).

Thirdly, and closely related to the above point, is the argument that the legal regulation of lobbying on a statutory basis would reduce/minimize the premises for corruption and illicit influence on public officials since the legal obligation to report the contacts that lobbyists have with politicians would discipline/model their behavior within the legal framework in force, not risking sanctions for possible legal offenses. In the context of today's Albanian society, where political corruption and clientelistic networks are widespread phenomena, where there is a culture of "coffee" or of honor (culture of informality), most of the interactions between certain interests (groups) and public officials tends to be done mainly on the basis on mutual obligations or benefits. This, in turn, has often taken the form of uncontrolled lobbying, giving rise to such negative phenomena as the corruption of officials, clientelism, the exercise of illegal/undue influences, etc. Precisely, "unregulated lobbying can give rise to significant public concern about the role of vested interests in policy making and risk that privileged or excessive influence may result in sub-optimal public policy decisions which might be made to suit private agendas to the overall detriment of the community and society at large" (D.P.E.R. Ireland 2012, p. 10). The main virtue that the regulation of lobbying would perform in this direction has to do with getting under control certain privileged influences on elected officials, which often in Albanian society has given life to phenomena such as political corruption, clientelism, etc.

Fourth, another valuable function that would be made possible by the regulation of lobbying would be the provision of abundant information, which would come from all interested groups at stake, and which would make better informed the decision-making process. Lobbying provides decision-makers with valuable insights, information, policy perspectives, identification of and debate regarding different policy options. (D.P.E.R. Ireland 2012, p. 9). Considering the complexity of the political process in undertaking effective public policies, which includes not only the question of formulation but also that of harmonizing and finding a balance between competing interests, as well as the question of efficient implementation when such interests (powerful) are at stake, the need for complete and comprehensive information on the feasibility of these policies is vital. Various authors have pointed out this role of lobbying also in longer established democracies: the "functional need for additional information and perspectives and better prospects for implementation if concerned interests are involved in the policy stage; political need to "appease social unrests" and communicate policies to the public" (Cited in McGrath 2008, p. 16). The benefit that would come from a more complete information from all stakeholders and broader perspectives from different interest groups would be in favor of better public decision-making.

Fifth, a final reason for the legal regulation of lobbying would be because it would make possible the leveling of the playing field for all the different interest groups that exist in society, giving all of them fair and equal access to influencing public policies. The argument that is advanced here, and that is related to the problems that come from the context of countries where lobbying is unregulated and the uncontrolled influences by certain (powerful) interest groups on the political decision-making process, has to do with the "danger to the functioning of the democratic system: the difficulty of access to government for all but the most powerful and well-connected individuals and groups in society" (ICAC 2010, p. 20). The inequalities that naturally and generally exist in free market societies between various interest groups, be these in their financial resources, capacities, or the different opportunities they have, would be remedied to a large extent by giving each of them an equal access to influence the process of drafting public policies. One of the main principles of the Organisation for Economic Co-operation and Development' guidelines document on lobbying emphasizes that: "allowing all stakeholders, from the private sector and the public at large, fair and equitable access to participate in the development of public policies is crucial to protect the integrity of decisions and to safeguard the public interest by counterbalancing vocal vested interests. (OECD 2013, p. 3). The creation of a level and equal playing field in principle for all interest groups, which would become possible through the legal regulation of lobbying activity and the legitimization of the influence that each interest group can exert in the political decision-making process, would be a great service to countries like Albania with a weak, fragmented, and disorganized civil society. In such an environment, specific interests (e.g, environmentalists) find it even more impossible to compete fairly and equally against more powerful interests (such are the business groups) also as a consequence of the structural disadvantage of a weak civil society operating in the country, where the traditions of mobilization and recruitment related to certain causes (however righteous they may be) are absent. Legal regulation of lobbying activity would enable all interest groups to have equal opportunities to influence the development of public policies, to each have their voice in this process, and to defend their perspectives on these policies even in the face of the most powerful interests existing in society.

