



## LABOR AND SOCIAL AGENDA AFTER COVID 19

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# *Reviving Albania's economic growth through Roma inclusion<sup>1</sup>*

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*Prof. Assoc. Dr. Selami Xhepa*

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The purpose of this policy paper is to review the economic conditions related to economic growth after the pandemic of COVID 19 in Albania and policies that could improve such prospects through inclusive policies and better integration of Roma communities. The numerous negative shocks that happened since the global financial crisis of 2008, have caused major changes in the fundamentals of growth and development. Fiscal imbalances, labor market and demographic trends have worsened, posing major challenges to a return of the economy at growth rates needed for achieving convergence with developed economies.

Active labor market policies and mobilization of available human resources are key to change such trends. Roma and Egyptian communities are a good potential that with appropriate policies, can have a very positive contribution in improving productivity of the economy. Rather than considered as a liability which costs the national economy, they are in fact an asset which can contribute to taxation rather than become passive beneficiaries. This is, as World Bank states, smart economics.

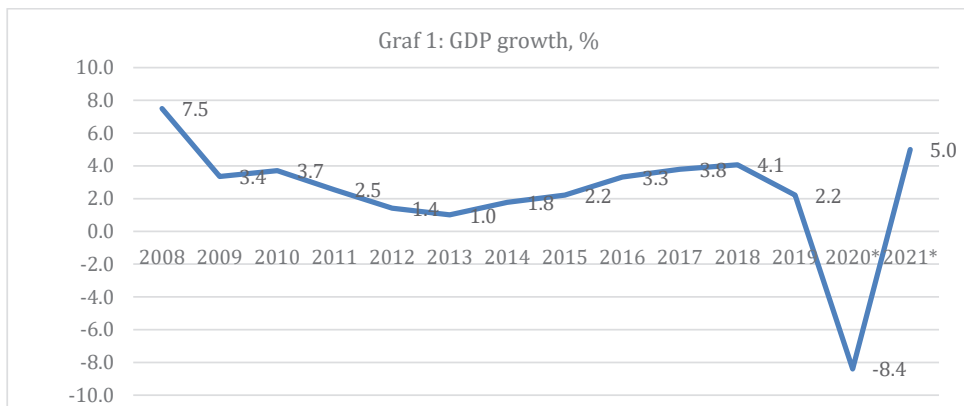
This paper will focus on (1) fundamentals before the COVID 19 and how they impacted the government response to such a large crisis, (2) projections on the key micro and macro-economic variables for the next five years, (3) dynamics of labor market and unemployment conditions, particularly related to Roma and Egyptian communities, (4) what could be economic and fiscal impact of Roma integration in the labor market, (5) what is progress to date in the integration of Roma and Egyptian and what policy innovations can be made to make Roma and Egyptian integration an integral part of development and social cohesion policies.

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<sup>1</sup> This paper is written by Prof. Assoc. Dr. Selami Xhepa, lecturer at European University of Tirana, with the financial support of Open Society Foundation (OSFA).

## Increased vulnerabilities before the pandemic of COVID 19

Since the financial crisis of 2008, Albanian economy remained weak, although it avoided recession and remained at positive growth rates. From a high peak of 7.5% annual growth rate in 2008, growth was brought down to a mere 1% in 2013, recovering slowly till 2018 achieving a 4.1%. Growth trends were reversed by the earthquake of 2019, halving the growth rate to 2.2%. In average, GDP growth rate for the whole decade, 2008–2019 was a disappointing 3.1%. Such low growth rates are unable to generate new jobs, improve incomes and wellbeing of the society. Estimates of the World Bank show that the country should maintain growth rates above 6% for the economy to generate new jobs.



Source: World Bank Database

## Albania was the hardest hit economy in the region by the COVID 19.

To respond to the situation of COVID 19, the Government of Albania applied a series of measures, putting the country in a stringent lockdown for almost two months (March, 15th to April 30<sup>th</sup>). Oxford calculated a stringency index based on the several dimensions of government response and the stringency index of measures for Albania <sup>2</sup> was 84.26 in a scale of 0 to 100 rising up to over 89 by the end of April. Due to such very stringent measures, socio economic impact could have been expected to be harsh. The large dependance of economic growth on sectors mostly affected by the pandemic, such as tourism sector, weak budget position due to high public debt and weak business conditions and consumer sentiment, are the key reasons for the strong negative impact of the pandemic. Estimates vary between a 7.5% to a 9% loss of output which is one of the highest in the region.

<sup>2</sup> For more information and calculation of the index in different time periods in Albania, see: <https://covidtracker.bsg.ox.ac.uk/stringency-scatter>

**TABLE 1:** Forecasts on the impact of COVID 19 on economic growth

	2020	2021
WB (Fall, 2020) <sup>3</sup>	-8,4	5,0
EBRD <sup>4</sup>	-9.0	4.5
IMF <sup>5</sup>	-7.5	6.1

The lock down of the economy with the start of the pandemics (March 9<sup>th</sup> 2020), produced serious problems with the liquidity of the firms and the ability of firms to meet the payments in the whole business chain. Demand shock was followed by a supply shock: companies reduced or stopped production; jobs were lost and the whole trade and value chain almost collapsed. Official data for the first nine month confirm the high impact of COVID 19: economic activity contracted by -2.27% in the first quarter, -10.23% in the second quarter and -3.47% in the third of 2020. Table 2 provides quarterly data on sector bases.

**TABLE 2:** Quarterly GDP growth rates at market prices, non-seasonally adjusted

	2019-1	2019-2	2019-3	2019-4	2020-1	2020-2	2020-3
Agriculture, food and fisheries	6.46	3.87	0.39	-1.29	2.1	-2.9	1.15
Industry	-13.17	-5.68	1.6	7.02	-8.1	-25.83	-9.55
of which: manufacturing	4.78	6.27	5.16	2.75	-8.24	-19.04	1.38
Construction	8.92	0.66	1.6	-12.48	-16.55	-10.97	9.25
Trade, transportation, accommodation	5.92	6.21	7.48	3.35	-2.19	-26.49	-13.26
Information and communication	8.75	10.68	-2.92	0.03	-7.21	-7.93	-1.03
Financial and insurance activities	0.94	4.07	3.72	3.82	-15.19	-37.18	-9.93
Real estate activities	10.37	8.29	4.76	5.4	5.29	8.15	12.36
Science and professional activities	8.27	5.45	15.84	-0.45	-5.66	-16.67	-15.45
Public admin., Education, Health care and social works	2.57	4.93	7.51	3.19	0.53	-5.95	2.08
Arts recreation and leisure	-11.9	-14.46	-18.04	-9.16	5.96	-23.42	-9.05
Gross value added	2.76	2.78	3.98	0.3	-2.81	-12.94	-3.82
Net taxes	2.05	7.95	6.34	0.59	-5.03	-18.58	-3.9
GDP at market prices	2.67	3.37	4.3	0.34	-3.08	-13.6	-3.83

Source: INSTAT database (<http://databaza.instat.gov.al/pxweb/sq/DST/?rxid=637e2b08-0c63-4d6b-a173-a57326ab6701>)

<sup>3</sup> World Bank. 2020. "COVID-19 and Human Capital" Europe and Central Asia Economic Update (Fall), Washington, DC: World Bank. Doi: 10.1596/978-1-4648-1643-7.

<sup>4</sup> Regional Economic Prospects in the EBRD Regions Covid-19: Early estimates of the damage, uncertain prospects September 2020

<sup>5</sup> World Economic Outlook, October 2020: A Long and Difficult Ascent, October 2020



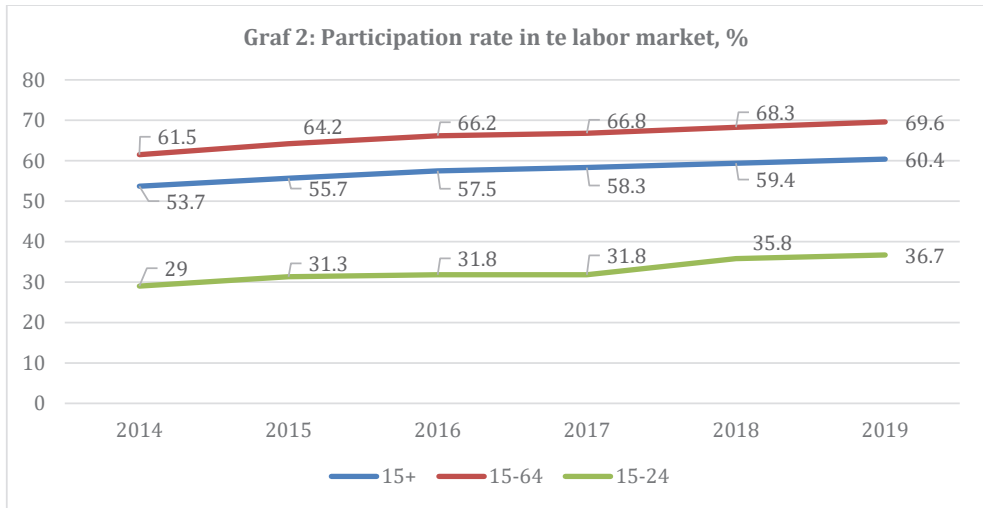
As data of the table indicate, except for agriculture and food and real estate activities, all other sectors experienced a large negative impact. Construction and manufacturing show signs of recovery during the third quarter and the prospects are positive for the remaining of the year. Construction will gain strength in 2021 and 2022 due to the large-scale program of reconstruction works planned in response to earthquake damages. The sectors with strongest negative impact are also the ones that are the largest employee in the economy, mostly of low skills and low wages (retail trade, auto repair, bars, restaurants, and shops, etc.), including employment of the Roma communities. Specific activities of Roma engagement such as collection of urban solid waste, trading of used clothes, entertainment and music play for wedding parties were the first to lock down. The lack of financial support by the government for these communities was a key reason for their protests in major cities. With strong encouragement of CSO supported by Open Society Foundation, the government modified the support measures to include the informal workers from the Roma communities, upon conditions they were first registered as unemployed. While this measure created some relief for some families, as we later explain many Roma are not registered in employment service offices. Roma families includes in social protection programs of economic aid are estimated to 20%, leaving majority of families without any formal protection.

Before COVID 19 crisis, labor market strengthened, and participation rate increased at high historical levels. Wage increases and labor shortage on some markets were felt in many sectors of the economy. Companies of manufacturing and service industries report shortage of labor, mostly manual and low skilled professions. According to a World Bank Report (2018) <sup>6</sup>, the inadequate qualification level of the labor force is a particularly stronger concern across firms of all sizes operating in the mining, electricity, gas, and real estate sectors. Low-skilled sewing machine operators and call center operators were identified as the most common (and in demand) occupations in the Albanian labor market, while unmet demand was related to professions in production, mining, and construction industries (north region), the service sector (central region), and services and construction (south region). Albania recently reports shortage of medical doctors and nurses, due to large migration towards Germany.

Participation rate for the population of 15+ exceeded the 60% in 2019 from a low 53.7% in 2014. This was mostly due to measures to combat informality and active labor market programs.

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<sup>6</sup> World Bank, 2018, “Western Balkans Demand for Skills in Albania: An analysis of the Skills Towards Employment and Productivity Survey”.



Source: INSTAT database

Although labor market participation rate in the Balkans increased in the recent years, it remains low, around 63% compared with 69% in the EU countries. One of the reasons for high inactivity rate is the lack of opportunities offered by the job market for a decent job. If we compare the incomes from labor of Albania with the countries of the region, there is a large pay gap of 182 Euro with the second lowest wage levels, Kosovo. According to official data, around 40% of total employees received a wage below 240 euro per month and around 30% receive the minimum wage of 211 euro. Differences remain large with the region even if we factor the Purchasing Power Parity (PPP) of currencies. Expressed in real terms, wages have stagnated for more than a decade.

**TABLE 3: Average wages in PPP – euro based, 2017**

Average monthly wages at PPP- euro based	
Albania	806
B&H	1,376
Montenegro	1,534
North Macedonia	1,243
Serbia	1,139
Kosovo	1,153

Source: World Bank, 2019

Justification for the low productivity as the key cause for low wages does not hold true, since we find a large difference between productivity growth and wage increases during the last decade. On the other hand, the causality can run both ways: increased wages and improved work conditions, provide a better environment for employee's motivation and improve labor efficiency, which creates opportunities for higher wages. But failure to do so and keeping of such a very low wage level for a very long time, coupled with the high costs of living, have discouraged participation in the labor market, and produced large inefficiencies in the economy. It is having a destructive impact on incentives for work and has encouraged massive migrations, particularly among the cohort of high skills and highly qualified people. Jobs that do not offer better work environment and improved standards of living for the families, are drying the labor market. Opening the labor market to cheap labor for migrants from north African countries cannot be a long-term solution since it still does not improve the overall living environment in the country. The government has relaxed employment rules for foreigners and employment agencies have already started to recruit workers from other countries, mostly from north Africa. According to official data of the National Employment Service, more than 7,000 foreign workers were granted work permits. Most of them are from Turkey, China, Egypt, and other countries. 23% of them are holding a university degree and 19% are technical professionals holding a pre-university diploma.

Recognizing the importance of decent jobs, the UN system has launched The Global Initiative on Decent Jobs for Youth, with the objective to unleash the potential of youth to succeed in business and access decent work. Albania has a lot to do in this regard and legislation regulating private sector activity needs to be reviewed with the objective of creating incentives for private sector to offer better pay and improve working conditions for employees.

Impact of COVID 19 on labor market reversed the positive such trends and is deteriorating short term prospects. On the other hand, longer term implications are of serious concern.

Employment during the second quarter of 2020 was reduced by 1.1% in the agriculture sector, 6.2% in the manufacturing and 2.3% in services. Overall employment for the population above 15 years old was down by 2.6% on yearly basis.<sup>7</sup> Bank of Albania estimates that around 57 thousand jobs were lost due to pandemic of COVID 19. Current unemployment rate reported by official statistics are at the level of 11.9%. However, the youth unemployment rate is much higher (28 % in 2019) and the high rate of youth not in education, employment nor training (NEET) (26%) is a cause of concern.

Structure of employment is also problematic: 42% of the workforce is currently employed in agriculture (2019), mostly in low-skilled and low-productivity.

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<sup>7</sup> Data are from Labor Force Survey, INSTAT database

Albania has also a large informal labor market: almost 30% of all employment in the non-agricultural sector is informal. (ILO, 2021).<sup>8</sup> Informal labor keeps workers outside the social security system and jobs protection, as it was the case during the pandemic of COVID 19; jobs are insecure and lifetime pay is lower than formal jobs, if we take into account future pension payments by participating in social security system.

Unemployment rate is much higher among the Roma communities. Despite the young average age of the Roma population, labor force participation of the group is very low 54%.<sup>9</sup> Labor force participation is lower at the lower levels of education and it improves moving to secondary education and upper secondary education. A large gender gap also is observed: women participation rate on the labor market is 29% compared with men at 51%. A key reason for the very low participation of Roma women on the labor market is related to early marriage, childcare and other family responsibilities. On the other hand, the lower participation rate compared to the non-Roma is due to lack of jobs. Inactivity is especially high among the youth. In Albania, at least a third of Roma children ages 7–15 were outside the school system in 2017. Not in employment, education and training (NEET) remains very high among the young population (15–24 years old) at 66%, compared by 35% for the cohort group of the non-Roma population. Gender gap remains high for this indicator as well: with 86% for female and 67% for the male. 85% of Roma are reported to be working on the informal market. While informal labor market remains high in the economy in general, this phenomenon is almost a rule for the Roma communities. And so it remains a very serious concern from the policy perspective since this practice excludes them from training and skills improving programs, social security and unemployment benefits and opportunities to improve living conditions for the families.

These developments rise serious concern in terms of future market trends due to technology changes. Digitalization and automation will require improved skills on the labor force. Evidence suggests that globally, the skills content of jobs is changing, with a decline in routine manual skills (which can be automated), and an increased use of skills that require problem solving, interaction, collaboration, and creativity. Specifically, jobs held by young generation are shifting towards high technology content skills.<sup>10</sup>

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<sup>8</sup> [https://www.ilo.org/budapest/countries-covered/albania/WCMS\\_461305/lang--en/index.htm](https://www.ilo.org/budapest/countries-covered/albania/WCMS_461305/lang--en/index.htm)

<sup>9</sup> National statistics do not provide any data based on ethnicity. These data are taken from the Regional Roma Survey conducted by the World Bank in 2011 and 2017.

<sup>10</sup> Ridao and Bodewig (2018) Ridao Cano and Bodewig. 2018. "Growing United: Upgrading Europe's Convergence Machine". World Bank Report on the European Union; Arias and Sánchez-Páramo (2014) Arias, O., and C. Sánchez-Páramo. 2014. "Back to Work: Growing with Jobs in Europe and Central Asia." Washington, DC: World Bank.

Results from PISA reports indicate that quality of education in Albania is a serious problem which highlights the need take more vigorous measures to improve the situation to prepare for the challenges of the technological sophistication in economic and social life.

**TABLE 4:** Indicators of quality of education, PISA, 2018

	Albania	OECD-average
Reading	405	487
Math	437	489
Science	417	489
Overall performance in all subjects, %	29.7	13.4

Source: PISA Report, 2018

From a social perspective, impact of COVID was dramatic for large part of populations. A study conducted by World Vision <sup>11</sup> in 17 municipalities, found that 75.5% of families had serious difficulties in meeting needs with basic foodstuff; unemployment increased by 10%, of which occasional work decreased by 14%. As a result, poverty increased. Estimates from the last report of the World Bank shows that poverty, measured as individuals living by 5.5\$ at PPP, may increase from 40% to 44%, on annual bases. This may add another 115-230 thousand persons to below the poverty line. Although crisis hit harder marginalized and vulnerable groups of society, government support program adopted for the COVID 19 initially, as we reported early in this report, did not included Roma and Egyptian communities. The program targeted five groups: the beneficiaries of social welfare programs, persons with disabilities, the elderly, the homeless, and families that lost their homes due to the earthquake of November 2019. Hundreds of poor families that relied on the informal market did not qualify as beneficiaries and thus were not included in the program (Ndrevataj, 2020) <sup>12</sup>. Anger and protests sprung from groups such as Roma and Egyptians that were excluded from the in-home assistance program and lived on the brink of poverty (Taylor, 2020). <sup>13</sup> As the

<sup>11</sup> World Vision, "Impact assessment of the COVID-19 outbreak on wellbeing of children and families in Albania", May 2020

<sup>12</sup> Ndrevataj, E. (2020) 'Përjashtimi nga ndihma e kthen në mjerim izolimin për komunitetin rom dhe egjiptian [The Exclusion from Aid Turns the Isolation of the Roma and Egyptian Community to Destitution]', Citizens Channel, 8 April. Available online at: [https://citizens-channel.com/2020/04/08/komunitetiro-m-dhe-egjiptian-apel-per-ndihme-nuk-do-vdesim-nga-virusi-por-nga-uria/?fbclid=IwAR38AV1JR9E.wlZoFx6mbptrQj6EbzyudgYntiM\\_0yU0yMhrCzBy9WKu9D0o](https://citizens-channel.com/2020/04/08/komunitetiro-m-dhe-egjiptian-apel-per-ndihme-nuk-do-vdesim-nga-virusi-por-nga-uria/?fbclid=IwAR38AV1JR9E.wlZoFx6mbptrQj6EbzyudgYntiM_0yU0yMhrCzBy9WKu9D0o) (accessed 25 May 2020).

<sup>13</sup> Taylor, A.E. (2020) 'Albania's Roma Community Suffering Due to Coronavirus Crackdown', Exit, 20 March. Available online at: <https://exit.al/en/2020/03/20/albanias-roma-community-suffering-due-to-coronavirus-crackdown/> (accessed 25 May 2020)

pressure increased in the end of April 2020, the Albanian government amended the previous decision by including those families which secure incomes through informal work and that did submit (at least once) a request to benefit the economic aid from July 2019 to April 2020, but that the system rejected them. Around 12,000 families (which were excluded from March 2020 government decision) would benefit an amount of 130 Euro. Council of Europe's ROMACTED assisted some 420 Roma families in some of the poorest neighborhoods. Due to the soft pressure given by OSF Albania, the municipality was forced to provide direct food support for 1,300 families, hygiene accessories and conducted the disinfecting of the neighborhoods. Currently, OSFA provides funds to support around 1000 families (33\$K), which has incentivized several municipalities to provide higher number of packages until government support become effective for all the targeted families.

Surveys <sup>14</sup> find that more than 50% of families live with less than 100 euros per month and around 80% of families with less than 150 Euros. Given the poor living conditions of the Roma families and limited access to health care services and other public utilities, there is reasonable ground to believe that impact of COVID 19 among this group has been harsh.

Government response to mitigate negative impact of COVID 19. Immediate actions were taken by authorities to mitigate negative economic and social impact caused by complete lock down to control for the spread of the pandemic. Both fiscal and monetary policy measures were implemented. A list of measures taken by authorities are described in the Table 5:

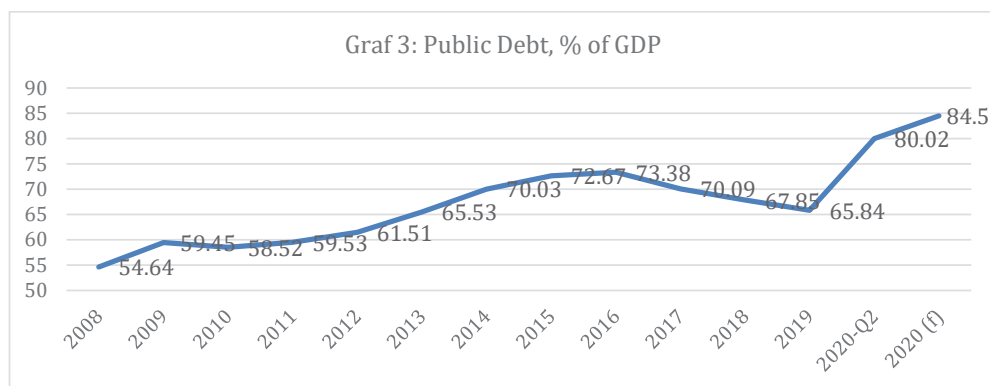
**TABLE 5:** Policy response to COVID 19

Direct fiscal support measures	Monetary policy measures
2 programs at a total of amount of 45.8 billion leks -around 390 million Euros (2.8% e GDP)	a. 0.5 pp reduction of base Bank of Albania rates
1. Wage/income support a. wage support for employees of companies and family business that were forced to close the activity; b. support for families in need doubling of individuals with economic aid 2. liquidity support to companies a. guarantee fund for wages b. guarantee fund for providing liquidity support for work capital 3. Suspension of tax payment for sectors badly affected by the lock down (tourism, call centers, small businesses, fason, etc.)	b. suspension of loan payments for a six month period  c. banks were prohibited to pay dividends for 2019 and 2020

<sup>14</sup> Open Society Foundation in Albania (OSFA), Roma Census Study of Albania Communities, April 2014, <http://soros.al/2010/foto/uploads/File/Dritan/Censusi%20Rome/roma%20census%20total.pdf>.

However, funds allocated to support business were not delivered in full amount; it is estimated that around 30% of funds were used. Therefore, effective government support for the economy was at around 1.9% of GDP, being the weakest financial support in the region, despite the fact Albania was the worst hit. Nonuse of fund is mostly related to the design features of government support program for businesses, while the low levels of funds allocated by the budget are related to budgetary conditions prior to crisis.

Authorities maintained a high fiscal stimulus by a permanent increase of fiscal deficit since 2008 global financial crisis. By 2013 the fiscal rule of a budget deficit below 60% of GDP was broken and since then, debt has been on a steep increase till 2016, when the public debt peaked at 73.4% of GDP. Although debt was brought to a declining trend since then, still it was too high at the eve of such a large shock as the earthquake of 2019 followed by COVID 19.



Source: Ministry of Finance web site

On that background of structural weaknesses and inadequate government programs to mitigate the negative impact of COVID 19, economic and social costs incurred were high. Although economic prospects will improve in the near to midterm future, uncertainties remain high. Forecasts for the post pandemic period reflect a better environment characterized by a relatively strong recovery and a gradual return of macro balances.

**TABLE 6:** Forecasts of key macroeconomic indicators

	2019	2020	2021	2022	2023	2024	2025
GDP growth, %	2.2	-7.5	6.1	5.8	4.3	3.5	3.4
Unemployment rate, %	11.5	11.8	11.5	11.3	11	11	11
Inflation rate, %	1.1	1.2	2.2	2.5	2.9	3	3

General government gross debt, % GDP	67.7	83.3	83.2	77.1	74.8	71.9	69.1
Current account balance, % GDP	-7.6	-11.7	-8.5	-8.1	-7.9	-7.8	-7.5

Source: <https://www.imf.org/external/datamapper/datasets> Accessed, January 12, 2021

Deleverage of public sector through a continuous reduction of public debt will weaken the growth prospects unless it is compensated by a strong activity of private sector. At growth rates below 6% economy will not be able to improve labor market conditions and provide decent jobs. Fiscal balance of government accounts is stuck in a low equilibrium. With revenues at less than 28% of GDP and public debt to be reduced towards more sustainable levels (at 40% of GDP), expenditures will be cut across all business lines. Therefore, in the longer run the authorities must review the taxation system to enable an increased revenue up to at least 35% of GDP, a level which will allow government to undertake more vigorous actions to support higher growth and improve social policies.

## Investment in Roma today, is investment in Albanian Future

Finding news sources of economic growth and bringing the economy at a sustainable path to development and modernization, requires bold reforms and smart policies. Economic and social inclusion of Roma can be one of them. For sure, exclusion of Roma from the labor market is very costly. A full integration of Roma communities would be not only socially desirable, but also economically advantageous. World Bank research rightly considers Roma integration as smart economics.

Based on assumptions we employ on the calculations (see: Box 1), employment can be increased by 25 thousand to 48 thousand new jobs. Based on that, we calculate that employing Roma labor force would generate incomes from taxes and social security contributions in the range of 28 million Euros to 64 million Euros, which makes up to 0.75% to 1.7% of government incomes. This result seems to be quite like World Bank estimates for Serbia, which estimated fiscal benefits of Roma including to be ranging from 0.5 percent to 2.1 percent of government expenditure <sup>15</sup>. The gains are higher when we factor out the saving from programs of social protection used for the Roma community. Surveys (OSFA, 2014) show that only 21% of Roma families have access to social protection programs (economic aid). According to the latest report of the Government authorities <sup>16</sup>, in

<sup>15</sup> World Bank, 2019, "BREAKING THE CYCLE OF ROMA EXCLUSION IN THE WESTERN BALKANS"

<sup>16</sup> Government of Albania, September 2020, "REPORT ON THE IMPLEMENTATION OF ROMA INTEGRATION PUBLIC POLICY IN ALBANIA FOR 2019".



2019, 847 Roma and Egyptian families were included in social protection schemes and a total of 37,800 individuals are benefiting from social protection programs. Authorities planned an 8.9 million Euros for such program for 2019 fiscal year, which can be added as a saving from expenditure cuts. Combining all effects of expenditure cuts and tax gains through Roma inclusion in the labor market, can have a large positive effect.

Economy would gain from Roma inclusion in terms of output and productivity. Using the same assumptions as in the calculation for fiscal gains, we predict a positive impact on the productivity in the range of 1.7% to 3.2% of GDP (using productivity data of 2018). World Bank estimates productivity gains for Serbia in the range of 0.9 percent to 3.5 percent of 2017 Serbian gross domestic product (GDP).

These are estimated static gains from Roma inclusion in the labor market. While the dynamic effects could be stronger due to higher consumption rates in the economy and increased demand for consumption goods, services and utilities, higher revenues in indirect taxes due to increased consumption, etc.

### **Box 1: Methodology and assumption used in estimation of Roma integration.**

Roma population is assumed the population mean of unofficial estimates, 115,000 persons (Council of Europe). We use the labor force participation rate (40%), and employment to population ratio (aged 15-65) at 18%, taken from Regional Roma Survey (RRS) of the World Bank for 2017.

We use the average wages according to sector of economy for 2019 and for structure of potential employment used in calculation we assume a proportional allocation of Roma labor force in ten sectors on which they are mostly employed, except for agriculture where we use the percentage of Roma population living in rural area which is 35% (WB, Breaking the Cycle for Roma exclusion in the Western Balkans, 2019).

The two scenarios that we build are: (1) minimum scenario: we assume new Roma employment as the difference between employment to population ratio with the level of labor force participation rate for this community; (2) maximum scenario is the full roma integration: we close the gap in the labor force participation, using the economy wide labor force participation rate of 60% which is registered as the end of 2020.

The same assumptions are also followed for the productivity gains and output increase in the economy.

Future labor market is going to experience enormous pressure due to several factors, including technological developments and digitalization, but also strong demographic changes. Both forces imply a need for enlarging the labor force base and huge investments in improving labor force skills.

In a recent paper of Sedik and Yoo (2021),<sup>17</sup> concerns of increased robotics and automation on employment and inequality, following the pandemics of COVID 19, are empirically tested and they find strong impact, particularly on employment in the low skills segments. While in the developed economies these forces of structural changes in the economy and labor markets have been in motion for more than a decade, COVID 19 is expected to accelerate such trends. A recent survey of business leaders and human resource strategists of large companies from around the world shows that over 80 percent are accelerating the digitalization of their work processes and expanding their use of remote work, and 50 percent indicate that they will accelerate the automation of jobs in their companies (World Economic Forum, 2020).<sup>18</sup>

In case of Albania, it is still early to see quick structural changes, as the economy is still characterized by a low technological adaptation. The indicators of competitiveness as measured by level of business sophistication and firm technology readiness, published annually by World Competitiveness Report, show a long distance between Albania and technology frontiers. Although statistical data for the use of computers and internet in almost all sectors of the economy have increased over years, the use of technology for business is still very low, and even decreasing in almost all sectors, except for the information and communication and accommodation industries. Table 7 provides data on the use of technology in all sectors of the Albanian economy.