IV. The Main Objectives of a Lobbying Regulatory Framework in Albania

Given what we have mentioned above as the reasons why recognizing and legally regulating lobbying would be valuable for society, the general objectives that are intended to be achieved through the adoption of a comprehensive legal framework

for this activity in Albania are related to: increasing transparency in the political decision-making process; creating equal opportunities for greater openness and participation towards the public and interest groups in the process of drafting public policy; as well as guaranteeing the integrity and efficiency of public policy-making. Considering the socio-political, economic, and administrative context of Albania, the principles developed by prestigious international institutions and organizations and their main principles regarding transparency and integrity in lobbying, as well as the best experience and practices of the regulation of various countries that have approved legal regulatory frameworks for lobbying activity in their environments, the main objectives that are aimed through the adoption of a Law on Lobbying in Albania are:

- Creation of a National Lobbying Register, easily accessible (online) by everyone in society, where every lobbyist should, on a mandatory basis, register, report and update data related to key aspects of the lobbying activity he/she is undertaking.
- The creation of an obligation for the legislative and executive branches of government, as well as all institutions under the latter's jurisdiction, to publish in a preliminary calendar the announcements on draft laws or public policies that they intend to undertake.
- The requirement for all public authorities that are involved either in the process of drafting public policies, either in the decision-making process or their approval in the form of laws, to declare, in the publicly accessible lobbying register, the contacts from which they have been lobbied.
- The establishment of a separate and independent institution to be responsible for monitoring and supervising the entire regulatory system for lobbying activities, which should have all the administrative power, capacity, and authority necessary to ensure compliance with the rules and effective enforcement of the Law on Lobbying. This institution (either the Authority or the Office of the Commissioner for Lobbying Control and Supervision) should be responsible for monitoring and controlling the Lobbying Register and should have the power to undertake audits/investigations for any possible violations of the rules. Considering the sensitive nature of the lobbying activity and that of the data in the register that it would have to manage, this supervisory institution should be independent, and its director should be elected by 3/5 of all members of the Parliament.

Hereby the main objective of a regulatory law on binding lobbying in Albania would be to shed light and publish the activities of lobbyists/interest groups that want to influence public decision-making, as well as define the main rules that

guide relations between lobbyists and politicians. The objective of shedding light on the relationships that exist between specific interest groups and public/elected officials, especially in the political settings of countries like Albania where informal and corrupt/clientelistic practices are widespread, should be seen as a desired development that can be achieved to a certain extent through the legal regulation of lobbying activity. This, in turn, would make possible also the strengthening of the levels of political accountability in the Albanian political system, since a larger amount of information (obligatory to be disclosed publicly by lobbyists and public officials) becomes possible for the general public, who has the opportunity to understand which interest groups/economic actors are behind specific public policies, thus making those involved in this process much more responsible.

Likewise, a significant aspect in terms of the objectives of the proposal for the adoption of a legal regulatory framework for lobbying in Albania is also related to the extent to which level of government lobbying activities should be allowed. The approach proposed in this paper aims at regulating lobbying and the right of various interest groups to influence the political-making process only *at the central level of government,* including here the legislative branch, the executive branch, as well as all the directorates that are under the dependency of the latter and who have the right to initiate legal initiatives. This is also taking into account the important fact of implementing a system of regulation for lobbying in countries (such as Albania) where previously there was none, so "a phased and measured approach may be appropriate in the first instance to ensure that the system works from the outset and over an explicitly specified and planned time frame, fully consistent with ensuring its successful operation...". (D.P.E.R. Ireland 2012, p. 78). The approach of recognizing, permitting, and regulating lobbying only at the central level of government, takes into account also the political and social-cultural context of Albania, as well as the possible limitations and difficulties that could arise in the control and effective implementation of a system of regulation for lobbying beyond the central level of the political system. The operation of a regulatory system for lobbying only at the central level of government (that is, only in the legislative and executive branches) would be easier to control efficiently by the relevant proposed institution (e.g., Lobbying Supervisory Authority), whose main task will be to ensure compliance with the rules and effective implementation of the Law on Lobbying. In any case, the most important challenge of a regulatory system for lobbying is the monitoring and its effective implementation in practice to ensure that the general objectives of the law, which are: those of increasing transparency and accountability, as well as the opening and increasing public participation in the political process.

Regarding the type of regulation that the lobbying regulatory system in Albania should have, the approach proposed in this paper is that it should be of a *statutory*

type, where lobbyists are legally obliged to register in a register (publicly accessible), disclose some data on key aspects of their activity, as well as undertake them in accordance with the legal norms specified in the legislation.

V. Conclusions

In this paper, I argued that the recognition and legal regulation of lobbying activity should be considered a valuable and positive function for the political system and good governance. In the paper, it is emphasized that the reasons to recognize and regulate lobbying activity in Albania are based on the need to strengthen transparency in political decision-making processes, the levels of accountability by politicians, as well as creating opportunities for greater openness for the involvement of the public and various interest groups in the process of drafting public policies. Democratic systems [especially countries with new and non-functional democracies] are increasingly being pressured to consider the need for interest articulation by different groups within their societies and channeling them into the political system through practices that are consistent with openness, transparency, fair and equal access. This need is even more remarkable in the context of countries in transition, such as Albania, where patterns of social and political relations based on clientelism and corruption are widespread, and the relationships that develop between different interests and politicians are more informal. The main purpose of the legal regulation of lobbying activity in Albania would be to discipline, curb and control such informal relationships that exist (and which are consumed away from the "public eye") between different interest groups and politicians, and to develop these ties on a formal, sound basis and in favor of the public interest. The main contribution that the regulation of lobbying would bring in this direction is that, through the mandatory requirements for public disclosure of certain information about the lobbyists' activities and the restrictions it imposes on inappropriate/undue influences, it will increase the level of transparency and the possibility of an independent review by the public, and reduce the premises for corruption by different actors in the political system.