**TABLE 7:** Some indicators of the use of ICT in the sectors of Albanian economy.

Economic Activities	Use of computers		firms with internet access		use of e-commerce	
	2015	2019	2015	2019	2015	2019
Total	95,0	97,5	96,2	97,8	8,8	5,8
Manufacturing activities	94,7	94,6	98,5	96,6	6,1	0,8

<sup>17</sup> Tahsin Saadi Sedik and Jiae Yoo (2021), Pandemics and Automation: Will the Lost Jobs Come Back? IMF WP/21/11.

<sup>18</sup> World Economic Forum (2020). "The Future of Jobs Report 2020": <https://www.weforum.org/reports/the-future-of-jobs-report-2020>

Elect., gas, steam&air condit.; Water sup- ply, sewerage, waste manag.&remedi.	100,0	100,0	99,2	95,6	19,0	1,6
Construction	98,2	98,6	95,2	100,0	3,6	2,1
Wholesale&retail trade; repair of motor vehic.&motorcy.	91,8	97,5	92,1	96,9	10,2	5,2
Transportation and storage	98,4	100,0	99,2	100,0	23,1	8,6
Accommodation and food service activities	93,0	98,5	97,6	98,0	10,9	12,8
Information and com- munication	91,7	100,0	100,0	100,0	18,5	28,5
Real estate activities	91,6	100,0	94,5	100,0	8,4	4,4
Professional, scientific and technical activities	100,0	100,0	100,0	96,3	13,2	1,2
Administrative and sup- port service activities	97,8	97,6	98,9	100,0	3,7	9,7
Repair of comp. & com- munication equipment	94,1	100,0	100,0	100,0	0,0	0,0

Source: INSTAT database

According to a report of PWC (2019)<sup>19</sup> which analysis ICT sector in Albania, North Macedonia and Kosovo, “In terms of the proportion of households with computer, internet access at home and households with a personal computer, Albania has the weakest performance in these indicators, lagging behind EU average by more than 60 percent”. The same report states that digital transformation gaps between Albania and the EU, which compare the values of digital transformation indicators to respective EU averages, suggest the level of digital transformation falls short relative to more propulsive regional peers in Central Europe and the Baltics (CEB). These gaps are marked by significant deviation from EU averages both in infrastructure and individual use indicators.

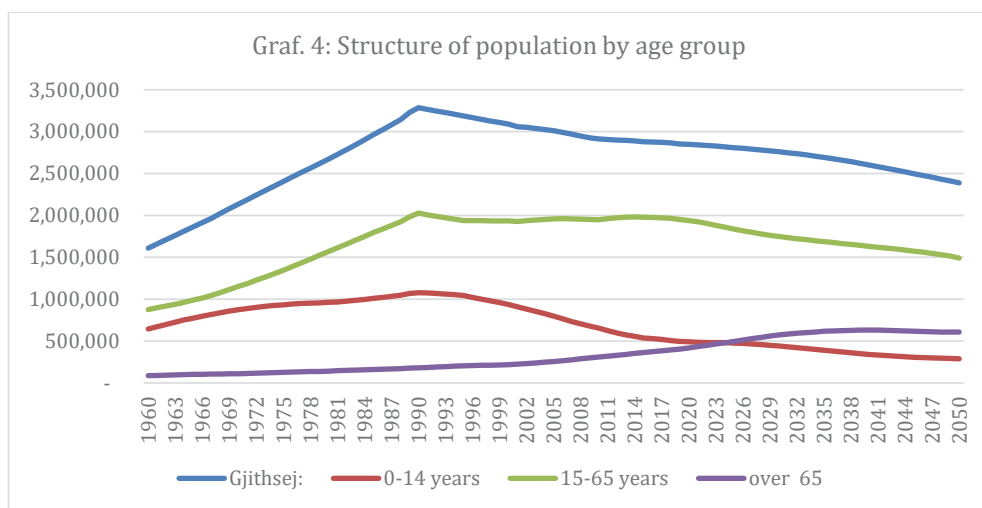
However, the pressure due to pandemic of COVID 19 is accelerating technological innovations and higher use of ICT in business. According to a survey<sup>20</sup> of Friedrich Ebert Foundation in Tirana (FES) conducted with 121 manufacturing companies, 91% of companies’ intent to change technologies with a more intensive use of ICT component and 64% of companies report they used internet and social media to get in contact with new markets. So, one can

<sup>19</sup> PwC, April 2020, ICT Sector study: North Macedonia Albania Kosovo

<sup>20</sup> Selami Xhepa, Ornella Liperi, 2021, “Productivity growth: the Achille heel for the Albanian economy” – forthcoming paper

expect that a different business model will appear in the medium-term future, one characterized by a much higher level of technological sophistication. Such developments will push for changes in the education and skills, emphasizing new demands of the industry. Roma communities shall be supported to improve the digital skills to be part of the new labor market. That would require providing Roma students at the early years of education level with personal computers (tablets), internet connection and training programs to increase the digital literacy.

Another critical factor impacting labor market will be demographic changes. As the following graph shows, from a peak of a population of more than 3.2 million at the end of 1990, massive migration and low fertility rates have strongly reduced the pool of the labor force. On the other hand the population above 65, has increased and is projected to increase strongly by 2050. Starting from the next two years, trends will start worsening. This will create serious shortages of the labor force and put serious constraints to the social security net and pension fund since the dependency ratio will deteriorate.



Source: World Bank data base

On that background, integration of Roma population which is much younger and registers a higher growth rate, could be an important asset. The average age is at 26 years for Roma compared to 35.5 years for non-roma population. The Roma population is younger than other groups: 34% of the Roma population is under the age of 15 years versus 20% of non-Roma. Therefore, there is a large pool of unused labor force which if properly trained and skilled, can be an import drive to increase productivity of the economy. As it was stated above, Roma integration on the labor market can increase revenues of Social Security Institute by 2.5 to 15 million Euros, in the short run, while in the longer run, sustainability of the pension system will

be improved. Current dependency ratio (contributors to beneficiaries) is 1.2. With the projected demographic trends, this ratio will deteriorate to below 1, which will create enormous pressure on the pension fund and general taxation system to fund the increased expenditures for the pensioners. Roma inclusion with 25 to 48 thousand new contributors to the system, as we said can, improve financial position of the pension fund and sustainability parameters of the system.

## **Progress to date on the inclusion of the Roma communities**

Socio economic and demographic characteristics of the Roma communities exhibit large differences with the Albanian population. According to a World Bank Report (March 2019),<sup>21</sup> “Roma have only limited access to education, economic opportunities, health care, housing and essential services, and documentation even relative to their non-Roma neighbors who live in close physical proximity”.

In line with the European Union Framework for National Roma Integration Strategies up to 2020 (EU Framework), Albanian government has adopted National Action Plans for Integration of Roma and Egyptian (NAPIRE) to strengthen the protection of human rights and smooth social economic differences between Roma and non-Roma population through integration of the communities in the labor market, by way of improving living conditions, health status and education. An online system to monitor progress on the implementation of the Action Plan, known as ROMALB ([www.romalb.org](http://www.romalb.org)), is established and data can be collected on real time.

Two Roma Regional Surveys (RRS) were conducted in 2011 and 2017, and the results published by the World Bank report, indicate very little progress achieved. We will make a very brief tour on the findings of the two surveys. (Annex 1 offers a full set of data on both coverage and gap between roma and non-roma on several dimensions). The latest report of the Albanian Government on the implementation of NAPIRE for 2019 (draft document, September 2020) indicates that progress continues to remain limited and specified targets are not met. For example, against a target of 4,162 Roma and Egyptian children to be exempted from boarding fees in pre-school education, only 745 actually benefited.

A key priority area identified was education and skills. In terms of education, self reported literacy rate among Roma females (15-64 years old) is 58% and males 65%, compared to 99% for the non-Roma. At least a third of Roma children were outside the compulsory education system in 2017. Differences between Roma and non-Roma are wider in second and tertiary education, which makes the real difference in terms of skills for the labor market. While 74% of non-

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<sup>21</sup> Monica Robayo-Abril Natalia Millán, March 2019, “BREAKING THE CYCLE OF ROMA EXCLUSION IN THE WESTERN BALKANS”, The World Bank Group.

Roma population has completed secondary education, this figure for the Roma population is around 15%; and completion rates for the tertiary education, which is becoming more important for the labor market, are 26% for the non Roma compared by a 3% for the Roma population.

Most of the reasons for not attending schools are due to economic reasons (high costs of education or the need to work to make incomes for the families), cultural factors play also an important role. For females, for example, early marriage is found to be an important factor. On the other hand, feedback received from the Census of Roma communities in 2017 shows that people from the Roma communities are not satisfied with the level of education, which means they would enroll on the education system if their incomes and living conditions would allow them to do so. However, with regard to tertiary education, an important factor to low level of enrollment and willingness to attend a bachelor degree, are related to the fact that labor market does not offer justifying returns and that skills received by the high education degree are the kind of skills the labor market will require. This argument is relevant for the non-Roma population, given the perception of a low value labor market grants to a university diploma.

The same situation comes from the access to health care. Quality of the service is poor and inequality in access to survives are a key feature of health conditions o the population. As Deaton (2003)<sup>22</sup> states, income and social standing have a profound effect on health and that the circumstances in which people are born, live, and work affect their health status, even after one controls for access to health care. For example, food security can be an important factor. While 81% of non-Roma population have food security, only about 40% e Roma population enjoy food security. Gap is also high in the number of people who report lack of unmet need for medic aid (36% for Roma population compared with 23% for non-Roma population). That also helps explain the reported gap in the perception of a lower health status between Roma (60% reporting good health status) and non-Roma population (70%).

Again, economic and financial conditions explain low health status of Roma population and large gap with the non-Roma. Healthcare insurance coverage and costs of medicaments are two main factors of the poor health conditions.

Impact of pandemic of COVID 19 both on education and health care might have seriously impacted the Roma and Egyptian communities. Due to lock down of schools at all levels of education, attending of remote teaching of Roma students might have severely been constrained due to lack of computers, internet connection, digital communication gadgets, etc. In a recent survey of OSFA <sup>23</sup>, only 39% of

<sup>22</sup> ANGUS DEATON, 2003, "Health, Inequality, and Economic Development", Journal of Economic Literature, Vol. XLI March 2003) pp. 113–158

<sup>23</sup> OSFA, "Albania Children Access to Education COVID 19 emergency", survey conducted 25 April-12 May 2020.

interviewed pupils reported to have had access to internet; and 28% reported to have had access to no learning equipment (TV, smartphone, iPad, etc). Almost half of the interviewed reported to have not had any teaching at all during the schools lock down. Particularly for the lower levels of education, which required a strong engagement from the parents, the problems might have been much worse. Given the low digital literacy level among Roma parents, their ability to assist their kids in class work has been limited. OSFA did engage in two existing education digital platforms to support teachers and students. Furthermore, under this project 4200 teachers were trained to improve their digital competencies, which will ultimately improve the online teaching quality. However, this is a long term challenge which has to address all population enrolled in the primary education system and it shall be dealt with appropriate financial support.

Generating incomes through participation in the labor market seems to be the breaking point of this poverty and exclusion trap for the Roma. Employment can generate incomes that can help them to increase access to health care and education, as well as improve living conditions by improved access to other public services, such as better housing, access to financial assets, public services, etc. As we mentioned in the section on labor market, employment of the Roma remains at very low rate and most of them work in informal market and unsecured jobs. There is a need to review the national employment approach because it is not producing the expected results. (EU Commission Progress Report, 2019). We will return to this issue at greater length later in the paper.

Annex 1 summarizes the changes in the status of Roma population along the strategic objectives defined by the NAPIRE for the period 2011-2017. As already discussed, there is little progress both in terms of coverage and gap between Roma and non-Roma. With exception of some improvements on education, which the World Bank attributes mostly to sampling of 2017 census but also the fact that Albanian authorities focused most of financing in education, in other areas there is no progress reported; in some indicators there is even some deterioration of the indicators. Particularly indicators on the labor market participation rate and unemployment among the Roma has increased and gap between Roma and non-Roma widened. Appendix 1 reports along the key policy areas, progress or regress among all indicators of Roma inclusion.

## **Policy innovations for Roma integration**

Roma integration through increasing employment and other opportunities for generating higher incomes for families, seems to be the running knot to be addressed by public policy. More incomes will enable families for better education, health, housing, and access to all public services available.

Labor market support, measures, and services offered can take several forms. Under labor market support <sup>24</sup> passive instruments would include financial assistance to those individuals who were excluded from employment for a certain period. Labor market measures are active interventions aiming at improving the employability of unemployed. The cluster of measures includes a number of interventions, such as training or retraining of unemployed, converting their skills to be more competitive on the labor market; direct job creation; wage subsidies and support, startup incentives, supported employment for those unemployed with reduced work capacity, travel support etc. Labor market services include provision of information for job seekers (and sometimes employers), client services (counselling, personalized services) as well as job search for the unemployed.

New legislation adopted by Albanian authorities (Law 15/2019) refers to all these policies, measures, and programs; identifies specifically Roma and Egyptians as a target group; and creates a specific instrument to deliver the policy objectives, which is the Social Employment Fund. Employment program covers the payment of social security contributions for a year and 16.7% of minimum wage or for four-month programs covers 100% of minimum salary (currently, around 244 euro/month). This level of support is also offered in the program of training while working. For the integration of the newly graduated student, a special program for a six-month coverage of 50% of the minimum wage is also in place from 2020. Also, some transportations services for the employees are paid by the program. Self-employment program offers grant up to 4,000 Euros for business plans approved by the authorities. In such cases additional benefits are extended for training and for advisory services in preparing business plans. A program of community public works program for the integration of the unemployed is another policy instrument applied by government.

A report <sup>25</sup> evaluating the impact of employment promotion programs finds that wage subsidies have not been very effective in creating permanent jobs, particularly in countries where the wages are low, such as the case of Albania, while on the job training seems to be the most effective. Another evaluation report covering the period 2016-2017 <sup>26</sup>, reviewed the two largest employment promotion programmes, namely the employment promotion program for registered jobseekers in difficulty and on-the-job training. The report states that, “The results for the

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<sup>24</sup> VERA MESSING, “ACTIVE LABOR MARKET POLICIES WITH AN IMPACT POTENTIAL ON ROMA EMPLOYMENT IN FIVE COUNTRIES OF THE EU”, NEUJOBS WORKING PAPER NO. 19.2

<sup>25</sup> IPSED, 2014, “Programet e Nxitjes së punësimit në Shqipëri: vlerësimi cilësor dhe proceset formulimit dhe zbatimit: 2008-2014”. Project financed by EU and Swiss Cooperation.

<sup>26</sup> Impact Evaluation of Employment Promotion Programmes in Albania, May 2019; Donor funded project



employment promotion program of unemployed jobseekers in difficulty show that being treated in this programme, increases the probability of being employed after the program by 33.8%.... The results for the impact of on-the-job training employment promotion program show that relative to the control group, being on-the-job training programme increases the probability of employment after the program by 27.9%. The sample for this program shows that about over one year after the program completion, 52.40% of participants are employed.” In a cost-benefit analysis of the program, this report finds a positive impact on the society as a whole.

For the period 2017-2019, the government allocated around 4 million Euros for job creation through wage subsidies, with the objective of creating around 5,000 new jobs each year. In average more than 650 companies have benefited from such programs.<sup>27</sup> For 2019 it is reported that 192 Roma benefited from the job promotion program. For 2021 the Albanian law on budget allocates less than 20 million euros<sup>28</sup> for all the labor market measures and support, which is 0.1% of GDP or 0.7% of overall government spending. This level of support is very low compared to other countries. For example, Bulgaria spends 0.45% of GDP in active labor market measures, and Spain on the other extreme with 0.8% of GDP (data of 2010, taken from Messing; WP 19.2).

Government of Albania reviewed labor market policies for integration of the marginalized groups and beneficiaries of welfare support. The Law on the Promotion of Employment Nr. 15/2019), focus Roma inclusion in labor market through participation in public works as planned by the public authorities. However, the program targets the beneficiaries of welfare support programs (economic aid). There are two factors which create skepticism with the impact of such policy instrument: (a) number of Roma benefiting from economic aid program is low and (b) research shows that such programs have the lowest record of efficiency in long term jobs creation. A comprehensive research work by Messing<sup>29</sup> confirms the findings of several authors (Martin and Grubb 2001, Heckman&Smith 1999, Kluve&Schmidt 2002, Kluve 2010 – cited by Messing) that public works program is the least successful program in the integration of unemployed in the labor market.

We would propose a potential project which can serve as a vehicle for integration of Roma and Egyptian and slight changes on the implementation criteria to make

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<sup>27</sup> Albanian Business Services Association, 2020, PROGRAMET E NXITJES SË PUNËSIMIT – INSTRUMENT I NEVOJSHËM PËR FUQIZIMIN E SEKTORIT BPO DHE PUNËSIMIN E DENJË DHE AFATGJATË TË TË RINJVE

<sup>28</sup> Law on budget does not specify the amount used for the job creation programs therefore that amount includes administrative expenses and other related costs not directly linked to job creation.

<sup>29</sup> Vera Messing, “FRAMES AND MEASURES OF POLICIESTARGETING ROMA EMPLOYMENT IN FIVE COUNTRIES OF THE EU”, NEUJOBS website (<http://www.neujobs.eu>)

the program effective. For years now, the country is experiencing serious problems with flooding and land's erosion. With the climate change and rising temperatures, we can expect much more serious damages in the future. Albania is classified as a high-risk country in terms of climate change impacts. Sustainable agriculture and forestry development, water management and lands protection, calls for immediate actions by government authorities. A serious project to land protection and flood prevention must be implemented as a matter of national priority. Such a program can help integrate Roma and Egyptians in the labor market. Slovakia introduced a program like this in 2011 and created more than 10 thousand jobs of low level of education. Such a program might be a three to four years and some jobs can be permanent for the maintenance works. To make it more effective, this program shall not be conditioned for the individuals to be a recipient of economic aid. This relaxation of conditionality is what made the difference between Hungary and Slovakia. Slovakia created more than 10 thousand jobs with a budget of around 2,800 euro per workplace. If Albania would spend 10 million euros for such a project, it can generate more than 5 thousand jobs, given that costs in Albania are lower.

UNDP, Tirana Municipality and ECO Tirana have signed an agreement to integrate socially and economically Roma and Egyptian recyclers within Tirana territory by developing and implementing a pilot transitory programme for recyclers. At least 50 individuals, who previously based their living on the informal waste collection will benefit from this pilot programme which aims to ensure a smooth transition into the labour market through the regulated collection of recyclable materials "door to door" for 8-months while focusing on the long run social integration of their families. The recyclers and their family members are required to simultaneously follow a basic literacy and life skills course, a vocational training course, primary education or other forms of improvement of professional skills and personal competences, to ensure, in the long term, their sustainable integration into the labor market and society. We learned through talks with responsible persons for the project management that this programme was very successful and around 80% of individuals hired through the program were fully integrated. Complementary bonus received by the municipality conditioned by their participation in basic literacy courses was very effective.

## **Self-employment and support of business initiatives.**

One instrument used in the Roma integration is through support of social enterprise. Social enterprise could be instrumental in promoting self-employment. Unfortunately, the Law No. 65/2016 "On Social Enterprises in the Republic of Albania", followed by several bylaws issued over a three-year period, is not

implemented yet, due to unclear and cumbersome regulations<sup>30</sup>. Funds allocated for 2021 are around 300 thousand Euros, but only one social enterprise is licensed so far. Information by professional media reports that six social businesses are operating in Albania<sup>31</sup>, and they seem to be a success story. Three of these firms are operating on the confiscated assets which were previously used as sources of criminal money. This project was financed by EU/IPA funds and managed by two local CSOs. Donor organizations and Yunus Emre Social Business also supports the activities of social businesses in terms of access to finance and start-up capital.

The law does not give any preferential tax treatment to such forms of business organizations or free access to public assets and a quick review of the law leaves us with the impression that it does not fit the objective of integration of marginalized groups through job creation. The law seems to serve most to the development of social services and job creation through inclusion of marginalized groups in the works of NGO enjoying the status of a social enterprise.

We would propose a complete review of the law with the aim to serve the purpose of encouraging organization of social enterprise for job creation. Social enterprise shall not be limited to activities of NGOs related to providing services to marginalized groups. It shall include typical business activities that are usually run for profit, but prohibit distribution of profits for personal gains. Such a form of business organization shall be supported by government policies by offering them support with machineries and equipment's, privileged access to public assets, use of public procurement to grant privileged access to social enterprise in provision of goods and services, tax advantages and other privileges of fiscal nature. Such a preferential regime is widely used in many practices. For example, in 1999, the government of Greece established legislation that supported the creation of social enterprises with limited liability to provide employment for people with mental health problems. These social enterprises, known as Koi.S.P.E.s, were allowed to own public property and exempted from corporate taxes (except VAT); also, those who work for Koi.S.P.E.s were allowed to earn a wage without losing their social benefits. This legislation was widely regarded as a success. (Institute for Entrepreneurship Development). This kind of practice could be very important to make sure the smooth transition from the economic aid, to labor market as independent income earners.

Roma and Egyptians have proved to be very entrepreneurial. Even during the communist regime, they were skilled traders and this was their main occupation during the first decade of post-communist transition. However, this business

<sup>30</sup> Juliana Hoxha, Erila Haska, 2019, "Analysis of the Legal Framework on Social Enterprises in Albania", publication prepared in the framework of "EMBRACE – Entrepreneurship Models Building Relations and Creative Economy" project with the financial support of European Union through European Delegation in Albania.

<sup>31</sup> <https://businessmag.al/6-bizneset-sociale-me-dinamike-vitet-e-fundit-ne-shqiperi/>

was taken over by other groups, displacing the Roma and Egyptians from this market. Still, trading of used clothes is important for large segments of Roma and Egyptians, as the table 9 indicates.

**TABLE 9:** Type of jobs of Roma and Egyptians (%)

Types of jobs	Roma			Egyptian		
	Total	Working	Working occasionally	Total	Working	Working occasionally
Small trade (used clothes, thrifts stores etc.)	31.6	37.5	25.9	13.3	13.7	12.7
Recycling (collecting scrap metal, cans, plastic items, paper, etc.)	35.1	14.9	54.6	12.8	4.8	23.6
Cleaning	6.1	11.9	0.6	18.1	24.7	9.1
Manufacturing (Tailoring, shoes, etc.)	3.2	6.5		15.6	26.9	
Construction	5.0	3.6	6.3	13.5	5.7	24.2
Music	3.5	1.8	5.2	1.8	0.4	3.6
Other (Plumber, mechanic, electrician, maintenance, driver, motorist, etc.)	15.5	23.8	7.5	17.1	21.1	11.5
Loading-unloading (loader)				7.9	2.6	15.2
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Survey with Roma and Egyptian households, UNDP 2016.

A potential program for strengthening the position of Roma in trading of used clothes can be some assistance to help them move up in the value chain of the business. Currently the Roma engaged in this business are operating in the final stage of the value chain, in the retail. If they are offered chances to get in contact with wholesale foreign markets where such products do originate, and supported with some initial capital, they can gain some market power and become more competitive in such market segments.

Development models of our industries are still characterized as linear: industries use raw materials, creating wastes which are never brought back for recycling. Transition to a model of circular economy, in which industries use almost all the waste they create, has a strong potential for inclusion of Roma. Roma and Egyptians have traditionally been engaged in such activities and therefore it can be a natural way of supporting their business initiatives in this area. Currently Open Society Foundation in Tirana (OSFA) is implementing a project with schools which offers incentives to pupils if they collect cans from their homes and bring them in schools. Schools earn money and education impact on kids on the environment issues is much more effective.

Roma can collect them and sell them to recycling industries. This program can be extended at county level and environment funds from government budget shall be allocated to this initiative. The same initiatives can also be replicated with tourism industries. All hotels and restaurant can collect the cans and other recycled materials and Roma businesses can collect and transport to recycling industries. With some small startup capital, some Roma businesses can be created and employ

members of this community. Cooperation with recycling industries and including them in the project is critical to ensure the successful implementation and for sharing the costs of the project.

## **Increasing employability through training and skills creation**

According to a wide range of macroeconomic studies, training, especially tailored to the individuals' skills and adapted to the demands of the local economy, is a category of active labor market policies that may have a significant positive impact on aggregate labor market outcomes in the medium run (Card et.al. 2009)<sup>32</sup> Research work<sup>33</sup> which reviews the impact of three main employment programs: training, wage subsidies and public works, pointed out that in Hungary "training participants were twice as likely as the control group (unemployed not participating in ALMP) to find a job, while beneficiaries of wage subsidy programs were 20 times more likely. However, participants of public work programs were considerably less likely – one fourth as likely – to find work than the control group".

The National Employment and Skills Strategy (NESS, 2019 – 2022) remains the key document guiding public policies and actions regarding improving skills to increase the employability of the unemployed. There is evidence that the importance of VET for increasing the chances for employment are quite impressive. Statistics from NESS indicate that in 2019, 52% of the graduates from 2018 were employed and 12% were concurrently working and studying, for a total employment rate of 64%. The results from 2018 (looking at graduates from 2017) showed that 55% were employed and 8% were working and studying, for a total employment rate of 63%. The share of students attending further studies increased in 2019.

In the academic year 2019-2020, there is a significant increase in the number of students from rural areas and marginalized groups. More specifically, the participation of Roma and Egyptians (R/E) increased by 12% reaching 580 students (compared to 519 in the previous year). Most courses have been offered for hairdressers, tailors, electricians, mechanics, barbers, carpenters, musicians, plumbers, which are usual professional works in which they are engaged.

A research project of Center for Economic and Social Studies (2016)<sup>34</sup>, provides a distribution of employment based on professions, which shows that most of employed have no profession at all.

<sup>32</sup> Card, David, Kluge, J. Weber A. 2009. Active Labour Market Evaluation – A Meta Analysis. in Ruhr Economic, Papers #86

<sup>33</sup> Csoba Judit, Nagy Zita, 2012, "The evaluation of training, wage subsidy and public work programs in Hungary" The Hungarian Labor Market 2011. MTA KTK, OFA, Budapest

<sup>34</sup> UNDP, "Mapping the Skills, employment opportunities and undertaking by Roma and Egyptian Communities" November 2016.

**TABLE 8:** Professions of Roma and Egyptian fully employed or having occasional job.

Nr	Profession	Roma		Egyptian	
		Number	In %	Number	In %
1	No profession	140	41.5	120	30.9
2	Lay worker/occasional unqualified jobs	63	18.7	153	39.4
3	Trade (selling clothes, etc.).	66	19.6	26	6.7
4	Barber/hairdresser	4	1.2	3	0.8
5	House painter	3	0.9	4	1
6	Electrician		0	2	0.5
7	Plummer	2	0.6	2	0.5
8	Welder	1	0.3	4	1
9	Musician/Singer	13	3.8	6	1.5
10	Blacksmith		0	1	0.3
11	Mechanic	3	0.9	2	0.5
12	Tailors	8	2.4	19	4.9
13	Construction (laying bricks, tiles, etc.)	10	2.9	10	2.6
14	Carpenter	1	0.3	5	1.3
16	Cook	1	0.3	4	1
17	Professional (agronomist, lawyer, sociologist, teacher)	7	2.1	5	1.3
18	Vehicle repair	1	0.3		0
19	Machine operator	1	0.3		0
20	Driver	4	1.2	4	1
21	Artistic handicrafts	1	0.3	2	0.5
22	Other (hairdresser, flight attendant, physio-therapy, nurse, manager, operator, cameraman, etc.)	8	2.4	16	4.1
	<b>Total</b>	<b>337</b>	<b>100</b>	<b>388</b>	<b>100</b>

Source: Survey with Roma and Egyptian households, UNDP 2016.

Note: This table should be interpreted with prudence as it provides a self-assessment of Roma and Egyptians related to their professions.

As the table indicates, most of potential roma workers do not have a specific profession and learned skills to perform in the labor market. This is an important potential for improving their productivity through vocational programs and on the job training courses.

Important forces of change are already shaping the future economic and social developments. After the pandemic of COVID 19, nearshoring is a new business strategy of EU firms which might consider relocation to countries like Albania, closer to the borders. This can create more job opportunities, including people from marginalized groups such as Roma. On the other hand, the new digital economy of the 21<sup>st</sup> century, requires that country shall prepare for a transition from the old industrial structures to the new ones. This new system which will be characterized by a higher level of technological sophistication, use of robotics and information and communications networks for decision making and productions processes, will require that labor force shall also be prepared for such a transition. But meantime, there will still be a need for basic skills manual labor. In the field of energy sector there is a large structural transformation from a highly centralized grid and transmission system, to a very decentralized one, with clean energy producers

distributed at household level. That means a need will be for new installations, maintenance services, etc. In transportation sector the transition towards energy saving solutions and transportation means will require for a reskilling of jobs in service industries. We can expect that almost every sector will need to reposition itself to cope with the breakthrough effects of new technologies. Controlling the disruptive impacts of this “creative destruction” revolution, will require large investments in reskilling of existing jobs, improvements in curricula of education system and a stronger collaboration of industry and education institutions and research labs.

Roma and Egyptian communities shall be part of this major reskilling initiative. In addition to traditional professions on which Roma and Egyptians are engaged, developing new skills appropriate to the needs of new industries must be taken into consideration. This structural shift must be developed in coordination with businesses based on needs of the industries. While it is difficult to predict the type of new professions, work with industries can help to design appropriate courses and teaching curricula.

In the short term, we shall look for employment opportunities on sectors which will show strong growth. One of them is the construction sector. A major reconstruction project is already taking place. New constructions of houses and social infrastructure is underway. This project is creating thousands of new jobs, estimated at around 20 thousand. Data from national employment service indicate that the sector has attracted hundreds of employees from foreign countries and it the largest sector where the foreigners are employed. If the project would have been better designed and institutionally coordinated, it could have made a real impact in the inclusion of Roma and Egyptians in this major work. For example, government authorities could have asked successful bidders for the project to engage in advance training programs based on required professions and build the skills appropriate with technology to be used in construction. That would have made a long-term impact on the people employed, since they could have been allocated in other projects of those companies. But a new environment related project in the contraction sector be a refurbishing project of residential and public buildings to increase energy efficiency. Such a project, combined with installations of energy panels, can attract high number of workers, and create a new market for labor for the next ten years.

Other sectors which may show strong growth rates will be in utilities, energy, gas, and water supply. Companies shall be approached by employment service agencies to collect the needs for professions, develop a training curriculum based on the technology in use and develop skills for the new workers which can potentially be hired soon.

Manufacturing industries may experience a two-digit growth starting from next year if the economy will return in the pre-pandemic normality. That sector must undergo through serious improvements if it must survive the growth wage pressures. The alternative of hiring emigrants from North African countries can be a very short-term solution to companies. Competitiveness is a long-term challenge, and it shall be taken very seriously by local industries. Developing human capital and engaging local labor will be a win-win solution both for industries and for communities and the country. Young and educated Roma and Egyptians, with some training and skills building programs, can be a much better alternative to local companies.

Large scale interventions to Roma inclusion in all the mentioned areas will require substantial financial support. Given the severe budget constrain due to high levels of public debt, a potential window can be the use of EU funds mobilized for the Balkan economies.

The EU is providing €385 million to ensure survival in the short-term, and recovery in the medium-term of businesses in the private sector. This funding, of which Albania will receive more than 100 million euros, will be channeled through local banks to help Small and Medium Enterprises in getting more flexible terms for repayments, or easier access to new loans, and to enable entrepreneurs to cope with the immediate effects of the crisis and thrive afterwards. One line of credit can be allocated to projects submitted by Roma business and the government can also share some costs in terms of guarantees or even some grants for a share of total investment costs. Through the European Investment Bank (EIB), the EU is also providing €1.7 billion for additional loans for public sector investments, and further credit to enterprises, to help safeguard jobs for the many people working in SMEs in the region. A potential project that can be financed through such funds, of which Albania will benefit 180 million euros, can be those mentioned in this paper, such as land protection, circular economy related projects, etc.

EU will also grant access to European Social Funds (ESF) to countries once the accession negotiations will start. Albania is almost at the stage of opening the negotiations and therefore, very soon it can access the funds of the ESF. An important component of the ESF is integration of the most vulnerable in the labor market.

Social Employment Fund established by law will become operational and it can pool all the funds available for the purpose of jobs creation and integration of vulnerable groups, including Roma and Egyptians. This Fund can also play the role of coordination among agencies, institutions and donors working in this field.

To summarize, Roma inclusion would be not only socially desirable, but also economically advantageous. Roma is very young population, entrepreneurial and with some gifted talents for certain professions. Through active labor market



policies and measures, such skills can be upgraded to match with requirements and needs of labor market. Social business enterprise shall be supported and offer better access to public resources and capital to create a better climate for Roma engagement in private business.

A society with less social disparities and stronger social cohesion will be a better place to live.

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	Annex 1:	2011 Census			2017 Census		
		Roma	Non Roma	Gap	Roma	Non Roma	Gap
	Net pre-primary enrollment rate (age 3-5)	34	52	18	33	64	31
	Adjusted compulsory education enrollment (age 7-15)	49	91	42	66	96	31
	Compulsory education completion rate						
EDUCATION	(ages 18–21)	23	85	62	43	98	54
	Upper secondary education completion						
	(ages 22-25)	3	47	44	15	75	61
	Tertiary education completion rate						
	(ages 26–29)	0.4	9	9	1	25	24
	Labor force participation rate	54	55	1	40	42	1
	Employment to population ratio (ages 15–64)	42	46	4	18	26	8
Labor Market	Unemployment rate						
	(% of total labor force, ages 15–64)	22	17	-5	56	38	-18
	Informal employment (% of total employment)	85	63	-22	62	22	-40
	Not in employment, education, or training (NEET)						
	(ages 15–24)	65	35	-30	76	37	-40
	Health insurance coverage (ages 16+)	33	54	21	27	43	16
	Self-reported unmet need for medical care						
Health	(% of population ages 16+)	54	32	-22	36	22	-14
	Self-perceived health						
	good or very good health)	67	74	8	60	69	9
	Use of preventive health care services						
	(% of population ages 16+)	43	57	14	44	67	33

	Electricity							
	(% of population)	94	96	2		84	94	10
	Piped water inside the dwelling							
	(% of population)	45	71	26		46	89	43
Housing	Connection to public sewerage or waste water tank							
	(% of population)	71	76	5		62	76	14
	Waste never collected (% of population)	30	31	1		6	6	-3
	Rooms per household member	0.4	0.7	0.3		0.7	1.1	0.5
	Overcrowding rate (% of population)	82	60	-22		66	30	-36
	Birth certificate (% of population)	97	99	2		98	99	1
Documentation	Identity card (% of population ages +16)	85	90	5		90	97	7
	Figures on the red shows a deterioration							
	Figures on blue shows an improvement							
	(both in coverage and gap)							

Source: Build based on data from UNDP-World Bank-EC Regional Roma Survey

# *“LEGAFORMALESTY” – a different approach for a new amnesty in Albania*

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## **Abstract**

*Governments have periodically turned to tax amnesties, as a mechanism used in the frame of their fiscal programs, or partly to activate more capital in the national economy and establishing the fiscal rule to a new higher level. As a non-traditional instrument, it can be used to smooth out inconsistencies, arising from the existence of a tight tax regulatory framework, in an economic environment that experiences highly dynamic changes, within a short period of time. The implementation of the fiscal amnesty is not mainly related more to a country's stage of economic development, or to the level and professional competence of the bodies collecting fiscal obligations, than to the practical objective that is required to be achieved.*

*In Albania, various governments have made several efforts, back in 2011 and 2017, to implement the fiscal amnesty but, unfortunately, they were partial and failed to meet their initial goals and objectives. This is because they were not comprehensive and, above, all did not contain the key element, that of legal amnesty and secrecy.*

*For an amnesty to be successful in Albania, it is proposed that, along standard elements of tax amnesty, it must also consider the legalization of all real assets built without permission, or illegal ones, as well as the formalization of various business activities, combined with the legal amnesty. Combining these elements would create an advantageous synergy, in terms of maximizing the expected economic effect, thus using amnesty not just as a classic instrument of collecting some more budget revenues and increasing fiscal discipline in the future, but as a lever that produces an efficient moment for the country's economic development.*

**Keywords:** *legaformalesty, tax amnesty, legalization, formalization.*

## Intro

Fiscal amnesty is a mechanism that allows individuals and companies to declare and pay hidden income, or to settle outstanding liabilities, without being subject to any criminal penalty for bringing to light previous tax evasion.

Alm (1998) says that governments of all kinds have frequently turned to tax amnesties as part of their fiscal programs. An amnesty typically allows individuals or firms to pay previously unpaid taxes without being subject to some, or all of the financial and criminal penalties that the discovery of tax evasion normally brings. Deak (2009) puts that most economists who conduct thorough studies of tax amnesty programs eventually find tax amnesty a legitimate means of economic policy. Also, he stresses that amnesty is one of the tools that a modern tax administration uses to resolve conflicts between rigid statutory law and rapid changes in world economic events.

The implementation of the fiscal amnesty is not mainly related more to a country's stage of economic development, or to the level and professional competence of the bodies collecting fiscal obligations, than to the practical objective that is required to be achieved. According to Alm (1998), many countries have also used one or more amnesties. These countries include those in all parts of the world: in Europe (Belgium, France, Ireland, Italy, Switzerland), Latin America (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Honduras, Mexico, Panama, Peru, Uruguay), Asia (India, Malaysia, Pakistan, Sri Lanka), and the Pacific (Australia, Indonesia, New Zealand, the Philippines).

However, tax amnesties remain a controversial and disputable mechanism. Inevitably, their main objective is to temporarily increase budget revenues. This objective may be met, but it may not be met at the expected levels; moreover, it can build the belief and nurture expectations for other fiscal amnesties in the future, thus compromising the regular payment of fiscal obligations after the amnesty. However, as Deak (2009) puts it, tax amnesty is not diabolic — to be successful it must be reasonable.

## Literature review

Baer & Le Borgne (2008) define the tax amnesty as a limited-time offer by the government to a specified group of taxpayers to pay a defined amount, in exchange for forgiveness of a tax liability (including interest and penalties), relating to a previous tax period (s), as well as freedom from legal prosecution.

According to Le Borgne (2005), tax amnesties are conducted for two primary reasons: (1) to raise revenue in the short term, and/or (2) to increase compliance

(e.g., by encouraging taxpayers to increase and pay previously undeclared tax, file tax returns, or register to pay taxes, so as to increase revenue and horizontal equity in the medium-term.

Amnesties generally fall in two categories: *financial and legal*. For the former, a tax amnesty implies a reduction (in real terms) of taxpayers' declared or undeclared tax liabilities as established by law. This reduction can be achieved through a variety of measures: for example, through a reduction or cancellation of:

- 1) interest and penalties owed on the underreported or undeclared taxes or
- 2) tax liabilities (or some combination of these).

The latter includes a waiving of civil and criminal penalties. Certainly, there are different types of fiscal amnesties, which can be considered by governments, according to the purpose and objective they want to achieve and fulfill. Baer & Le Borgne (2008) point out that Amnesties

are most often designed to include all taxpayers or large groups of taxpayers, although the amnesty's specific conditions may differ (see table below). According to Franzoni (1996), tax amnesty regulations are executed in three ways. First, Revision Amnesty offers taxpayers the platform to modify the income return of specific tax years with lower punishments. Acceptance of the pardon does not exempt taxpayers from the scrutiny and auditing activities of tax bodies. Secondly, Investigation Amnesty exempts chargeable persons from tax audits on specific periods on when an amnesty fee is paid. Lastly, Prosecution amnesty partly waives the punishment for taxpayers who face charges of tax offences and eases the judicial process.

Notwithstanding the type of amnesty, the government may pursue, all amnesties are not a panacea for tax compliance in the future. As a matter of fact, Baer & Le Borgne (2008) affirm that three results from the theoretical literature stand out:

- 1) Tax amnesties on their own have, at most, only a limited effect on compliance.
- 2) The compliance effects of tax amnesties are uncertain (both the short-run and long-run impacts).
- 3) The revenue impacts of tax amnesties are uncertain (both the short run and long-run impacts).

Who Is Targeted	What Taxes Are Covered	What Is Forgiven	Accompanied by	Other
Unregistered taxpayers	Personal taxes	Interest	Increased enforcement	Duration - One-time
Nonfilers	Business taxes	Tax penalties	Increased audit	- Permanent
Delinquent taxpayers: - Unpaid tax liabilities	Property taxes	Criminal prosecution: - Civil penalties - Imprisonment	Tax reform: - General - Designed, in part, to address non-compliance	Basis: - Legislative - Administrative decree
Evaders: - Nonreported tax liabilities - Underreported tax liabilities	Other	Tax liabilities: - Small amounts - Any amount		

Source: Pellechio, 1003.

Also, Alm, McKee and Beck (1990) found in an experiment that an amnesty reduce post-amnesty tax compliance, because the introduction of an amnesty increases taxpayers' expectations of future amnesty will be done. Additionally, Gerger (2012) affirms that the negative effects of tax amnesties on voluntary compliance are more than the positive effects. The most important reason for opposing to the amnesty in tax code is the view that it runs counter to the justice and equity principles. In addition, it will influence the equality of competitiveness negatively, as well as spoiling the justice and equity in taxation. Tax penalties and late fees have a role in the equality of the competitiveness.

However, as OECD (2015) notes, voluntary disclosure schemes or programs are opportunities offered by tax administrations to allow previously noncompliant taxpayers to correct their tax affairs under specified terms.

On the other hand, Legeida et.al (2003) note that another classification for tax amnesties may be given, regarding to the duration and type of benefit that a taxpayer receives, as follows:

### *Duration criterion*

**One-shot amnesty:** taxpayers are given a pre-determined period of time to legalize their past incomes (typically from two months to a year). It is expected that this offer will not be repeated in the future. Such kind of tax amnesty, with reduced tax rates is quite attractive since it creates strong incentives for people to participate in it, thus, widening the tax base. However, it may lead to the future expectations of such amnesties, thus, reducing the tax compliance of individuals.

**Intermittent amnesty:** amnesties are declared every few years. The intermittent amnesty is recognized to be the worst kind of a tax amnesty because it raises permanent expectations concerning amnesties and reduces tax compliance.



**Permanent amnesty:** under such amnesties the possibility to legalize past incomes exists all the time, under normal, non-reduced tax rates. Except for taxes, taxpayers may be obliged to pay modest interest rates or fines. Criminal immunity is usually granted to tax evaders, who voluntarily paid their delinquent taxes. As several empirical studies have shown, since the permanent tax amnesty is conducted at the non-reduced tax rates, its implementation leads to no revenue loss or even revenue increase in the long run (as opposed to negative long-run effects of one-shot and intermittent tax amnesties caused by expectations of further amnesties in the future).

### *Type of benefit to taxpayer*

**Return amnesty:** under such amnesty taxpayers are offered the possibility to revise their tax returns with a reduced penalty. Such amnesty enables taxpayers to correct their income returns (upwards) and pay the missing taxes. Taxpayers accepting the amnesty are not immune from the investigation and auditing activities of the tax administration.

**Investigation amnesty:** such amnesty grants taxpayers with exemption from investigating the real amount and the origin of declared incomes, sometimes through paying a special amnesty fee. This type has been widely used in Italy (five amnesties between 1973 and 1995), the Philippines (seven amnesties between 1973 and 1986), Columbia (1987) and Argentina (four amnesties between 1970 and 1984).

## **Costs and benefits related to tax amnesty**

Undertaking a tax amnesty is a complex and delicate decision, which should be based on an in-depth analysis of all positive and negative aspects that may accompany its implementation and especially the effects it is expected to have in the period following its completion. Of course, like any business, tax amnesty has its benefits and costs.

### *Benefits*

Tax amnesty may ensure and offer the following benefits for government and taxpayers:

1. **Generating short-term revenues for the state budget.** Through tax amnesties, governments mainly aim, but not only, to increase fiscal revenues, in the

short-term. Practically, some amnesties have managed to meet this objective, by providing significant revenues to the state budget (the case of tax amnesty in Italy where, by the end of 2009, more than EUR 5 billion were collected in the state budget<sup>1</sup>).

2. ***Reducing administrative costs.*** The amnesty enables fiscal authorities to reduce bureaucracy and other administrative burdens, which translates into significant monetary cuts.
3. ***Repatriating funds from abroad (mainly from migrants, and not only).*** It is one of the benefits with long-term economic effect in the economy, which enables the entry of new additional liquidity, within the financial system and economy, thus enabling a new impetus and momentum for the entire country's economic development.
4. ***Establishing and implementing a more rigorous fiscal discipline, after its implementation and increase of voluntary payment of tax liabilities.*** Alm (1998) stresses that advocates of amnesties argue that voluntary tax compliance may actually increase after an amnesty, as the number of persons who want to enforce the rules, but who step away from the effects of the law on their activity during the past periods. By giving them the opportunity to correct their previous tax evasion and to enter or re-enter the system, a tax amnesty will increase voluntary compliance: these individuals no longer must conceal their tax evasion, their guilt is lessened, and the tax authority now has a record of their activities, and thus the tax base increases. Leonard & Zeckhauser (1986) say that a tax amnesty makes future adherence to the tax code more likely by removing the need to conceal past sins. An amnesty is desirable if it lowers the cost of behaving well in the future. However, no tax amnesty can be really successful if it is not accompanied by comprehensive reforms in the tax system, as well as the modernization of aspects related to legal enforcement in the field of taxation, in particular. Amnesty as a stand-alone instrument does not offer much benefit to society. It is now widely accepted in the economic literature that fiscal amnesty should be accompanied by a certain policy, which should aim at a more efficient legal implementation of the fiscal rule.
5. ***Formal recognition and guarantee of property rights.*** Legeida et.al (2003) note that tax amnesties grant a perfect opportunity to taxpayers to declare officially their incomes, stocks, real estate, cultural values, etc. and, thus, ensure their property rights. Currently, these objects may be registered under the name of unemployed or retired relatives or friends. After settling the old debts with the state, a taxpayer receives an opportunity to legalize all his savings and start his tax life from the very beginning.

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<sup>1</sup> EURONEWS: "95 billion euros reeled in by Italian tax amnesty", December 30, 2009.

## Costs

Amnesties have always accompanying costs, as well as benefits. Some of them are as follows:

1. ***“Moral hazard” and the risk of reduced payment of fiscal obligations by regular taxpayers.*** Many critics of fiscal amnesties claim that, in the long run, fiscal amnesties can have a negative impact on budget revenues for a number of reasons:  
*First*, regular taxpayers may view fiscal amnesty as a favor to tax offenders, thus jeopardizing their willingness and willingness to pay fiscal obligations in full compliance with applicable regulatory framework,  
*Second*, some individuals may agree to pay taxes according to the requirements of the tax amnesty, without feeling at all “guilty” of not paying them in the past,  
*Third*, a “bare” announcement and a purely procedural implementation of the tax amnesty may reveal to taxpayers the existence of a tax evasion in large proportions, which before the amnesty could be perceived, but not verified to that extent, that it is revealed after the practical implementation of the amnesty,  
*Fourth*, the announcement of the amnesty may show taxpayers how weak the tax administration has been in achieving legal enforcement in the fiscal area. This is because regular taxpayers may think that their fear of daring to commit any tax evasion has not been justified,  
*Fifth*, many individuals hope that other amnesties may follow later, so they do not have to pay more taxes today, as their evasion will be amnestied again in the future.
2. ***Failure to realize budget revenues in significant quantities.*** Although one of key goals of tax amnesties remains the increase of budget revenues within a short period, it cannot be claimed that its mere implementation in practice constitutes a guarantee for the realization in a satisfactory size of the revenues projected to enter the state budget.

## Tax Amnesties in Albania – a brief history

During the second decade of 2010, the Albanian governments undertook 2 amnesties, in 2011 and in 2017, respectively.

The 2011 Tax Amnesty was an amnesty run in the most classic form. It included businesses that had not declared tax or customs duties, individuals that possessed

informal and undeclared money & funds, and companies that owned real estate or machinery and equipment below the market value. Such amnesty collected ALL 1,223,076,719.90 (approx. EUR 10 million).

The second amnesty was implemented in 2017 and it included individuals, businesses, legal entities, companies, whose infringements committed were partially or completely forgiven. This amnesty may be considered a bit more comprehensive, compared to that of 2011, but still not complete and did not cover all problematic areas, for the Albanian economy.

Both amnesties failed to reap the intended results, for the following reasons:

1. The approved legislation was incomplete for a standard tax and penal amnesty. It lacked the penal/criminal component, along with the fact that it was not approved by the 3/5 of all required votes, in such cases.
2. Apparent “moral hazard” as the 2011 amnesty followed the previous legal “interventions”, in terms of obligations’ forgiveness.
3. The implementation of tax amnesties by tax administration has been sluggish and even counterproductive.
4. Tax amnesty should be initially discussed with various stakeholders, and an informing and awareness campaign should have followed suit (such a campaign was never undertaken).

## **Tax Amnesty in Albania – the need for a different approach for a new amnesty in Albania**

The implementation of tax amnesty in Albania could give quite a few positive effects on the economic activity and the Albanian economy, itself. As above mentioned, during the last decade, two fiscal amnesties have been undertaken in Albania: in 2010 and 2017, which were for the most part very similar to each other (the 2017 amnesty was broader) and were implemented in their classic format.

If the arguments for carrying out such fiscal amnesties, back in 2010 and 2017, were based on the complex economic situation, which followed the global financial and economic crisis and weak economic developments, at national, regional and European level, in the actual period, it is considered that the undertaking of another tax amnesty, beyond its classical form, would be suggestible, aiming at giving a positive thrust to the economy and business performance in general, in the new conditions created in the regional, European and global framework, as related to stagnation of economic growth and real fears of falling into economic recession, this time globally.

## *The suggested type of amnesty and the “scope” of its implementation*

Although its “frequent” application may not be recommended, in terms of the “moral damage” effect it may cause, it should be noted that the scope of tax amnesty would certainly produce different effects, depending on the range of its extent to the economy and the aspects it encompasses. Technically, and in most amnesties, it can only include undeclared income, at personal and business level, but in some other cases, it can be even more comprehensive, accepting as elements of amnesty and business obligations in arrears, capital exported abroad, or real assets.

Normally, in the current situation when Albania is in a still - unfinished process of legalization of immovable properties built illegally, as well as in a vetting process of the justice system, there could be a special interest for the realization, by the Government, of an all-inclusive and comprehensive amnesty, that goes beyond the limits of a simple and repeated tax amnesty.

The economic interest of almost all stakeholders, including not only institutional ones (banks, etc.) but above all social stakeholders, and the future economic development interest, require the implementation of a comprehensive amnesty, in the form of “**LEGAFORMALESTY**”.

### ***LEGAFORMALESTY – or the comprehensive all-inclusive amnesty***

The amnesty that best suits the current economic, social and financial reality of Albania would be in the format of:

**LEGAFORMALESTY = LEGALization + FORMALization + AmnESTY**

**LEGA** **FORMAL** **ESTY**  
└──┬──┘ └──┬──┘ └──┬──┘  
└──┬──┘ └──┬──┘ └──┬──┘  
**LEGAL**ization + **FORMAL**ization + Amn**ESTY**

Technically, it is suggested that amnesty, in addition to the standard elements of a tax amnesty (personal and business income, arrears and possible repatriation of capital from abroad), must include the legalization of all real assets (buildings and constructions) without permit, or illegal, as well as the formalization of various business activities. By combining these elements, within the scope of the amnesty, it would create a useful synergy, in terms of maximizing the expected economic effect, in the macro framework, thus using amnesty not just as a classic instrument of collecting some more budget revenues and increasing fiscal discipline in the future, but as a lever that produces an efficient moment of economic development for the country.

Specifically, the following positive effects are aimed through the application of LEGAFORMALESTY:

***More revenues in the state budget, in the short-run and in the future, by creating a larger tax base.*** International practice has always shown a positive effect on the realization of increasing revenues in the state budget, after the implementation of tax amnesty. What remains to be predicted is the size of such revenues, which remains to be proven in practice. However, it is judged that this positive element will not remain the main goal of Government, within which the latter would formulate a quantitative projection, specific to the budget of the year, when the amnesty will be implemented. Past amnesties have not yielded any significant substantial effect on the significant increase in budget revenues. On the other hand, the deep formalization of entrepreneurship inevitably expands the taxpayer base, which, in the long run, translates into a real potential for more budget revenues.

***More available liquidity within the Albanian financial system, in various forms of financial investments (deposits, financial investments in securities, pension and investment funds) and more potential for economic activity.*** In whatever form, the amnesty may be implemented, it will be accompanied by an increasing influx of funds that will be channeled through the Albanian financial system. This will certainly have a positive effect, in terms of increasing financial investments in general (in ALL and foreign currency), thus contributing to an even more satisfactory liquidity situation, within the Albanian financial system, which will translate into more lending and financing opportunities for economic activity in the country and causing a more active participation of institutional investors and by encouraging the use of more financial instruments and deepening the system, itself.

***Compensation of outflows in foreign currency.*** Despite the fact that Albania is experiencing a return of positive upward flows of remittances, their trajectory is not safe in the coming periods and it may change direction, depending on the direction of migratory flows. On the other hand, since Albania has a liberalized capital account for many years from now, its financial system will continue to face, inevitably, an increasingly complex challenge, in terms of competition for free funds and the highest possible return for financial investments, already on a global scale. Given the level of technological advancement and ease of financial investment globally, the flows generated by a possible (comprehensive and all-inclusive) tax amnesty would enable the fading of negative effect of Albanian capital exporting, in the form of financial investments abroad.

***Creating a new fund of real assets (real estate and movable properties), which may serve for further expansion of lending activity in the economy.*** The “*en masse*” legalization of real assets (illegal buildings and constructions without permit) would create a very substantial and permanent fund of real assets, which may be easily and naturally used in the process of further expansion of lending activity in the economy. For the very stage of development of the Albanian financial system and the obvious shortages in financial instruments and institutions, real assets remain almost the only possibility of guaranteeing and collateralizing loans, be it for individual or for business purposes. Specifically, by the end of June 2019 the loan for the purchase of real estate (housing and business) was over ALL 199 billion, or about 37.6 percent of the total loan portfolio. Based on the banking system requirements for loan collateral coverage, it is estimated that at least over ALL 250 billion (equivalent) value of real assets (real estate) is set today as collateral only for real estate loans, not to mention the frequent use of real assets and guaranteeing other loan types (for business or consumer purposes).

Under current conditions, when:

- we have such a massive use of real assets, in the process of securing loans of any kind over the years,
- the smaller increase of the supply value of mortgaged real assets, compared to the increase of lending activity to the economy and population,
- the lack of a critical mass of instruments and other alternative mechanisms for securing bank loans,
- fines and interest-delays by their nature are extraordinary revenues and with a negligible weight in the state budget,

it is an imperative and necessary, among other things, to create a new offer of mortgaged (regular) assets, which would further facilitate the lending process by commercial banks, without taking into account the direct monetary effects of formalizing and eliminating fines and arrears, and the facilitating effect the latter may provide to the business and its day-to-day liquidity situation.

***Increasing the taxable base for property tax.*** The creation of a new offer of mortgaged (regular) assets and formalization would definitely produce a positive chain effect, in increasing the taxable base for the property tax. This is especially important in the current situation, when the country will soon face an even more substantial reform than the one a few years ago, related to the personal declaration of income, for the purposes of calculating integral tax liabilities.

## Conclusion

Albania needs to apply and implement a comprehensive and full amnesty for capital, duties and property legalization and formalization, a *Legaformalesty*, as it could provide long-term benefits for the national economy and the general public will put more confidence in the fiscal system. So, any legal initiative to pave the way for the next amnesty, must consider such form of amensty which could avoid all the wrong steps undertaken during the last two amnesties, so laying the foundation for a successful process with clera nad obvious benefits, in terms of: (1) Increasing short- term public revenues in the state budget, (2) Reducing the informal economy, (3) Repatriating the Albanian migrants' money, (4) reducing the operating cost of tax administration, and (5) empowering the fiscal legislation and increasing public confidence in the tax admnistration.

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# *Audited financial statements increase the certainty and efficiency of decisions made by organizations*

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## **Abstract**

*The quality and accuracy of financial information is very important in making the right decisions by the parties that use this information during their activities. To conduct an audit, the information must be in a verifiable form and have certain standards / criteria by which the auditor can evaluate the information. Managers of various levels within the organization, shareholders, investors, creditors, government, are all interested in the quality and accuracy of the information contained in the financial statements. In the exercise of their activities, financial auditors in Albania face problems that affect the quality of the services they provide, especially problems related to the environment where they operate and professional ethics, as the economic environment presents problems that create difficulties in practicing the profession according to standards and professional ethics. Also, an important challenge is educating business leaders on the long-term benefits of accurate financial reporting that leads to increased business value, as well as raising their awareness of the importance of establishing efficient internal control systems over financial reporting.*

**Keywords:** *Financial Statement, Standard, Professional ethics, Audit opinion, Quality assurance.*

## Introduction and study methodology

Users rely on financial statements to make their decisions, so they view the auditor's report as an indicator of the reliability of the statements. Decision makers can use the audited information assuming it is completely reliable, accurate and impartial. They assess the auditor's safety because of the auditor's independence from the client and their knowledge of financial statements and reporting.

Reducing information risk has a significant impact on business decisions, because, as society becomes more complex, the decision makers are more likely to receive unreliable information, for several reasons:

Firstly, is the distance of information. In a global economy it is almost impossible for a decision maker to have a lot of important information about the organizations with which they do business. The information on which to rely on, is provided by others. When information is provided by others, it is possible that anomalies may be intentionally or unintentionally presented.

Secondly, manipulations and motives of the provider. If the information was provided by someone whose intentions are contrary to those of the decision maker, the information may be biased in favor of the provider. The reason may be honest optimization about upcoming events or aimed at influencing users. In other cases, the result is an information anomaly.

Thirdly, the voluminous data and complex exchange transactions. As organizations become larger, the volume and complexity of exchanged transactions also increases significantly. This increases the chances of inappropriate information being included in the records.

The quality and accuracy of financial information is enhanced through audits performed by financial auditors. To conduct an audit, the information must be in a verifiable form and have certain standards / criteria by which the auditor can evaluate the information. The criteria for evaluating information vary depending on the information being audited. Auditors perform audits of quantitative information contained in financial statements.

In auditing financial statements by independent auditors, auditors use the standards on which they are based, such as the generally accepted US GAAS accounting standards or those applied in other countries (including Albania). International Financial Reporting / IFRS.

Auditors try to have high level of independence in maintaining the confidence level of users relying on their reports. Auditors who report on the company's financial statements are called independent auditors. Although they are paid by the company, they are independent in conducting the audit on which the users rely, so that their opinion is credible.

For the audit of internal control over financial reporting, the criteria are based on the well-known COSO framework for the functioning of internal control, while for the audit of tax revenues are used the standards set out in fiscal legislation.