References

Binderkrantz, Anne Skorkjær (2014). *"Legislatures, Lobbying and Interest Groups"*. The Oxford Handbook of Legislative Studies.

Briffault, Richard (2008), *"Lobbying and Campaign Finance – Separate and Together"*, Stanford & Policy Review, pp. 105-129. Available at http://web.stanford.edu/group/slpr/previous/Volume19/Briffault_19slpr105.pdf [last accessed on 10 November 2022].

Campos Nauro F. & Francesco Giovannoni (2007), *"Lobbying, Corruption and Political Influence"*. Public Choice, Vol. 131 (1), pp. 1–21. Available at https://link.springer.com/article/10.1007/s11127-006-9102-4 [last accessed on 10 November 2022].

Chari, Raj & John Hogan & Gary Murphy (2010), *"Regulating Lobbying: A Global Comparison"*. Manchester: Manchester University Press.

de Sousa, Luís & Susana Coroado & Bertram Lang, (2015), *"Lobbying Regulation: Beyond Trading in Influence"*. University of Sussex, Brighton: Conference Draft.

dos Santos, Luiz Alberto & Paulo Mauricio Teixeira da Costa (2012), *"The Contribution of Lobby Regulation Initiatives in Addressing Political Corruption in Latin America"*. Journal of Public Affairs, Vol. 14, Issue 3-4, pp. 379-391. Available at https://doi.org/10.1002/pa.432 [last accessed on 10 November 2022].

Departmant of Public Expenditure and Reform (Ireland), (2012), *"Regulation of Lobbying Policy Proposals"*. Available at http://per.gov.ie/wp-content/uploads/Regulation-of-Lobbying-Policy-Proposals-3.pdf [last accessed on 10 November 2022].

Gadowska Kaja. (2006), *"Violence in the Area of Clientelistic and Cronyistic Networks"*. In Julia Kusznir (edt.), (2006), *"Informal Networks and Political Corruption in Post–Socialist Societies"*. Koszalin: Koszalin Institute of Comparative European Studies, pp. 5–24.

Grodeland, Ase Berit (2006), *"Informality, Corruption and Public Procurement in the Czech Republic, Slovenia, Bulgaria and Romania"*. In Julia Kusznir (edt.), (2006), *"Informal Networks and Political Corruption in Post–Socialist Societies"*. Koszalin: Koszalin Institute of Comparative European Studies, p. 25–36.

Independent Commission Against Corruption (ICAC) (2010), *"Investigation into Corruption Risks Involved in Lobbying"*, ICAC Australia Report. Available at: www.icac.nsw.gov.au [last accessed on 10 November 2022].

McGrath, Conor (2008), *"The Development and Regulation of Lobbying in the New Member States of the European Union"*, Journal of Public Affairs, Vol. 8, pp. 15-32.

OECD (2013), *"Transparency and Integrity in Lobbying"*. Available at https://www.oecd.org/gov/ethics/Lobbying-Brochure.pdf [last accessed on 10 November 2022].

Sqapi, Gerti & Klementin Mile (2022), *"State Capture, Party Patronage and Unfair Electoral Processes: The Typical Case of Election Conduct in Albania"*. Acta Politologica, Vol. 14, Issue. 3, pp. 1-22. https://doi.org/10.14712/1803-8220/31_2021

Transparency International (2020), *Examining State Capture: Undue Influence on Law–Making and the Judiciary in the Western Balkans and Turkey*. Available at https://images.transparencycdn.org/images/2020_Report_ExaminingStateCapture_English.pdf [last accessed on 10 November 2022].

Transparency International & Institute for Democracy and Mediation (2021), *Deconstructing State Capture in Albania: An Examination of Grand Corruption Cases and Tailor–Made Laws from 2008 to 2020*. Transparency International. Available at https://images.transparencycdn.org/images/2021_Report_DeconstructingStateCaptureAlbania_English.pdf [last accessed on 10 November 2022].

Zetter, Lionel (2008), *"Lobbying: The Art of Political Persuasion"*. Hampshire: Harrimon House.