The auditors and the audited entities agree on the criteria before the start of the audit.

Before starting the audit, the auditor should know the standards used in keeping accounting records and publishing financial statements by the organization, and should know the types and amount of evidence collected in order to reach the right conclusion for giving the opinion of the on the audited financial statements. Also, the auditor must have a high level of independence in order to maintain the trust of the users of their reports.

At the end of the audit process, the auditors prepare an audit report that communicates the audit findings to the users, who are informed of the extent to which the audited information corresponds to the standards set.

### *Study Methodology*

To identify the problems faced by the financial audit in Albania and assess the capacity of this service, for the purposes of the study the method used in data collection is the quantitative one that was developed in the form of a questionnaire to auditors that included questions based on legal, the efficiency of the supervision of this profession, the obstacles they encounter in the economic environment and on the pressures or demands of the business, also the qualitative method was used which was developed in the form of semi-structured interviews and for this purpose interviews with businesses and managers were organized public organizations. Within the data analysis, both of these sources of information used are complementary in order to ensure that the findings describe certain prevailing phenomena.

*The purpose of the study* was to determine the current capacity of public financial auditors in Albania.

*Research question* - Is the activity of certifying financial statements performed according to standards?

### **Literature Overview**

For the assessment of the security and quality of financial information used by organizations (public and non-public) in Albania in the decision-making process and the role of audit services in this process in addition to standards, legislation, methodological basis prepared by public bodies respectively, works of various authors in this field and publications of professional bodies were also treated.

In their book “Principles of Auditing & Other Assurance Service” (2018), O. Ray Whittington and Kurt Pany emphasize that: “Reliable information is essential to the existence of our society. The investor in making a decision to buy or sell securities, the banker in deciding whether to approve the loan, the government in obtaining income based on income tax - all rely on information provided by others.”

Financial reporting fraud is a deliberate misinterpretation or omission of financial statements of amounts or disclosures for the purpose of misleading users (the example of WorldCom capitalizing as fixed assets billions of dollars that should have been recorded as expenses).

In their book “Auditing and Assurance Services” (2014), Alvin. A. Arens, Randel J. Elder and Mark S. Beasley define fraud as a legal concept: “fraud is a deliberate act to deprive a person or party its property or rights”. In this definition we see 3 typical elements of fraud: (1) committing an intentional act, (2) doing something bad or wrong by causing harm and loss to someone intentionally, (3) unauthorized personal gain.

The Committee of Sponsoring Organizations / COSO (2020): “Compliance Risk Management: Implementing the COSO ERM Framework / Framework”. “Compliance risks are common and frequently material risks to achieving an organization’s objectives” said Paul Sobel, President of COSO. While Gerry Zack, CEO of SCCE & HCCA, emphasizes that: “As compliance and ethics programs continue to evolve and gain wider adoption globally, it makes increasing sense to understand and appreciate the synergies that can be achieved by applying the ERM framework”.

According to COSO (2017): the authors K, Rae., J, Sands., N, Subramaniam in the paper “Associations among the Five Components within COSO Internal Control-Integrated Framework as the Underpinning of Quality Corporate Governance”, states: “Companies that are attracted to the COSO Internal Control-Integrated Framework should benefit from a better understanding of direct, indirect and reciprocal associations between the components of internal control systems. The benefits gained from this better understanding can help companies improve their corporate governance practices leading to operational objectives, financial reporting and compliance.”

COSO (2014): “Improving organizational performance and governance”. Emphasizes: “Within the context of its mission, an organization has been created to meet the objectives. It is assumed that the leaders of the organization can articulate its objectives, develop strategies to achieve these objectives, identify risks to achieve these objectives and then reduce / mitigate these risks in the development / implementation of the strategy.”

Organization for Economic Co-operation and Development / OECD, SIGMA PAPER No.59, (2019), Guidelines for evaluating the quality of internal

control systems. It states that: “The development and maintenance of efficient management and control systems, based on the principle of decentralized managerial accountability, remains a challenge for public sector managers in EU candidate countries and potential candidates.”

OECD in the publication “Public Governance Reviews” (2017). Internal Control and Risk Management for Public Integrity in the Middle East and North Africa. Emphasizes that: “Internal control systems are necessary to ensure reliable financial reporting; compliance with laws, regulations and policies; and economic, efficient and effective government operations.”

The OECD study on the integrity of internal control and risk management of the public sector (2016), states: “Risk management is an integral part of the management system of an entity, carried out by the senior management of the entity, managers line and other personnel, designed to identify, understand and evaluate potential risks and opportunities (and their interdependence) that may affect the entity and manage those risks and opportunities that are within the risk appetite/tolerance, in in order to provide the appropriate presentation / disclosure and reasonable assurance regarding the achievement of the entity’s objectives.”

OECD in its publication “Risk Management and Corporate Governance” (2014), states that: “Existing risk management standards for listed companies still focus mainly on internal control and audit functions, and mainly financial risk, rather than on identification (ex / ante) and comprehensive risk management. Corporate governance standards should place sufficient emphasis on the prior / ex ante identification of risks.”

## **Some issues of auditing financial statements in Albania**

The Albanian economy is still characterized by a high degree of informality, corruption and tax evasion and in these conditions both auditors and specialists in the field of finance and accounting face an unsuitable environment to conduct their activities according to standards and professional practice, as there are business owners who tend to increase their profits through corrupt and informal channels by manipulating accounting information.

In the exercise of their activity, financial auditors face problems related to the implementation of laws, rules, standards and ethics of the profession. Also, there are problems in the supervision of these professions, the environment where they operate and the ethics of accounting professionals, as well as the quality of services provided by them.

Verification of financial reporting is very important for the decision-making process, as it is not only a legal obligation, but also a necessity to have transparency

and reliability. This process is regulated by laws, guidelines and regulations on statutory audit, organization of the profession of statutory auditor and certified public accountant.

Public companies are obliged to perform the legal audit of the annual financial statements, before their publication, by statutory auditors or auditing companies who have the respective cost for this service.

The role of statutory auditors is to verify that the financial statements of organizations as a whole do not contain misstatements, errors or anomalies, ie to give stakeholders an opinion on the accuracy of financial accounts. A wide community of people and institutions rely on the quality of statutory audit. Therefore, by improving the integrity and reliability of financial statements, statutory audit contributes to the economic development of the country as a whole.

The discussion in this area has focused mainly on the regulation of the profession and the model to be followed. The model that is being implemented in Albania is being approximated to that of the EU countries, as the mix model between regulation and self-regulation of accounting professions according to EU directives is being implemented.

The legal regulation of accounting professions in our country is based on law no. 10091, dated 05.03.2009, "On legal audit, organization of the profession of registered accounting expert and certified accountant", as amended. The purpose of this law is the best supervision of the financial auditor profession, where the Public Supervision Board / FMB has the task to monitor their organization, statute and activity in terms of certification, quality control of activity, continuing professional education , as well as the approval of rules and procedures of audit work. While IEKA monitors the internship of professionals before entering the profession, their registration, continuous qualification and quality control of the audit activity. These professional bodies have the task of performing quality control of audit work, investigation of suspicious cases and taking appropriate disciplinary measures.

A very important aspect is ensuring the quality of the audit activity. Quality control for the implementation by auditors of international auditing standards is performed by IEKA and is based on the international standard for quality control no.1 and international standards for the performance of commitments. Quality control is mandatory for all registered auditors. This control is exercised by the quality committee and is performed at the location of the auditors. Quality control verifies the implementation of auditing standards, code of ethics, independence, quality, amount of resources spent, fees charged, etc.

The questionnaires and interviews conducted state that, in conditions when the financial information is not accurate, the auditors should give qualified or contrary opinions, and in these conditions problems are created in the relations with the

business, as the auditors are faced with business pressures to provide an unqualified opinion even when the audit results in problems related to the accuracy of the financial information.

Another important issue is the fiscal consulting that auditors do, as various businesses find manipulations related to concealment of income, fictitious increase of expenses, especially the increase of deductible expenses in order to reduce the declared profit. and profit tax.

Another problem identified is unfair competition within the audit profession and price competition which in many cases lead to legal violations, non-compliance with standards and low quality of audit activities.

Problems are also found in relation to the appointment of auditors, since the client's acceptance and commencement of engagement, joint engagements of experts in auditing units, changing the appointment in cases where the need arises to change an auditor for various reasons, and conflicts of interest.

It is important to note that auditor engagement programs often do not program to be audited and report on the effectiveness of internal control systems over financial reporting, where the leaders of organizations have their responsibilities to design, establish, make effective and update these systems, as the efficient operation of these systems at all times increases the security of financial information in the organization.

## Conclusions and Recommendations

In exercising their activities, financial auditors face problems that affect the quality of services they provide, especially problems related to the environment in which they operate and professional ethics, as the economic environment presents problems that create difficulties in practicing the profession according to standards and professional ethics.

Auditors exercising the activity of financial certification should be continuously trained and qualified with the application of professional standards and practice, as well as with the application of ethical principles and norms. For this, an increasingly important role should be played by the two professional public bodies, the Public Oversight Board and IEKA. These bodies, in addition to the legal obligation to prepare the modern legal and regulatory framework, as well as the necessary methodological basis of the system, certification, training and continuous professional development, must continuously monitor the quality assurance of audit activities, in order to resolve of identified problems and the development of this activity according to contemporary standards and professional practice to add value to the audited organizations.

Higher education institutions also have an important role in educating young professionals in this field and preparing them for the labor market.

It is important to educate business leaders on the long-term benefits that accurate financial reporting has that leads to increased revenue, business longevity and its image. Also, the leaders of organizations should be aware of the importance of establishing effective internal controls over financial reporting, as an efficient control system will produce accurate and quality financial information that will help them in the decisions they will make.

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# *Trade secret, a perpetual monopoly asset of the businesses*

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## **Abstract**

*Intellectual Property (IP) is the commercial application of imaginative thought to solving a technical or artistic challenge. It is not the product itself, but the special idea behind it, the way the idea is expressed, and the distinctive way it is named and described. A trade secret (which is a component of IP, and sometimes either equated with, or a subset of „confidential information“) is secret, non-public information concerning the commercial practices or proprietary knowledge of a business, public disclosure of which may sometimes be illegal.*

*Trade secrets (protection) management is seen as one of the most important issues in the strategic management of the business organisations. Under this general framework, it is important for us to understand the level of importance of the trade secrets and their management (as expressed by the activities pertaining to the management of the trade secrets), in Albanian businesses. Many companies in Albania see the trade secrets as important assets, so the conduction of a research with the focus on trade secrets, in some companies of this country, adds value to their management strategies.*

*The aim of this research is to investigate the level of importance of the trade secrets in business organizations in Albania. The methodology used for the research is unfolded with its own dimensions as: specification of the research subjects, tools used for the research, sampling, implementation plan, ethical issues and presentation of the research findings. The research is based on primary and secondary data collection.*

*The research is based on the testing of the main Hypothesis, H0, and some other Sub-Hypotheses, and the results of the analysis indicate that hypothesis H0: "Trade secrets are not important assets for the business organizations in Albania", is invalidated. Some important conclusions are given at the end of this paper.*

**Key words:** *Trade secret, Trade secret as an asset, Trade secrets (protection) management, Albanian business organization*

## Introduction

Intellectual property (IP) is the term that describes the ideas, inventions, technologies, artworks, music and literature, that are intangible when first created, but become valuable in tangible form as products. The word „property“ is used to describe this value, because the term applies only to inventions, works and names for which a person or group of persons claims ownership. Ownership is important because experience has shown that potential economic gain provides a powerful incentive to innovate.

“Invention is available to all peoples regardless of their economic condition, race or nationality“ (George Washington Carver). Carver invented and obtained information (trade secrets) and patents on crop-rotation methods for conserving nutrients in soil and discovered hundreds of new uses for crops such as the peanut which created new markets for farmers in the United States of America. His relevance today is greater than ever as we grapple with the increasing technological divide between rich and poor countries.

„It is not the style of clothes one wears, neither the kind of automobile one drives, nor the amount of money one has in the bank, that counts. These mean nothing. It is simply service that measures success.“

We must acknowledge at the outset that for most people, IP is either an unknown, misunderstood, or mysterious term. Technology and creative arts pervade modern society, yet few actually realize that their daily lives are surrounded by IP creations, from which legal rights of all sorts, including their own, arise. Building public awareness of the role of IP is key to fostering a broad understanding of, and respect for, it and the system that promotes and protects it.

In law, intellectual property (IP) is an umbrella term for various legal entitlements which attach to certain types of information, ideas, or other intangibles in their expressed form. The holder of this legal entitlement is generally entitled to exercise various exclusive rights in relation to the subject matter of the IP. The term

*intellectual property* reflects the idea that this subject matter is the product of the mind or the intellect, and that IP rights may be protected at law in the same way as any other form of property.

Intellectual property laws confer a bundle of exclusive rights in relation to the particular form or manner in which ideas or information are expressed or manifested, and not in relation to the ideas or concepts themselves. It is therefore important to note that the term „intellectual property“ denotes the specific legal rights which authors, inventors and other IP holders may hold and exercise, and not the intellectual work itself.

Copyright may subsist in creative and artistic works (e.g., books, movies, music, paintings, photographs, and software) and give a copyright holder the exclusive right to control reproduction or adaptation of such works for a certain period of time.

A patent may be granted for a new, useful, and non-obvious invention, and gives the patent holder an exclusive right to commercially exploit the invention for a certain period of time (typically 20 years from the filing date of a patent application).

A trademark is a distinctive sign which is used to distinguish the products or services of different businesses.

An industrial design right protects the form of appearance, style or design of an industrial object (e.g., spare parts, furniture, or textiles).

A trade secret (which is sometimes either equated with, or a subset of „confidential information“) is secret, non-public information concerning the commercial practices or proprietary knowledge of a business, public disclosure of which may sometimes be illegal.

## **Trade secret**

Trade secret law is the oldest form of intellectual property protection. For the developer of useful commercial information that the developer keeps secret, trade secret law affords a tort remedy against anyone who wrongfully obtains and uses a trade secret. The rights in the trade secret bundle include the right to exclude all users of a trade secret by someone with the requisite fault (Perritt, 2009).

A trade secret is a formula, practice, process, design, instrument, pattern, or compilation of information used by a business to obtain an advantage over competitors within the same industry or profession. In some jurisdictions, such secrets are referred to as „confidential information“, while in others they are a subset or example of confidential information.

The purpose of protecting trade secrets is to prevent “theft” of trade information by unfair or commercially unreasonable means. In essence, trade secret law is a form of private intellectual property law under which creators establish contractual limitations or build legal “fences” that afford protection from misappropriation (Menell, Lemley & Merges, 2019).

A company can protect its confidential information through non-compete non-disclosure contracts with its employees. The law of protection of confidential information effectively allows a perpetual monopoly in secret information - it does not expire as would a patent. The lack of formal protection, however, means that a third party is not prevented from independently duplicating and using the secret information once it is discovered.

The sanctioned protection of such type of information from public disclosure is viewed as an important legal aspect by which a society protects its overall economic vitality. A company typically invests time and energy (work) into generating information regarding refinements of process and operation. If competitors had access to the same knowledge, the first company’s ability to survive or maintain its market dominance would be impaired. Where trade secrets are recognized, the creator of property regarded as a „trade secret“ is *entitled* to regard such „special knowledge“ as intellectual property.

The precise language by which a trade secret is defined varies by jurisdiction (as do the particular types of information that are subject to trade secret protection). However, there are three factors that (though subject to differing interpretations) are common to all such definitions: a trade secret is some sort of information that:

- is not generally known to the relevant portion of the public;
- confers some sort of economic benefit on its holder (where this benefit must derive *specifically* from its not being generally known, not just from the value of the information itself);
- is the subject of reasonable efforts to maintain its secrecy.

Trade secrets are not protected by law in the same manner as trademarks or patents. Probably one of the most significant differences is that a trade secret is protected *without* disclosure of the secret.

### *Protecting trade secrets*

Trade secrets are by definition, *not* disclosed to the world at large. Instead, owners of trade secrets seek to keep their special knowledge out of the hands of competitors through a variety of civil and commercial means, not the least of which is the employment of non-disclosure agreements (NDA) and non-compete clauses. In

exchange for the opportunity to be employed by the holder of secrets, a worker will sign an agreement not to reveal his prospective employer's proprietary information. Often, he will also sign over rights to the ownership of his own intellectual production during the course (or as a condition) of his employment. Violation of the agreement generally carries stiff financial penalties, agreed to in writing by the worker and designed to operate as a disincentive to going back on his word. Similar agreements are often signed by representatives of other companies with whom the trade secret holder is engaged, e.g., in licensing talks or other business negotiations.

Trade secret protection *can*, in principle, extend indefinitely and in this respect offers an advantage over patent protection (which lasts only for a specifically delimited period, for example twenty years in the U.S.). (One company that has no patent for its formula and has been very effective in protecting it for many more years than a patent would have is Coca Cola.) However, the „down side“ of such protection is that it is comparatively easy to lose (for example, to reverse engineering, which a patent will withstand but a trade secret will not) and comes equipped with no *minimum* guaranteed period of years.

Historically, trade secrets have been with us after a fashion since early times in the form of keeping advanced military technology from one's enemies - and in more recent times, in keeping Industrial Revolution-era technology secret.

### *Discovering trade secrets*

Companies often try to discover one another's trade secrets through lawful methods of reverse engineering on one hand and less lawful methods of industrial espionage on the other. Acts of industrial espionage are generally illegal in their own right under the relevant governing laws, of course. The importance of that illegality to trade secret law is as follows: if a trade secret is acquired by improper means (a somewhat wider concept than „illegal means“ but inclusive of such means), the secret is generally deemed to have been *misappropriated*. Thus, if a trade secret has been acquired via industrial espionage, its acquirer will probably be subject to legal liability for acquiring it improperly. (The holder of the trade secret is nevertheless obliged to protect against such espionage to some degree in order to safeguard the secret. As noted above, under most trade secret regimes, a trade secret is not deemed to exist unless its purported holder takes reasonable steps to maintain its secrecy.)

### *Legal development to protecting trade secrets*

A relatively recent development in the USA is the adoption of the UTSA, the *Uniform Trade Secrets Act*, which has been adopted by approximately 40 states as

the basis for trade secret law. It is believed that a measure of uniformity among different states' laws will strengthen business' claims on their trade secrets.

Another significant development in U.S. law is the Economic Espionage Act of 1996, which makes the theft or misappropriation of a trade secret a federal crime. This law contains two provisions criminalizing two sorts of activity. The first, 18 U.S.C. § 1831(a), criminalizes the theft of trade secrets to benefit foreign powers; the second, 18 U.S.C. § 1832, criminalizes their theft for commercial or economic purposes. (The statutory penalties are different for the two offenses.)

In Commonwealth common law jurisdictions, confidentiality and trade secrets are regarded as an equitable right rather than a property right (with the exception of Hong Kong where a judgment of the High Court indicates that confidential information may be a property right). The English Court of Appeal in the case of *Saltman Engineering Co Ltd v. Campbell Engineering Ltd*, (1948) held that the action for breach of confidence is based on a principle of preserving „good faith“.

The „quality of confidence“ highlights that trade secrets are a legal concept. With sufficient effort or through illegal acts (such as break and enter), competitors can usually obtain trade secrets. However, so long as the owner of the trade secret can prove that reasonable efforts have been made to keep the information confidential, the information remains a trade secret and generally remains legally protected as such. Conversely, trade secret owners who cannot evidence reasonable efforts at protecting confidential information, risk losing the trade secret, even if the information is obtained by competitors illegally. It is for this reason that trade secret owners shred documents and do not simply recycle them. Presumably an industrious competitor could piece together the shredded documents again. Legally the trade secret remains a trade secret because shredding the document is considered to have kept the quality of confidence of the information.

## Methodology of the research

Trade secrets and the rights they grant, are seen as one of the most important issues in the strategic management of the business organizations. Under this general framework, it is important for us to understand the level of importance of the trade secrets in business organizations in Albania.

The aim of this research is: *to investigate the level of importance of the trade secrets in business organizations in Albania, as well as to find out if relationships between importance of the trade secrets and other specified managerial issues related to the trade secrets, are present in such organizations.*

The objectives of the research are:

- To indicate the importance of the trade secrets as assets for the business organizations
- To indicate the level of management of the trade secrets within companies
- To indicate any presence of relationship between the “importance of the trade secrets” and “other specified variables” like: change in the attention of company management (to protect trade secrets), existence of the policy of the company to manage trade secrets, development of the strategy of the company to manage trade secrets, creation of the formal structure of the company to manage trade secrets.

The research is based on the testing of the main Hypothesis, expressed as:

*H0*: Trade secrets are not important assets for the business organizations in Albania.

*Ha*: Trade secrets are important assets for the business organizations in Albania.

.....as well as, on the testing of four other Sub-Hypotheses, trying to find out if relationships, between “trade secrets as important assets for the business” and “some other specified variables (activities pertaining to the management of the trade secrets)”, are present in such organizations.

*H1*: There is a positive correlation between the “trade secrets as important assets for the business” and “change in attention of company management”.

*H2*: There is a positive correlation between “trade secrets as important assets for the business” and “existence of policy to manage trade secrets”.

*H3*: There is a positive correlation between “trade secrets as important assets for the business” and “development of strategy to manage trade secrets”.

*H4*: There is a positive correlation between “trade secrets as important assets for the business” and “creation of formal structure to manage trade secrets”.

The methodology used for the research has its own dimensions like: specification of the research subjects, tools used for the research, sampling, implementation plan, ethical issues and presentation of the research findings. The research is based on primary and secondary data collection.

### *Specification of the research subjects*

Many companies in Albania see the trade secrets as important assets, so the conduction of such a research adds value to their management strategies. So, after defining the hypotheses, we started out the work about specification of the subjects that could be compatible to the purpose of this research. After distinguishing a number of companies of interest (businesses in the Tirana region of Albania), we started to collect the required information from the managers of these companies.

The data for the study were collected from business organizations with activity in areas like: manufacturing, service, retailing, etc. The respondents were senior managers. This category was considered to be the best to target, because these individuals have the tendency to be closely associated with the innovative processes, trade secrets' practice, and their respective managerial decision making.

### *Tools used for the research*

In order to collect the necessary information, analyze the data, and draw conclusions, a questionnaire composed of some basic questions were developed and delivered. The questionnaire was prepared to collect important data on different aspects of trade secret management practice. The analyses of the collected information would give us the necessary level of understanding about the issue in discussion. Data are analysed using SPSS program.

### *Sampling*

Our original sampling consisted of 46 managers, in 46 companies, in the Tirana region of Albania. 46 questionnaires were delivered, and the questionnaires' return rate was 86.95%, or 40 collected questionnaires. The collected data could be considered as being representative.

### *Implementation plan*

The way we were organized helped us in reducing the time and costs required to perform the interviews. Data were collected during 2019, comprising a period of five years (last five years). In order to prepare the findings and draw conclusions, collected data were processed. There were not present any difficulties in distributing and collecting the questionnaires.

### *Ethical issues*

The information collected from the respondents was very important to analyze and interpret the findings. The names of the respondents (companies' managers) due to ethical obligations were not disclosed in this paper.



## Presentation of the research findings

In this section research findings are presented.

### *Trade secrets as important assets (Univariate analysis)*

In order to test Hypothesis 0, Descriptive analysis is used.

In regard with the level of importance of the trade secrets as assets of the business, the results of the analysis are as following:

To the question “Are you aware of the concept of trade secret?“, 100% of respondents answered “yes“, (0% of respondents answered “no“, 0% of respondents answered “do not know“), clearly indicating that all companies are aware of the concept of trade secret.

To the question “Do you think that the trade secrets are important assets for your business?“, 90% of respondents answered “yes“, 5% of respondents answered “no“, and only 5% of respondents answered “do not know“, indicating that most of the companies are aware of the importance of their trade secrets as business assets. However, there are companies (managers) thinking that their trade secrets are not important.

To the question “Did the attention of company management (in regard with trade secrets mangement), change over last five years?“, 75% of respondents answered “yes“, 15% of respondents answered “no“, 10% of respondents answered “do not know“, indicating that in most companies management is continuously being focused on trade secrets mangement.

To the question “Are there any policies of your company (management) to manage its trade secrets, over the last five years?“, 40% of respondents answered “yes“, 50% of respondents answered “no“, 10% of respondents answered “do not know“, indicating that most of the companies do not own any policies to manage their trade secrets.

To the question “Did your company (management) develop any strategies to manage its trade secrets, over the last five years?“, 42.5% of respondents answered “yes“, 47.5% of respondents answered “no“, 10% of respondents answered “do not know“, indicating that in many companies trade secrets is becoming part of their business strategies.

To the question “Did your company (management) create any formal structures to manage (that is, to identify, to protect, to promote or to comercialize) its trade secrets, over the last five years?“, 47.5% of respondents answered “yes“, 50% of respondents answered “no“, 2.5% of respondents answered “do not know“, indicating that a few companies own formal structures envolved in the mangement of their trade secrets.

Examining the answers of the questions, it is clear that the weight of the percentages indicated by the respondents, is on the affirmative value of the evaluation, clearly showing the importance of the trade secret, and the importance of the activities pertaining to its management.

By using Arithmetic Mean, Standard Deviation and Variation Coefficient (CV) (as a standardized measure of dispersion of the above answers' frequency distribution, expressed as a percentage, and defined as the ratio of the standard deviation  $\{\displaystyle \sigma\}$  to the mean) of the results above, based on a scale of three values, "positive (yes)", "negative (no)" and "indifferent (do not know)", (indicating the relativity of answers above), we see that the lowest value of the CV corresponds to the scale "positive", with 65.8% of the business organizations. The results of the analysis above clearly indicate that hypothesis *H0*: Trade secrets are not important assets for the business organizations in Albania, is invalidated, that is, alternative hypothesis *Ha*: Trade secrets are important assets for the business organizations in Albania, is validated.

### *Relationship between trade secrets as important assets and other variables (Bivariate analysis)*

In order to test Hypothesis 1-5, first the Crosstabulations between the variables were computed in order to quantitatively analyze the relationship between variables, and then Pearson's chi-squared test was used in order to test the independence between variables. Correlation analyses was used to attempt rejection of the other sub-hypotheses.

**TABLE: 1.** Variables to be crossed.

No	Variable 1	Variable 2
H1	trade secrets as important assets for the business	change in attention of company management
H2	trade secrets as important assets for the business	existence of policy to manage trade secrets
H3	trade secrets as important assets for the business	development of strategy to manage trade secrets
H4	trade secrets as important assets for the business	creation of formal structure to manage trade secrets

For the crosstabulation "Do you think that the trade secrets are important assets for your business?", and "Did the attention of company management (in regard with trade secrets' management), change over last five years?", values of the table below show that the "Significance of the chi square" value is greater than (0,375 > 0.05) "Accepted error" value, indicating independence between the variables. Based on the Table 6. Correlations, values show that "Significance" value is 0.802, indicating the existence of a statistically important relationship, and the

“Pearson correlation“ value is 0.415, indicating that there is a medium, positive, linear correlation between the variables. Hence hypothesis *H1*: There is a positive correlation between “level of trade secrets as important assets for the business“ and “change in attention of company management“, is validated. That is, since trade secrets are important assets for the business, it has caused a change in the attention the company management pays on it.

**TABLE: 2.** Chi-Square test for H1.

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4,333	4	,375
Likelihood Ratio	4,511	4	,341
Linear-by-Linear Association	,060	1	,807
N of Valid Cases	40		

For the crosstabulation “Do you think that the trade secrets are important assets for the business?“, and “Are there any policies of your company (management) to manage its trade secrets, over the last five years?“, values of the table below show that the “Significance of the chi square“ value is greater than ( $0,114 > 0.05$ ) “Accepted error“ value, indicating independence between the variables. Based on the Table 6. Correlations, values show that “Significance“ value is 0.125, indicating the existence of a statistically important relationship, and the “Pearson correlation“ value is 0.353, indicating that there is a medium, positive, linear correlation between the variables. Hence hypothesis *H2*: There is a positive correlation between “level of trade secrets as important assets for the business“ and “existence of policy to manage trade secrets“, is validated. That is, since trade secrets are important assets for the business, it has required the existence of a policy to manage them, in the company.

**TABLE: 3.** Chi-Square test for H2.

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4,058	2	,114
Likelihood Ratio	5,580	2	,061
Linear-by-Linear Association	2,391	1	,122
N of Valid Cases	40		

For the crosstabulation “Do you think that the trade secrets are important assets for the business?“, and “Did your company (management) develop any strategies to manage its trade secrets, over the last five years?“, values of the table below show that the “Significance of the chi square“ value is greater than ( $0,526 > 0.05$ ) “Accepted

error“ value, indicating independence between the variables. Based on the Table 6. Correlations, values show that “Significance“ value is 0.526, indicating the existence of a statistically important relationship, and the “Pearson correlation“ value is 0.438, indicating that there is a medium, positive, linear correlation between the variables. Hence hypothesis H3: There is a positive correlation between “level of trade secrets as important assets for the business“ and “development of strategy to manage trade secrets“, is validated. That is, since trade secrets are important assets for the business, it has required the development of a strategy to manage it, in the company.

**TABLE: 4.** Chi-Square test for H3.

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1,376	2	,526
Likelihood Ratio	1,760	2	,415
Linear-by-Linear Association	,477	1	,490
N of Valid Cases	40		

For the crosstabulation “Do you think that the trade secrets are important assets for the business?“, and “Did your company (management) create any formal structures to manage (that is, to identify, to protect, to promote or to comercialize) its trade secrets, over the last five years?“, values of the table below show that the “Significance of the chi square“ value is greater than  $(0,289 > 0.05)$  “Accepted error“ value, indicating independence between the variables. Based on the Table 6. Correlations, values show that “Significance“ value is 0.193, indicating the existence of a statistically important relationship, and the “Pearson correlation“ value is 0.276, indicating that there is a small, positive, linear correlation between the variables. Hence hypothesis H4: There is a positive correlation between “level of trade secrets as important assets for the business“ and “creation of formal structure to manage trade secrets“, is validated. That is, since trade secrets are important assets for the business, it has required the creation of a formal structure to manage it, in the company.

**TABLE: 5.** Chi-Square test for H4.

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	2,568	2	,289
Likelihood Ratio	3,683	2	,159
Linear-by-Linear Association	2,020	1	,155
N of Valid Cases	40		

Correlations between the variables are shown in the table below.

**TABLE: 6.** Correlations.

		change in attention of company management	existence of policy to manage trade secret	development of strategy to manage trade secret	creation of formal structure to manage trade secret
Trade secret as an important asset for the business	Pearson Correlation	,415	,353	,438	,276
	Sig. (2-tailed)	,802	,125	,526	,193

Some important conclusions are given below.

## Conclusions

Many companies in Albania are aware of the concept of trade secrets and they know how to protect their trade secrets.

Most companies see their trade secrets as very important for their businesses and in these companies management is continuously being focused on trade secrets and trade secrets' mangement.

Despite tha fact that many companies see their trade secrets as very important, many of them do not own any policies to manage their trade secrets.

Despite the fact that in many companies trade secret is becoming part of their business strategies, some of them own or created formal structures envolved in the mangement of their trade secrets.

As companies in Albania recognize the importance of theit trade secrets they strongly protect their trade secrets.

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# *Exemption of civil dilectual responsibility*

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*Prof. Dr. Agim Nuhiu*

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## **Abstract**

*Causing damage is also related to objective law. Violation of subjective right is a violation of the concrete material legal norm. Whenever the subjective right is violated or violated, its holder is guaranteed the right to protection by a certain legal norm, respectively to avoid the consequences that have come from illegal actions. The person who, illegally and culpably, causes damage to another person or his property, is obliged to compensate the damage caused. The person who caused the damage does not respond when he proves he is not at fault. Damage is considered illegal when it is the result of a violation or violation of the interests and rights of another, which are protected by the legal order or good customs. The damage must be a direct and immediate consequence of the action or omission of the person. Failure to prevent an event by the person who has the legal obligation to avoid it, charges him with liability for the damage caused.*

*Keywords: harm, subjective right, guilt, responsibility, law.*

## **Basic reviews on civil liable criminal liability**

When an action is the cause of a certain consequence, then the person to whom the harm is attributed, will have obligations within the limits of liability for his harmful actions. That person will be liable for the damage caused if the fact of the predictability of the damage is established by a reasonable person at the time of the activity and taking into account in particular the proximity in time or space between the harmful activity and its consequence. , or the extent of the damage in

relation to the normal consequences of such activity. In addition, the nature and value of the protected interest, the basis of liability, etc. must be proven.

In most cases of causing damage to the motor vehicle, there is no evidence or assumption of a causal link between the motor vehicle and the consequence caused.

In the case of multiple actions, and when it is certain that none of them caused the damage in whole or in any part of it, then it is assumed that all actions have contributed to causing the consequences, equally<sup>1</sup>.

In those cases we say that there is no liability of the insured or other user of the motor vehicle with which the damage was caused. Based on this, the Insurance Association has the right to refuse compensation for the damage caused by the motor vehicle from the base of motor third party liability insurance, because the conditions for filing the insured case are not met. Factors that prevent such a thing, a priori exclude the tortious civil liability of the insured or other user of the motor vehicle. They are released from liability if they prove that the damage results from a circumstance which is outside the item, the action of which can not be foreseen, nor can it be avoided or removed<sup>2</sup>. Different systems recognize different factors that completely release the alleged responsible person from the obligation to compensate the damage. The Macedonian legal system recognizes the following factors that preclude tortious civil liability: force majeure, the action of the injured party and the action of a third party.

## Exemption of civil dilectual responsibility

Exclusion of dilectual civil liability is done in cases of force majeure<sup>3</sup>. Force majeure is an external event that is not anticipated, or that cannot be predicted exactly when it will occur, and that cannot be afforded or avoided<sup>4</sup>.

When it comes to the exclusion of liability, we can say that the law defines the circle of persons who are not responsible for the damage caused. A person who due to mental illness, mental retardation or other causes is not able to judge, is not liable for the damage caused, unless it is proven that he caused the damage at the time when he was able to judged. Whoever causes harm to another in a state of temporary incapacity for trial is liable for it, unless he proves that through no fault of his own he has been brought into such a state. If in this condition he has been

<sup>1</sup> Art. 3:105, Principles of European Tort Law, European Group on Tort Law, <http://civil.udg.edu/php/biblioteca/items/283/PETL.pdf>, 10 june 2012.

<sup>2</sup> Vukashin Stanishic, Responsibility in the case of driving a motor vehicle in the car, *Pravni Zhivot*, no. 9-10 of 1992, p.1297.

<sup>3</sup> Corinne Renault – Brahinsky, *L'essentiel du Droit des obligations*, 2011-2012, 7-e édition, Gualino, Iextenso éditions, Paris, p.95.

<sup>4</sup> Dauti Nerxhivane, *Law of Obligations*, Prishtina, 2002.p.163.



brought to blame by someone, the damage will be borne by the one who brought him to such a state<sup>5</sup>.

In all cases when the existence of force majeure must be proved, in the first place its property must be proved as an external event that is not foreseen and then it must be distinguished as a category of actions that are natural events such as. earthquakes, floods, etc. These external and unforeseen actions, science has treated but despite this they in practice can not be controlled<sup>6</sup>. It is important that concrete action to qualify as a major force must be characterized as an unforeseen, inevitable and external event.

So only event which cannot be predicted and controlled can qualify as force majeure. In contrast, the action that the injured party has been able to and has been forced to foresee is a covert event<sup>7</sup>. In the context of a motor liability judgment, it is important to note that only extraordinary events, which are not taken into account and which do not act in normal situations can raise the issue of releasing the responsible person from compensation for damages. The event in car accidents, must be unforeseen, respectively caused suddenly and out of control of traffic participants.

In addition to these characteristics, the other characteristic element of the natural event is the inevitability of causing the event. This characteristic describes the harmful action in the case of causing earthquakes, floods and droughts as a natural phenomenon<sup>8</sup>.

In addition to the event being unforeseen and inevitable it must be external. In other words, in order for the event to qualify as a force majeure, in addition to causing it suddenly and not offering the opportunity to avoid its harmful impact, it must appear outside the dangerous object. According to this there is no force majeure if the damage is caused by defects in the processing of the fabrication of the motor vehicle, or by the sudden breakdown of the motor vehicle, the exit of the wheel from the motor vehicle, because they are not accounted for causes which occur outside the motor vehicle<sup>9</sup>.

The possessor of the thing is released from liability if he proves that the damage results from some cause located outside the thing, the action of which could not have been foreseen nor removed or avoided<sup>10</sup>.

According to the Spanish Civil Code, the responsibility of the person who has acquired the status of testator will not be transferred to his heirs, if it is proven that

<sup>5</sup> Compare the content of Article 141 of Law no. 04 / L-077, on relations of obligations of the Republic of Kosovo.

<sup>6</sup> See: Radiqi J Jakov, Law Obligations, Belgrade, 1990.p.126.

<sup>7</sup> Ibid, p. 126.

<sup>8</sup> Alishani Alajdin, , Law of Obligations, general part, Prishtina, 2002 .p. 513.

<sup>9</sup> Toshevski Bllagoj , Nadomestuvanje na shteta pričineto so motorno vozilo, thesis, Skopje, 1980, p. 63.

<sup>10</sup> Article 163, point 1 of the LCT.

the damage was caused by supernatural power or random force and despite the proper care of the animal user<sup>11</sup>.

When it comes to the exclusion of responsibility it is worth noting that supernatural power and chance force are not the same. No one will be held liable for the damage caused as a result of the action of force majeure, an action that is unforeseen and inevitable. Force majeure can be planned to happen, but it cannot be avoided or overcome. Meanwhile, random force is the result of having a normal care, which if foreseen would be avoidable. An unforeseen circumstance is any event that occurs within the user's possession of the animal. For other circumstances we have no exception to the liability of the owner or user of the animal. These are, therefore, external circumstances that have influenced the infliction of harm from the animal. Predictable and avoidable circumstances and predictable and unavoidable circumstances are considered as external circumstances. The owner or user of the animal is not released from liability for damage caused by the animal, if the damage was caused intentionally or by negligence. Intent and negligence in this case are considered voluntary actions of the owner or user of the animal. The act of the owner or user of the animal or any third person leading the animal to cause harm is not considered an act of force majeure and as a result the liability of the specific person is not excluded. Liability will arise even if the animal has been injured or killed by the act of causing harm. We consider that the same attitude should be applied in cases when the damage is caused by an animal lost or escaped through the fault or negligence of the owner or user of the animal. There will be no exception to the liability even if the animal after loss or escape as a result of supernatural power, has roamed freely and caused harm. Consequently, even the owner of the animal who has abandoned it in order to terminate ownership over it, will bear the responsibility for the damage caused by that animal.

This release is made or exists because force majeure is an unforeseen external event which can neither be afforded nor avoided<sup>12</sup>. This causes the allegedly responsible person to be called upon to act in force majeure and to be released from the obligation to compensate the damage.

Also, the action of the injured party excludes the liability of the owner or user of the motor vehicle for the damage caused in car accidents. The action of the injured party, as opposed to force majeure, is a relative element of the exclusion of liability for damage caused by the motor vehicle. Which means that not all actions of the injured party exclude tortious civil liability. It generally depends on the degree of guilt of the injured party. Release of the responsible person from liability, due to the action of the injured party may be complete and partial, depending on the degree of guilt of the injured party. If the injured party is himself guilty of the

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<sup>11</sup> Compare the content of Article 1905 of the Spanish Civil Code.

<sup>12</sup> Alishani Alajdin, work quoted, p. 513.

damage, then the possessor is not liable for the damage, if the injured party is partly guilty of the damage the compensation is partially reduced<sup>13</sup>.

Complete release from liability exists when the injured party as a whole is at fault for the damage caused<sup>14</sup>. He must prove that he could have foreseen, avoided or avoided the consequences, taking into account his abilities, while on the other hand he has not succeeded in it despite the appearance of great care as a housewife, good, good economist as well as despite driving the motor vehicle in accordance with the prescribed rules<sup>15</sup>.

The guilt of the injured party, unlike the guilt of the injured party, is never presumed, but only proven<sup>16</sup>. In the procedure of proving guilt it is important to mention that it does not take into account the fact that it refers to possible defects or defects of the motor vehicle, but the existence of care and attention of the driver of the motor vehicle in relation to the harmful action of the injured party.

The injured party may cause the damage intentionally or by gross negligence. When the facts are proved that the action of the injured party has resulted from intent or gross negligence, then for the right a circumstance arises, according to which the possessor of the dangerous thing is released from the responsibility for compensation of damage<sup>17</sup>. The Macedonian legislator in the Law on Relations of Obligations, in Article 163 point 2, has accepted the exclusion of tortious civil liability, ie the release of the possessor of the dangerous thing from liability if he proves that the damage was caused by the action of the injured person, which he could not have foreseen and whose consequences he could have avoided or avoided.

It is important to address in the literature of civil law the position on tortious civil liability, in cases where the injured party knew that the driver of the motor vehicle was drunk and agreed to drive with him, and until the accident in traffic has arrived due to irregular driving of the driver due to the influence of alcohol. Here, the injured person can be directed to the compensation of the damage

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<sup>13</sup> Stanisic Vukoshin, Responsibility in the case of driving a motor vehicle, was arrested, Pravni Zivot, no. 9-10 / 1992, p. 1298

<sup>14</sup> Corinne Renault – Brahinsky, L'essentiel du Droit des obligations, 2011-2012, 7-e édition, Gualino, lextenso éditions, Paris, p.95.

<sup>15</sup> Toshevski Bllagoj , work quoted, p. 64.

<sup>16</sup> Radishiq Jakov, Law Obligations, Belgrade, 1990., p. 147.

<sup>17</sup> The Court of Appeals in Stip, Judgment, nr. 1974/08 which refers to the determination of civil legal liability for damage caused in a car accident, that liability has been based on the circumstances that make the exclusion of liability. According to the court, the passenger who was aware that the driver of the motor vehicle had consumed alcohol and that in the blood results in 1.51, and got into the motor vehicle which slipped off the road and crashed into trees that happened off the road, does not belong to him. Compensation of material and moral damage by the insurance community where the motor vehicle has been insured from liability to third parties, on the grounds that boarding the motor vehicle knowing the alcoholic state of the driver is considered compliance for possible damages that were caused by the driver of the motor vehicle. The adjudication of damages is based on the rules of exclusion of civil legal liability for the damage caused. The very fact of being aware of the alcoholic state of the driver of the motor vehicle corresponds to the fact of causing the damage by the injured party himself.

to the participants in the traffic, so that they respond in solidarity based on the principle of subjective responsibility, taking into account the degree of guilt of the participants for the harmful event. So, in such cases the liability will not be excluded, but the owner of the motor vehicle based on the principle of subjective liability will be liable for civil legal liability for the damage caused.

Exclusion of the liability of the owner or user of the motor vehicle for the damage caused in car accidents, is done even in cases when the action of a third person has affected the damage. If the damage caused stems from a third party, he will be liable for the damage. Exemption from liability is made if it is proven that the damage results from a circumstance which is outside the item, or the damage was caused by the action of a third person. The possessor of the dangerous thing is released from responsibility if he proves that the traffic accident was caused by the fault of the third person or the injured party. In cases where there is fault of the third person, he will be held accountable according to the criterion of subjective responsibility<sup>18</sup>.

In Article 144 of Law no. 04 / L-077, on the relations of obligations of the Republic of Kosovo, the permitted assistance itself is institutionalized. According to this legal solution, whoever in the case of self-help causes harm to the person who has caused the need for self-help has no duty to reward him. Self-help means the right of every person to avoid a violation of the right when imminent danger threatens, if such protection is necessary and if the manner of avoiding the violation of the right responds to the circumstances in which the risk is caused.

In cases where the damage is caused partly through the fault of a third party, the owner or possessor of the motor vehicle will be jointly liable according to the rules of objective liability and the third person according to the rules of subjective liability, with the right of recourse from the other, if the other does not compensate the damage in proportion to the degree of guilt.

The owner of the motor vehicle can be released from liability for the damage experienced by the careless child who acted in front of the motor vehicle even when that child, taking into account his development, is not able to understand his own action and therefore does not one can speak of his guilt<sup>19</sup>.

The victim will bear his or her losses even in cases where there are uncertain causes within the victim's sphere that may have caused the damage. This shall apply to the extent that it corresponds to the likelihood that the harm may have been caused by another circumstance, occurrence or activity within the victim's own sphere<sup>20</sup>.

<sup>18</sup> Stanisic Vukoshin, Responsibility in the case of driving a motor vehicle, was arrested, *Pravni Zivot*, no. 9-10 / 1992, p. 1298.

<sup>19</sup> *Ibid*, p. 1298.

<sup>20</sup> Art. 3:106, Principles of European Tort Law, European Group on Tort Law, <http://civil.udg.edu/php/biblioteca/items/283/PETL.pdf>, 10 June 2012.

Exclusion of civil legal liability for the damage caused can be done if the protection based on justifications has been realized. Necessary protection, state of need, avoidance of damage from the other are circumstances provided by law, which exclude civil legal liability for the damage caused. According to Article 143 of Law no. 04 / L-077, on the relations of obligations of the Republic of Kosovo, whoever causes damage to the attacker in necessary protection has no duty to compensate the damage, except in the case of exceeding the necessary protection. If someone causes the damage in a state of extreme need, the injured party may seek compensation from the person who is guilty of causing the risk of damage or from the persons from whom the damage was avoided, but from the latter no more than have benefited from this. Whoever suffers damage by avoiding the risk of damage from the other has the right to demand from him the compensation of that damage to which he has been reasonably exposed.

Liability for damages may be excluded if the injured party has acted lawfully and as necessary, in the protection of his protected interests against an unlawful act, because at the given moment, the assistance of the authorities cannot be taken. Even the consent of the victim, for the injured party is considered protection based on excuses. Liability for damages may be waived or reduced if the injury was caused by an unpredictable and irresistible circumstance, by a force of nature (force majeure), or by the action of a third party. Liability may be waived or reduced in proportion to the victim's contributory fault and to any other matters which will be relevant to establish or reduce the victim's liability if he or she is a participant in causing the consequences. Joint and several liability exists when the damage suffered by the victim is attributed to two or more persons. Liability is joint and several when two or more persons knowingly or unknowingly cause harm to the victim. Joint and several liability also exists in cases when the damage is caused by the independent behavior or action of a certain person, but they are attributed to the other person as well as when the damage is caused by the responsible person and the action of the other person who provided certain assistance and is also responsible for the damage caused. When two persons are subject to joint and several liability, the victim may claim full compensation from each responsible person. The responsibility lies with all pests, which means that each person is liable to the victim only for the part of the damage due to him. A person subject to joint and several liability may cover the share of expenses incurred by the other debtor, the victim, in connection with the same damage. The obligation will depend on the degree of guilt<sup>21</sup>.

So, for the exclusion of crucial responsibility is the inability of the possessor to avoid the consequence caused under the influence of the action of the third person.

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<sup>21</sup> Compare the content of Art. 7: 101, Principles of European Tort Law, European Group on Tort Law, <http://civil.udg.edu/php/biblioteca/items/283/PETL.pdf>, accessed 10 June 2012.

## Conclusions

The existence of guilt which actually exists is assumed in the segments of the decision to exercise the right to compensation. It is assumed that it belongs to the owner or user of the motor vehicle participating in the car accident. Unlike this segment, other issues are judged on the basis of fault, especially in the realization of the right to reimbursement of expenses incurred by the insurer from the realization of the obligation to compensate the damage to the injured third party. Thus, in the procedure for adjudication of liability for damage caused by a motor vehicle, causal liability and fault-based liability are complementary. Assuming the responsibility of the owner or user of the motor vehicle for causing the damage, the legislator has made it in order to create a more favorable position for the injured party in the compensation procedure.

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# *A Model to Analyze the Financial Decision-Making of a Corporation; Case Study KESH SH.A*

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## **Abstract**

*In order for corporations to operate effectively, it is necessary to emphasize the importance of financial decision-making in the stability of corporate governance. This paper is based on addressing two main issues. First, focusing on the key decisions of financial executives whose work should focus on maximizing corporate value or minimizing the cost of capital. Second, deepening the impact of the auditor's characteristics on the performance of the corporate governance so that the audit creates added value for the entity.*

*It aims to give a fresh perspective of the treatment of financial decision-making in corporations, arguing every step through the empirical analysis of the DuPont model where we rely to compare the performance over the years under review of the KESH sh.a (Albanian Electro-Energetic Corporation).*

*The difference between the ordinary and the extraordinary is made by practice and financial decision-making is a topic that is both beautiful to deal with and difficult to analyze in information. We are all witnesses of the economic situation of our country. On the one hand we have a transition economy that is growing at a normal pace and on the other hand we have a community whose business is already trying to move to*



*a consolidated stage becoming more competitive. Only in this way can corporations in Albania survive the demanding conditions of the global economy.*

*Key words: Financial Decision-Making, Corporate Governance, Maximizing Corporate Value, DuPont Model, Corporate Audit Efficiency, Globalization.*

## **Introduction**

The current moment in which we live is a challenge to the international economy. In a professional world that comes and goes from competition, every professional feels the necessity to update his theoretical and practical knowledge. In the case of corporate governance and financing, the actualization of knowledge requires a development of skills, techniques and efficiency in solving managerial-financial problems.

Due to all the above factors, the goal of finance in the future will be not only maximizing current profit, but also future. An ambitious and far-sighted goal. Also Jean Tirole, Professor of Economics in France and at the same time the winner of the Nobel Prize in Economics from the Royal Swedish Academy of Sciences for 2014, claims that the corporation is the most important part of the reality of the economy and the market in general and this element should be studied with details.

Corporate governance is a broad field of ongoing study, but it can be summarized in two key decisions made by financial executives: investment decisions and financing decisions. Good corporate governance is a need and necessity in providing the values required by stakeholders and auditing as a special service that provides security significantly affects corporate governance as a supervisor, internal valuer and foresight promoting efficiency of its operations.

According to Brealey, Myers, Marcus and Mateos (2010) the financial aspect of corporations is an important, interesting, as well as difficult issue. Important, because capital investment decisions determine valid agreements for the life of a corporation. Also the success or failure of a corporation depends on the capacity it has to find the capital it needs. Finances are interesting for many reasons. Often, financial decisions are involved in decisions that include large sums of money, such as investment projects, acquisitions of other companies, mergers with international companies. Money should not be the primary goal in the life of individuals and businesses, but a motivating tool to seek the best in the days to come. Finances, on the other hand, are difficult because the financial markets in which corporations operate change with the speed of the wind. Relatively good financial executives can solve routine corporate problems, but only the brightest minds of financial

executives can adapt to market changes with monetary intelligence, which translates into more profitable for the corporation.

## Study Goal and Research Question

The purpose of this paper is to provide a fresh perspective on the treatment of financial decision-making in corporations, arguing each step through empirical analysis of a model, namely the DuPont model where I am based to compare the performance over the years under review of the Albanian Electro-Energetic Corporation. I aim to encourage thinking differently about the financial aspect of corporations by explaining the basic concepts related to them, through the most important ideas and instruments that exist for finance and the application of theoretical knowledge in comparative analysis in practice.

### *Research question:*

What are the indicators or ratios that influence corporate financial decision-making and what role does auditing play in corporate performance and good governance?

### *Assumptions*

- a) "Return on Equity is the ratio where the attention of financial managers should be focused".
- b) "Financial leverage indicator has a dominant effect on the decision-making process in the organization."
- c) "Liquidity is an influential factor in the development of corporate financial performance".
- d) "Audit increases the efficiency of corporate governance by positively affecting the achievement of its objectives."

## Methodology

Methodology (logo of the method) plays a key role in the paper, as through it the conception of the whole study is realized. The methodology used to conduct this research is rich and in function of the objectives and goals set. The financial statements published from the official website of KESH sh.a. have been used, so we are dealing with secondary data and quantitative analysis. The theoretical material has been addressed through elite books describing financial decision-

making, governance and corporate auditing, mainly in Albanian, English and Spanish. The elite of the Albanian financial thought has also been used, through the publications of the most productive economists of the time as well as the results of the controls carried out by the Supreme State Audit in private and public operators, numerous and concrete information from the National Business Center.

## Literature review

This paper presents a review of the literature and theoretical aspects related to financial decision-making as a process of high importance, addressed through the key role of the financial manager and his main tasks. Special attention is paid to the structure of corporate organization, how we can approach effective governance and the need for auditing to ensure that the organization is adding value to the corporation, that risk management systems, governance processes and internal control are operating properly.

The lack of a clear, common consensus on why a corporation exists, where financial executives are responsible, and what criteria should be used to make decisions is a significant hurdle in increasing the effectiveness of corporate governance, points out Kluyver (2012). When boards operate with tacit assumptions about their objectives and loyalty, hidden disagreements arise, which make the decision-making process difficult on complex issues, such as what qualifications a CEO should have, or how to evaluate and compensate senior management or related to the financing aspects of the joint stock company itself.

Adam Smith in 1776 in his book "The Wealth of Nations" made a comment about the management of the company that would resonate across the ages: "The directors of such companies, however, being the managers rather of other people's money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company". This is why good governance arises as a need and necessity for corporation and for Organization / Corporate Governance, the OECD (2004) considers that the core principles or values of good governance are: (1) honesty, (2) responsibility, (3) transparency and (4) accountability.

The Corporate Finance Institute (2020) claims that in the 1920s, management at DuPont developed a model called DuPont Analysis, which is nothing more than a summary of the most important financial ratios centered on ROE (Return on Equity). Financial ratios are a useful way to summarize large amounts of financial data, compare corporate behavior, and identify its strengths and weaknesses.

Drake (2011), Xhafa & Ciceri (2014), Gillinghan (2015), Carlson (2019) among others point out the following 4 categories of Financial Ratios as the most important in corporate decision-making:

- A. Liquidity Ratios → provide information on the corporation's ability to repay its short-term liabilities.
- B. Efficiency Ratios → also known as activity financial ratios, are used to measure how well a company is utilizing its assets and resources.
- C. Debt/Leverage Financial Ratios → provide information on the extent of a company's financing obligations and its ability to pay these financing obligations.
- D. Profitability Ratios → measure whether corporate activities are profitable or not.

Hargrave (2019) points out that there are three main financial metrics that drive return on equity (ROE): (1) corporate operating efficiency, (2) asset utilization efficiency, and (3) financial leverage. Let us break down ROE below:

$$ROE = \underbrace{\left(\frac{\text{Net Income}}{\text{Sales}}\right)}_{(1)} * \underbrace{\left(\frac{\text{Sales}}{\text{Average Total Assets}}\right)}_{(2)} * \underbrace{\left(\frac{\text{Average Total Assets}}{\text{Average Shareholders' Equity}}\right)}_{(3)}$$

The DuPont model is a useful analysis to understand the relationship that exists between financial statements, to explain ROE and its components. This paper started by addressing the final goal of the corporation which is to maximize shareholder wealth and this is shown by the ROE report. That is why this analysis is headed by this ratio, Return on Equity. At this point begins the journey to conclude that hypothesis (a) “Return on Equity is the ratio where the focus of financial management should be focused” is completely true regarding the above arguments. So, the DuPont Model identifies the way in which the corporate is moving towards achieving its final objective. Unfortunately, there are no fixed formulas for approving capital structure decisions. In some cases, debt may be preferred for the capital structure, but in other cases it is not. However, financial managers need to think about at least four aspects: corporate taxes, risk, type of assets and the possibility of bankruptcy.

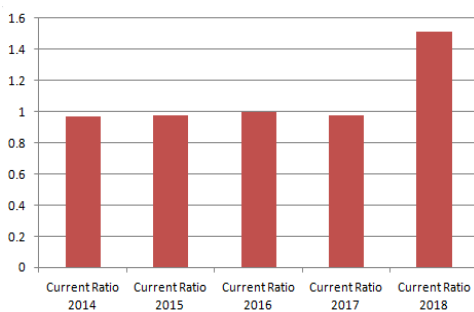
### **Data Analysis: KESH sh.a as a case study**

KESH sh.a is a joint stock company with 100% owned capital by the Albanian State (represented by the Ministry of Energy and Industry according to the

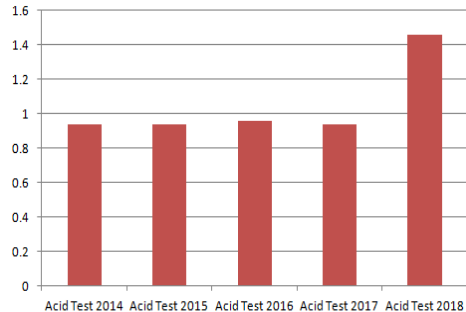
founding act dated 17.10.1995). The rights and obligations of the General Assembly are exercised by the sole shareholder of the company, which is the Albanian State. The following is the calculation of the ratios for each category, the presentation in graphic form, the commentary for the comparison over the years of the performance of KESH sh.a:

\*→ Symbol used for the year with the worst performance & \_\_\_ → for the best performance.

LIQUIDITY RATIOS		
Year	<i>Current Ratio</i>	<i>Acid Test</i>
	$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$	$= \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$
2014	<b>0.970*</b>	0.937
2015	0.978	0.940
2016	0.998	0.959
2017	0.973	<b>0.935*</b>
2018	<b><u>1.514</u></b>	<b><u>1.460</u></b>



Graph 1. Evolution of the Current Ratio



Graph 2. Evolution of the Acid Test

(Source: Author)

The comment:

→  $0.9 < \text{Current Ratio for KESH sh.a (years 2014, 2015, 2016, 2017)} < 1$

So short-term liabilities are larger than short-term assets, an improved situation in 2018, where this ratio=1,517 times. KESH sh.a has been able to afford the short-term liabilities more efficiently in 2018 compared to other years.

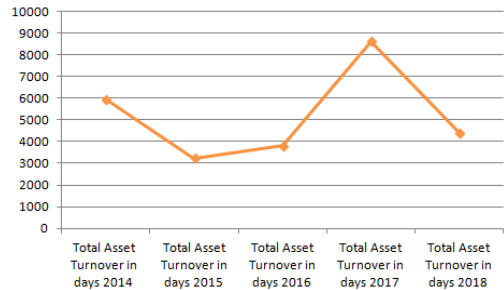
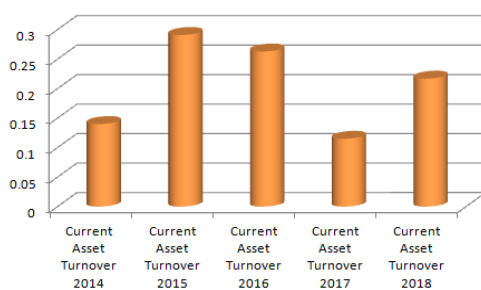
→ Quick Ratio (Acid Test) focuses only on the most liquid assets, which is why it excludes inventories from current assets. In KESH sh.a this ratio has been in approximate values during the years 2014–2017, then 2018 is presented to us as the year with the highest Quick Ratio, with a value of about 1.46 times.

→ Liquidity ratios are one of the main tools for decision making. Uncertain business environment, the more likely it is that the corporation will keep its Current and Quick Ratio at higher values. Conversely, when cash flows are continuous, predictable, relatively lower levels are targeted. The right balance must be struck

between the liquidity risk caused by a low ratio and the risk of a loss caused by a high ratio.

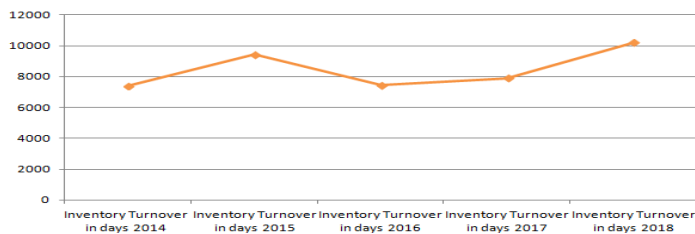
Hypothesis c) “Liquidity is an influential factor in the development of corporate financial performance” is confirmed in the above arguments.

EFFICIENCY RATIOS					
Year	<i>Current Asset Turnover</i>	<i>Total Asset Turnover in times</i>	<i>Total Asset Turnover in days</i>	<i>Inventory Turnover in times</i>	<i>Inventory Turnover in days</i>
	= Sales/ Average Current Assets	=Sales/ Average Totat Assets	=365/Total Asset Turnover in times	= Cost of Goods Sold/Average Inventory	=365/ Inventory Turnover in times
2014	0.140 times	0.0611 times	5978 days	<b>0.0493 times</b>	<b>7404 days</b>
2015	<b>0.291 times</b>	<b>0.1124 times</b>	<b>3247 days</b>	0.0387 times	9440 days
2016	0.263 times	0.0956 times	3819 days	0.0489 times	7458 days
2017	<b>0.115 times*</b>	<b>0.0423 times*</b>	<b>8635 days*</b>	0.0462 times	7909 days
2018	0.217 times	0.0829 times	4400 days	<b>0.0358 times*</b>	<b>10204 days*</b>



Graph 3. Evolution of Current Assets Turnover

Graph 4. Evolution of Total Assets Turnover in



Graph 5. Graph 4. Evolution of Inventory Turnover in days

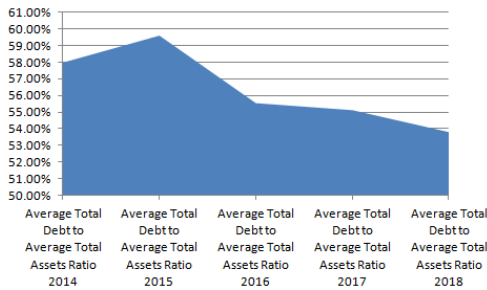
(Source: Author)

The comment:

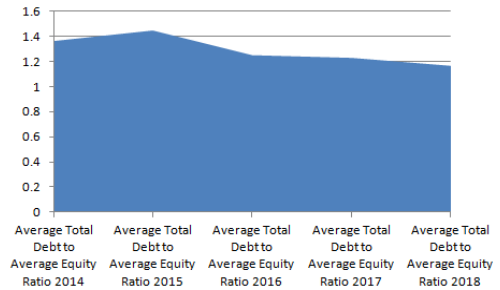
→ The way of managing the assets of KESH sh.a. has changed during the years

under review, due to the fact that different policies have been followed in the use of current assets, total assets and inventory.

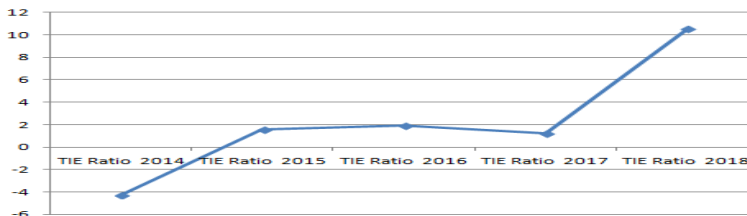
DEBT / LEVERAGE FINANCIAL RATIOS			
Year	<i>Average Total Debt to Average Total Assets Ratio</i>	<i>Average Total Debt to Average Equity Ratio</i>	<i>Times Interest Earned (TIE) Ratio</i>
	$= \frac{\text{Average Total Debt}}{\text{Average Total Assets}}$	$= \frac{\text{Average Total Debt}}{\text{Average Equity}}$	$= \frac{\text{Earnings Before Interest, Taxes}}{\text{Interest Expense}}$
2014	58.01%	1.3631	-4.286 *
2015	<b>59.63% *</b>	<b>1.4471 *</b>	1.5698
2016	55.57%	1.2508	1.9087
2017	55.15%	1.2296	1.2449
2018	<b>53.83%</b>	<b>1.1660</b>	<b>10.5146</b>



**Graph 6. Evolution of Average Total Debt to Average Total Assets Ratio**



**Graph 7. Evolution of Average Total Debt to Average Equity Ratio**



**Graph 8. Evolution of TIE Ratio**

(Source: Author)

The comment:

→ The ratio of average total debt to average total assets of KESH from 2014 - 2018 has been below 100%, indicating that the corporation owns more assets than debt.

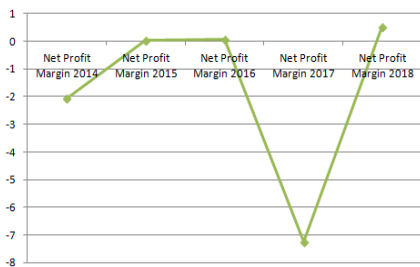
→ KESH sh.a has a high ratio of average total debt compared to the average capital owned by its shareholders in the five years under review. So debt financing in KESH sh.a. is in larger numbers than financing with share capital.

→ The corporation's ability to pay its debt obligations has been improving. In 2018, the ability of KESH sh.a to cover financial expenses has been in more favorable conditions compared to previous years.

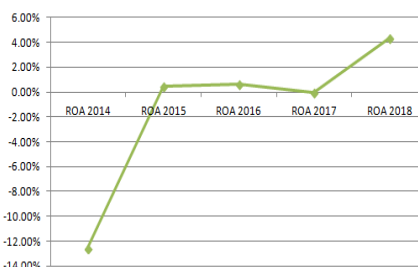
→ Debt is an important tool that corporations use to grow. Through the ratio of average total debt to average equity, investors recognize how the corporation is managing its capital structure, its approach to risk, and the dilemma of whether the corporation is ideal for investing or not. Generating cash flow to make principal and interest payments as well as avoiding bankruptcy depends on the JSC's ability to generate profits.

Hypothesis b) "The indicator of financial leverage has a dominant effect on the decision-making process in the organization" is confirmed.

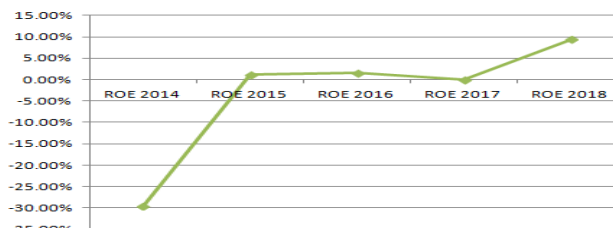
PROFITABILITY RATIOS			
Year	Net Profit Margin	Return On Assets	Return On Equity
	$= \frac{\text{Net Income}}{\text{Sales}}$	$= \frac{\text{Net Income}}{\text{Average Total Assests}}$ $= \frac{\text{Net Income}}{\text{Sales}} * \frac{\text{Sales}}{\text{Average Total Assests}}$	$= \frac{\text{Net Income}}{\text{Average Shareholder Equity}}$ $= \text{ROA} * \text{Equity Multiplier}$
2014	-2.0532	<b>-12.54% *</b>	<b>-29.46% *</b>
2015	0.0413	0.46%	1.15%
2016	0.0702	0.67%	1.51%
2017	<b>-7.2330*</b>	-0.031%	-0.068%
2018	<b>0.5219</b>	<b>4.33%</b>	<b>9.38%</b>



Graph 9. Evolution of Net Profit Margin



Graph 10. Evolution of ROA



Graph 11. Evolution of ROE

(Source: Author)



The comment:

→ The performance of net profit margin in 2017 is not only declining compared to 2016, but also has significant losses. Improved situation in 2018.

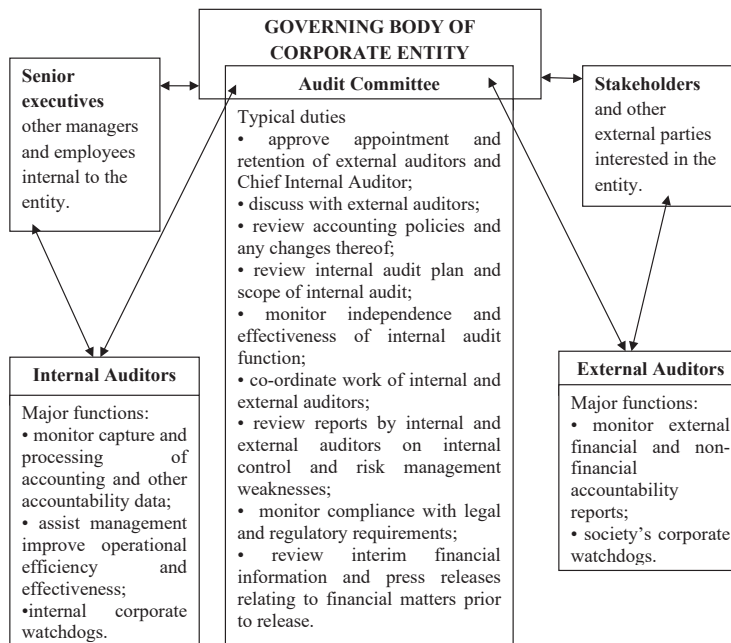
→ The year 2018 appears to be the most successful among the years taken in the analysis, where ROA not only achieves a positive value, but also a significant percentage of 4.33%.

→ For KESH sh.a we conclude that ROE has fluctuated over the years. 2014 is the year with the weakest value (-29.46%) and 2018 is the year with the highest value (9.38%).

→ Unlike other financial reports, ROE is a profit ratio from the investor's point of view, not from the corporation. This report calculates how much money is made based on the investments of investors (shareholders) in the corporation, not the corporate investment in assets or something else. Investors want a high ROE because it shows that the corporation is using its shareholder funds effectively. Using equity in calculating ROE instead of equity helps to trace the corporation's ability to maintain a positive profit trend.

Hypothesis a) "Return on Equity is the ratio where the attention of financial managers should be focused" is fulfilled according to the above arguments.

**FIGURE 1.** Relationship between External Audit, Internal Audit and the Audit Committee; Audit Trinity



(Source: Porter (2008) "The role of the tripartite audit function in securing corporate accountability", page.23)

\* The biggest drawback of the DuPont Financial Model is that it relies on accounting equations, financial statements and data that can even be manipulated. At this point comes the treatment of hypothesis (d) “Audit increases the efficiency of corporate governance by positively affecting the achievement of its objectives.” The audit process has a substantial impact on the provision of the assurance service that the financial statements are free of misstatement and are constructed in accordance with International Accounting Standards.

- Corporate governance → network of relationships between the corporation and its stakeholders.
- CFO → responsible for decision making in order to increase the efficiency of corporate governance.
- Audit → service through which reasonable assurance is provided that the organization’s governance processes are functioning and that the corporation is operating in order to achieve the objectives.

For the achievement of objectives, policies and goals in accordance with the responsibilities set out in Article 9 of Law no. 10296, “On Financial Management and Control”, KESH sh.a. has drafted and is implementing the document on the Internal Control System. Internal Control System of KESH sh.a. offers reasonable, but not absolute, guarantees of effectiveness. This is an ongoing process, built, according to the instructions of the Ministry of Finance - to identify and rank risks according to their priority in relation to achieving the policies, goals and objectives of KESH sh.a., to assess the level of materialization of these risks as well as the impact they would have as well as for taking measures for their effective, efficient and economic management.

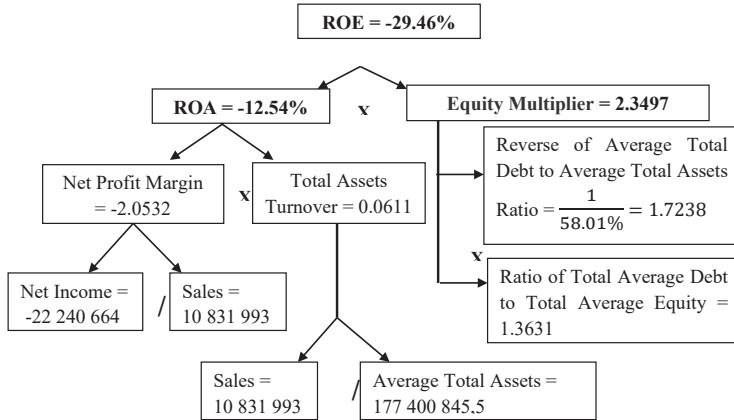
The Internal Audit Department in KESH sh.a plays an essential role for the functioning of the company, whose duties are defined by Law 114/2015. The purpose of the audit is to use the corporate financial resources as efficiently, effectively and economically as possible, as well as to avoid misuse and misuse of assets. The activity of the Audit Department is based on the principles of legality, independence, impartiality, confidentiality of the data that are verified and not exceeding the cost versus the expected benefits.

## Results

DuPont analysis uses the Income and Expenditure Statement and Balance Sheet to perform the model. The method goes beyond the individual calculation of financial reports, increasing the complexity and depth in logic, to understand how

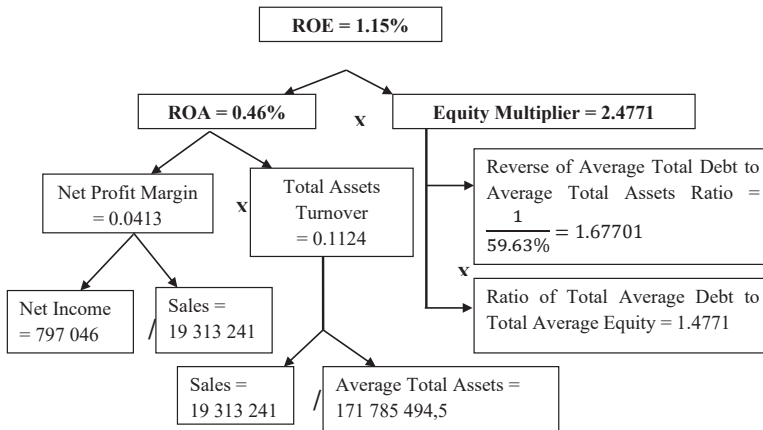
efficiently the assets of KESH sh.a. are generating sales and how well it is using the debt to produce additional returns.

**FIGURE 2.** DuPont Financial Model applied for KESH sh.a. (year 2014)



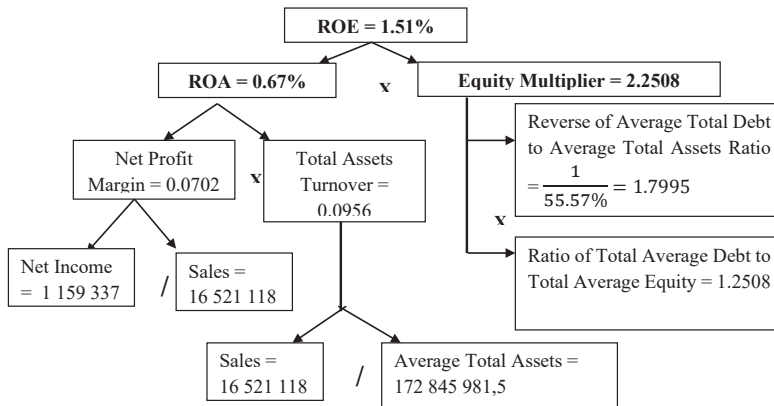
(Source: Author)

**FIGURE 3.** DuPont Financial Model applied for KESH sh.a. (year 2015)



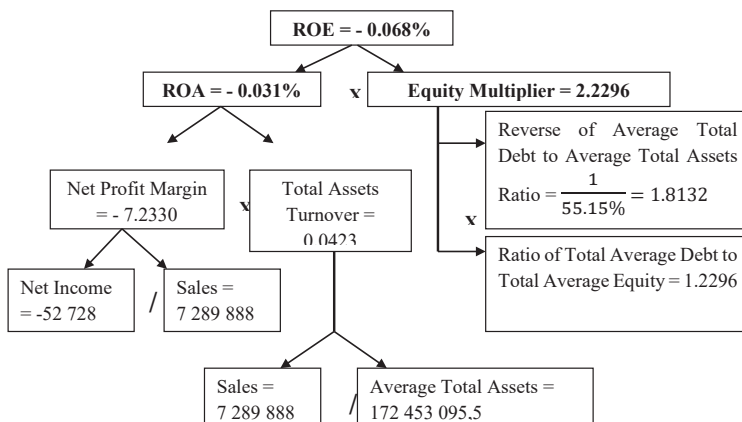
(Source: Author)

**FIGURE 4.** DuPont Financial Model applied for KESH sh.a. (year 2016)



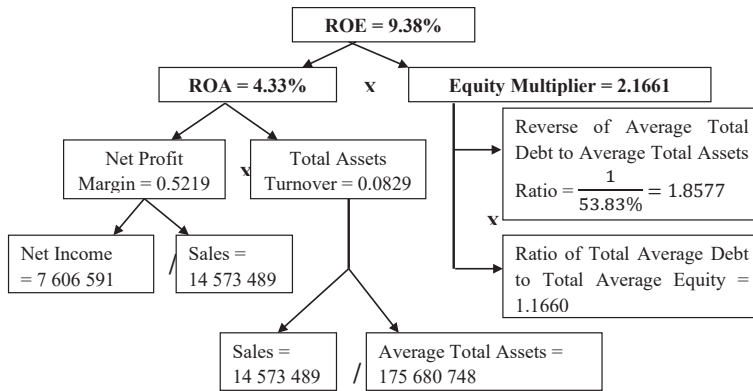
(Source: Author)

**FIGURE 5.** DuPont Financial Model applied for KESH sh.a. (year 2017)



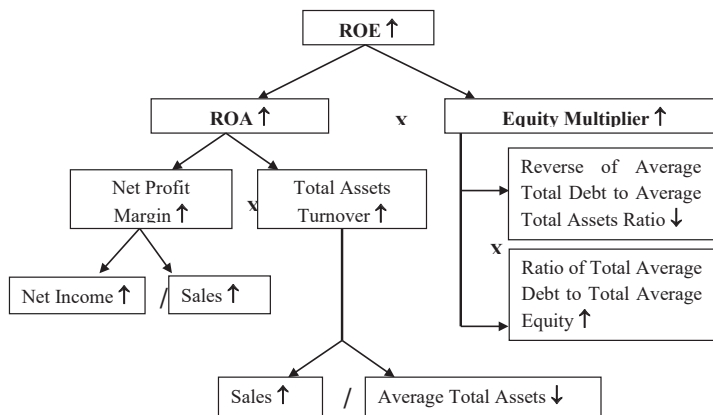
(Source: Author)

**FIGURE 6.** DuPont Financial Model applied for KESH sh.a. (year 2018)



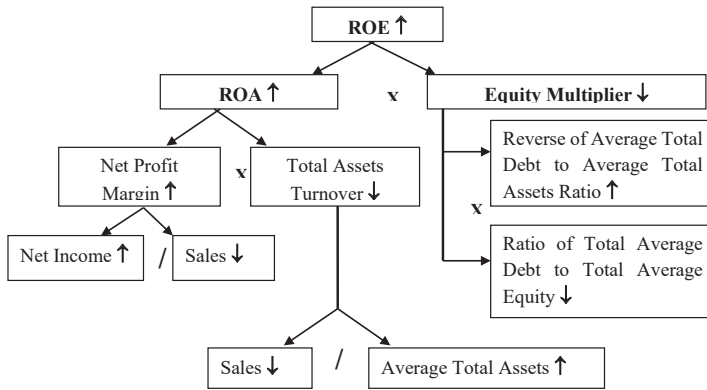
(Source: Author)

**FIGURE 7.** DuPont Financial Model applied to KESH sh.a. (comparison 2014-2015)



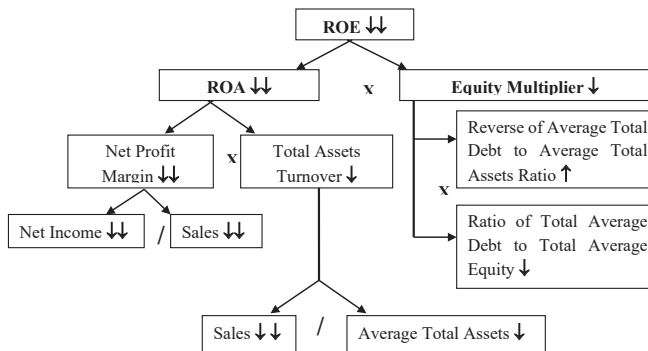
(Source: Author)

**FIGURE 8.** DuPont Financial Model applied to KESH sh.a. (comparison 2015-2016)



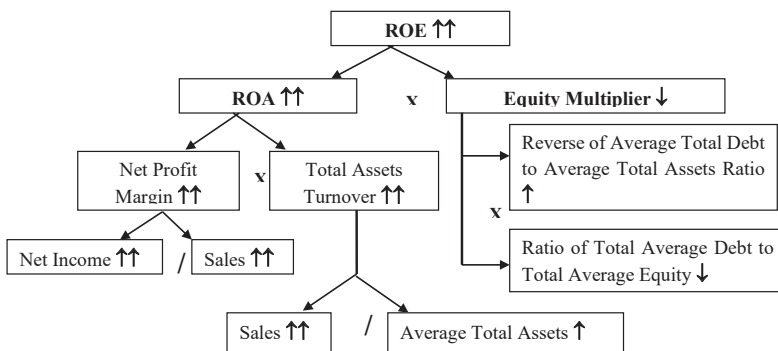
(Source: Author)

**FIGURE 9.** DuPont Financial Model applied to KESH sh.a. (comparison 2016-2017)



(Source: Author)

**FIGURE 10.** DuPont Financial Model applied to KESH sh.a. (comparison 2017-2018)



(Source: Author)

## Conclusions

This paper began by asserting that decisions regarding corporate finance are important, interesting and difficult. After addressing the main ideas, concepts and assertions about corporate decision making we are convinced of the veracity of this expression. On the other hand, theoretical knowledge alone is not enough, but it is necessary to know how to apply it in real life. Corporate finance deals with all the financial activities of an entity, it concerns the administration of money in a joint stock company, the right from the receipt of funds to the administration of the use of funds.

Blumentritt (2011) notes that globalization, internationalization and cross-border activities are part of the structure of modern corporations. The CFO is responsible for important decisions regarding corporate investments and financing. Investment decisions relate to decisions to invest in tangible or intangible assets. The decision to choose between debt financing or equity in the long run is called a decision on the capital structure or financing. Financial planning is needed to carry out these decisions.

Through the analysis of financial ratios and the DuPont Model, the financial manager highlights based on the Financial Statements for the corporation strengths (to understand if they will be used for the right advantages) and weaknesses (to take corrective action). This analysis was treated above for the case study KESH sh.a. Financial indicators report mainly on past years' situations, but may also be predictive of potentially problem areas that the corporation may face in the future.

The research question points out the financial indicators that influence corporate decision making such as: aspects of profitability improvement, liquidity, financial structure, reorganization, financial leverage and interest coverage.

The second part of the research question automatically relates to an essential issue in corporation, that of corporate governance and audit efficiency in this process. Globalization has made it necessary to follow good corporate governance practices, which means recognizing the principles and codes of governance, enforcing laws and creating the right culture of corporate governance and management. Corporate governance is not just an issue, either right or wrong - it's more colorful than that (Ad Myburgh).

Significant attention has been paid to the 'members' of the audit trinity function - external auditors, internal auditors and the audit committee, each of whom has an individual role in corporate governance, but together provide assurance that corporate governance is carried out with maximum accountability.

Attention was also paid to addressing the role of the chief financial officer in the corporation and the legal responsibilities of auditors in cases of failure to provide accurate information to the public, based on the laws of the Republic of Albania.

The role of the CFO and auditors in the corporation is essential and they are held accountable in cases of failure to provide accurate information to the public.

Of course, in addition to the hypotheses considered and the research question considered in the paper, many other questions remain to be studied, as corporate financial decision-making is an issue that is enriched day by day by expanding its complexity. Making financial decisions is the process of weighing the pros and cons, advantages and disadvantages, as it is directly related to the use of money. It sounds very simple, but the practices of financial analysis, of report analysis show a dynamic reality. Referring to Henry (2020) just as achieving any personal goal in life, effective corporate financial decision making begins with identifying goals. Goals move plans. Plans produce intelligent action. Intelligent action over a period of time produces results. That is why I find it appropriate to quote a very apt expression that the well-known poet Thomas Stearns Eliot wrote: "To reach an end means to reach a beginning."

Studies of this paper have broadened my horizons around the field of finance in terms of financial decision making, the impact that auditing brings on corporate governance. Aspects that Albania is a bit lacking at the moment, but the global future is inevitable and in the near future we will realize that suddenly the number of private companies with private capital will increase in our country as well. However, international corporations are not a new concept for our country, but it creates new challenges. That is why the choice of paper for treatment is related to this topic, to precede my further studies in scientific degrees and higher academic titles...

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# *The value of virtual project management in the albanian market* \_\_\_\_\_

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## **Abstract**

*The growth of the internet and the development of collaborative software have introduced a new dimension of project management. This paper explores the literature evaluating virtual project management and virtual teams to determine the extent of new technologies affecting projects with members in distributed locations. It has been found the new communication channels offer opportunities for participation, but it is even more difficult to manage a virtual team than a team on site. The ever-increasing importance of projects in the market is leaving businesses looking for better integration techniques to virtualize their project environments. Through virtualization, organizations can have positive impacts on communities across geographic boundaries and resource constraints.*

*Virtual project management is a discipline that embodies the potential of connection when talented are geographically dispersed to achieve shared project success. Available research confirms that this is a challenging goal. Factors like time difference, different cultures, or lack of face presence results in added complexity to managing virtual teams. However, if one is able to overcome these obstacles, the results are promising. Empirical research emphasizes that the demand for VPM is constantly increasing, and it even seems clear that there is no going back.*

**Keywords:** *Traditional project management, Virtual project management, Collaboration technologies, Internet based tools.*

## **Introduction**

Today's workplace is not what it used to be a few decades ago – it has become increasingly flexible and mobile and will be even more so in the near future. Companies hiring only homogenous, local personnel are rare; growing globalization and internationalization are triggers

for a dispersed, heterogeneous workforce. Organizational forms shift and increasingly work is accomplished in projects, allowing companies to become more agile. However, this development is only possible with the help of proper technology. The explosive rise of the Internet within the past two decades enabled completely new forms of collaboration. It is now common to have colleagues situated in different time zones work while you are sleeping.

Having coworkers from different regions requires the ability to deal with diverse cultures and habits. Obviously, managing a project under such increasingly complex circumstances becomes even more challenging. With this development, the domain of virtual project management (VPM) emerged. Virtual projects are projects in which the members are geographically dispersed; virtual projects are already seen as an essential component of modern organizations (Zigurs, Khazanchi, & Mametjanov, 2007). The field of VPM seeks to describe how to successfully manage such projects. In today's fast-paced world, appropriate tools are vital to manage and synchronize the flow of information. A variety of specialized tools for project management exist to support the team leader and participants. A very recent trend in this field is the development of webbased collaboration tools, going hand in hand with the much-cited "Web 2.0" phenomenon. This thesis will examine this trend, pointing out strengths and weaknesses while elaborating how to successfully use such tools and predict future directio

## Study objective and Research Questions

The main objectives of this study are: identify the main reasons leading to virtual project management. Identify the instruments, mechanisms, tools that influence the increase of the effectiveness of virtual project management. The author interest in those areas and a discussion with leading experts in the field of VPM led to the research questions of, “What are the factors that condition virtual project management? and What are the tools that help effective virtual project management?” In view of the purpose this study includes primary data, collected from 150 questionnaires completed by students and employees of the European University of Tirana as well as employees of the Firdeus Foundation to see more specifically the technology-based collaboration tools for a project management already virtually. These research questions are relevant because those business trends of using virtual teams for project management are already utilized in countless organizations worldwide. However, research on when it is most efficient to use different collaboration tools has not yet been explored (Donker & Blumberg, 2008).

## Literature Rivew

In the literature review section, a thorough look on the current literature is provided. First, to fully understand the complexity of virtual project management, the necessary basics of traditional project management will be discussed and the required terms defined. Different approaches to project management will be introduced, including the description of the project management process groups. Then, the current paradigm shift towards managing projects in a more collaborative and virtual environment will be examined, which leads to a discussion about the needed technology for this development. Within this discussion, the terms of virtuality, virtual teams and knowledge management are discussed. Finally, the essential key findings will be reviewed and summarized. Because this thesis has a focus on collaboration techniques, the emphasis will be on the technology rather than on the management level.

Throughout the current literature, it is commonly agreed that projects have become increasingly important during the last few decades and are now often used in managing a business. The management of projects is viewed as “a means to track and organize a project and is seen as “vital to the survival of many organizations” Chen, Romano, & Nunamaker (2003). There are a variety of definitions for projects and for project management, but no standard definition. Uniqueness is important because for the manufacturing process of identical products, a project structure

would be inefficient. Litke (2005) also points out that projects, although they are unique, almost always have certain conditions in common. This is an important and necessary requirement for enabling a learning-by-experience process, enabling the organization to benefit in future projects. Additionally, projects have clear goals, limited resources, and a specific process structure (Litke, 2005). According to Gareis (2006), projects can also be seen as a social system, a construct, or a temporary organization. The latter is, particularly in Europe, Trends in Virtual Project Management commonly agreed upon (Huemann, 2008) and embodies the thought that projects, just as common organizations, have a specific identity; thus, a project can be seen as a temporary organization with an emphasis on the start-and end processes (Gareis, 2006). However, this seems to conflict with the view of the PMBOK® Guide (2008) which mentioned that projects cannot operate as a closed system and only exist within an organization, needing input information and delivering capabilities. To summarize and point out the differences: a project can either be seen as temporarily organization and social system (Gareis, 2006) or as an unique task with a clear start and end point (Project Management Institute, 2008). For this thesis, the latter definition is sufficient and is used.

Every project is unique, and there are many different types of projects. As not every project is suitable to be conducted as a virtual project, different perspectives of project typologies are presented. Chen, Romano, et al. (2003), based on Whittaker (2000), identified three types of projects: (1) manual, (2) machine, and (3) mind. *Manual projects*, as the name suggests, are accomplished by using manual labor. Examples are found in the construction industry and the “manager” has an easy job controlling the team by watching them work. *Machine projects* use technology and are more complex than manual projects. Specialization and skills of the workers increase and higher task interdependence is in place. Thus, coordination becomes more complex and important. *Mind projects* are the most complex form within this typology and the focus of our attention. The capital for this type of project is the “mind” rather than the “hand.” Examples include software development or graphic design. The output is the result of information and thinking, which is not always tangible. The progress of the project can no longer be monitored by observation; explicit communication, concerted collaboration.

Due to business and technical forces, the domain of project management (PM) experienced significant changes over the last years. The fundamentals of PM as it had been developed have changed over the last decade (Evaristo & van Fenema (1999). Ten years later, this development within PM continues as methods and tools become more sophisticated and well developed. Evaristo & van Fenema (1999) named several factors for this development. The primary trigger, however, is information and communication technology, which enables effective global teamwork. Increased globalization and internationalization of organizations as

well as the increased development of information technology (IT) have significant consequences for companies (Krejci, 2009). Due to information technology, the needed support for the development of new organizational forms is now available (Powell, Piccoli, & Ives, 2004). Romano, Chen, and Nunamaker (2002) underlined this observation by stating that during the last three decades, “the revolutionary change to PM is the computerized PM” (p. 7).

However, this development was still focused on automation and featured a single-project perspective. Romano et al. (2002) further predict that “the next big change of PM will be collaboration” (p. 7), the focus of attention for this thesis. Increasingly globalized markets force companies to integrate global managerial and business processes. This has influenced corporations to use global sourcing with increasing frequency (i.e., obtaining goods and services from a global market across geopolitical boundaries) for their benefit (e.g., Krejci, 2009; Romano, et al., 2002). Furthermore, a project’s cycle time can be reduced by using time zone differences to the advantage. Lastly, research and development (R&D) can be organized around globally distributed centers of excellence. These factors have led to the new discipline of virtual project management, which differs from traditional project management (and a traditional project) known as the management of a single project in a single location.

But what makes a team virtual? First, we need to differentiate between teams operating in a traditional environment, to which we will refer as traditional teams from now on, and virtual teams. Traditional teams consist of members working together in the same location, thus having easy access to face-to-face communication, which is their primary channel of communication. (Powell, et al., 2004). For virtual teams, many definitions exist, but we define virtual teams “as groups of geographically, organizationally and/or time dispersed workers brought together by information and telecommunication technologies to accomplish one or more organizational tasks” (Powell, et al., 2004, p. 7). This means that all team members are strongly dependent on technology and are working toward common goals. Zigurs (2003) argues that “virtual teams come in many flavors, and ‘virtuality’ as a characteristic can be defined on many dimensions” (p. 339), where we already defined virtuality as at least geographically dispersed and dependent on IT (Khazanchi & Zigurs, 2005; Zigurs, et al., 2007).

*Technology* is at the heart of any virtual team. In essence, “technology is simply described as a tool that requires human input” (Bergiel, et al., 2008, p. 103) and has the potential to fail if insufficient consideration is given to the user’s perspective. Ongoing developments will provide potential for dramatic changes in how team members communicate and should be adapted in an evolutionary way to communicate effectively (Zigurs, 2003). Finally, *leadership* differs from traditional teams in that “virtual teams are often characterized by high levels of autonomy

rather than direct control” (Zigurs, 2003, p. 342) and thus becomes more of a collective effort that is distributed between team members. Powell et al. (2004) also states that leadership in an virtual environment needs to be more flexible and willing to let others take the lead when necessary. Characteristics that make a successful leader in traditional teams such as personal traits, open communication, or physical attendance are missing in a virtual environment. Virtual team leaders should provide training on participation in virtual teams, conduct team-building exercises, establish standards for communication, structure the process, and nurture self-leadership (Zigurs, 2003). Furthermore, choosing the right individuals suitable for virtual team work is considered absolutely crucial (Krejci, 2009).

## Methodology

In terms of qualitative data analysis, there are a variety of approaches. According to Miles and Huberman (1994), the analysis process for qualitative data involves three main steps:

1. Data reduction, which refers to the process of selecting, concentrating, simplifying, abstracting, and converting data presented into transcripts.
2. Next is the display of data to draw conclusions.
3. Finally, the completion of the verification describes the interpretation of the meaning of the collected results and the testing of their “confirmability”

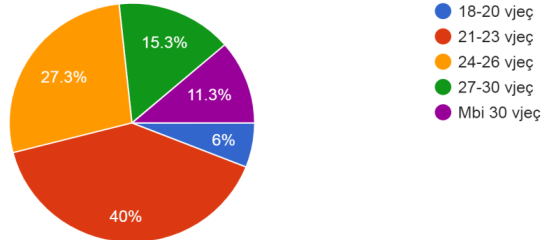
Some qualitative methods of analysis are based on the generation of a certain group of categories, developed either before or during the data collection process. The data are classified into categories and then compared. Cross-case analyzes are widely used in social studies, such as management information systems. The basic idea is to rely on a framework to guide the analysis of multiple, qualitative case studies (interviews). Finally, the assessment should provide data on the socio-economic and demographic characteristics of the selected sample, behavioral data, etc. In social science studies, but not only the characteristics of the respondents’ staff have a very significant role in giving answers to the problem, keeping this in mind, in this study a series of personal characteristics namely age, gender, location, position in the company etc. Out of 150 respondents were examined and presented in this chapter. Exactly this part which is described below is dedicated to the analysis in relation to this data. This section presents the results obtained from the analysis of the empirical research conducted for this thesis. As argued above, the main research method was a questionnaire, providing mainly quantitative data but also some qualitative data.



**FIGURE 1.** Age of respondents

Mosha

150 responses

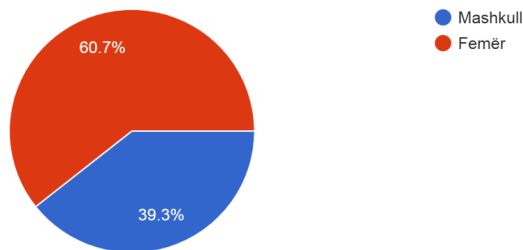


The results of the survey show that 40% belong to the age group 21-23 years, followed by 27.3% from the age group 24-26 years. While 27-30 years old make up 15.3%, over 30 years old make up 11.3% and 18-20 years old very little, ie 6%. The result also shows that most of the respondents are aged 21-23, which means that this age tries to look at the future of management even virtually.

**FIGURE 2.** Gender of respondents

Gjinia

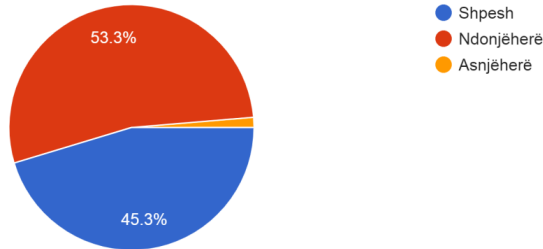
150 responses



Gender is used to recognize the contribution of men and women to the opportunities that virtual project management can provide. This information will help the organization consider the importance of gender mainstreaming in future virtual project management. The number of respondents in our survey was 150 of which 91 are female and make up (60.7%), while 59 are male (39.3%). The number of women is more compared to men. This is due to the fact that women are probably more willing and carry more responsibilities to complete the questionnaire compared to men, has to do with their commitment.

**FIGURE 3.** Being active in knowledge management within the network

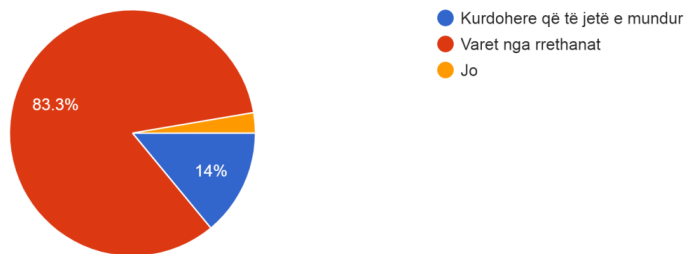
A kontriboni në mënyrë aktive në menaxhimin e njohurive brenda rrjetit?  
150 responses



In terms of the number of respondents contributing content to the networks, it was expected that the numbers would drop significantly. More than half of the participants (53.3%) in the survey have occasionally contributed to the content of a network, with (45.3%) stating that they contribute regularly. This may be due to more enterprises using internal networking systems for knowledge management or documentation.

**FIGURE 4.** Open source software

A e konsideroni softwerin me informacion të hapur si një alternativë tërheqëse për produktet komerciale?  
150 responses



Another survey question asked the respondent's opinion about open source software. The expected result was that a majority would consider this type of program useful, but a significant proportion of respondents would say that open source is questionable, depending on the situation we are in to use about 127 people (83.3%) for business uses, especially due to lack of professional support. 23

people (14%) viewed positive open source software as a growing opportunity for the company.

**FIGURE 5.** Risk of documents on the server outside the company

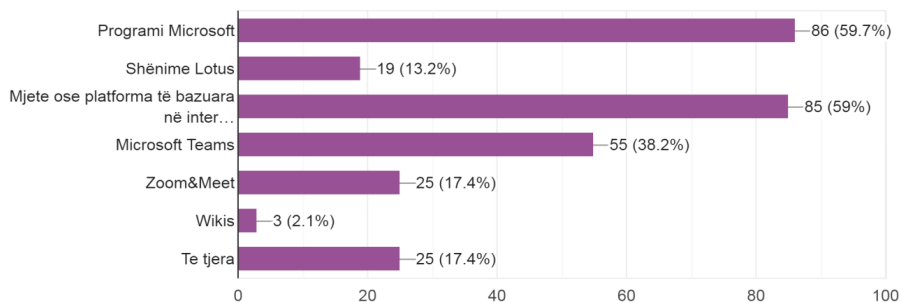
A e konsideroni si të rrezikshme kur dokumentat (p.sh email) ruhen në serverin jashtë kompanisë?  
150 responses



Two-thirds believed that this decision was dependent on the safety instructions of the service provider 63 people (40.7%). The hypothesis was that a large number (at least a third) of respondents would be skeptical and would prefer business documents to be stored on enterprise servers. The questionnaire confirmed this view in that respondents wanted data stored on company-owned servers 80 people (53.3%). Only 7 out of 150 participants had no concerns about data security.

**FIGURE 6.** Tools used in project management in companies

Cilat mjete përdoren për të mbështetur menaxhimin e projektit në kompanine tuaj? (Mund të zgjidhni më shumë se një alternativë)  
144 responses

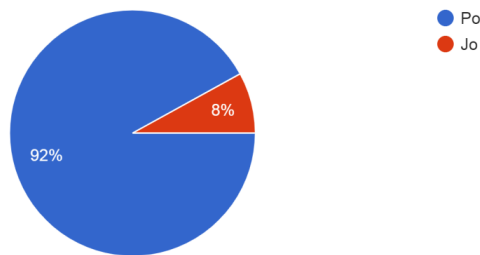


In terms of specific tools used in project management, the Microsoft Project Program is still the most used tool 59.7%. This is in line with trends in virtual

literature project management current literature (Zigurs & Khazanchi, 2008). Finally, Internet-based collaboration tools rank second with 59%, Microsoft Teams 38.2%, Zom & Meet 17.4%, along with other tools ranked fourth. It can definitely be interpreted that this trend is moving towards internet-based tools and far from the tradition of locally installed software applications, such as wikis, or client-server applications, such as Lotus Notes.

**FIGURE 7.** Information about the function of projects

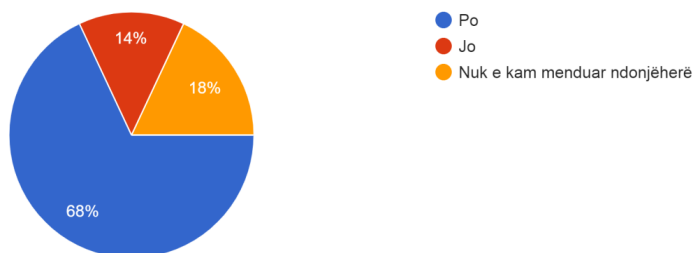
A keni informacion mbi mënyrën e funksionimit të projekteve?  
150 responses



Projects exist to bring about a product or service that did not exist before. In this sense, a project is unique. The number of projects and the number of employees involved in the projects is constantly increasing. The project itself is a temporary effort undertaken to create a unique product, service or result. If we look at figure 7 we notice that most of the 150 respondents answered 140 (92%) that they have information on how projects work. 12 people (8%) do not have information on how projects work. This means that the target chosen by me gives a positive signal in the way projects work and their recognition.

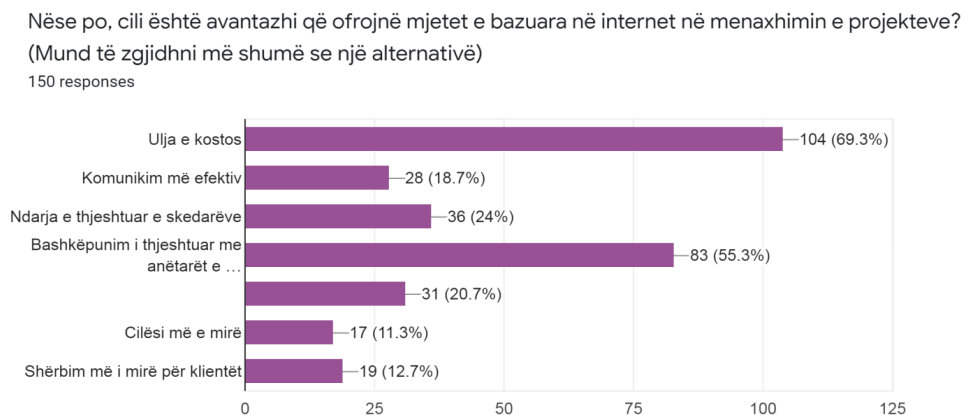
**FIGURE 8.** Thinking about project management virtually

Nëse po, a mendoni se projekti mund të menaxhohet në mënyrë virtuale?  
150 responses



Referring to the graph above we see that 102 people (68%) think that projects can be managed virtually. This is also related to the fact that they are well acquainted with social networks, use tools based on the Internet. 22 people (14%) are against virtual management, 28 people (18%) have never thought that projects can be managed virtually. This result shows that very soon we can have national and especially international projects which can be managed virtually.

**FIGURE 9.** The advantage offered by web tools in virtual management



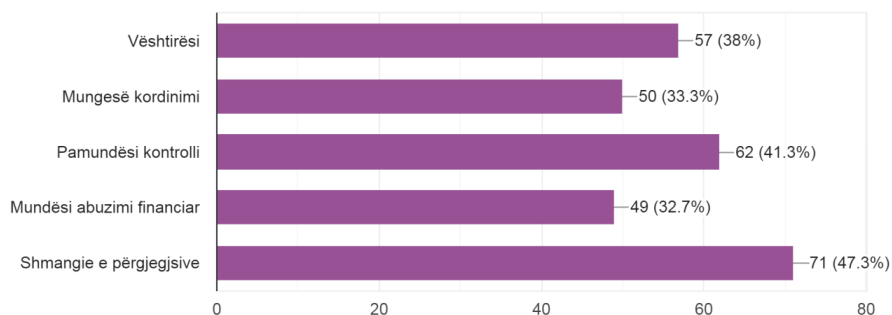
When asked about the advantages of using web-based collaboration tools for project management, seven answers were the most common: 1) Cost reduction, 2) More effective communication, 3) Simplified collaboration with distributed team members, 4) Simplified cooperation with team members, 5) All stored in a centralized place (copy), 6) Better quality, 7) Better customer service. According to 150 responses from respondents the main advantage is:

1. Cost reduction, 104 people (69.3%)
2. Simplified cooperation with team members, 83 people (55.3%)
3. Simplified file sharing, 36 people (24%)
4. All to be stored in a centralized place (copy), 31 persons (20.7%)
5. More effective communication, 28 people (18.7%)
6. Best customer service, 19 people (12.7%)

**FIGURE 10.** Reasons why you are against virtual project management

Nëse jo, cilat janë arsyet?(Mund të zgjidhni më shumë se një alternativë)

150 responses



When asked why they do not view project management virtually five answers were the most common: 1) Difficulty, 2) Lack of coordination, 3) Lack of control, 4) Possibility of financial abuse, 5) avoidance of responsibilities. According to 150 responses from respondents the main reason why they do not agree is:

1. Avoidance of responsibilities, 71 persons (47.3%)
2. Impossibility of control, 62 persons (41.3%)
3. Difficulty, 57 people (38%)
4. Lack of coordination, 50 people (33.3%)
5. Possibility of financial abuse, 49 people (32.7%)

## Results

The framework adapted by Carte and Chidambaram (2004) helped to identify the additional and reductive capabilities of collaboration technologies in general and web-based systems in particular. It has been found that web-based systems offer, compared to others collaborative technologies great advantages and opportunities for project management. Overall, the research suggests that through the use of internet-based technologies in project management, not only work practices and employment opportunities change, but also organizational structures. Social technologies give more power to the individual and thus make hierarchies become more and more flattened. Direct, electronic communication can reduce bureaucracy.

Collaborative technologies can be valuable during the early stages of a project as they help people get together and not just focus strictly on the task. This is especially important in a virtual environment where face-to-face communications

are scarce or non-existent. During the early stages of the project, it is important to create a common language, clearly define the project goals and key terms, and set tasks. Thus, an additional capability of a certain collaboration like technology can be seen as an added value. Key additional value-related capabilities for web-based collaboration tools derived from the questionnaire data include:

- Electronic documentation, which means that all communication is sent automatically and in an electronic format, in a simple way to be archived.
- Furthermore, employees can be spread all over the world and are still able to work effectively using a shared platform.
- In addition, processes need to be in place to enable teams to work together effectively and efficiently.

All this proves the hypothesis that virtual project management increases the opportunities for its successful implementation through the accomplishment of timely and quality tasks.

## Conclusions and Impactions

Based on the study of the first research question what are the factors that condition the virtual project management, it was concluded that the main tools that condition the virtual project management are tools, web-based platforms, in terms of familiarity, importance and the necessity that the internet has today. Overall, the research suggests that through the use of internet-based technologies in project management, not only work practices and employment opportunities change, but organizational structures as well. Social technologies give more power to the individual thus making the hierarchies more and more flattened. Direct, electronic communication can reduce bureaucracy. Internet communication tools save money in various ways. Email, instant messaging on various platforms and social networks are all free. There are different types of internet based communication tools, such as email, VoIP, forums, video, audio, internet chats and social networks among others.

The conclusion of this section shows that in general, most employees already use internet-based technologies, but there is still some doubt about using these technologies in a business context. Using the latest tools and methods of communication through the internet is essential for bringing business into the modern age of communication.

1. The essential recommendation regarding the conclusions of the first research question is that institutions and organizations in Albania should review the

current project management part by implementing the latest technology-based collaboration tools.

2. Another area, beyond this thesis, is the use of three-dimensional (3D) environments for virtual project management. This tool would even encourage employees and managers to be even more active at work. Due to the growth of IT such approaches are becoming more popular. These 3D environments allow for a more immersive and natural user experience.

Analyzing the second research question of this study which are the tools that help the effective virtual project management it was concluded that Microsoft Project, Internet based Platforms and Microsoft Teams are among the main instruments. Most respondents used internet-based instruments more than once a day during their work. It is also very important to note that most of them knew project management, had previously been part of the projects and their implementation. They saw the future virtual project management approach as a good opportunity due to cost reduction and simplified collaboration of team members. Another part shared the opposite view of avoiding responsibilities and complete lack of control. The main phases where social technologies were important according to the respondents included monitoring. The stage where the project needed internal coordination was planning and modeling.

The conclusion of this section shows that the basic tools that help effective project management are Microsoft Project, Microsoft Teams, Internet based platforms. Thus, an additional ability of a certain collaboration like the instruments mentioned above can be seen as an added value. Key additional values in relation to these web-based tools derived from the questionnaire data include:

- Electronic documentation, which means that all communication is sent automatically and in an electronic format, in a simple way to be archived.
  - Enhanced networking or certain software capabilities, which means that added value can be provided by integrating images, videos or other forms of content.
  - Furthermore, employees can be spread all over the world and are still able to work effectively using a shared platform.
  - In addition, processes need to be in place to enable teams to work together effectively and efficiently.
3. The essential recommendation regarding the conclusions of the second research question is that project managers should decide within their day-to-day workflow the use of technology-based tools or otherwise technologies are not used effectively.
  4. Providing proper training by companies to employees regarding these



instruments, often and erroneously considered a waste of time and money, can reduce errors in adapting to these tools. All this work is in function of virtual project management. Empirical research underlined the assumption that the demand for VPM is constantly increasing, and it even seems clear that there is no going back.

Virtual project management is a discipline that embodies the potential of connection when talented are geographically dispersed to achieve shared project success. Available research confirms that this is a challenging goal. Factors like time difference, different cultures, or lack of face, result in added complexity to managing virtual teams. However, if one is able to overcome these obstacles, the results are promising.

Cost reduction, access to global talent, increased demand for flexibility, and flattened hierarchies were named as the main drivers for this development. However, this progress towards virtual projects depends on the capabilities of information and communication technology. Due to the ubiquity of the ubiquitous internet there was a recent trend towards the use of internet-based collaboration tools for project management. Research has shown that there is not yet a single tool that is able to unite all the needs of collaboration and project management. Therefore, in almost all cases, the combination of different tools and techniques is being used to compensate for this shortcoming. Therefore, the research questions researched during this thesis aimed to shed light on the issues of factors that condition the virtual project management and the instruments that help the effective virtual project management.

From this perspective, the research identified coordination support, a single source of data, electronic documentation, enhanced programming capabilities as the main added value of Internet-based tools. Secondly, it is very important that these strong processes support the use of cooperation tools and social technologies. Also, a big challenge that still remains is the adoption of management, practices in a virtual environment. However, if implemented thoughtfully, web-based collaboration tools provide opportunities to support virtual project management.

The literature review as well as the empirical study found that the requirements for collaboration and communication change over the life cycle of a project. This thesis revealed the existence of a research gap as to when internet-based collaboration techniques are most effectively applied. The early stages, namely initiation and planning, needed more communication and thus, social technologies agreed to provide more value. Reasons include the desire to establish initial rapport and cohesion between team members, but also frequent communication with project stakeholders. Moreover, the use of tools changes as the project progresses: during the early stages, social networks will help connect people and create reports while

Microsoft Office (Microsoft Project, Microsoft Teams) help to promote knowledge management and documentation during the stages subsequent. However this thesis also makes a valuable contribution to an implementation practice of topics related to virtual project management. Literature review as well as empirical study have shown that the demand for virtual project management and virtual teams will increase inexplicably. Therefore the importance of this research field is increasing.

Beyond this study and the relevant conclusions for each of the research questions I think:

5. This thesis should be seen as an appropriate starting point for future research projects related to the virtual project management practice.
6. It can serve as a further continuation of research in the field of project management during the development of a third cycle of studies, doctoral ones.

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# *What can the Albanian government do to effectively combat youth unemployment?*

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## **Abstract**

*Youth unemployment in Albania continues to be critical, despite improvements during the last years. According to INSTAT (INSTAT, 2021) youth unemployment in December 2020 was 21.7%, 0.3 % higher than a years ago. Young graduates are the ones who suffer the highest levels of unemployment. The same report, while analyzing the unemployment rate by educational level, showed that about 14.4% of young people with secondary education and 12.3% of young people with higher education, are unemployed<sup>1</sup>.*

*The more progress advances, the more its contradictions are identified. Economic growth produces wealth, but it fails to secure jobs to everyone. By far, free market economy enhances a variety of unlimited opportunities, but it leads to hardships and inequalities, as well. The un-finished debate on “globalization” and its impact on markets, seems to hide the changes that have occurred on social relations sphere, which affect the people’s social welfare.*

*The generation of 21<sup>st</sup> Century is challenged by a new social conflict. Whilst in the yesterday’s era, the conflict was between those below and above the threshold of income, in the present society, the conflict is “from outside to inside”, in other words, the conflict between inclusion and exclusion.*

*In the today society, especially after Covid, youth unemployment appears a global challenge. Access to jobs can bolster self-esteem and produce benefits for societies beyond incomes.*

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<sup>1</sup> INSTAT, Anketa tremujore e forcave të punës, March 2021.

*Programs that support employment for at-risk populations, including youth, can consider the ways in which jobs affect peoples' attitudes, values, and behaviors and contribute to improved relations between groups. Arguably, in countries with high youth unemployment, like Albania, targeted training programs as well as empowerment of entrepreneurship through financial incentives, have the potential to be designed to strengthen self-esteem, which can lead to greater community involvement and reduced inequality and exclusion.*

*The paper "What can the Albanian government do to effectively combat youth unemployment" advances the argument of effectiveness of employment policies, which must support initiatives that originate from young people themselves. The best entrepreneurship practices from Shkodra and Vlora, two important regions of Albania are elaborated in depth to provide necessary evidence, thanks to a research, supported by OSCE mission in Albania, Extra Budgetary project "Promoting regional inter-municipal co-operation and dialogue for self-employment of women and youth".*

*The paper is composed of four sections in addition to introduction and conclusions. Section 1 explores in depth features of local employment policies and their impact on socio and economic performance of Shkodra and Vlora. Section 2 describes the methodology of the assessment. Section 3 analyses in depth best practices, while section 4 emphasizes key findings, which provides inputs to comparative analysis, as a basis for the identification of conclusions. Of value is the view point of entrepreneurs from Shkodra and Vlora counties, man and women, who in extremely difficult conditions work hard and produce values for themselves and the entire communities, proving that it is possible to build a future anywhere in Albania, no matter of circumstances.*

**Key words:** *unemployment, youth unemployment, social responsibility, active labour market policies.*

## **Introduction**

Shkoder County (Qarku I Shkodres) is a county in north-western Albania, with the capital in Shkoder. The county spans 3,562 square kilometres and had a population of 197,177 people as of 2021, January<sup>2</sup>, which has decreased constantly during the last five years. The county borders on the counties of Lezhe, Kukes and the country of Montenegro. The county consists of 5 municipalities, including Fushe-Arrez, Malesi e Madhe, Puke, Shkoder and Vau i Dejes.

In the contrary, Vlora County (Qarku I Vlores) is a southwestern administrative unit which spans 2,706 square kilometres and had a population of 187,675

<sup>2</sup> National Institute of Statistics, <http://www.instat.gov.al/al/temat/treguesit-demografik%C3%AB-dhe-social%C3%AB/popullsia/#tab2>

inhabitants in the same period<sup>3</sup>, slightly higher than five years ago. The county consists of 7 municipalities including Selenice, Himare, Delvine, Sarande, Ksamil, Konispol and Vlore, which is the centre of the region.

Both regions own sufficient natural resources, land and assets to develop different types of economic activities. While Shkodra region poses resources to develop mainly agriculture, Vlora region can successfully invest into fishing and its related industries. Despite the tradition, wealth of natural resources as well as human capacities, both target regions struggle against high poverty rates. Poverty and disparities are spread in the two regions with 13 to 14 percent<sup>4</sup> of population in Shkodra and Vlora who live in a dire reality due to material poverty, deprivation and social exclusion.

Rate of unemployment in Shkodra and Vlora is extremely high, especially in Vlora (28 percent or twice as high as the average level)<sup>5</sup>. Across the last decade, the profile of unemployed people has dramatically changed, especially in Shkodra. The proportion of 45+ unemployed almost tripled in 2019 compared to 2006<sup>6</sup>.

While unemployment profile by age group in Shkodra and Vlora in 2019 follows the national trend, unlikely youth unemployment is higher than the national rate, respectively by almost 30 percent in Vlora and 25 percent in Shkodra<sup>7</sup> Long term unemployment is also critical in both districts. In addition, almost 50 percent of unemployed people in both districts face difficulties to access employment services due to the lack of education (50 percent of them have finished compulsory education).

The analysis of the data presented here clearly bring evidence on scarce economic opportunities that challenge everyday life of citizens, no matter of their place of residence. Limited labour market opportunities on one hand, lack of appropriate professional education on the other hand impede unemployed people, especially the discouraged ones to get a job and afford a decent standard of life. In addition, neither employment services nor municipalities can invest to encourage self-employment and entrepreneurship, especially among young people, whilst local government lacks capacities, knowledge and resources to exercise its “duty-bearers” functions

## Section 1: Employment promotion policies and their results

The Employment Promotion Law of the Republic of Albania (Law Nr. 7995 of 20.9.1995, as amended in 1999, 2002 and 2006) mandates the National

<sup>3</sup> Ibid.

<sup>4</sup> INSTAT, Living Standard Measurement Survey, 2011

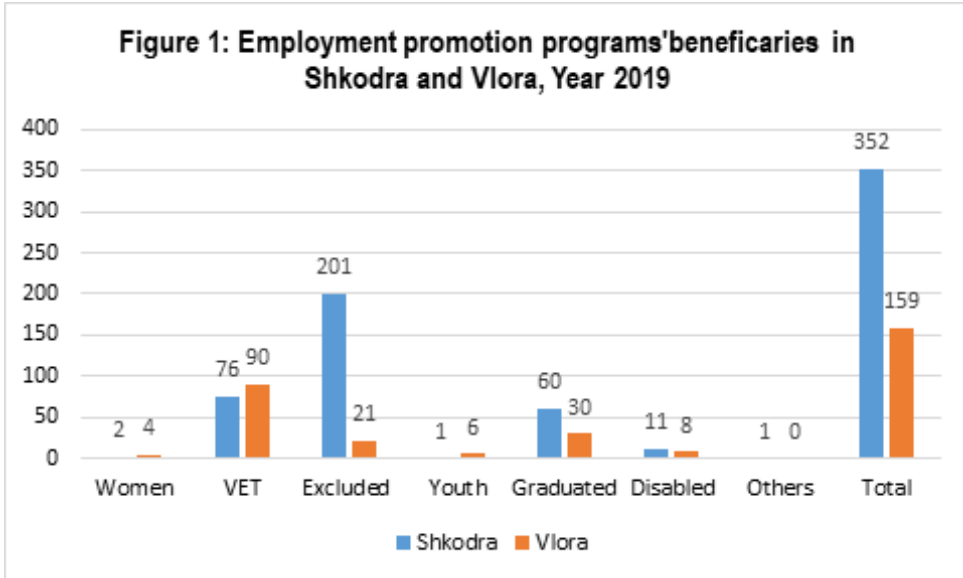
<sup>5</sup> Ibid.

<sup>6</sup> Labour Market Bulletin (2019), National Employment Service.

<sup>7</sup> Ibid.

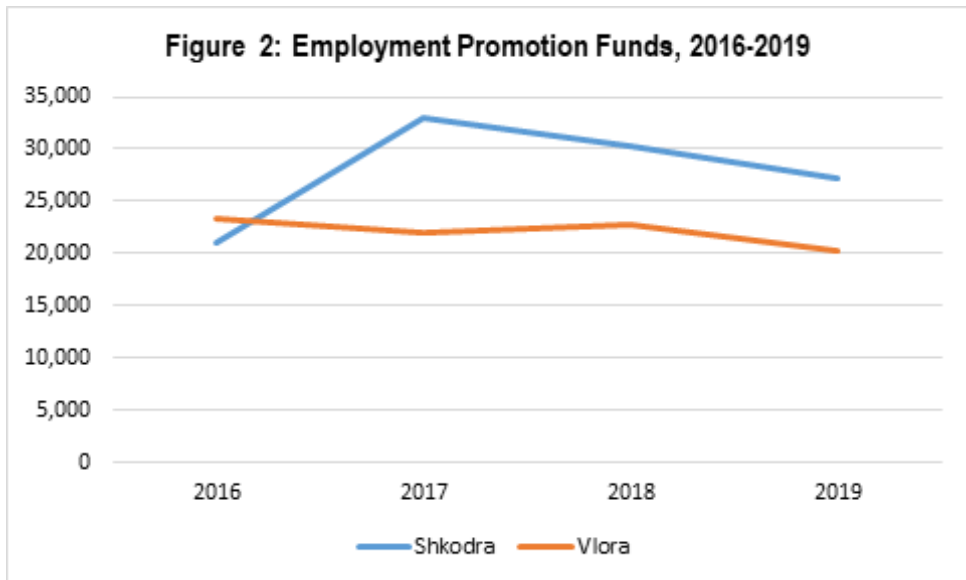
Employment Service to implement employment promotion programmes aimed at promoting sustainable employment of unemployed persons. 6 employment promotion programmes to date are under implementation.

According to the data from Employment offices in Shkodra and Vlora, the beneficiaries of the existing employment promotion programs (figure 1) are mainly those from excluded groups like poor people or Roma, those who try to increase their professional skills through on the job training and young people who are recently graduated.



Source: Administrative data of Employment Office in Shkodra and Vlora, April 2020

The main financial source for the support of employment promotion fund is the National Employment Service through Central Public budget. As figure 2 shows, funds in Vlora has remained almost the same, while funds in Shkodra peaked in 2017 and later dropped although not at the level of 2016.



Source: Administrative data of Employment Office in Shkodra and Vlora, April 2020

It is noticed that there is no any financial incentive to encourage entrepreneurship or self-employment neither in Vlora nor in Shkodra. Although Employment Offices provides some support to business and entrepreneurship development, this support is limited to the coverage of some labour cost for a limited period.

In fully compatibility with the law on the “Promotion of Employment” as well as on the “The National Employment and Skills Strategy 2014-2020”, professional education is also reinforced, demonstrated by the high number of courses and client’s demand. Although traditional vocational and professional courses like foreign languages, programming, electrical maintenance and toursim are still among the most requested, new courses are also available like Business development and managemet, agriculture development, farm management etc. All courses are offered free of charge, while the accomplishment of educational obligations is officially certified.

Funds are secured by the National Employment Service. The number of requests is higher than the center’s capacities. Centres are equipped with modern and appropriate infrastructure to ensure the provision of updated and comprehensive professional education.

Besides National Employment Service, neither Municipality nor Civil Society have capacities to deal with unemployment. Although municipality, within the context of Territory reform exercises more competences, especially in poverty and unemployment reduction, the lack of funds and professional capacities impede municipality to exercise them.



Vlora region has also missed donors support regarding Employment promotion projects, while in Shkodra, UNDP in collaboration with National Employment Service has supported the project “Essere”, 2016–2018 through a fund of 4 million euro. This project, despite its importance, does not address employment promotion policies. It aims to economically empower Roma and Egyptians, to promote their social inclusion.

Nevertheless, people in Vlora and Shkora, no matter of their age or professional background, try hard and undertake risks in order to initiate and establish sustainable economic activities. Some of the most pertinent best experiences are elaborated in depth in Section 3.

Employment and self-employment policies in rural areas are harmonized with the capacity building of farmers to encourage agricultural development in the country. The public support schemes every year reach with information up to 20% of the farmers and agribusinesses<sup>8</sup>.

Data from various surveys show that in Albania there is a reduction of the skills of the agricultural labour force due to ageing, migration and lack of opportunities for education and training of new entrants. Only 3% of the farm holders have university education and 37% have upper secondary or tertiary education, while the remaining 63% have lower secondary<sup>9</sup>, primary or no education. About one-third of the farm holders have agricultural education background. These are likely to be the older farmers, who have accomplished agricultural vocational high schools in the past.

The farming is labour intensive, with low levels of technological advancement. A high share of farms has obsolete mechanisation, inadequate agricultural buildings and storage facilities. The low capital intensity of production is resulting in low productivity, relatively high production costs, low quality, losses and low profitability.

Unemployment and low incomes to actual poverty levels are characteristic features of the rural mountainous areas of Albania. Farmers are struggling with accessing markets, fierce competition and growing demands for quality. In response to such situation, the Ministry of Agriculture, Rural Development and Water Administration (MARDWA) has prepared a Cross- Sector Strategy for Agriculture and Rural Development (ISARD) targeted at supporting sustainable and inclusive growth. The German Government and the Danish Government are supporting the Albanian Government with implementing this Strategy.

Joint German-Danish project for support to agriculture and rural economic development in disadvantaged mountainous areas (SARED), which is implemented in 2014–2018 period aims at development of value chains in six rural mountain regions: Shkodra, Kukes, Dibër, Korce, Berat and Elbasan. It addresses the four

<sup>8</sup> GIZ Evaluation report, 2018.

<sup>9</sup> Ministry of Agriculture and Rural development, 2018

most important value chains in these regions, namely small livestock, fruit trees and nuts, medicinal and aromatic plants, and rural tourism. Project activities include technical assistance for strengthening of the selected value chains and support for on-farm and off-farm diversification of economic activities, promotion of public private dialogue and investment support. Total budget of the project is EUR 13.6 million, of which EUR 6.5 million investment facility.

“From the field to the table” is the overarching approach of the SARED programme, jointly implemented by MARDWA and the “Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)” on behalf of the German Government, and co-funded by the Danish government. Numerous studies describe the underutilised agricultural resources, especially in the mountainous regions of Albania. At present farmers’ production is to a large extent subsistence-oriented, because of missing well-structured value chains that would enable their access to markets. SARED (01.06.2014 – 31.05.2018) supports the development of four of the most important value chains in the rural mountainous areas, namely Small livestock, Fruit trees and nuts, Medicinal and aromatic plants and Rural tourism.

According to Shkodra Extension Service, farmers receive support of different types, notably:

- a. Full financing without payment of individual project presented by farmers,
- b. Partial financing without payment of individual projects presented by farmers,
- c. Initial investments financing,
- d. Counselling,
- e. Professional capacity building of farmers.

Unfortunately, such project has not yet implemented in Vlora region. Despite that, the ATTC in Vlora supports through modest financial support as well as counselling and capacity building farmers. Of attention is the cooperation with farmers to help them obtain interest loans. Over years, farmers of different type have been supported by the state programs.

There is an overall intention to support farmers in all the regions of Albania due to the importance that this sector has for the country. Like in urban areas, there are success stories even in the rural economy. Some of the most pertinent best experiences are further elaborated in Section 4.

Apart from legislation, programs and projects, existing data on the rate of unemployment and other related information reveal the following as the most critical issues that hamper the success of programs aimed at employment promotion and entrepreneurship in rural areas. Despite the government’s attention to the reduction of unemployment, in urban and rural areas, it remains a critical problem.

While “unemployment” is strongly addressed in the core National Strategies like NSDI, Economic and Business development and ISARD, Local Government very rarely is an active stakeholder. On the other side, although Territory Reform transfer more functions at local level, this is not associated with the financial decentralization of revenues at local level. The lack of harmonization and cooperation at local level negatively affect the effectiveness of programs. Very often, there are double standard positions and feedback regarding the role of municipality. Most likely, it is fuelled by political contradictions and different lobbying interests, which play a considerable role, in such a critical battle like “Unemployment”.

## Section 2: Methodology

The method employed is a combination of systematic and meticulous desk review of all available documents (primary sources) and a set of face to face interviews (secondary sources). Face to face interviews are developed with four stakeholders’ groups, respectively with public Officials in charge of Employment and Business Development Policies and Programs, in charge of Agriculture and Rural Development Policies and Programs, in charge of Donor’s fund aimed at the economic and agriculture development of Shkodra and Vlora and Private Business/Entrepreneurs/Farmers in Shkodra and Vlora.

The overarching approach is developed alongside the analysis at donors level, municipality and household levels. The last level of analysis served to map “good practices” and identifying their strengths, weaknesses as well as market risks and opportunities, to finally extract common areas of interest and cross cutting strategies, leading to shared lessons learned.

## Section 3: Comparative analysis of best practices

In this section, some of the most successful experiences of urban and rural economy in Shkodra and Vlora are described, while entrepreneurs’ challenges are analysed in depth to design comparative findings as well as drawn conclusions.

**3.1. Agricultural and Livestock “Veçëku Farm”** is established by Hasanaj family and is managed by Gjovalin Hasanaj, the oldest son of the family. The farm started as a small family business in 2009, while in 2013 it was officially registered into the National Business Center. The farm is in the village of Hot, the municipality of Malesi e Madhe. The main activity of the farm is based on the collection of milk from other surrounding villages such as, Rapshe, Tamare,

Bajze, etc and the production of different types of cheese and other types of dairy products, which are distributed in Shkodra, Tirana and other cities' markets. The farm's manager is also involved into the marketing and selling of the products. The farm occupies the family's land of about 2000 m<sup>2</sup>, whilst only the dwelling is 250 m<sup>2</sup>. The farm collects about 800 litres of sheep and cow milk per day from about 40 small farmers. Although there are no authentic big farms, the collection from small farmers is firmly based on all quality standards.

With an initial investment of €35,000 partially covered by family savings of €20,000 and partially from a project, supported by Dutch association, PUM, the investment into technology (water furniture), purchasing of some basic equipment and capacity building of staff were covered. Family savings were used to cover operational cost of farm functioning. The farm has obtained moderated support from other donor-based projects thanks to the submission of well-developed business plans. Around 50% of total investments across years has been supported by donors-based projects.

Fixed cost of production is calculated at about €7,500–8,000 per year, while variable cost depends on the quantity of the milk collected. However, the farm ensures net profits of €0,8 per one unit of production or €64 per day (the farm produces on average 80 kg of dairy productions). On average, annual net profits are calculated at € 20,000. They are mainly used to further extend the production, to ensure the maintenance of quality standards, for marketing, networking and capacity building of suppliers.

Dairy products are sold in Tirana and Shkodra restaurants (50%), touristic places of North and North east (30%) and the rest, locally. With the construction of the roads, Malesia e Madhe and the surrounding areas attract the attention of visitors, Albanians and foreigners alike, whose number has increased during the last five years. The farm has long term contracts with some luxury restaurants in Tirana, which are furnished every week with fresh dairy products.

The farm produces white goat cheese, cottage cheese, butter and five types of yellow cheese (each of them is prepared with different types of species, notably nuts, blueberries, sesame, sage and spicy). The competitive advantage of the farm stands on the quality of the yellow cheese, which is particular and not yet usual in the country. The farm produces 80 kg dairy products per day. In addition:

- 4 family members are engaged in full time basis and 1 seasonal employee.
- 40 families are financially supported into a sustainable way.
- Sustainable way of community development. “Veleçiku farm” has clear expansion strategies, which will impact on the increase of the number of employees in farm and will encourage the suppliers to multiply the number of livestock, therefore affecting directly the increase of local revenues.

- A modest quantity of cheese is exported in Holland.
- “Veleşiku mark” is promoted into European fair of Cheese in Holland.

**3.2. Cultivation and selling of medicinal plants, Pjetroshan** is established by Gjovalin Popaj in 2012, in Malësi e madhe/VERLIN. The farmer initially was mainly occupied with planting/production of medicinal plants such as sage, oregano, helichrysum, also called by locals “mak” or “curry plant”. The farmer owns 300 acres of land as property and 400 other acres of land in use.

Later, a joint venture with an Albanian American company was established, to build a distillation factory, to further elaborate helichrysum plant, whose market demand is very high for the time being. While the farmer has provided 300 acres of land free of charge to the investment company, the company is taking care of capital investment and technology. Helichrysum serves as a primarily raw material for skin beauty products. .

300 acres of land are used to build a business thanks to the initial investment of Euro 580,000 as well as the annual operational cost of Euro114,000. The net profit depends on the plant. Sage initially was very profitable, but in the last 2-3 years the price has decreased almost to the production cost. In addition, sage requires special drying processes, therefore there is an additional cost of drying. This is the reason why many farmers shifted to other plants. For the time being helichrysum is on high demand. The farmer has signed a 7-year contract for this plant. The selling price is All 150 per 1 kilo of fresh plant. They are harvested by harvesting machines. There is no operational cost because there is no drying cost, it is used fresh. The net profit for 1 hectare seem to be at €3,700. The “Pjetroshan Farm” is composed of 400 acres or 40 hectares planted with this plant, with a net profit of €148,000.

The farmer has obtained some modest financial support from AZHBR and SARED, however they support a limited list of medicinal plants. “Pjetroshan Farm” has been the biggest supplier of medicinal plants in Albania.

In short time, the farm achieved:

- A new and valuable entrepreneurship idea is developed, with strong potentials to build a value chain, perhaps an industry.
- Natural resources are used properly.
- 30 to 40 almost permanent employees are employed, with the average salary of €12 per working day.
- Good opportunity to impact on community development.

**3.3. Lujz Group Cooperative** is established by Xheladin Zekaj in 2010, in Malësi e madhe/Upper Koplik, thanks to 25 families that have joined their land, capital and

working equipment, to cultivate Medicinal Plants. The group uses 150 hectares to cultivate Medicinal Plants such as Lavender, Sage, Thyme, Helichrysum (recently), laurel, oregano, and try to market some wild plants, but cultivated plants are preferred the most.

Due to the high number of cultivators, that have joined land and their forces, the group enjoys competitive advantage of price as well as of quality. In addition, the group has the biggest market share due to the considerable quantity of the products the group can deliver. The group manages to sell with a price of €1,5 to 2 higher than individual cultivators. The joint investment has allowed to create a collection centre for the medicinal plants as well as a drying centre, which was created as a pilot project. The drying centre is composed of silos, with a surface of around 700m<sup>2</sup>, which has an initial high cost, about €2 - €2,5. The drying area is greatly expanded because there are about 150 drying racks that create very good drying conditions, for large amounts of plants, while the quality of drying is also very good.

The drying process is important and specific. The medicinal plants are harvested twice a year, in summer and autumn. Even those harvested in summer must be carefully dried. The ones harvested in autumn must imperatively be well dried. Drying affects the quality of the plant.

The strongest advantage of the group is the ability to dictate the price in the market due to the high quantity of production of a good quality, supported by the size of land.

Despite the group's efforts, the group has not yet been able to sell directly, only through intermediary companies. The group is thinking to shift to Helichrysum, which is highly demanded. It is assessed that 1 hectare ensures net profit of about 5 to 6 thousand dollars. However, the group is not yet decided because the increase of supply may force the market prices to decrease. Nevertheless, the group has managed to:

- Develop a new and valuable entrepreneurship idea is developed, based on “shared capital, labour land” (cooperative).
- Natural resources are used properly.
- 25 families are fully engaged into the activity, meaning 60 to 100 self-employed as well as 30 or 40 seasonal workers, who are paid 1500 All per day.
- The main and sometimes the only business opportunity of the area.

**3.4. ShBB Reç** initiates in 2004 as a small business, while in 2013, the cooperative was established, thanks to the decision of 7 families to join land, labour and capital. ShBB is located 25 km past Shkoder in the direction of Razem. Prek Gjeloshi,

one of the founders of ShBB accepted the interview invitation and provided the following information.

There is no one single main activity of ShBB. It is engaged into Cultivation and collection of chestnuts, medicinal plants as well as farming. Whilst for the first two activities ShBB acts as an intermediary channel only for planting and selling, the last activity, farming, which produces dairy products, is the primary business activity.

Village of Reç, with 400 hectares of land produces 400 to 600 tons of Chestnut per year. 90 percent is exported to Italy by ShBB cooperative. In the ShBB territory, there are produced about 300tons of medicinal plants. This quantity, together with production from other individual producers, is collected in the warehouse. Based on the contracts with exporters of medicinal plants, medicinal plants are exported.

ShBB collects milk from 130 families, process it and sell dairy products like cow and goat cheese, yogurt, buttermilk, cottage cheese, yellow traditional cheese, mainly in Albania (Shkoder, Tirana, Malesi) and Kosovo. It has been 4 years since ShBB established a contract with a company in Pristina “Viva Fresh” to supply goat cheese. ShBB exports also goat milk.

ShBB produces cow cheese 200 to 250 quintals, goat cheese 35 tons, yellow cow cheese 10 tons. Sometimes SHBB has cooperated with foreign organisations such as Oxfam, VIS Albania. Pro/Mali on the basis of 50 % with 50 %. ShBB represents:

- An old model of labour organization and division(cooperative), however effectively used within the context of new business relationships.
- From a financial point of view ShBB activities are not of high value. Net profits per unit of investment from Chestnuts export is 0,2 euro per kg; Almost the same is the profit from Medicinal plants. Even milk sub products are not very profitable because there are many producers, the cost, quality must be maintained, and the market price is low, purchasing power low. However, the crucial benefit of these activities is employment.
- Chestnuts business occupies 50 people for 2 months and medicinal plants occupies 25 employees for 8 months. There are 10 full time employees, engaged in the production of dairy.
- ShBB is a vital activity for Rec, which has 450 inhabitants or 100 families who are all involved in the above activities.

Competitive advantage of ShBB stands on the organization of “mixed business activities”, which complement each other by reducing operational costs.

**3.5.Fish stock business** is established in 2012 by Armando Hysaj in Tamare, Kelmend, in Km 3 on the road Tamare-Vermosh. Production and commerce of the

Trout fish comprises the main business activity. Some other supporting activities are also planned to be set up, such as a restaurant and a guesthouse to establish a value chain business of an agricultural structure.

Land area used to develop the business is about 1000m<sup>2</sup>. The farm cultivates about 200 quintals of trout and about 200.000 units of fish seed for commerce. The setting up of the “Fish Stock” lasted about 6 years with a total cost of around All 30,000 thousand or Euro 250,000. The initial investment was partially supported by bank loans and partially by loans with low interest rates from relatives. The majority of the products is sold in Malesia e Madhe and the fish market in Shkoder.

The company has achieved:

- The quantity of production is about 200 quintals per year.
- Gros revenues per one kilo are about €3 or € 66,000 annually.
- 3 people employed on a full- time basis
- Directly or indirectly there are a lot of businesses or individuals that are positively affected by “Fish stocks” farm such as different suppliers or customers (guesthouses, restaurants, retail merchants etc.
- The psychological effect on the community, where the farm is located, is the added value of such type of local business. It serves as a good example to encourage the others to try business entrepreneurship.

The company is strongly based on:

- Competitive advantage: Low cost of production. Low operational cost.
- Business strategy: Strong willingness to undertake business risks.
- Selling strategy: Low transaction costs due to the short distance of the markets.
- Marketing strategy: No particular investment into marketing, although the products are preferred due to the quality and the low cost.

**3.6. AlMarina is established in 2015, in Vlora Bay, Orikum.** Originally, the business started in 2005, but due to different reasons, business could not develop. The same business idea was re-vitalized by a group of businessmen, attracted by the potentials of “Water-Culture”, who agreed to establish AlMarina. In 2016, AlMarina started an impressive cooperation with an Italian Investment, who carried out powerful investments in technology as well as on the adoption of international quality standards.

The core business of the company is the “production of perch and wrasse fish to supply European supermarkets”. AlMarina is investing hard to establish a well - known brand. The company has obtained all quality standards certifications. So



far, there have not been contestations on the quality of the products, supplied in Italian as well as other EU member states' markets.

Despite the high competition of well-known Greek, Croatian, Spanish and Turkish companies, there is the potential to grow the business due to the high market demand on the products. Only Italian market demands 120,000 tons per year. However, the insurance of high-quality standards still remains a challenge.

AlMarina is a serious business development with an annual turnover of €10 million. 2018 is the third year of investment. For the time being, the production and delivery capacity is of 200–250 tons per month, although strategic goal of AlMarina is 4,000 tons per year.

Despite the fact the operational cost of production is not high, running correctly such type of business is expensive due to the investments into capacity building, management of human resources as well as management of quality standards, notably:

40 employees are contracted on a full-time basis, with a gross monthly salary of All90,000 on average. To ensure the implementation of the Labour Code as well as other legal acts, the company has also insured all employees through private insurance schemes, namely life insurance, insurance due to accidents as well as supplementary health insurance.

The company tries hard to maintain networking by participating in annual European fair, usually organized in Brussels as well as by participation in capacity building training programs, delivered by well-known international institutions. Almost all AlMarina employees have participated in such highly qualified training programs.

The company never had any support from the public policy programs, neither those of “employment promotion” nor those of “entrepreneurship encouragement”. Local governance institutions has borrowed Euro 1,200,000 from AlMarina and yet, this debt is not paid off.

Key results are:

- Significant business activity vis-à-vis total turnover and contribution into public expenditures budget due to taxation.
- The promotion of the Albanian brand of “processed perch and wrasse”.
- Significant employment opportunity vis-à-vis Vlora labour market.
- Innovative business approach for Albania.
- Environment protection and development adds values, in addition to the ones brought about by business itself.
- Considerable business potential due to the high market demand, especially in Europe.

- A natural way to promote Albania outside the country, since the company supplies only outside markets.
- Impact on sustainable development of the country, if the support from economic and financial policies would be ensured.

Company business and market strategies:

- Competitive advantage: High quality, natural product, biologically cleaned and secured.
- Business strategy: Strong willingness to undertake business risks, although business approach is firmly based on market analysis.
- Marketing strategy: Aggressive market entrance strategy, clearly aimed at “Growth market share”, despite high competition of experienced and traditional companies.
- Management of Human Resources: A very modern approach of staff motivation is adopted across all levels of administration and operationalization.
- Public relations: Strong cooperation spirit with entrepreneurs, retailers, suppliers and stakeholders in general, despite the lack of collaboration and support from neither central nor local government.

**3.7 Manufacturing ROLEGA SHPK** is established in 2013, in VLORE as a FASON Business activity. The enterprise produces and sells Sewing shirts, Tracksuits etc. mainly for the Italian market. Annual quantity of production is 145,000 pieces with a yearly turnover of 155000 €. Initial investment in ALL as well as the yearly operational cost is calculated at about All5,000,000 . The business is financially supported by individual sources and loans. There have been a support from the Vlora Employment Office through the Employment promotion program. There are 36-40 employees, with an average net salary of €200 per month. The company aims to produce 200,000 pieces of production per year.

**3.8. “Jonald” restaurant** is a simple family business, established in 2010, thanks to the financial investment of individual savings that derived from a long period of work in migration. Initial investment is calculated at about €70,000. During summer, 8 employees work on a full - time basis, while during winter only 4.

Despite the hard work and the efforts to offer high quality services, total income are not sufficient to further invest and extend the business activity. Revenues are sufficient to ensure the survival of the family.

There have never been any support from any public program. In the contrary, very frequently monitoring teams from different local institutions visit the restaurant and ask for the adoption of unusual and costly procedures, which challenge everyday battle of business sustainability.

## Chapter 4. Comparative findings, conclusions and recommendations

In depth analysis of the best experiences (only 6) allows us to identify comparative findings (table 1), which leads to the identification of the most successful strategies adopted, which in turn help to suggest generalised future challenges. Despite limited opportunities and resources, young businessman of Shkodra and Vlora struggle to share the market and build sustainable business enterprises, in very remote areas of Albania.

**TABLE 1:** Comparative findings from the analysis of the most successful practices

Models	Veleçik	Pjetroschan	Lujz	ShBB Reç	Fish stock	AlMarina
Production and market strategies						
Competitive advantage:	Low cost of production versus relatively high selling price	Lower unit cost of production.	Ability to dictate the price in the market due to the high quantity of production of a good quality, supported by the size of land.	Mixed business activities, which complement each other by reducing operational costs.	High quality, natural product, biologically cleaned and secured.  Business strategy: Strong willingness to undertake business risks.	High quality, natural product, biologically cleaned and secured.  Strong willingness to undertake business risks, although business approach is firmly based on market analysis.
Networking/ Marketing Strategy:	Cooperation with donors.  Intensive market exploration	Aggressive business strategies internally and externally.			Public relations: Strong cooperation spirit with entrepreneurs, retailers, suppliers and stakeholders in general, despite the lack of collaboration and support from neither central nor local government.  Aggressive market entrance strategy, clearly aimed at "Growth market share", despite high competition of experienced and traditional companies.	Aggressive market entrance strategy, clearly aimed at "Growth market share", despite high competition of experienced and traditional companies.  Public relations: Strong cooperation spirit with entrepreneurs, retailers, suppliers and stakeholders in general, despite the lack of collaboration and support from neither central nor local government

Management of Human resources	Vocational and professional training of staff internally and externally, especially to maintain quality standards.				A very modern approach of staff motivation is adopted across all levels of administration and operationalization.	A very modern approach of staff motivation is adopted across all levels of administration and operationalization.
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Source: Research, 2020

Despite the significant market opportunities like “Increased market demand for local and biologically guaranteed products”, “higher attractiveness on the area from cultural tourism point of view”, “Increased market demand for biologically guarantee medicinal plants by customers and other industries” combined with huge investment from EU and other projects within the framework of FDI&ODA, results are still far from being neither generalised nor replicable. According to the interviewed young businessman, they are challenged by huge public policy constraints, such as:

- The right on Land Property which is not yet guaranteed neither by law nor by local procedures.
- Complication and long bureaucratic procedures of business application and registration, time and cost consuming, especially in rural and remote areas of the country.
- Low awareness of local government institutions, especially those that deal with business registration and taxation, are not aware about legislation, their duties and responsibilities, which impose complicated rules and procedures rather than facilities.
- Gaps in legislation regarding the need to address “Water Culture and Investment” as well as the way in which policies have to deal with.

In spite of increased attention of policy making institutions vis-à-vis business and entrepreneurship promotion through active labour market policies and financial measures, all interviewed business managers identified as a critical weakness the lack of support either from public finance programs or by projects implemented as part of ODA. In particular they addressed:

- The role of local government institutions to provide guidelines
- The role of financial institutions at local level to adopt financial and procedural facilities

- The support of intermediary institutions to capacity building.
- The direct encouragement through financial mechanisms as part of business development policy.
- Policies should finally encourage employment growth in rural areas.

These impediments are also confirmed by “What is the Binding Constraint to Growth in Albania” (2017). Here, authors point out the lack of productive knowhow and the rule of law. “The evidence shows that the binding constraint to stronger growth in Albania is a lack of productive knowhow, the knowledge and skills needed to produce complex goods and services. Albania faces a unique knowhow constraint that is deeply rooted in its closed-off past, and the limited diversification that has taken place in the private sector can, in nearly all cases, be linked to distinct inflows of knowhow”<sup>10</sup>. Regarding the rule of law, the same source of information mention access to land and taxation. In fact, the unsolved land issue has strongly hit the large-scale investments into agriculture and tourism sectors, probably the most powerful sources of economic growth for Albania.

Thus, the question is turned on economic and employment policies, backed by a continuous and sustainable investments into capacity building. Systemic investments into young people entrepreneurial and professional knowhow through the strengthened local government capacities to promote and sustain local job incentives, is probably the most effective way vis-à-vis decent results. Youth unemployment, the most critical challenge of any governments, is likely to be successfully faced if institutional and moral obligations are assembled and transformed into society responsibilities.

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<sup>10</sup> O'Brien, T; Nedelkoska, L. & Frasheri, E. (2017), pg.3.